

Latvijas Banka: Annual Report 2021



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A man with short brown hair and glasses, wearing a dark blue suit jacket over a light blue shirt, sits at a dark wooden desk. His hands are clasped in front of him. Behind him is a large black leather office chair. To the left, on a shelf, are three flags: the Latvian flag, the Ukrainian flag, and the European Union flag. The word "Foreword" is written in a large, white, serif font in the upper left corner of the image.

Foreword

Yet another productive year has passed. Despite the challenges of the pandemic, Latvijas Banka has succeeded in achieving many lasting accomplishments and starting several new projects that will strengthen the financial sector in the future. The COVID-19 crisis clearly demonstrated that the decisions made by Latvia in the past, such as joining the EU, the euro area, and implementing overall prudent budgetary policy, were wise and have helped overcome harsh external shocks to our economy.

However, in comparison to the 2008 economic crisis, there are clear differences: not only did we avoid dramatic and comprehensive austerity measures, but sizeable support was provided to people and companies to overcome the crisis with less distress. As a result, the Latvian economy recovered to the pre-crisis level as early as in 2021.

2021 started with deflation. During the year, inflation kept rising at an accelerating pace, mainly due to higher energy prices, reaching its highest level in nearly a decade. Similar trends dominated not only the euro area and the world at large. It prompted economic policy makers to consider reviewing their employed support instruments. Like many other major central banks, the ECB started signalling a stricter monetary policy earlier than expected. This is a turning point that reminds countries about the size and thus the service cost of their debt, when interest rates are about to rise.

The Governing Council of the ECB has decided to phase out various asset purchase programmes and to normalise its monetary policy. It is now safe to say that the era of low interest rates is coming to an end. Monetary policy will be implemented prudently and gradually to prevent the financing conditions from changing too quickly and to protect euro area businesses and people during a period when the recovery from COVID-19 challenges is still ongoing. The Russian invasion of Ukraine has resulted in higher inflation and lower growth risks, which contribute to uncertainty and make monetary policy decisions more difficult. I would like to underline that, as before, euro area monetary policy decisions will be made gradually, maintaining optionality and flexibility. It will be founded on data based on the current economic situation and outlook in order to achieve the 2% euro area inflation target over the medium term, as set out in the new monetary policy strategy adopted in the summer of 2021.

However, we should remember that monetary policy is only one of the policies that affect economic activity and inflation, and that other policies are just as important. In some cases, they may even be more effective. For example, the current increase in energy prices could be better addressed with targeted support policy for the energy sector. Moreover, economic overheating risks in Latvia could be better mitigated with a suitable national fiscal and structural policy (including the construction sector), rather than euro area monetary policy.

As for developments at Latvijas Banka, in 2021 we laid a strong foundation for the future. A new Law on Latvijas Banka was adopted. It will provide a framework for the central bank and the financial supervisor, FCMC, to function as a single entity starting 1 January 2023. Preparations for the integration of the FCMC were started in 2021. We made major changes in the central bank's governance model by discontinuing the Board and transitioning to a single-tier top level management. Thereby we are continuing our policy of ensuring efficient operation of the central bank to achieve greater and better results with the same or fewer resources.

We have completed several important steps, such as developing the instant payment infrastructure by introducing advanced and innovative technological solutions, and attracting new participants from the private sector, and as of the beginning of 2022, also from the public sector (the Treasury). As for cash, to ensure the financial inclusion and security of society, we have reached a historic agreement with the financial sector on maintaining the availability of cash via the ATM network. In the future, Latvijas Banka will maintain its focus on this issue, ensuring the availability of choice of payment options. It will be facilitated by the introduction of the digital euro. This euro area project is well under way, with the participation of the Latvian financial technology sector.

Sustainability is increasingly prominent on the agenda. In the euro area, it is facilitated by the updated monetary policy strategy to include aspects related to climate change. At the national level, Latvijas Banka has adopted its first sustainability strategy, which outlines the directions of our operational sustainability, i.e. sustainable monetary policy, financial system, cash circulation, management of foreign reserves and other financial investments and a sustainable institution in general. This is not just a whim – sustainability guides our everyday actions and our institutional vision.

As usual, 2022 will be another active year for Latvijas Banka: this applies both to the challenges of monetary policy and preparations for a successful FCMC integration. We aim to ensure a fully-fledged integration of both entities for a smooth and seamless transition on 1 January 2023. We will continue to be active in our traditional areas, such as expanding the scope of innovative payment solutions and instant payment requests for the benefit of companies and people, as well as securing the availability of cash in the entire territory of Latvia. We will continue our focus on economic research and will facilitate wider use of new types of statistical data, such as card payment data, in the analysis of economic developments to help economic policymakers make sound decisions.

2022 started with the Russian invasion of Ukraine, allowing us to appreciate the choices that were made since the restoration of our independence, including the ascension into the European Union, the euro area and NATO. The West, including Latvia, is united in taking measures against the

aggressor in the form of unprecedented economic sanctions. They will affect the Latvian economy, but it is a small price to pay for our freedom, independence, and democracy.

I would like to wish all of our society and all of our Latvijas Banka colleagues peace of mind and a fruitful year ahead with many ambitious plans. Thank you for your contribution in 2021, and let us keep going full steam ahead! The key to our success and our strength lies in our collective efforts – together we are much stronger than each individually.



Mārtiņš Kazāks
Governor of Latvijas Banka
Riga, 30 March 2022

Latvijas Banka in 2021



Profit of Latvijas Banka

€20.9 million

Appropriated to the central government budget

€14.6 million



Transition to a single-tier top level management completed, with the Board being dissolved

At the end of the year – 380 employees or by ~200 fewer than on the euro changeover day

The number of employees shrank by **10%** within the year



At the end of the year – **609 000** registered instant links or almost twice as many as a year ago

The value of processed instant payments increased 2.5 times to €6.3 billion



For reasons of public security, a historical agreement with commercial banks was reached to maintain access to cash and ~900 ATM network coverage



Exploration phase of the project on the new type of money – the digital euro was commenced

Latvia was also involved in practical work



The capacity of financial statistics and research was strengthened, including publication of data on card-based payments to enhance the adoption of better-quality and more timely decisions



The approval of the sustainability strategy reinforced the focus on the issues of sustainability, including climate



A new Law on Latvijas Banka was adopted, the preliminary work for merger with the FCMC was commenced



Management and organisation of Latvijas Banka

Latvijas Banka is the central bank of the Republic of Latvia, a member of the ESCB and the Eurosystem.

In its activities, Latvijas Banka complies with the legal acts of the Republic of Latvia and EU, including ECB legal acts in accordance with the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks and the European Central Bank.

Pursuant to the Law on Latvijas Banka, the primary goal of Latvijas Banka is to maintain price stability. Latvijas Banka has the following primary tasks:

- participate in the formulation and implementation of the Eurosystem's monetary policy;
- enhance stability of Latvia's financial system at macro level, including participation in setting the macroprudential policy;
- manage the foreign reserves and other financial investments;
- ensure cash currency circulation in Latvia and participate in ensuring the cash currency circulation in the euro area;
- participate in promoting smooth functioning of payment systems;
- compile and publish statistical information to ensure the performance of the tasks of Latvijas Banka;
- cooperate with the ECB, the central banks of other EU Member States and other countries, as well as other financial institutions;
- operate as the financial agent of Latvia's government and provide financial services to other market participants;
- act as an advisor to the *Saeima* (Parliament) and Cabinet of Ministers of the Republic of Latvia on monetary policy issues and other issues related to the implementation of the tasks of Latvijas Banka;
- maintain and develop the Credit Register;
- issue licences to legal persons listed in the Register of Enterprises of the Republic of Latvia, except credit institutions, for the purchase and sale of foreign currency as a commercial activity;
- implement the functions of the National Analysis Centre and the Coin National Analysis Centre, ensuring efficient analysis of currency counterfeits;
- enhance financial literacy and economic knowledge.

To implement its vision and carry out its mission, Latvijas Banka, with due respect for its values, has set strategic directions for development and the indicators to be achieved therein, as well as plans and implements the measures for the achievement of these indicators.

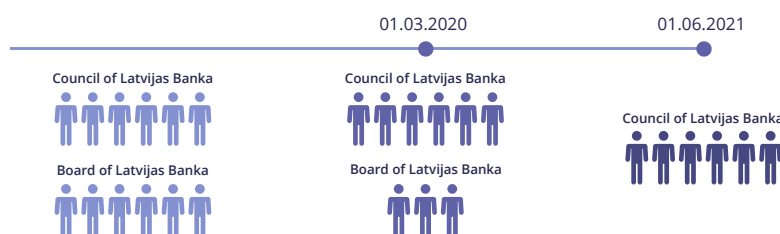
Latvijas Banka neither seeks nor takes instructions from the government of Latvia and other EU Member States, EU institutions and other national,

foreign or international institutions and their entities. Latvijas Banka is independent in setting and implementing policy under its legal mandate. Latvijas Banka is supervised by the *Saeima* of the Republic of Latvia.

Management principles and development

In line with the amendments to the Law on Latvijas Banka passed by the *Saeima* of the Republic of Latvia on 8 April 2021, Latvijas Banka switched to a single-tier top management as of 1 June 2021, ensuring a more effective management decision making and information exchange. In accordance with the above changes, the Council of Latvijas Banka is the principal decision-making institution of Latvijas Banka.

Transition to a single-tier top level management, with the Board being dissolved



Pursuant to the amendments to the Law on Latvijas Banka adopted by the *Saeima* on 21 November 2019 the term of office of Latvijas Banka's Governor, Deputy Governor and Members of the Council is five years. Members of the Council of Latvijas Banka elected by 2019 remain in office by the end of the six-year term of office. The composition of the Council of Latvijas Banka, as at the end of 2021, was as follows:

Governor
Deputy Governor
Members of the Council:

Mārtiņš Kazāks;
Māris Kālis;
Arvils Sautiņš,
Aivars Skopiņš,
Andris Vilks,
Zīta Zariņa.

In order to ensure quality performance of Latvijas Banka's tasks, several **committees, commissions and working groups** established by the Council of Latvijas Banka continued their work in 2021.

The Research Committee of Latvijas Banka, whose basic task is to identify the lines of research and the main analytical work to be carried out by Latvijas Banka in economic and financial fields and to monitor their execution, was established in 2021.

To ensure the performance of Latvijas Banka's tasks, including participation in the European System of Central Banks, Latvijas Banka has defined its functions and processes.

The following activities have been carried out to ensure quality, efficient and continuous performance of Latvijas Banka's processes:

- the organisational structure has been set up, responsibilities of the departments, committees and commissions have been defined, as well as the division of the areas of accountability and responsibilities of the Council members of Latvijas Banka has been fixed;

- planning of operation and monitoring of its performance have been carried out on a regular basis in compliance with the procedure of Latvijas Banka by drawing up work plans, as well as monitoring of the fulfilment of work plans has been ensured;
- appropriate resources have been allocated by approving the budget of Latvijas Banka, as well as total income and expenditure of Latvijas Banka have been projected on a regular basis;
- monitoring of the execution of processes and their results has been carried out by defining objectives of the respective processes and the results to be achieved, inter alia considering the indicators to be achieved within the strategic development strands.

In 2021, Latvijas Banka continued to play an active role in drafting and coordinating the new draft Law on Latvijas Banka. It was approved by the *Saeima* on 23 September 2021, and it will enter into force on 1 January 2023.

Two major objectives were behind the new law. One of them was to draw up a modern legal framework for the operation of Latvijas Banka. Another one was to provide a legal framework for the merger of the FCMC and Latvijas Banka ([FCMC integration](#)) in compliance with the amendments to the Law on Latvijas Banka adopted by the *Saeima* on 21 November 2019 and the assessment carried out by the Ministry of Finance, Latvijas Banka and the FCMC in spring 2020. The analysis of benefits and risks included in this assessment concludes that integration of the FCMC into Latvijas Banka will enable more effective supervision and development of the financial sector, as well as acceleration of decision making and reduction in administrative costs, thus increasing public good. The synergy of information and competences will help to assess risks more comprehensively in financial institutions, as well as take more operational decisions. The risks identified in the process of the merger of the FCMC and Latvijas Banka are manageable through the implementation of appropriate measures to limit risks, including the respective division of duties, rights and responsibilities. The merger of the FCMC and Latvijas Banka will take place, respecting the independence of functions of the monetary policy, as well as those of the finance and capital market supervision and resolution authority.

Structure of Latvijas Banka

Structural improvements continued at Latvijas Banka in 2021.

To implement one of Latvijas Banka's strategic priorities, i.e. enhancement of the build-up of analytical and research capacity and its focus on the analysis of the processes taking place in Latvia, the Monetary Policy Department experienced structural changes in early 2021. They were aimed at using the current research resources more efficiently by separating research functionally from econometric support for forecasting and model maintenance, as well as at commencing the creation of the euro area DSGE model. The Monetary Research and Forecasting Division was renamed the Research Division as of 1 January 2021, thus reflecting its function of research into all economic sectors more precisely.

In early 2021, the Council of Latvijas Banka approved the changes in the organisational structure of the Cash Department as of 1 March 2021. Thus, the strategic and operational functions were separated from technical and other support functions by integrating the Coin Division into the Cash

Operations Division and renaming it respectively the Cash Policy and Operations Division. At the same time, the Cash Department retained its name.

As of 1 June 2021, the Data Engineering Division was established within the Information Technology Department. This division provides targeted technological support to the field of data analysis through creating and developing the necessary infrastructure (the data lake, shared data management, automation and analytical tools, etc.) and support to data analysts and other users.

Furthering the development of the Security Department's work organisation, the Council of Latvijas Banka approved the structural changes and optimisation of the Security Department's staff numbers as of 1 December 2021.

Latvijas Banka's structure at the end of 2021

	Council	Internal Audit Department
Monetary Policy Department	Market Operations Department	Financial Stability Department
Cash Department	Payment Systems Department	Statistics Department
Communications Department ¹	Information Technology Department	Finance Department
General Secretariat	Operational Risk Management Department	Personnel Department
Legal Department	Security Department	Technical Support Department

Human resources

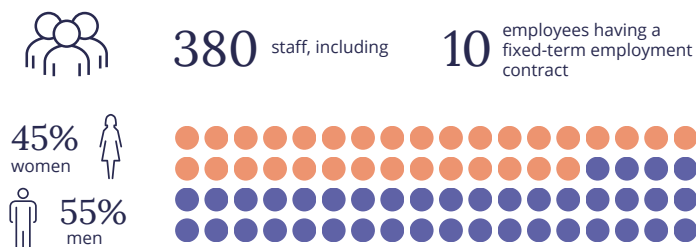
As in previous years, Latvijas Banka used staff rotation and promotion to foster employees' development and career.

In 2021, Latvijas Banka's staff, taking account of the Covid-19 pandemic related restrictions and actively making use of remote learning opportunities, continued to broaden their professional expertise in the fields of their responsibility, including participation in the international professional certification programmes.

Latvijas Banka's staff training costs amounted to 0.8% of the total expenses on remuneration (0.5% in 2020).

¹ The Communications and Financial Literacy Department as of 1 January 2022.

At the end of 2021 Latvijas Banka employed



At the end of 2020 there were



Source: Latvijas Banka.

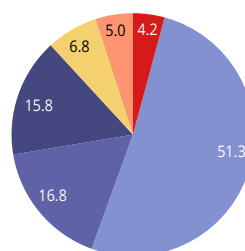
In late 2021, 88% of Latvijas Banka's staff had higher education (including 4.2% of those holding a PhD degree and 51.3% holding a Master's degree).

Chart 1

Education indicators of Latvijas Banka's employees

(%)

- PhD degree
- Master's degree
- Bachelor's degree
- Higher education
- Secondary vocational education, vocational education
- General secondary education, basic education



Source: Latvijas Banka.

The Counsellor of Latvijas Banka worked at the Permanent Representation of the Republic of Latvia to the EU in 2021.

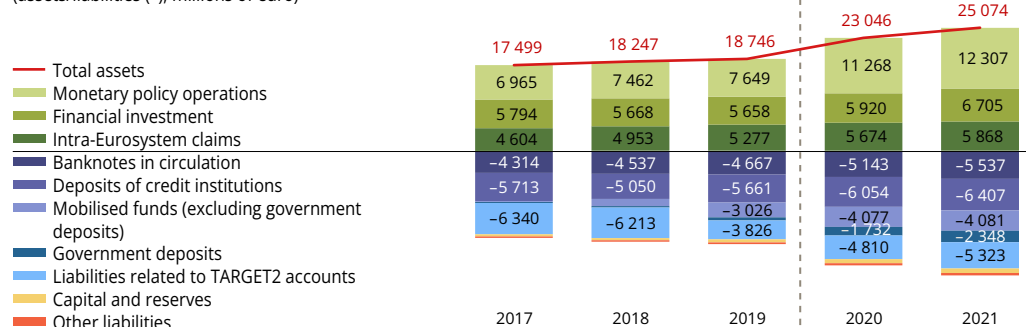
Financial resources

The financial management system of Latvijas Banka has been developed to ensure support to decision making, financial risk management and efficient use of financial resources. Major financial transactions of Latvijas Banka are related to the management of financial assets and the implementation of monetary policy.

Chart 2

Latvijas Banka's balance sheet

(assets/liabilities (-); millions of euro)



Source: Latvijas Banka.

Assets of Latvijas Banka increased by 2029 million euro in 2021 mostly on account of the following factors:

- as a result of purchases under the PEPP and PSPP, assets of monetary policy operations grew by 1039 million euro;
- the creation of new financial investment portfolios and the expansion in the existing ones resulted in an increase of financial investment assets by 785 million euro, including the pickup (by 401 million euro) in the government foreign currencies in the portfolio of borrowed funds.
- the intra-Eurosystem claims followed an upward path in line with the increase in the overall amount of banknotes in circulation of the euro area NCBs.

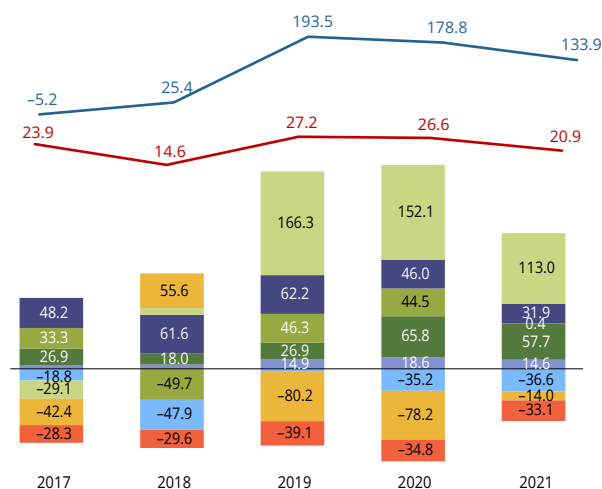
Latvijas Banka finances its operation primarily from the income generated from managing financial investments and from monetary policy operations. Latvijas Banka does not receive any financing from the state budget. Instead, it transfers 70% of the profit made during the reporting year to the state budget. In 2021, Latvijas Banka recorded a profit of 20.9 million euro, of which 14.6 million euro are to be transferred to the state budget. Over the last five years, Latvijas Banka's profit totalled 113.2 million euro, of which an amount of 78.0 million euro was transferred to the state budget.

Chart 3

Latvijas Banka's profit and total recognised financial result
(millions of euro)

- Total financial result
- Profit
- Changes in the revaluation account
- Net income on monetary policy operations
- Realised gains/losses arising from financial operations
- Net interest income for the management of financial investment
- Income from equity securities and participating interest
- Recognition of the revaluation result on financial assets and positions
- Provisions for financial risks
- Other net expenditure

Source: Latvijas Banka.



The financial performance of Latvijas Banka in 2021 was mainly affected by the following factors:

- lower average yields on securities and the costs of hedging currency risks reduced net interest income for the management of financial investment by 8.1 million euro;
- the rise in interest rates affected the fall in realised gains from financial operations by 44.1 million euro;
- the pickup in the amount of monetary operations and the application of more favourable conditions to TLTRO III reduced net income on monetary policy operations by 14.1 million euro;
- expenditure for provisions for financial risks declined by 64.2 million euro;
- the rise in interest rates affected the reduction by 39.1 million euro in the revaluation account changes.

Merger of the Financial and Capital Market Commission and Latvijas Banka

On 23 September 2021, the *Saeima* of the Republic of Latvia adopted the new Law on Latvijas Banka in its final reading. It stipulates the merger of Latvijas Banka and the FCMC as of 2023, respecting the independence of monetary policy functions, as well as the functions of the finance and capital market supervisor and resolution authority. At the same time, the *Saeima* of the Republic of Latvia also approved amendments to the Law on Latvijas Banka that provide for the main transitional provisions to be followed during the merger.

It was already in April 2021 that Latvijas Banka and the FCMC, in the run-up to the merger, commenced work on the governance framework of the project, as well as the development of the objectives to be attained and a detailed work plan by agreeing on the basic principles of the project implementation at the start. On 30 June 2021, a cooperation agreement between Latvijas Banka and the FCMC was concluded. It was aimed at ensuring successful, efficient and timely preparation for the integration and its process. Within the cooperation agreement, the Commission of the FCMC Merger with Latvijas Banka or the Integration Commission was established. It is responsible for taking decisions related to a successful process of the integration and its implementation, except those decisions that are within the competence of the Council of Latvijas Banka or the FCMC Council. The Integration Commission is chaired by the Governor of Latvijas Banka, and its Deputy Chair is the Chairperson of the FCMC. Within the framework of the cooperation agreement, 10 working groups dealing with the issues of integrating the FCMC core functions and the provision of support functions were established. The working groups are composed, on a parity basis, of representatives of Latvijas Banka and the FCMC. These working groups perform practical work to ensure the integration process, as well as make proposals and draft decisions for the Integration Commission. Each institution has appointed a project manager to coordinate the activities of the working groups. The project managers are responsible for efficient organisational management of the integration process, including cooperation with the Integration Commission to address the issues of the management and organisation of the merger process, and for coordinating the work of the working groups.

Since the adoption of the Law on Latvijas Banka in the final reading, the operation of the Integration Commission is regulated by transitional provisions of the law.

On 7 October 2021, the Integration Commission approved the framework for the integration project composed of the integration plan, the key performance indicators and the key milestones. Taken together, they define the work to be carried out, its sequencing, deadlines and the expected results. On 25 October 2021, the integration plan was approved by the Council of Latvijas Banka.

Active implementation of the integration plan was commenced in autumn 2021. In October 2021, an organisational structure of the integrated institution was drafted. It forms the basis for further detailed development of the organisational structure of the integrated institution and opening of positions for the FCMC employees who will continue their career at Latvijas Banka. Examination of the key features of and distinctions between the

two institutions' cultures was completed, thus constituting the basis for defining the institution's common culture. Strong and positive culture of an organisation with shared values has been recognised as being one of the major success factors of the integration project.

At the end of 2021, the take-over of one of the FCMC tasks, i.e. enhancement of financial and economic literacy of the public, was fully completed at Latvijas Banka. The absorption of this basic function by Latvijas Banka as of 1 January 2022 served as a pilot project for the whole integration process, facilitating a smoother and more timely integration of the FCMC functions, while ensuring well-timed integration of human resources, integration of the financial literacy content and planning of IT resources.

Pursuant to the transitional provisions of the Law on Latvijas Banka, Latvijas Banka is entitled to provide the services of support functions to the FCMC that are required for the implementation of the FCMC's tasks. In 2021, Latvijas Banka began to provide archive, as well as certain IT support services to the FCMC.

Latvijas Banka and the FCMC managed and implemented the integration project using almost exclusively their own resources in 2021. External consultants were only involved in the project aimed at exploring cultures of both organisations.

Risk management

Latvijas Banka manages **financial and operational risks**. Latvijas Banka's risk management goal and basic principles are set out in the "Risk Management Policy of Latvijas Banka" adopted by the Council of Latvijas Banka.

Financial risks are managed with the aim of minimising their potential negative impact on Latvijas Banka's financial position and financial performance that might arise from adverse changes in financial market factors or a counterparty default. When managing financial risks, including market risk (price, interest rate and currency risks), credit risk and liquidity risk, Latvijas Banka takes account of the acceptable risk limits and risk parameters to preserve the value of investments ensuring the required liquidity and income earning in the long term (see also the sub-section "[Risk management](#)" of the section "Management of investments").

Financial risks of Latvijas Banka relate primarily to its investments in financial instruments, as well as the implementation of the single monetary policy operations associated with Latvijas Banka's participation in the Eurosystem and sharing of the related risks and financial results. Latvijas Banka's financial assets are mostly exposed to the market risk and credit risk. On the basis of reasonable risk estimates, the Council of Latvijas Banka decides on making provisions for financial risks associated with Latvijas Banka's investment management and other financial transactions, as well as the use of these provisions should the above risks materialise.

Management of Latvijas Banka's **operational risks** is aimed to mitigate a potential negative impact on Latvijas Banka's operation, reputation or finance, resulting from inadequate or erroneous execution of processes, acts or omissions on the part of an employee, inadequate operation or unavailability of either the information technologies, the information systems or other infrastructure of Latvijas Banka, or external events.

The operational risks of Latvijas Banka are managed within a common operational risks management framework, with the major risks being:

- compliance risks (inter alia in preventing conflict of interests, anti-corruption control, personal data protection, prevention of money laundering and terrorism financing, and ensuring workplace environment protection);
- business continuity risks;
- physical security risks;
- information security risks;
- information technology risks (including cyber security risks).

As regards operational risk management in 2021, it focused on managing risks related to the Covid-19 pandemic, as well as those of teleworking, including information security and cyber security risks, as well as those in relation to the FCMC integration process.

Latvijas Banka ensures risk management training for its employees, inter alia, conducts, on a regular basis, training sessions and tests for employees to maintain appropriate level of their know-how and skills.

Internal audit

The internal audit, by applying a systemic, disciplined and risk-based approach, provides an objective and independent evaluation of Latvijas Banka's governance, risk management and control system, including the evaluation of the system's adequacy, efficiency and compliance with national legal requirements and best practice, as well as consultations aimed at improving Latvijas Banka's operation, thus helping perform its tasks and attain its objectives.

The internal audit is carried out in line with the "Core Principles for the Professional Practice of Internal Auditing", "International Standards for the Professional Practice of Internal Auditing" and the "Code of Ethics" of the Institute of Internal Auditors.

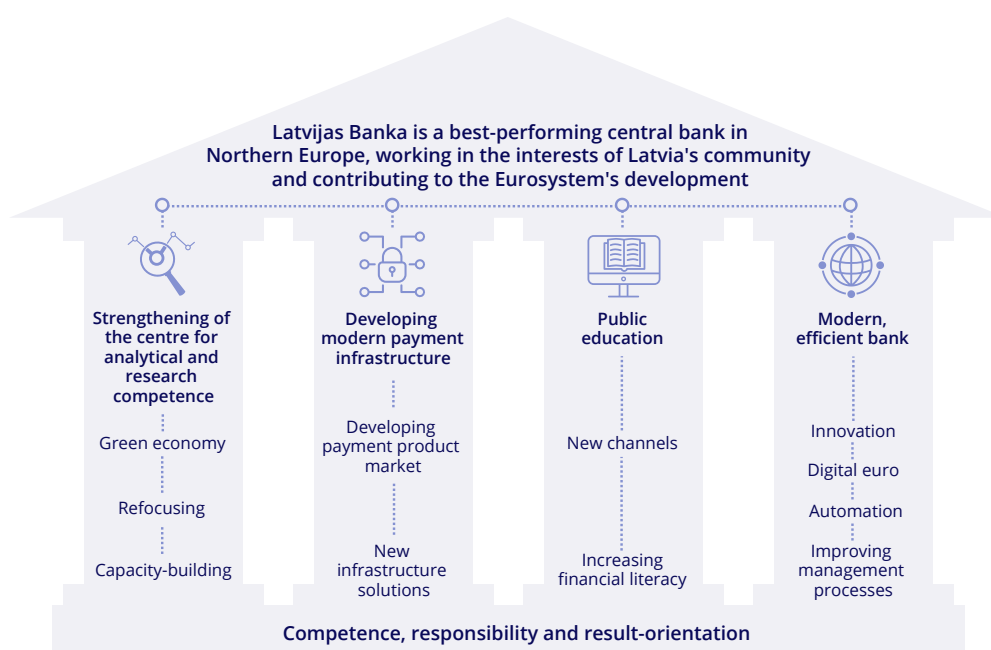
The internal audit reports to the Council of Latvijas Banka and the Audit Committee.

The internal audit participates in the work of the Eurosystem/ESCB/SSM Internal Auditors Committee and conducts audits according to the audit plan approved by the Committee. The staff of the Internal Audit Department plays an active role in the fulfilment of other Eurosystem/ESCB/SSM internal audit tasks.

Strategy

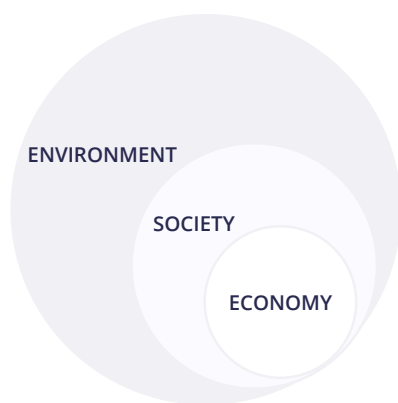
In 2021, Latvijas Banka continued to work within the framework of its vision, mission and strategic directions (see the chart) specified for the period up to the end of 2022. A comprehensive assessment of these directions and the results achieved to date suggests that Latvijas Banka succeeded in all four directions of strategic development: **strengthening as the centre for analytical and research competence; developing a modern, secure and efficient payment infrastructure; fostering financial literacy**, as well as **the development of a modern, efficient and open central bank**. In late 2021, 77% of the targets defined in the strategy were already reached. Moreover, the failure to reach most of the remaining goals is attributed to the external factors that are independent from Latvijas Banka, e.g. the adverse effects of the pandemic on the national economy and household sentiment. The overall conclusion is that Latvijas Banka is making a good progress in the implementation of its strategy, and in 2022 it will attain the objectives set by the strategy.

To monitor the implementation of Latvijas Banka's work plan, as well as to ensure effective horizontal coordination and cooperation of the structural units working to meet the strategic objectives, the current integrated task management system was upgraded to include a quarterly reporting module that allows to track the fulfilment of the structural units' work plans, and automatic compilation of this information in a dashboard available to all managers.



Sustainability

Logical structure of the sustainability idea



In the future context, sustainability is a paradigm, in which environmental, social and economic considerations are balanced in the pursuit of an improved quality of life. A sustainable approach respects the planet's ecological boundaries and directs economic development towards equal opportunities and quality of life of everyone in society.

This objective can be achieved through an extended sustainable transformation process, which in turn involves a wide range of macroeconomic risks the identification and management of which are crucial both with regard to macroeconomic stability and sound financial system having a direct effect on the attainment of each central bank's targets. This process has a direct and substantial impact on successful performance of Latvijas Banka's tasks, such as the implementation of the monetary policy, provision of financial stability, management of foreign reserves, as well as on other functions of Latvijas Banka.

The [Sustainability Strategy](#) of Latvijas Banka defines the link between the sustainable transformation process and the central bank's tasks and the implications this process has on these tasks, describes the international framework of our operation and identifies the key areas where we implement a sustainable policy.

Sustainability issues are also well established in the Eurosystem's activities. A [roadmap](#) has been adopted under the new monetary policy strategy. It sets out measures to limit risks related to climate change.

The results of the UN Climate Change Conference (COP26) held in Glasgow on 31 October–13 November 2021 show that sustainability objectives feature not only on the agenda of certain countries and regions but they also feed through into global cooperation, which is deeper than the attainment of the goals set out in the Paris Agreement, and major international businesses willingly engage in this cooperation. The speed and pace at which changes take place highlight the need to foster understanding and readiness of the Latvian financial sector to be part of the process of sustainable changes. Financial sector supervision will provide a vital fillip to a sustainable transformation process of the

economy. Latvijas Banka cooperates with the FCMC in developing a common understanding and approach to adapting financial sector supervision to the attainment of sustainability objectives.

Sustainable transformation is a global process, and Latvijas Banka, within the scope of its mandate, plays an active role in it. Latvijas Banka is a member of the [Network for Greening the Financial System](#) (NGFS) since 2020. The climate change scenarios and guidelines developed by the NGFS for the introduction of sustainability elements into the financial sector are important for ensuring common and coherent sustainable transformation of the global financial system. Participation of Latvijas Banka in NGFS working groups not only contributes to the global processes but also facilitates international networking, enriches employees' level of professional know-how and provides in-depth understanding of methodologies which, in turn, enables Latvijas Banka to make the most of its tasks to implement monetary policy, ensuring financial stability, managing foreign reserves and other financial investment, as well as performing other functions of Latvijas Banka.

The Green Group is Latvijas Banka's centre for sustainable thought. The Group is comprised of 20 experts representing several departments of Latvijas Banka. Through a dialogue with experts, researchers and sectoral associations, Latvijas Banka improves its understanding of the effects of sustainable changes on economic processes of public interest and integrates this knowledge successfully into analytical work of Latvijas Banka. Members of the Green Group share their knowledge with other colleagues during its seminars. The analysis on sustainability issues carried out by Latvijas Banka's specialists is reflected in a series of publications.¹

Latvijas Banka feels there is a considerable growth in demand for its contribution in the field of sustainability, and it has strengthened its role as an opinion leader and is the most influential authority in Latvia with regard to the issues of the analysis of economic processes and development forecasts in Latvia and the euro area (Survey of economic experts. *Latvijas Fakti*, 2021). The green economy and European Green Deal were identified by the overwhelming majority of respondents to the survey as the most topical issues requiring analysis and opinion by Latvijas Banka.

Teleworking introduced during the Covid-19 pandemic has certainly reduced Latvijas Banka's carbon footprint, but it has limited the possibilities for the introduction of new sustainable practices in work organisation. However, the commenced reforms continued in 2021, e.g. the reduction of the number of vehicles. At the end of 2021, Latvijas Banka owned just one passenger vehicle, which was not an operational vehicle engaged in transportation of cash. This made it possible to reduce the ecological footprint and save on the use of public resources.

¹ [Edwards Kušners. The fastest headless chicken;](#)
[Daina Paula, Andrejs Semjonovs. Energy efficiency in buildings: a beneficial and green solution to withstand the ravages of time and unwise energy consumption;](#)
[Daina Paula, Andrejs Semjonovs. Energy efficiency in buildings;](#)
[Jānis Strazdiņš, Kristīne Petrovska. Exposure of Latvia's securities portfolio to climate risks;](#)
[Krista Kalnbērziņa, Ludmila Fadejeva. Inequality is not a problem faced by one part of society only;](#)
[Krista Kalnbērziņa, Ludmila Fadejeva. Where is the unused human capital or inequality in Latvia;](#)
[Daina Paula. Strengthening the Green Deal in Latvia: what benefits can electromobility offer?](#)
[Daina Paula. In pursuit of energy efficiency: should an apple-tree be planted just because of its low-bending branches?](#)

To highlight the aspect of quality of life in achieving sustainability, Latvijas Banka organised a discussion "Forest for Your Soul" at the LAMPA Conversation Festival. The international conference "Sustainable Economy in Times of Change" organised by Latvijas Banka analysed several sustainability-related issues.

In 2021, Latvijas Banka engaged in active communication with the financial sector, raising and developing awareness of management and monitoring of climate risks in the financial sector, raising public and business awareness of sustainability and sustainable finance (see the section [Financial Stability](#)).

Operational areas of Latvijas Banka

Analysis of economic environment and monetary policy

Economic analysis and research are an important part of what Latvijas Banka does as it allows for the provision of a reasoned explanation of economic processes and projection of future trends. It gives an opportunity to explain alternative development scenarios that become possible as the direction of the global economic policy changes. Analysis-based awareness of recent developments is an important pre-condition for drafting high-quality economic policy decisions and raising public awareness.

Global economic developments

Larger vaccination coverage and gradual easing of restrictions contributed to a rapid recovery of global economy in 2021. Economic rebound took place despite several Covid-19 outbreaks caused by the new variants of the virus.

Monetary and fiscal policy support allowed the economic activity to rapidly recover as the pandemic-related restrictions were eased.

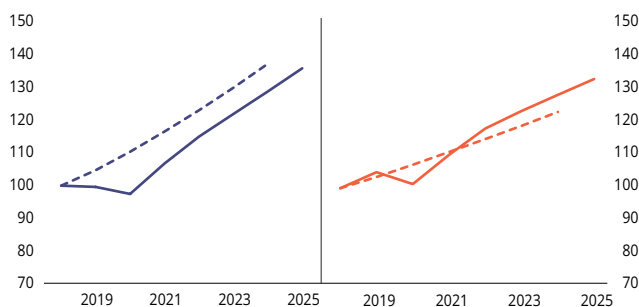
Sizeable monetary and fiscal support, as well as more widespread availability of vaccines make it possible to expect that as early as at the beginning of 2022 most developed countries would regain the economic activity that they lost during the last two years (see Chart 4). The rapid growth was particularly boosted by the US, where the generous government support allowed the economic activity to exceed pre-pandemic levels in the first half of 2021. However, the recovery has overall been quite unbalanced in various countries across the globe, and to a large extent it has been greatly determined by the epidemiological situation and unequal access to vaccines. Sectoral recovery has not been balanced either as in-person services lagged behind sectors that could operate remotely.

Chart 4

GDP and forecasts

(index; 2018 = 100)

- World (actual data and October 2021 forecasts)
- - - World (actual data and October 2019 forecasts)
- Advanced economies (actual data and October 2021 forecasts)
- - - Advanced economies (actual data and October 2019 forecasts)



Source: IMF.

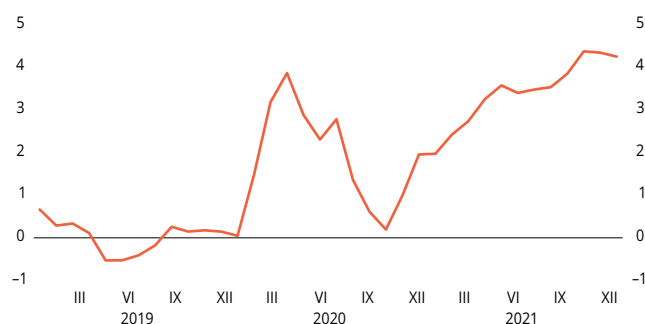
Global manufacturing and supply chain challenges, rising energy prices and expected restrictions, as the Delta and Omicron variants rapidly spread, resulted in downward risks and slightly slowed down the rapid recovery of the global economy during the second half of 2021.

Limited supply and fast recovery of demand resulted in rapidly increasing inflation that encouraged to accelerate phasing out of the monetary policy support.

Supply limitations that interacted with rapid recovery of demand created pre-conditions for a significant price pressure that made inflation reach the highest level in recent history (see Charts 5 and 6). To respond to the rapid price increase that had proven to be more lasting than initially expected, and considering the gradual improvement of the epidemiological situation, several national central banks decided to start winding up the accommodative monetary policy that was implemented during the pandemic. The FRS decided to discontinue net asset purchases earlier than planned initially, i.e. until the beginning of March 2022, and the Bank of England discontinued their asset purchase programme in December. Furthermore, at the end of the year the governors of the FRS indicated that in 2022 they expected several interest rate hikes, while the Bank of England not only indicated hikes in the following year, but also implemented the first increase. In contrast, the ECB decided to continue net purchases under the APP for as long as necessary and to discontinue only net purchases under the PEPP in March 2022. As the financial markets noticed that the leading global central banks became increasingly concerned about inflation, they continued to price in a faster rise in interest rates in financial instruments, and these expectations outpaced the forward guidance of the central banks.

Chart 5

Global supply chain pressure index
(deviations from the average)

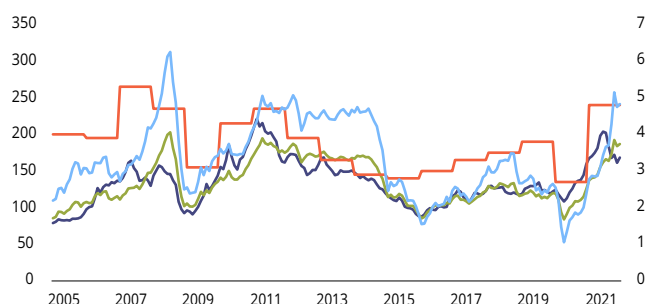


Note. Index scaled by its standard deviation.
Source: Federal Reserve Bank of New York.

Chart 6

Global prices of goods and global inflation
(index; 2016 = 100)

— Industrial materials
— Energy
— All commodities
— Inflation (annual changes; %;
right-hand-scale)



Source: IMF.

Economic recovery took place in the context of geopolitical tensions that resulted in additional uncertainty and risks.

At the same time, several geopolitical events in 2021 created significant risks to the global economic development. The change of power in the US, strained relations between Taiwan and China (regionally, also deterioration of relations between China and Lithuania), disagreement between France and Australia, the US and the UK concerning the tripartite AUKUS agreement, the gradual escalation of the conflict between Russia and Ukraine, as well as the migration crisis were just some of the events that caused additional uncertainty about the global economic outlook.

Although global leaders reiterated their continued commitment to fighting climate change during the November UN Climate Change Conference (COP26) in Glasgow, the global economic recovery was accompanied by the emissions returning to the pre-pandemic levels. Extreme weather conditions and other climate threats materialised more frequently and were more severe in 2021 than before, resulting in significant losses to businesses and people.

Euro area economy and Eurosystem monetary policy

Latvijas Banka actively monitors developments in the euro area economy to take an active part in the Eurosystem's monetary policy workflows and decision making. In 2021, monetary policy decisions of the ECB continued to provide significant support to the euro area economy to overcome the crisis.

In 2021, the euro area economy rapidly recovered, but it was not "out of the woods" yet.

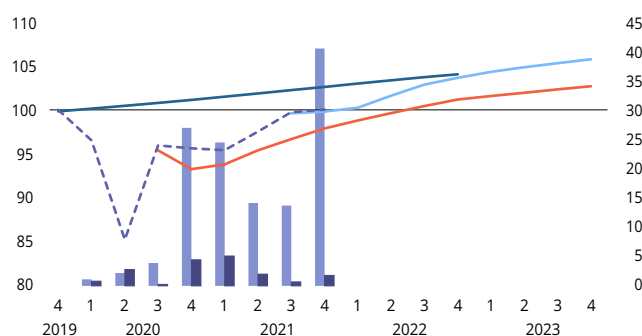
Fast and efficient response by governments and central banks to the economic crisis caused by the Covid-19 pandemic allowed the euro area and Latvian economy to recover faster than expected in 2021. According to the December 2020 Eurosystem staff projections, the euro area economy would recover to the pre-crisis level seen in the fourth quarter of 2019 only by the middle of 2022. In 2021, however, the recovery was stronger than anticipated at 5.3% and so the GDP reached the 2019 levels already by the end of the year.

Chart 7

GDP, forecasts by the ECB and Covid-19 confirmed cases and death rates in the euro area
(Q4 2019 = 100)

— ECB December 2019 forecasts
— ECB December 2020 forecasts
— ECB December 2021 forecasts
--- Actual GDP
■ Number of COVID-19 morbidity cases (thousands per 1 million population; right-hand-scale)
■ Number of COVID-19 mortality cases (thousands per 10 million population; right-hand-scale)

Source: ECB, Our World in Data.



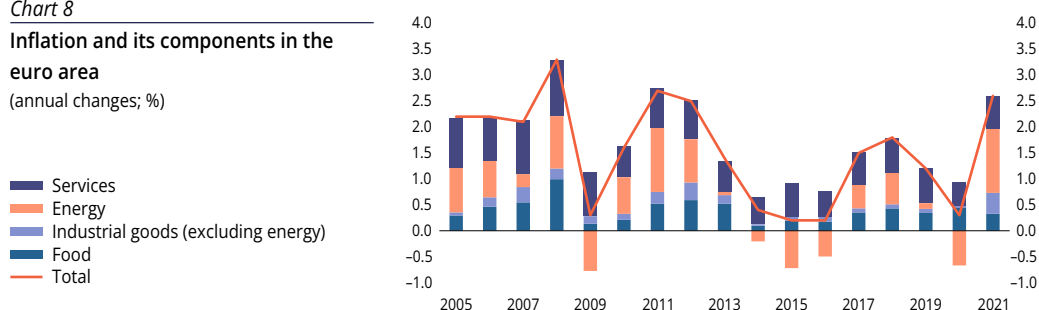
One of the main drivers of growth was private consumption that recovered faster than expected even during the spread of new Covid-19 variants. These developments were a result of several factors. First, the generous monetary and fiscal policy support protected the economy from a rapid loss of jobs and a decrease in people's earnings. Second, vaccination made it possible to ease mobility restricting measures. Moreover, in comparison to 2020, the economic activity also improved due to better ability of households and businesses to adjust to pandemic restrictions.

The rapid recovery of demand combined with supply restrictions stimulated inflation also in the euro area. From 0.3% in 2020 it increased to 2.6% in 2021, and year-on-year it grew from 0.5% in January to 5% in December (see Chart 8).

Chart 8

Inflation and its components in the euro area

(annual changes; %)



Source: Eurostat.

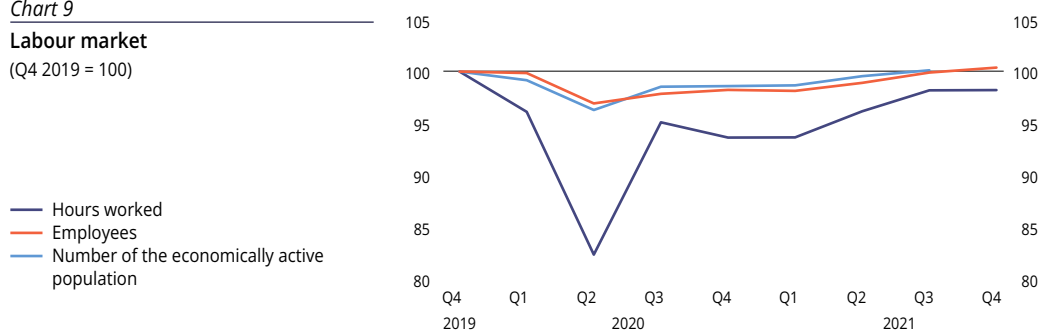
Monetary policy response seeks the balance between short-term economic support and long-term stability.

However, the upswing in business cycle observed in the euro area was much slower than in the US and the UK where the central banks started an active discussion on discontinuing monetary stimulus already at the end of 2021. Labour market indicators also demonstrated that employment levels and the number of economically active population in the economy were lower than before the pandemic, while the wage growth remained moderate. Thus, the Governing Council of the ECB considered the growing price pressures to be driven primarily by temporary factors and did not hurry to withdraw monetary policy stimuli. Premature discontinuation of monetary support when the monetary policy is restricted by the lower bound of interest rates and the economy has not sufficiently recovered after the crisis may again result in lower growth and excessively low inflation risks.

Chart 9

Labour market

(Q4 2019 = 100)



Source: Eurostat.

During this period of high uncertainty, to signal the readiness of the central bank to act depending on the economic developments, the ECB decided

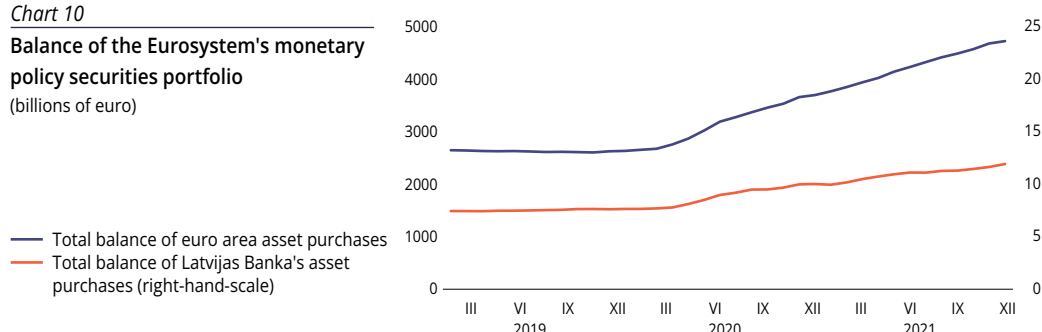
that purchasing of securities under the PEPP will be flexible. Purchasing of assets under the PEPP significantly increased during the second and third quarters and became less active at the end of the year when the economy started to recover. At the end of the year, the Governing Council of the ECB also decided that net asset purchases under the PEPP will run at a slower pace at the beginning of 2022 and will be discontinued at the end of March. At the same time, the period of reinvestment of principal under the PEPP was extended to the end of 2024. To manage moderate PEPP discontinuation and avoid unnecessary stress in the financial markets, it was decided that APP net monthly purchases should be increased in the short term to gradually move towards discontinuation of APP net purchases.

As a result of the accommodative monetary policy, historically low interest rates persisted.

Overall, during the last two years asset purchases and TLTRO (see Charts 10 and 11) were material in strengthening the economy. The Eurosystem extended the most favoured interest rate period applicable to TLTRO until June 2022. However, the amount of TLTRO allotted in Latvia in 2021 decreased, as voluntary early repayments of funds borrowed via TLTRO were made.

Chart 10

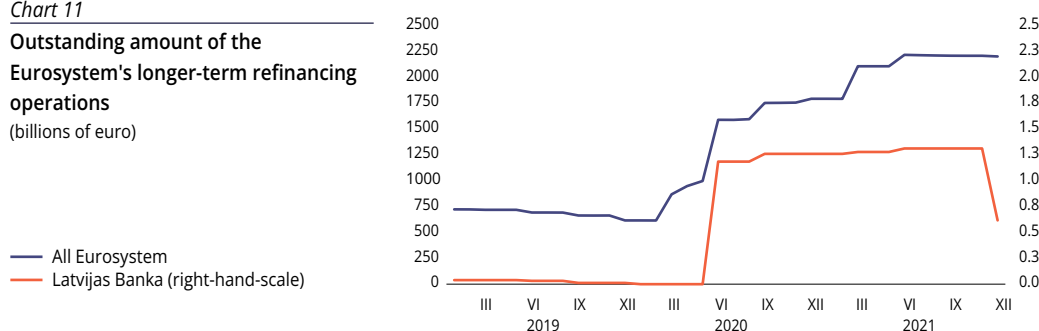
Balance of the Eurosystem's monetary policy securities portfolio
(billions of euro)



Source: ECB.

Chart 11

Outstanding amount of the Eurosystem's longer-term refinancing operations
(billions of euro)



Source: ECB.

Continuing sizeable asset purchases and favourable lending conditions for credit institutions during TLTRO auctions maintained the money market interest rates close to the ECB interest rate on the deposit facility set by the Governing Council (see Chart 12). It also allowed for maintaining low sovereign and credit institution borrowing costs that contributed to continuation of historically low credit interest rates ensuring faster recovery of the economic activity in the euro area (see Chart 13).

Chart 12

ECB's deposit facility rate and the euro area short-term rate EONIA and €STR (%)

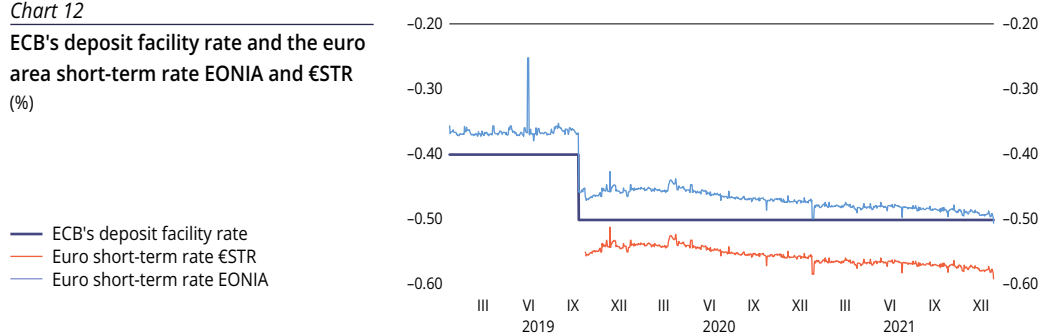
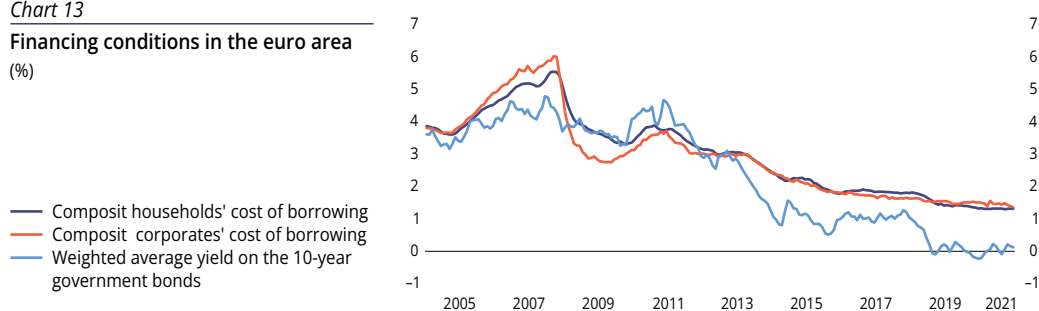


Chart 13

Financing conditions in the euro area (%)



Overall, Latvijas Banka is of the opinion that the current monetary policy support to the euro area economy has been adequate to ensure that the inflation target is reached in the medium term. As upward risks materialised and the inflation remained high for a longer period of time than initially expected, and as the euro area economy continued to recover, the monetary policy stance required adequate adjustments.

Monetary policy transmission in Latvia was hindered by the conservative lending policy of credit institutions.

Interest rates on loans to businesses in Latvia remained among the highest in the euro area in 2021. It can be explained not only by a higher credit risk of companies or higher credit institution financing costs in Latvia versus the euro area but also by a higher financial market concentration and more prudent credit institutions¹. However, the very favourable monetary policy conditions made it possible to slightly cut lending costs in Latvia in 2021. This process was also affected by the participation of some Latvian credit institutions in TLTRO, as well as by the activity in the securities market and the additional competition it created for the credit institution sector. Unfortunately, fragmented participation of Latvian credit institutions in TLTRO auctions also resulted in customer financing cost differences. Latvian credit institutions that participated in the TLTRO indeed reduced the offered corporate interest rates in 2021, while the trend was not visible in other credit institutions.

In parallel to the regular monetary policy developments, greater attention was also given to monetary policy strategy and sustainability issues.

2021 was important for the ECB and Latvijas Banka not only in the context of the monetary policy decisions but also due to the thorough review and

¹ https://datnes.latvijasbanka.lv/papers/discussion/dp_2_2021.pdf.

presentation of the new [ECB strategy](#). Latvijas Banka actively engaged in these activities (see the section [Research](#)). It was a historic event for the single monetary policy of the euro area as the previous revision of the euro area monetary policy target took place in 2003.

The reviewed strategy has a symmetric 2% inflation target in the medium term (before – "below, but close to 2%"). This means that both positive and negative deviations from this target are equally undesirable. Moreover, this strategy provides for a very focussed or longer monetary policy action in cases when the economy operates close to the lower bound of interest rates to prevent persistent downward deviations of inflation from the target. It may also include a transition period during which inflation is slightly higher than the target. These changes will support more efficient implementation of monetary policy and take into account a range of fundamental changes in economic conditions since the previous review of the monetary policy strategy.

In addition to the new inflation target, the approach to measuring inflation was also clarified. According to the Governing Council of the ECB, the Harmonised Index of Consumer Prices (HICP) should strive to better reflect inflation faced by most people on daily basis. Thus, it was decided that the HICP will continue to serve as a measure of inflation; however, in the future it will be supplemented by owner occupied housing prices.

For communication on monetary policy to be more efficient and increase public awareness and trust in the central bank, during the [strategy review](#) the ECB decided to make it more understandable to a wider range of people, and undertook to regularly organise public hearing events.

To support the European Union policy towards climate neutral economy by 2050, the new monetary policy strategy includes a [published climate change action plan](#). It stipulates how the ECB will include climate change considerations in the monetary policy framework in the nearest future. The ECB categorises climate change risks into two large groups: adaptation risks that are related to potential losses caused by extreme natural events, and transition risks that are related to economic challenges to move from the current economic model to a more sustainable low carbon model. Climate change considerations will also be taken into account during the development of economic analysis, modelling and forecasting tools, as well as during the implementation of monetary policy. These measures will help governments, companies and households contribute to the economic transition to climate neutral and sustainable activity.

Economic analysis and forecasting in Latvia

Central banks focused on rising inflation, including in Latvia.

At the beginning of 2021, prices in Latvia had almost not changed, but during the year they increased and the inflation reached a 10-year maximum (7.9% in December). Analysis of Latvijas Banka demonstrated that growing [inflation](#) (3.2% on average per year¹) was mostly driven by global factors: [higher energy prices](#) and other transient [supply](#) factors that could become less [relevant](#) during the second quarter of 2022. However, geopolitical tensions and the war in Ukraine caused additional risks that will likely keep energy prices high for a sustained period of time.

¹ HICP.

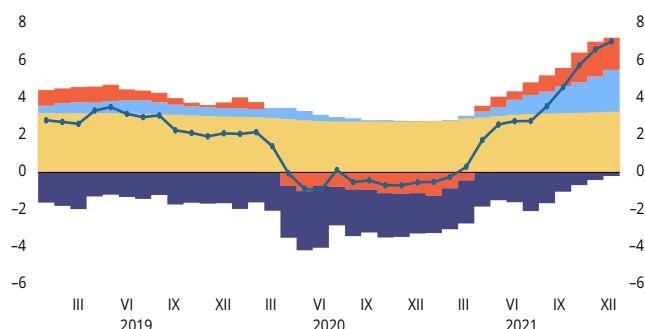
At the same time, Latvijas Banka warned that tensions in the labour market could result in the pressure of internal factors, i.e. wages, on inflation. These developments should be monitored by Latvian institutions and require an economic policy to prevent labour market overheating, e.g. by balancing the [public investment inflows](#) in [construction](#), and by improving [labour qualification](#) in the long term.

Chart 14

Decomposition of the Harmonised Index of Consumer Prices

(annual changes; %; and percentage point contributions)

- Wages
- Global food prices
- Oil prices*
- Other factors**
- Headline inflation



Note. HICP decomposition has been assessed using the cointegrated ARDL model between headline inflation, average wages, global food prices (DG-AGRI) and fuel prices (as a proxy for oil prices).

* Contribution of oil prices includes the effect on fuel prices, indirect impact of oil prices on other inflation components and the possible correlations between the prices of oil, natural gas and heat energy.

**Other factors include the shocks specific to the market of natural gas, electricity and heat energy, and they also include model residuals, trends and dummies.

Sources: CSB data, Latvijas Banka's estimates.

State support widely available during the Covid-19 pandemic significantly mitigated the negative effects on the economy.

In 2021, the [GDP grew](#) faster (4.5%) than Latvijas Banka had forecasted at the beginning of the year. The Covid-19 pandemic continued, and the measures restricting the spread of the virus were repeatedly imposed during the year. During the second half of 2021, activity limiting factors such as material and labour shortage, as well as rising costs, in particular energy costs, became more prevalent.

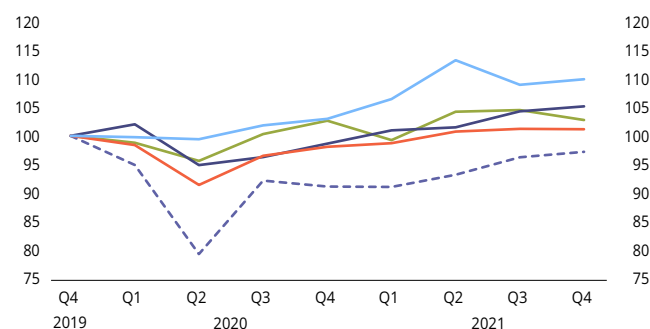
However, as households and companies were able to adjust and the government provided support, the economic activity increased in 2021. The economy recovered to the pre-crisis level as early as in the second quarter of 2021. However, the recovery was not uniform: the sectors more affected by the restrictions and social distancing still have a long way to go.

Chart 15

GDP and value added

(at constant prices; 4Q 2019 = 100; seasonally and calendar adjusted data)

- Goods sectors
- Services involving face-to-face contacts
- Other services
- GDP
- Health care, education, public administration services



Source: CSB data, Latvijas Banka's estimates.

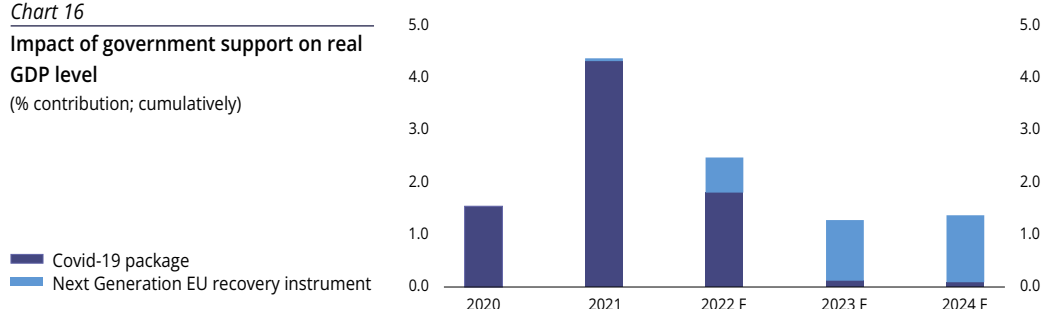
Government spending on mitigating Covid-19 effects (2.1 billion euro) was almost 2.2 times higher than in 2020. According to the assessment of the economic impact of Covid-19 related fiscal support instruments conducted by Latvijas Banka, the scope of fiscal stimuli is to be considered reasonable as it helped to reduce the negative difference between the

actual and potential economic growth¹ and contribute to return to full employment and use of other factors of production. Furthermore, Latvijas Banka was an active member of the working groups on development of [support measures](#) for individuals and the pandemic mitigation measures at government and expert levels.

Chart 16

Impact of government support on real GDP level

(% contribution; cumulatively)



Sources: Ministry of Finance, Latvijas Banka's assumptions; assessment by Latvijas Banka using the DSGE model.

Furlough benefits and wage subsidies limited unemployment growth, and in 2021 the [unemployment rate](#) was even lower than in 2020. Most of furloughed employees affected by the pandemic returned to their jobs after the expiry of the benefit period² as full-time staff. [Support to businesses](#) reduced profitability fluctuations and prevented mass bankruptcies.

During the crisis, the government debt increased, but it made it possible to protect the economy from more sustained negative consequences.

The flexible crisis framework of the European Union fiscal rules made this expansive fiscal policy possible. Moreover, as a euro area member Latvia was able to borrow in international markets for low interest rates. Latvijas Banka supported the government approach: to increase the government debt and budgetary deficit during the crisis to protect the economy from the pandemic shock and avoid long-term negative consequences.

However, Latvijas Banka underlined that during the economic recovery it is necessary to cut the government [debt](#) by adjusting it towards [sustainability](#) to restore the fiscal space for mitigation of effects of cyclical economic fluctuations in the [future](#).

Structural problems in the labour market hinder economic growth and deepen social exclusion and inequality.

Latvijas Banka concluded that the crisis had disproportionately affected various sectors, professions, regions and societal groups. Although Latvia experienced a [strong increase in wages](#) (11.8%), it masked a so-called [two-speed labour market](#).

Sectors more directly affected by the crisis where most people were laid off (such as accommodation and catering) had lower wages even before the crisis. Meanwhile, in some other sectors the number of jobs [remained almost the same](#) (e.g. education, healthcare, information technologies), and the wages kept increasing.

¹ According to calculations of Latvijas Banka, in 2020 the negative output gap was above 3%, while in 2021 it decreased, but still remained negative.

² According to a survey by Latvijas Banka.

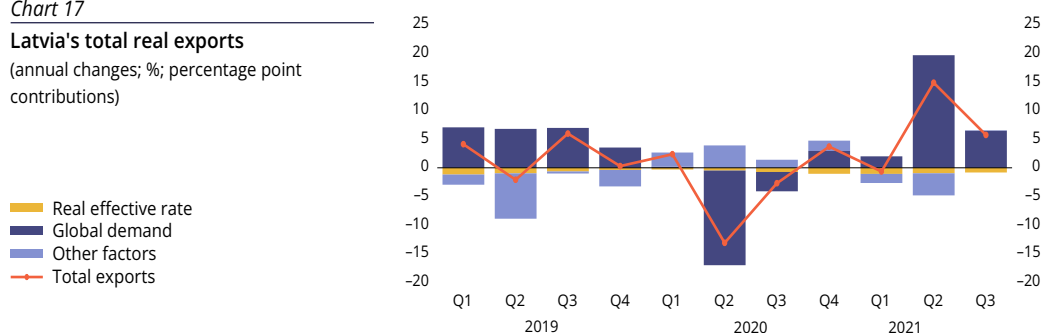
Latvijas Banka provided analytical support to improve the social protection system, including for drafting a plan for the improvement of the minimum income support system, assessment of reform options for the pension system, as well as engaged in discussions on improving the taxation, including labour taxation, framework.

The ability of businesses to make profits and increase wages allows improving welfare. Although cost competition indicators deteriorated, in 2021 (as before) the growing external demand continued to be the main factor that led to the growth of [manufacturing](#) and [goods exports](#). However, further deterioration of competitiveness indicators may result in significant adjustments. Latvijas Banka noted that the growing lack of workforce, as well as skills mismatch on the labour market was a serious problem that might widen the gap between wage and productivity growth and hinder the ability of companies to compete with producers from other countries successfully. More investment in human capital is a current priority to ensure sustained economic growth in the future.

Chart 17

Latvia's total real exports

(annual changes; %; percentage point contributions)



Notes. Decomposition reflects contributions of the key factors to total exports, and it has been obtained by using the cointegrated ARDL model. Other factors include dummies and model residuals. The model is assessed from the first quarter of 1996 to the third quarter of 2021.

Sources: CSB data, Latvijas Banka's estimates.

Weak corporate lending and high [interest rates](#) hinder economic development and growth in welfare.



Uldis Rutkaste,
Head of the Monetary
Policy Department
Latvijas Banka

"Unfortunately, the sluggish lending activity also brings with it weaker economic growth. For Latvia's population, this means fewer well-paid jobs. For businesses – a failure to seize development opportunities, as well as worse starting position in competition with foreign companies. But for the state – lower tax revenues and more limited possibilities to invest in infrastructure, reduce the high poverty and income inequality, as well as perform other state-specific functions."

FIND OUT MORE
(available in Latvian only)

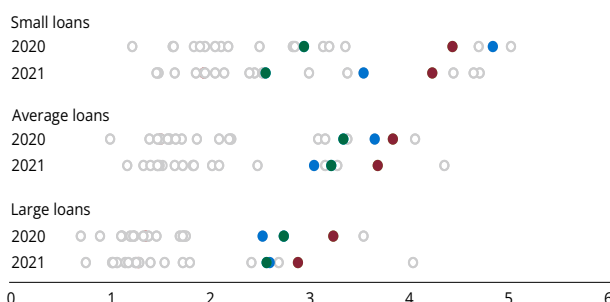
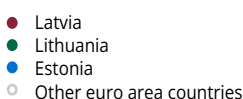
To achieve a higher level of welfare, innovation and investments are needed, and it requires active corporate [lending](#). Latvijas Banka underlined that the conservative lending policy of credit institutions had served as one of the factors that hindered lending, and contributed to a discussion between the financial sector and policy makers on tools to remove obstacles in this area (in December, corporate loans decreased by 4% year-on-year¹).

¹ Excluding the structural changes and one-off factors in the banking sector.

Chart 18

Weighted average interest rates on loans to enterprises

(new euro loans; by country; %)



Source: ECB Statistical Data Warehouse.

To facilitate continued growth, we should focus not only on mitigating the urgent problems caused by the crisis but also to continue addressing the structural challenges.

- Latvijas Banka reminded that long-term growth should be strengthened:
 - [to increase productivity](#), financing from the European Recovery Instrument should be efficiently invested, including in the green transformation and climate objectives, and corporate lending should be encouraged;
 - to improve the availability and quality of labour, investments in the human capital are needed: in particular, in [education](#) and [health](#).
- Latvijas Banka also focused on sustainability by supporting the inclusion of climate objectives in the ECB monetary policy strategy, by launching its [sustainability strategy](#) and offering analysis-based expert opinions in some segments.

Projections of Latvijas Banka's macroeconomic indicators provide information to the public about economic developments, as well as contribute to the discussion on national budgeting and the single monetary policy.

In 2021, Latvijas Banka published [macroeconomic projections](#) four times. In June and December, forecasting was carried out within the framework of the Eurosystem forecasting cycle in the Monetary Policy Committee and its Working Group on Forecasting. The Latvian forecasts are part of the euro area common projections serving as a basis for the single monetary policy.

To prepare its forecasts, Latvijas Banka relies both on short-term models for inflation and GDP forecasts, and the DSGE model for medium-term macroeconomic scenarios, as well as expert judgements. At the end of 2021, on [makroekonomika.lv](#) Latvijas Banka started publishing bi-monthly [model-based flash estimates](#)¹ — the Latvian inflation and GDP estimates obtained by relying on the statistical models of Latvijas Banka.

Research

In 2021, Latvijas Banka's research activities were organised in three priority directions: 1) monetary policy, 2) fiscal policy and 3) long-term growth and competitiveness. The results were fed into discussions on economic policy changes both in Latvia and elsewhere in the euro area, as well as into public debates on topical socio-economic issues.

¹ Model-based flash estimates are not official forecasts of Latvijas Banka, and their sole purpose is to provide an insight into the current trends of the key macroeconomic indicators.

In 2021, Latvijas Banka published three working papers and two discussion papers on its website (see Appendix 5). Latvijas Banka also disseminates research findings to the public at large by explaining conclusions of working and discussion papers via articles and blogs published on www.macroeconomics.lv and other popular websites.

Working papers on monetary transmission help to understand how long the support needed to the economy should be provided.

Work continued within the Eurosystem framework, and in 2021 it focused above all on detailed assessment of the monetary policy strategy, with experts of Latvijas Banka playing an active part in this process.

In July, the ECB published its new monetary policy strategy, followed by the accompanying analysis contained in [18 occasional papers](#). Employees of Latvijas Banka were co-authors of six of the above occasional papers. These studies analysed considerations for measuring inflation, examining inflation expectations, setting the price stability target and other relevant topics.

Research carried out by Latvijas Banka (see, e.g. the working paper [On the Time-varying Effects of the ECB's Asset Purchases](#)) led to the following conclusions:

- Although the asset purchase programmes implemented by the Eurosystem have contributed to economic activity and inflation, their rates of return have followed a downward path over time. These conclusions suggest that asset purchases complement the traditional monetary policy instruments, e.g. changes in interest rates, but their contribution will keep on decreasing over time.
- Price stability has been defined in different ways, which can all be used as a reference point for the euro area monetary policy, but the definitions most appropriate for the economic stability are the ones that consider price movements over a longer period of time. Thus, a gradual approach to the implementation of monetary policy contributes to economic stability and reduces the risks of sliding into recession.

In parallel with the strategy assessment, work carried out in cooperation with other euro area national central banks within the framework of the Eurosystem/ESCB Monetary Policy Committee and its Working Groups on Econometric Modelling, on Forecasting and on Public Finance continued. The substantiated discussions held in the above working groups form the basis for the Eurosystem's monetary policy decisions.

Research on the fiscal policy facilitates understanding of how to use the budgeted financial resources to support the economy.

Experts of Latvijas Banka carried out a [study to assess the efficiency of the EU fiscal rules – the structural balance and expenditure growth rules](#). The study concludes that a properly calibrated expenditure growth rule can limit government debt, while making it possible to stabilise the macroeconomic situation. Thus, the expenditure growth rule should be preferred when improving the EU fiscal framework.

Studies on the issues topical for the Latvian economy allow an understanding of what should be done to ensure competitiveness and sustainability.

Latvijas Banka maintains and develops a range of the most advanced economic [modelling tools](#) in Latvia which are used to analyse current developments of the Latvian economy and draw up proposals for economic policies.

When developing new analytical methods, researchers of Latvijas Banka have estimated the most visible part of the shadow economy – [envelope wages](#). The study results suggest that the occurrence and amount of envelope wages differ widely across groups of various businesses and employees, thus not only reducing budget revenue and weakening social protection of employees but also distorting competition among various firms.

Meanwhile, the study [Interest Rate Spreads in the Baltics and the Rest of the Euro Area: Understanding the Factors behind the Differences](#) led to a conclusion that the relatively high interest rates on loans to businesses prevailing in the Baltics can hardly be explained by lower quality of the loan portfolio (higher risk), more costly bank funding or other standard factors determining interest rates. Thus, an overly conservative lending policy of banks is likely to be one of the reasons underlying the high lending rates.

Researchers of Latvijas Banka also [carried out an assessment of the effects of global prices on inflation in Latvia](#). The conclusions suggest that despite the material impact global prices fluctuate more than consumer prices, and they feed through to inflation gradually with a significant lag.

In 2021, modelling of the economic effects arising from climate change was commenced by introducing the CO₂ equivalent and the related taxes into the production block of the CGE model. With the issue of climate change becoming increasingly topical, it has been intended to further develop modelling capacity in this area in the near future.

Public debate and discussion of the results play a crucial role in ensuring research quality.

Based on the results of the studies conducted, Latvijas Banka organised two expert discussions addressing topics vital to the Latvian economy. In April, a discussion was held on what the country should do to revive its labour market after the pandemic¹, while the machine learning model for evaluating envelope wages developed by researchers of Latvijas Banka and BICEPS was presented in December (see the summary of the expert discussion "The shadow of envelope wages falls twice"). In 2021, Latvijas Banka's podcast *Skanošais* (Money) was also broadcast for the first time. The theme of its first episode was What does research on envelope wages reveal?

International cooperation with non-Eurosystem institutions also continued. Researchers of Latvijas Banka presented the results of their studies to the European Commission on several occasions, as well as, in cooperation with the OECD, carried out research on the factors playing a crucial role in the survival of Latvia's exports.

¹ See <https://www.makroekonomika.lv/ekspertu-saruna-kas-valstij-jadara-lai-atdzivinat-darba-tirgu-pec-pandemijas>.

Quality research activities are impossible without continuous improvement of staff qualifications and thorough assessment of the results achieved. External reviewers from national central banks and academia of other countries are involved in assessing working papers to ensure their high quality. The publication of employees' working papers in internationally refereed journals is also supported. Five such working papers were published in 2021.

To raise researchers' qualifications and promote research work, presentation of papers by Latvijas Banka's researchers at international conferences and seminars is enhanced on an annual basis. In 2021, papers by Latvijas Banka's researchers were presented at 24 conferences and seminars – the academic ones and those organised by Eurosystem/ESCB and other international institutions. To improve qualifications of Latvijas Banka's staff and strengthen international cooperation, Latvijas Banka also organises regular seminars to which highly qualified experts are invited to present their research results. 13 such seminars were organised in 2021.



Financial stability

In 2021, as it continued active participation in the Nordic-Baltic Macroprudential Forum, Latvijas Banka regularly shared experience on the latest developments in financial stability with other central banks in the region, including on Covid-19 and macroprudential measures to mitigate the financial stability risks. By participating in the Financial Stability Committee (consisting of representatives of the ECB, national central banks and supervisory bodies) and its working groups, Latvijas Banka contributed to the assessment of financial stability of systemic risks, development of financial stability analysis tools and assessment of macroprudential policy tools.

In parallel to the above Nordic-Baltic and euro area working groups, Latvijas Banka was also an active member of the Advisory Technical Committee of the ESRB and its working groups dealing with the development of policies, analyses and opinions at EU level. In cooperation with the ESRB and AS Attīstības finanšu institūcija Altum, it continued compiling information on support measures for companies hard-hit by the pandemic that made it possible to analyse the impact of support measures on financial stability and other areas, prepare comparisons with other countries and advise the Latvian government on improving the national support measures.

In 2021, two meetings of the Macroprudential Council took place. During these meetings, Latvijas Banka, the FCMC and the Ministry of Finance discussed systemic risks to financial stability and the need for macroprudential measures to mitigate them. **Development of lending** (including the slow lending to non-financial corporations) and **the licensing of investment platforms**, as well as any risks related to them were the focus of these meetings.

In 2021, in cooperation with the FCMC and the Consumer Rights Protection Centre Latvijas Banka introduced the **recommendations of the ESRB on the use of the Legal Entity Identifier (LEI)**. They aim at ensuring that all legal entities established in the EU which carry out financial transactions receive, maintain and always use the LEI. Unique, exclusive and universal use of the LEI improves the ability of various institutions to assess systemic and developmental risks and implement corrective measures to limit systemic risks to financial stability in the EU.

Commercial real estate market was significantly affected by epidemiological restrictions of the Covid-19. To improve the analytical framework and to close data gaps foreseen by the ESRB recommendation¹, **Latvijas Banka procured a commercial real estate data and market survey**. Thus, Latvijas Banka will gain access to data time series and regular updates on

¹ Recommendation of the European Systemic Risk Board 21 March 2019 amending Recommendation ESRB/2016/14 on closing real estate data gaps (ESRB/2019/3).

various commercial real estate market developments (including average prices, average rental prices, average rental profitability, total floor space available on the market, unrented space, space under construction and other indicators).

Latvijas Banka **continued to closely cooperate with the public institutions of the Republic of Latvia on AML/CFT and sanctions:** to improve the legal framework, develop and maintain the Latvian position on EU AML/CFT action, prepare the public summary of the national AML/CFT risk assessment report and participate in developing the assessment scope of the Baltic and Nordic regional AML activities.

At the initiative of Latvijas Banka, the Ministry of Welfare supplemented the Cabinet of Ministers Regulation No. 765¹ on the management of the 2nd pillar pension funds to determine the procedure for calculating the variable share of the performance fees of new investment plans that can invest 100% of their funds in shares and other securities with similar risks.

Latvijas Banka and other financial sector participants (Finance Latvia Association, FCMC, AS Nasdaq Riga, Latvian Leasing Association and Latvian Association of Insurers) **agreed on cooperation to raise public awareness on sustainability and sustainable financial concepts and principles, and to facilitate their use in businesses and in everyday life.** In May 2021, the Memorandum of Cooperation to Promote Sustainability was signed, and several priorities were included in the Action Plan to achieve the objectives of the Memorandum.

To continue research on assessing the impact of climate risks on the financial sector, in 2021 the **Financial Stability Report of Latvijas Banka included the results of analysis² on the exposure of the securities portfolio of Latvia's financial sector to climate risks.** This study and sustainability issues were extensively discussed with financial policy makers.

In 2021, Latvijas Banka **analysed loans for house purchase in Latvia's regions** by relying on evidence from Latvijas Banka's Credit Register on the real estate collateral location. The results of analytical material allow for assessing in greater detail regional lending differences and help in planning policy measures³.

As crypto-assets become ever more popular in the world, Latvijas Banka **conducted the first assessment of crypto-asset use in Latvia⁴,** and informed the financial stability experts of the Nordic and Baltic central banks about its results.

In 2021, Latvijas Banka **continued analysing vulnerabilities of the real estate market** by developing the range of data available in the Credit Register and various solutions for assessment of borrower vulnerabilities and the respective risks to the financial sector by relying on the Credit Register and other national registers (e.g. data from the State Land Service and the State Revenue Service).

¹ Procedures by which the Manager of Funds of the State Funded Pension Scheme shall Calculate the Payment for the Management of an Investment Plan and Procedures for the Accounting and Deduction of the Abovementioned Payment.

² <https://www.makroekonomika.lv/cik-paklautos-klimata-riskiem-ir-latvijas-vertspapiru-portfelis>.

³ [Mortgages. What is going on in the Latvian regions? Mortgages. What is going on in the Latvian regions? \(makroekonomika.lv\)](https://www.makroekonomika.lv/mortgages-what-is-going-on-in-the-latvian-regions).

⁴ <https://www.makroekonomika.lv/kriptoaktivu-izplatiba-latvija-novertesanas-pirmie-soli>.



Investment management

Investment management is one of the cornerstones of Latvijas Banka. It ensures that the operational costs of the central bank are covered and the respective share of profits is paid into the government budget. Latvijas Banka manages financial assets by investing them in safe and liquid financial instruments.

The Council of Latvijas Banka approves investment management guidelines that rely on the principles of prudent management. Investments are managed to ensure the following in the medium-term:

- preserving their value;
- maintaining their liquidity;
- income generation.

In making decisions about the scope of investments, the Council of Latvijas Banka is guided by the Agreement on Net Financial Assets of Eurosystem central banks.

Investment structure

Diversification is one of the primary strategies used in the investment management. Latvijas Banka mostly invests financial assets in debt securities issued by the governments of EU countries and the US government, government agencies and international organisations, asset-backed securities, highly rated bank and corporate debt securities, debt securities issued by the governments of developing countries, as well as equities included in the developed countries equity index.

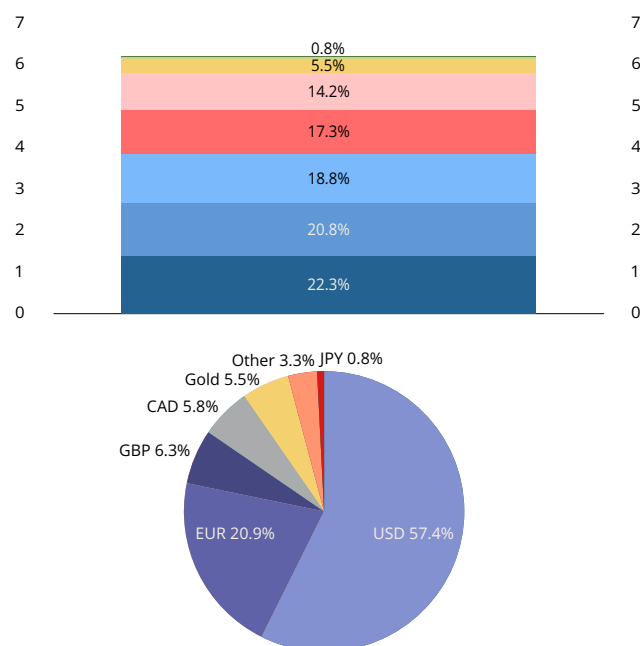
At the end of 2021, the total value of investment portfolio of Latvijas Banka was 6.2 billion euro.

The changes in the investment structure are made to increase diversification and secure higher income in relation to risk over the medium and longer term. Thus, in 2021 Latvijas Banka continued to increase its investments in the equities of developed markets, as well as invested in equities and government debt securities of emerging markets.

Chart 19

Investment structure
(billions of euro)

■ Cash
 ■ Corporate securities
 ■ Gold
 ■ Equities
 ■ Asset-backed securities
 ■ Agency securities
 ■ US mortgage-backed securities
 ■ Government securities



Note. Excluding the portfolio of borrowed funds.
Source: Latvijas Banka.

Investment management organisation

To manage investments, Latvijas Banka uses internal and external asset managers, and investments comprise three main assets classes: fixed income securities, equities and gold.

1. The largest share of fixed income securities is managed by Latvijas Banka. The benchmark portfolio of the financial assets managed by Latvijas Banka consists of the weighted index of the US and Canadian government 1–3 year and euro area and UK government 1–10 year securities. The benchmark currency is the euro, and the benchmark assets are composed of 55% US dollar-denominated, 21% euro-denominated, 14% British pound sterling-denominated and 10% Canadian dollar-denominated assets.

To manage fixed income securities, Latvijas Banka uses seven external asset managers. External asset managers manage part of financial assets of Latvijas Banka according to the guidelines and criteria set by the Council of Latvijas Banka.

- Six managers manage mortgage-backed securities portfolios.
 - One manager manages investments with the same benchmark as the internally managed portfolio of Latvijas Banka.
 - Investments in the investment grade fixed income government securities of developing countries are invested via exchange-traded fund (ETF).
 - All investments in fixed income securities are hedged to euro.
2. Developed markets equity portfolio encompasses the largest share of equity investments and it is managed neutral to the respective equity benchmark. Developed markets equity portfolio is managed by an external asset manager. Emerging market equity portfolio is managed neutral to the respective equity benchmark and investments are made using an ETF.
 3. The share of gold in the total investments of Latvijas Banka stored at the Bank of England is slightly higher than 5%.

Similar to other euro area central banks, Latvijas Banka has transferred a small share of its financial assets to the ECB to be included in the ECB's foreign reserves. The ECB reserves are managed by central banks of the Eurosystem, where each of the national bank receives a share of financial assets (according to their capital key at the ECB) that they manage according to the ECB's guidelines.

Together with Oesterreichische Nationalbank, Latvijas Banka manages the foreign reserve assets in Japanese yen transferred to the ECB.

Risk management

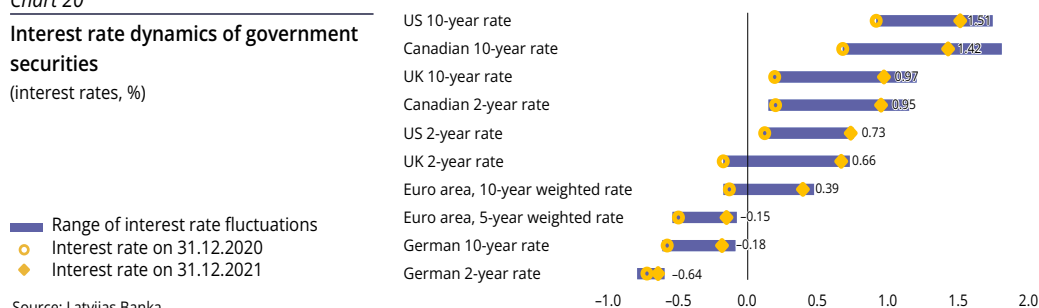
Risk management and control is an integral part of investment management. Risk management entails risk scenario calculations, assessments of potential loss in the worst-case scenarios and modelling of an optimal asset allocation. The investment portfolio's compliance with the guidelines and the risk allocation in accordance with investment decisions is monitored and controlled on a daily basis.

The interest rate risk is one of the most important risk factors that affects investments of Latvijas Banka. In managing investments, the focus is on government 2, 5 and 10-year bond interest rates. During 2021, interest rates increased significantly in all markets and finished the year at the highest levels, having a negative impact on the short-term value of the fixed income investment portfolio.

Chart 20

Interest rate dynamics of government securities

(interest rates, %)



Source: Latvijas Banka.

Cash circulation

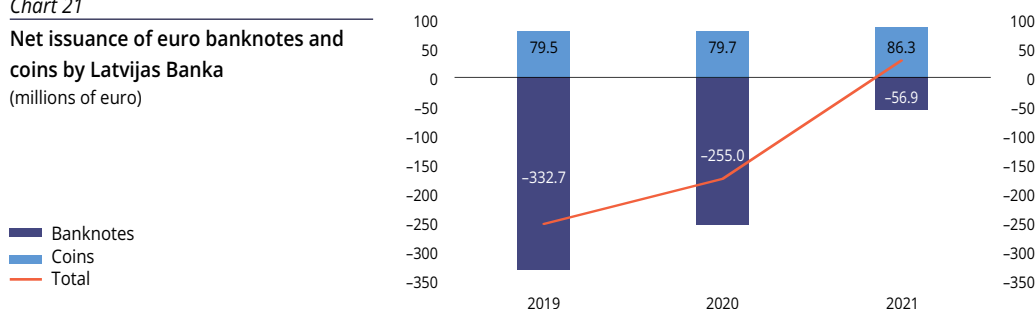
Securing cash circulation

Latvijas Banka ensures cash circulation in Latvia and participates in ensuring cash circulation in the euro area.

In 2021, net issuance of euro banknotes by Latvijas Banka followed an upward path (from -225.00 million euro in 2020 to -56.9 million euro in 2021). However, despite the increase, it is still negative. Meanwhile, issuance of euro coins by Latvijas Banka picked up from 79.7 million euro in 2020 to 86.3 million euro in 2021. Thus, at the end of 2021 net issuance of euro banknotes and coins by Latvijas Banka stood at 29.4 million euro.

Chart 21

Net issuance of euro banknotes and coins by Latvijas Banka
(millions of euro)

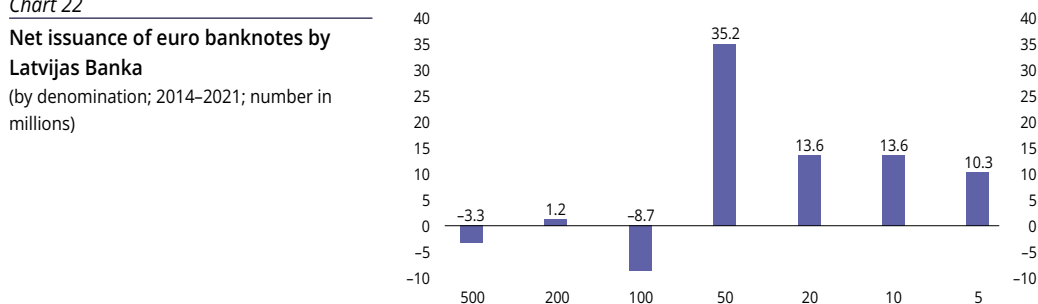


Source: Latvijas Banka.

As to the number of banknotes, their issuance by Latvijas Banka increased by 14.2% during 2021 (to 61.9 million banknotes). At the end of 2021, 50 euro banknotes, followed by 20 euro banknotes and 10 euro banknotes (35.2 million, 13.6 million, and 13.6 million respectively) issued by Latvijas Banka were the most popular banknotes in circulation.

Chart 22

Net issuance of euro banknotes by Latvijas Banka
(by denomination; 2014–2021; number in millions)



Source: Latvijas Banka.

Meanwhile, net issuance of coins by Latvijas Banka edged up by 8.6% number-wise in 2021, reaching 427.3 million coins by the end of December. As to the coins issued by Latvijas Banka, 1 cent and 2 cent coins (135.7 million and 114.1 million respectively) were the most popular coins in circulation at the end of 2021. Latvijas Banka has started practical and

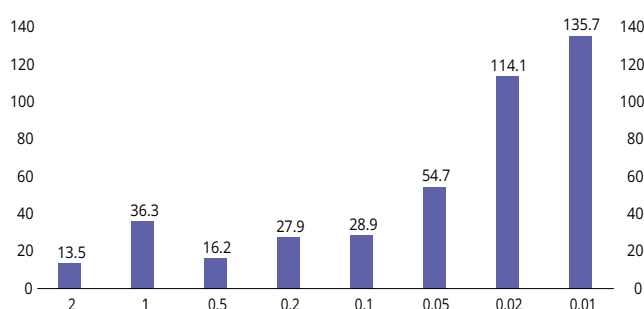
real action to reduce the number of 1 cent and 2 cent coins in circulation. First, in the cash circulation cycle our cooperation with partners (banks and their agents, cash collection companies) focused on reducing the number of small denomination coins in circulation. Second, we encourage everyone to bring the saved coins to Latvijas Banka and [credit the amount equivalent to the value of coins to their bank accounts](#). In particular, we invite public benefit organisations to use this opportunity as they can freely exchange coins in unlimited numbers by registering with Latvijas Banka. Third, the near future will see modernisation of the euro coin exchange process, which will involve automation of the Cashier's Office of Latvijas Banka and will allow people to exchange coins via automated machines.

In 2021, Latvijas Banka has also continued informing the public about the possibility to round the total sales amount in cash to significantly reduce the number of 1 cent and 2 cent coins in circulation and save public resources in general.

Chart 23

Net issuance of euro coins by Latvijas Banka

(by denomination; 2014–2021; number in millions)



Source: Latvijas Banka.

The cash received from credit institutions was checked for fitness and authenticity by automated cash processing systems of Latvijas Banka. They processed 122.2 million banknotes in 2021, i.e. 8.6% less than in 2020. 8.4% (10.3 million) of the processed banknotes were identified as unfit for further circulation and destroyed.

In 2021, Latvijas Banka continued to register merchants engaged in handling and recirculating of euro banknotes and coins and to monitor their operation. A merchant is entitled to handle and recirculate euro banknotes and coins in the Republic of Latvia upon registering with Latvijas Banka as a cash handling institution. At the end of 2021, 42 cash processing institutions were registered in Latvia. Latvijas Banka conducted inspections of cash handlers and assessed the compliance of their operation with the requirements of laws and regulations governing cash handling. In 2021, nine inspections of cash handlers were carried out.

In 2021, Latvijas Banka continued to withdraw lats banknotes from circulation. In 2021, the lats banknotes and coins received from circulation by Latvijas Banka totalled 0.7 million lats (0.6 million lats in banknotes and 0.1 million lats in coins). At the end of 2021, lats banknotes and coins worth 40.4 million lats and 43.9 million lats respectively were in circulation. At the end of December 2021, the 5 lats and 20 lats banknotes (1.7 million and 0.8 million respectively) and the 1 santim and 2 santim coins (149.5 million and 89.6 million respectively) accounted for the majority of banknotes and coins in circulation in terms of number.

In 2021, Latvijas Banka, AS Citadele banka, AS SEB banka, AS Swedbank, the Finance Latvia Association and AS Luminor Bank Latvia Branch signed

a Memorandum of Cooperation on Ensuring Access to Cash for Residents of Latvia. The Memorandum mainly aims at ensuring access to cash for residents across the entire territory of Latvia.

In the framework of the Memorandum, an agreement was reached on maintaining the number of ATMs in cities of national significance, excluding Riga. In Riga and elsewhere in Latvia, the Memorandum imposes the maximum scope of changes in the number of ATMs, i.e. a credit institution may reduce the number of its ATMs in Riga and elsewhere in Latvia by 5% at the same time ensuring the availability of an ATM within a 20 kilometre radius from any place in the Republic of Latvia. The availability of an ATM should be ensured every day for at least 12 hours from 6.00 a.m. to 12 a.m. or if the ATM is installed in a public space or public outdoor space with limited accessibility, during the time when the respective public space or the public outdoor space is accessible to the public.

In cooperation with the map publisher SIA Jāņa Sēta, a map solution was developed with information about all ATMs installed in Latvia. This map solution is [published on Latvijas Banka's website](#) and offers everyone an opportunity to find the closest ATM for cash withdrawals.

Execution of functions of the National Analysis Centre and the Coin National Analysis Centre

Number and types of counterfeits

The main task of a National Analysis Centre is to identify, analyse and record counterfeit banknotes and coins brought to Latvijas Banka, thus ensuring and reinforcing the measures that are required for coordinated anti-counterfeiting efforts in the European Union.

In 2021, the National Analysis Centre of Latvijas Banka received 1051 requests to identify banknotes, and in 84 cases it issued an opinion of a competent institution on identification of banknotes at the request of the State Police.

"In brief, the situation concerning euro counterfeits is positively stable, i.e. the number of counterfeits remains at a stable, low level. However, people should not allow themselves be lulled by this positive news. It is still essential for everyone to know their money, its design and security features."

FIND OUT MORE
(available in Latvian only)



Aleksandrs Antiņš,
Head of the Cash Technology Division
Latvijas Banka

In 2021, 769 counterfeit banknotes and coins (544 counterfeit banknotes and 225 counterfeit coins) were received and identified. In comparison to 2020, the number of counterfeiting cases decreased by 24% (the number of counterfeit euro banknotes by 30% and the number of counterfeit euro coins by 8%). The share of counterfeit euro banknotes and coins was 91% of all counterfeit money identified in the market.

The time for submitting counterfeit euro banknotes and coins to Latvijas Banka for identification after detecting such banknotes and coins increased in comparison to previous years. In 2021, such banknotes and coins were submitted for identification on average within 26 days. One of the reasons that contributed to this increase was the Covid-19 pandemic

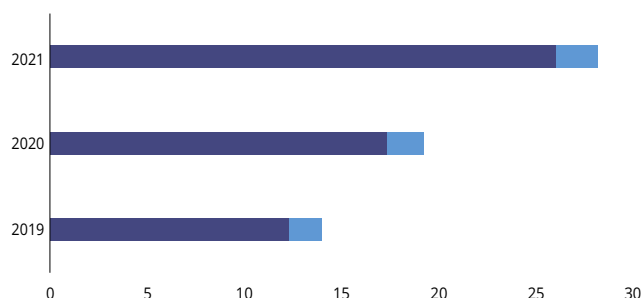
and its impact on cash processing processes. This trend may have a negative impact on the ability of law enforcement bodies to investigate crimes successfully.

Meanwhile, the time required for identification of counterfeit banknotes and coins did not change in comparison to 2020. On average, two days were required to identify and register counterfeit euro banknotes and coins.

Chart 24

Time until the submission of counterfeit banknotes and coins and time for their identification

■ Average number of days from detecting a counterfeit to its submission for identification at Latvijas Banka
■ Average number of days needed for identification (data entry into the CMS)



Source: Latvijas Banka.

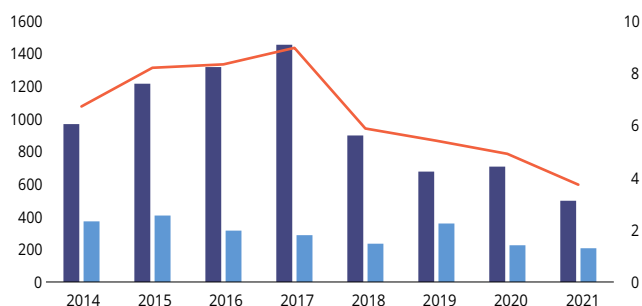
In 2021, the recent trend in this area continued, i.e. historically, the lowest number of counterfeit euro banknotes and coins in circulation was reached – four counterfeit banknotes and coins per 10 000 inhabitants. This trend correlates with ECB statistical data (Europe also experiences [the lowest historic number of counterfeits](#)). It can be explained by 1) increasing popularity of electronic payments among people; 2) fewer trips due to the Covid-19 pandemic in 2021, international travel was limited, and it also affected distribution chains of counterfeit money; 3) implementation of the European (Europol, ECB, EC) long-term policy to ensure anti-counterfeiting measures in cooperation with the competent national institutions that has made it possible to curtail the counterfeiting of notes. This involved mandatory technical measures (e.g. the use of various authentication devices, compliance with the requirements governing processing of banknotes and coins, etc.) that allow people to feel protected in using cash for making payments. Furthermore, cooperation with law enforcement institutions has made it possible to find and close large counterfeiting facilities (in Italy, Bulgaria, etc.) producing counterfeit banknotes and coins.

Counterfeit 20 euro and 50 euro banknotes were mostly found in circulation, and their share in the total number of counterfeit euro banknotes was as high as 74%. In approximately 50% of cases, counterfeit banknotes were identified when they were inserted in a cash deposit ATM.

Chart 25

Number of counterfeit banknotes and coins

■ Banknotes
■ Coins
— Number of counterfeits per 10 000 population (right-hand-scale)



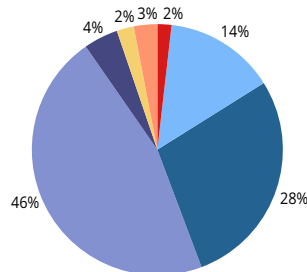
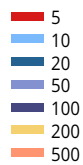
Source: Latvijas Banka.

As to counterfeit euro coins, 2 euro counterfeit coins were mostly identified in circulation. Their share was 85% of all counterfeit euro coins

identified in circulation. Meanwhile, the share of 1 euro counterfeit coins was 10%, and the share of 50 cent counterfeit coins did not exceed 5%.

Chart 26

Counterfeit euro banknotes by denomination (%)



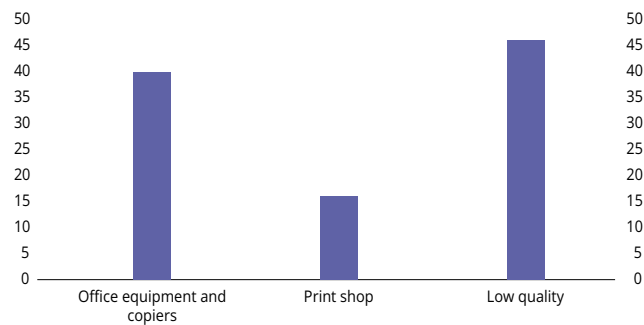
Source: Latvijas Banka.

Quality of counterfeit banknotes

Most counterfeit banknotes were of bad quality: simple copies of banknotes that did not imitate any security features. Quite often, they even featured an altered design: *movie money* banknotes with *not legal tender*, *copy*, *prop copy*, *be used only for movies or props* on them.

Chart 27

Counterfeit banknotes and coins by type of production (share, %)



Source: Latvijas Banka.

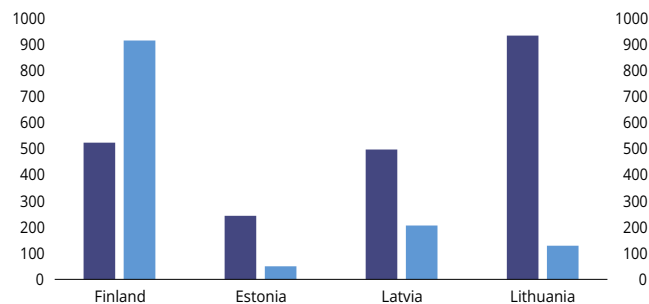
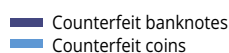
Meanwhile, high-quality counterfeit banknotes are mostly high denomination banknotes, i.e. 200 and 500 euro banknotes. However, their number has not significantly changed in the course of time.

Number of euro counterfeits in the Baltic States

In 2021, the largest number of counterfeit banknotes was identified in Lithuania, though it was less than 1000 banknotes per year, while counterfeit euro coins were mostly detected in Finland. The smallest number of counterfeit banknotes and coins was found in Estonia.

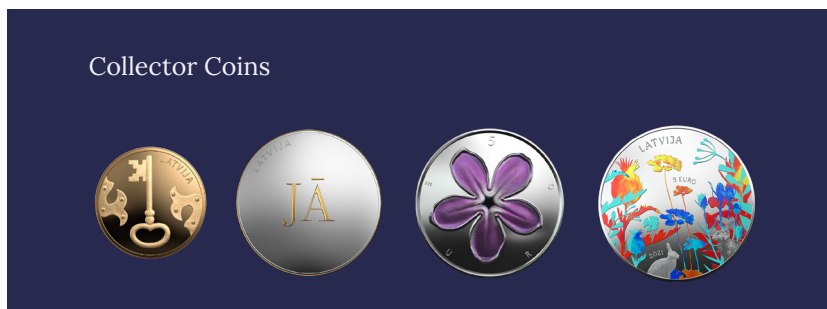
Chart 28

Number of counterfeit banknotes and coins detected in circulation in the Baltic States (2021)



Source: Latvijas Banka.

Euro commemorative and collector coins issued by Latvijas Banka in 2021



In 2021, Latvijas Banka issued four collector coins: one gold collector coin "The Key" (issued on 27 May 2021) and three silver collector coins: "YES or YES" (issued on 15 June 2021), the "Coin of Luck" (issued on 24 November 2021) and the "Miracle Coin" (issued on 22 December 2021), and one 2 euro commemorative coin "Latvija *de iure* 100" (in circulation since 5 June 2020).

The collector coins of Latvijas Banka receive various global awards each year due to their high artistic value. Different artists of Latvia are invited to participate in competitions for the design of coins of Latvijas Banka ensuring that each and every coin is a unique piece of art. The coins are often devoted to topical issues to promote the Latvian culture and highlight topical public issues.

In 2021, the collector coins of Latvijas Banka received awards in several international contests:

- 1) **Coin of the Year Awards** (organised by *Active Interest Media*, US): the collector coin "Linden leaf" (2020) received the **Best Silver Coin** award, and the collector coin "Personal freedom" (2020) received **The Most Inspirational Coin** award.
- 2) **Coin Constellation contest** (organised by the Watermark, Russian Numismatic Publishing House): collector coin the "Linden leaf" was awarded the **first place in the Unique Concept category**, while the collector coin "Modernism in Latvia. The 1960s" was awarded the **first place in the Best Artistic Solution category**, but the collector coin "Personal freedom" shared the **third place in the Silver Coin of the Year category**.
- 3) In the VIII international coin and postage stamp contest **Nexofil & Nexonum Award 2021**, taking place in Spain, the coins of Latvijas Banka received awards in four categories: "Modernism in Latvia. The 1960s" – the **first place in the Best Coin Design category**, the "Linden leaf" – the **second place in the Original Format Coin category** and the **second place in the Most Innovative Coin category**, and "Personal freedom" – the **second place in the Best Silver Coin category**.

According to the annual public survey conducted in 2021, the collector coin "Linden leaf" dedicated to ecology was voted Latvia's Coin of the Year 2020. Overall, the public vote organised by Latvijas Banka and the news portal Delfi.lv received nearly 8000 votes. Meanwhile, in 2022, the "Coin of Luck" was voted Latvia's Coin of the Year 2021 (approximately 35 000 unique votes received).

2 euro commemorative coin



Latvija *de iure* 100

Struck in 2021 by *Staatliche Münze Baden-Württemberg* (Germany)

Artists of the national side of the coin:

Zane Ernštreite (graphic design)

The national side bears the inscription

"100 LATVIJA DE IURE" as well as the year of issue (2021)

Weight: 8.50 g; diameter: 25.75 mm; thickness: 2.20 mm

Shape: round; colour: outer part silver, inner part gold

Composition: outer part – copper-nickel (Cu, Ni), inner part – three layers: nickel, copper and zinc; nickel; nickel, copper and zinc (Ni, Cu, Zn; Ni; Ni, Cu, Zn)

The edge of the coin bears the inscription "DIEVS * SVĒTĪ * LATVIJU *" (God, Bless Latvia).

The common side artist Luc Luycx

5 euro collector coins



The Key

Weight: 1.24 g, diameter: 13.92 mm

Metal: 999.9° gold, quality: proof

Struck in 2021 by *Koninklijke Nederlandse Munt* (The Netherlands)

Artists: Laimonis Šēnbergs (graphic design),

Ligita Franckeviča (plaster model)

YES or YES

Weight: 15.00 g, diameter: 28.00 mm

Metal: silver of fineness .925, quality: proof, with gold plated elements

Struck in 2021 by *Mennica Polska S.A.* (Poland)

Artists: Krista and Reinis Dzudzilo (graphic design), Jānis Strupulis (plaster model)



Coin of Luck

Weight: 22.00 g, diameter: 35.00 mm

Metal: silver of fineness .925

Quality: proof

Struck in 2021 by *Koninklijke Nederlandse Munt* (The Netherlands)

Artists:

Arvīds Priedīte (graphic design),

Jānis Strupulis (plaster model)

Miracle Coin

Weight: 28.28 g, diameter: 38.61 mm

Metal: silver of fineness .925, quality: proof; colour print on the obverse and reverse;

frosting with a changing degree of intensity on the proof surface of the obverse

Struck in 2021 by *Koninklijke Nederlandse Munt* (The Netherlands)

Artist: Dana Jasinkeviča

(graphic design)





Payment and Settlement Systems

Innovation of Payment Infrastructures

Instant payments

The instant payment service established within the framework of Latvijas Banka's [EKS provides an opportunity for banks](#) to offer [instant payments](#) to their customers to transfer money from an account in one bank to an account in another bank within a matter of seconds on any day and at any time of the day. A possibility to make instant payments within SEPA – the Single Euro Payments Area – through access to both [RT1](#) and the [TIPS platform is ensured](#).

In Latvia, instant payments are offered by Latvijas Banka and eight credit institutions (AS Citadele banka, AS SEB banka, Swedbank AS, Signet Bank AS, AS BlueOrange Bank, AS Reģionālā investīciju banka, Baltic International Bank SE and AS LPB Bank). Overall, instant payments are available to 90% of Latvia's population.

Throughout the year, the volume and value of instant payments processed via the instant payment service increased 1.6 and 2.5 times respectively (18.4 million instant payments totalling 6.3 billion euro were processed), with up to 100 thousand instant payments being processed on certain days. The availability of the instant payment service was higher than 99.9%.

With a view to improving the interbank settlement of executed instant payments, Latvijas Banka carried out the transfer of settlements to the [TIPS platform in 2021](#).

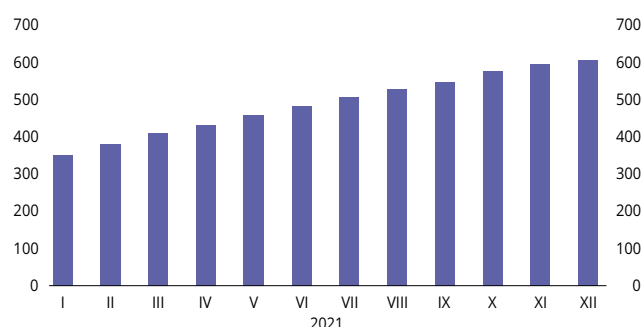
The Proxy Registry "Instant Links" and the instant payment request service

Latvijas Banka ensured the operation of the [Proxy Registry "Instant Links"](#), enabling the customers of the largest credit institutions in Latvia and Estonia to make instant and other payments in an even more convenient and faster manner, just indicating the payee's mobile phone number in the payment order.

At the end of 2021, the number of instant links registered with the Proxy Register "Instant Links" (whose degree of **availability** exceeded **99.9%**) was almost **twice as many** as a year ago, while the number of requests increased almost **10 times** (609 thousand instant links and 33.1 million requests).

Chart 29

Dynamics of the number of instant links in 2021
(thousands)



Source: Latvijas Banka.

In October 2021, Latvijas Banka completed the development of another innovative interbank infrastructure – the [instant payment request service](#) – which is available to payment market participants for testing. The instant payment request service enables an instant sending of a payment request to the payer who has just to confirm the request for the initiator of the instant request to receive the requested amount. This is already the third instant solution by which Latvijas Banka continues to lay the foundation from which the Latvian payment market participants would generate new innovative payment solutions for the public. Instant payment requests will increase the efficiency of the payment process, reduce the potential for errors and speed up the payment of bills in Latvia.



Harijs Ozols,
Head of the Information Technology
Department and ZibLab++
Latvijas Banka

"The complete set of instant solutions (instant payments, instant links and instant payment requests) will provide unlimited opportunities for exploiting innovative payment services at an interbank level in all areas: highly user-friendly payments between individuals, bill payments, e-commerce and trade."

[FIND OUT MORE](#)
(available in Latvian only)

Promoting innovation in payments

Latvijas Banka provided support for the further development of modern payment services in Latvia as part of the Financial Sector Development Plan for 2021–2023 by participating in the shaping of an ecosystem that supports innovation and by facilitating access of the market participants to innovative infrastructures, including those of Latvijas Banka.

Digital euro project

To promote the development of innovative payment instruments of the central banks, Latvijas Banka together with other members of the Eurosystem started to explore the technological feasibility of the introduction of the [digital euro](#), as well as its impact on the application of monetary policy and the financial system as a whole.

"A central bank aims to give people the choice of freedom – access to all forms of money. Active work is under way to develop the third form of money – the digital euro. This would create new opportunities for businesses in the euro area (including Latvia). In parallel with the opportunities provided by the modern interbank payment infrastructure, we expect to start modelling the potential use of digital euro."

[FIND OUT MORE](#)
(available in Latvian only)



Zita Zariņa,
Member of the Council of
Latvijas Banka

Within the framework of the Eurosystem, Latvijas Banka participated in the digital euro experiment programme. **Latvijas Banka developed the front-end solution** for digital euro payments at points of sale. The joint experiment programme enabled the Eurosystem to check the technological feasibility and needs of the digital euro infrastructure, as well as to test the potential structure and functionality of the digital euro.

Public education

Experts of Latvijas Banka participated in several conferences and professional discussions, including by providing information on instant payments, cryptoassets, central bank digital currencies and the launch of the investigation phase of the digital euro project to mass media.

Analytical articles about the [impact of tokenisation on payments](#), the [payment development trends](#), the [topical issues](#) and the [innovations in the field of payments](#) were published in 2021.

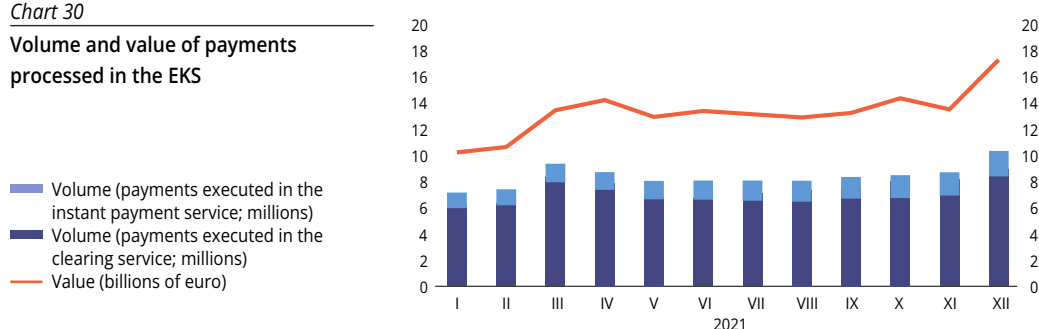
EKS operation

[The EKS](#), developed and maintained by Latvijas Banka, ensures the settlement of customer interbank payments in euro by the Latvian payment market participants via the instant payment service and the clearing service across the SEPA.

The EKS comprises the following direct participants: 11 credit institutions, the Treasury and Latvijas Banka. Six out of eight credit institutions offering instant payments in Latvia and Latvijas Banka offered them via the EKS instant payment service.

Chart 30

Volume and value of payments processed in the EKS



Source: Latvijas Banka.

101.2 million SEPA credit transfers totalling **159.8 billion euro** were executed in the EKS (in the instant payment service and the clearing service combined). The volume and value of the payments executed in the EKS increased by 9.3% and 13.3% respectively year-on-year.

In the context of the EKS development, Latvijas Banka was among the first to start using the new settlement model of the STEP2-T system ([Continuous Gross Settlement](#)).

The EKS has been developed by way of technological solutions providing for a high degree of operational performance and cyber security checked in external cyber security tests in 2021.

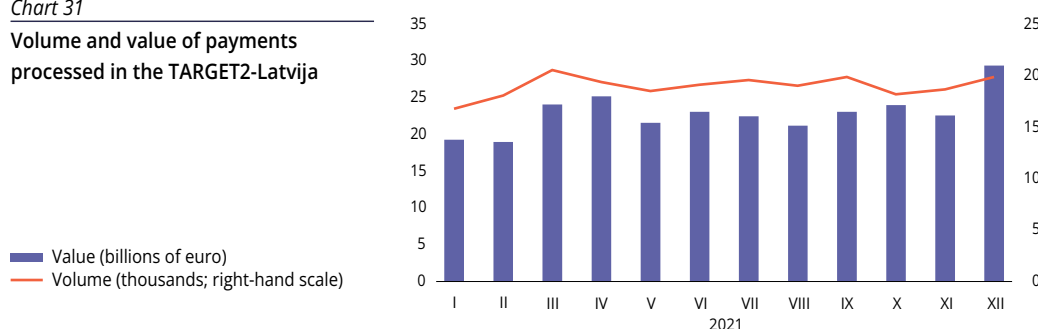
TARGET2-Latvija operation

In 2021, Latvijas Banka continued to provide the operation of [TARGET2-Latvija](#) – one of the component systems of [TARGET2](#), which is the third largest payment system in the world.

Within the framework of enhancement of TARGET2-Latvija cyber security, Latvijas Banka coordinated the submission of statements by system participants acknowledging the compliance with TARGET2 security requirements and those of TARGET2 network service provider's end-user.

Chart 31

Volume and value of payments processed in the TARGET2-Latvija



Source: Latvijas Banka.

The availability of TARGET2, including TARGET2-Latvija, accounted for 100% in 2021. **TARGET2-Latvija processed on average 882 payments per day with a value of 1.1 billion euro.** The total volume of payments decreased by 8.4%, while their total value rose by 2.5% year-on-year.

In 2021, Latvijas Banka together with other Eurosystem central banks continued the implementation of the [TARGET2 and TARGET2-Securities consolidation](#) project with a view to replacing TARGET2 with a new payment system in November 2022.

Latvijas Banka together with other Eurosystem central banks introduced solutions to ensure reachability of the [TARGET Instant Payment Settlement \(TIPS\)](#) service across Europe and offer an opportunity to European instant payment systems to improve their mutual settlements 24/7/365.

Latvijas Banka also provided payment services in euro to the institutions whose settlement accounts were opened with Latvijas Banka, but which were not direct participants of Latvijas Banka's payment system TARGET2-Latvija, i.e. the Treasury, the FCMC, Latvian, foreign and international financial institutions. In 2021, such payments executed by Latvijas Banka **amounted to 2.9 billion euro.**

Payment system oversight

Latvijas Banka performed day-to-day oversight of the EKS and Worldline Latvia CSM (it ceased operation on 1 November 2021), analysing the system's technical and operational functions, compiling its statistical data and making sure that the interbank payment environment in Latvia is secure and efficient.

The assessment of compliance of the EKS with the cyber resilience oversight expectations (CROE) has been conducted, concluding that the EKS complies not only with all minimum expectations, but also with a major part of the expectations laid down for systemically important payment systems.

When performing the oversight of development of the payment instruments used in Latvia, Latvijas Banka regularly (on a semi-annual basis) compiled and analysed [data](#) on customer payments made in Latvia. Payment data are compiled in compliance with a uniform ECB statistical methodology. To implement the new requirements laid down in the [ECB Regulation](#), Latvijas Banka's [Regulation No. 195](#) allowing for obtaining the payment statistics data in a more detailed breakdown as of 2022 was adopted.

Oversight of financial instrument settlement systems

Latvijas Banka in cooperation with Eesti Pank, Lietuvos bankas and the central bank of Iceland launched an **assessment** of the Central Securities Depository Nasdaq CSD SE covering **239 CROE aspects**, with the aim to provide a comprehensive insight into its cyber resilience and to reveal the areas of potential improvement. This assessment is scheduled to be completed in 2022.

Representing the [Eurosystem as the central bank issuing euro](#), Latvijas Banka conducted an annual assessment of the compliance of Nasdaq CSD SE operation with the requirements of the Eurosystem. As a result, the assessment concludes that **Nasdaq CSD SE has implemented the majority of the recommendations previously issued by the Eurosystem and maintains the compliance.**



Statistics

Latvijas Banka collects and compiles a wide range of statistics and ensures the operation of the Credit Register in pursuit of its tasks, including those of the ESCB. Latvijas Banka employs statistical data to perform financial and macroeconomic analyses, assess financial stability, as well as to raise public awareness of the developments in the financial sector and the economy. The ECB uses statistical data produced by Latvijas Banka to compile the Eurosystem's monetary statistics and the relevant euro area statistical data, as well as to discharge its other tasks.

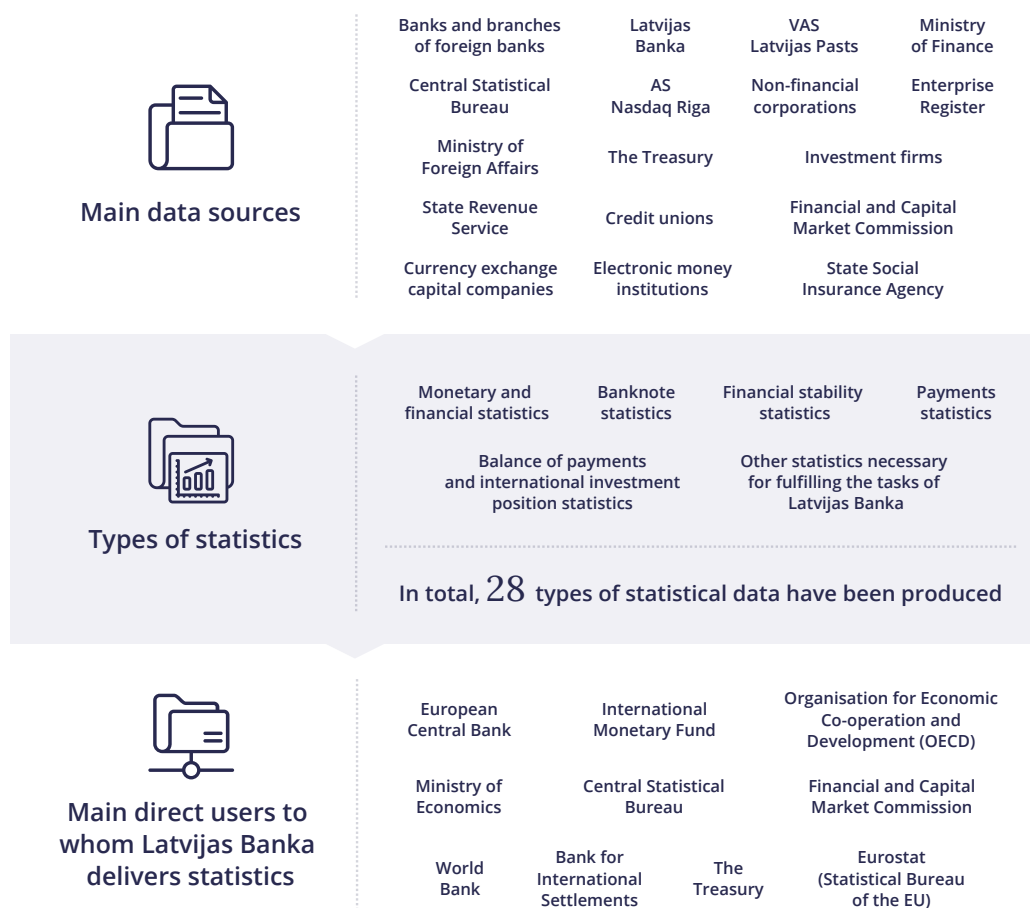
Latvijas Banka's statistical activities

To reflect its activities in the field of statistics, Latvijas Banka published [Latvijas Banka's annual statistical programme and medium-term statistical work programme for the period of three years also in 2021](#). The above programmes provide transparent information on statistical activities planned by Latvijas Banka both with regard to the most important new tasks and the types of statistical data Latvijas Banka compiles and publishes. The Statistical Programme of Latvijas Banka for 2021 was implemented, except for two tasks. The ESCB's costs survey on changes in the requirements of investment fund statistics was postponed to 2022, but the publication of minimum reserves data in Latvijas Banka's internet statistical database INTS was replaced by the publication of the weekly data on card-based payment transactions, given the importance of these statistics in the economic analysis.

To provide a wide range of data users with timely information, Latvijas Banka not only continued regular compilation and transmission of statistical data to direct data users, but also disseminated the compiled statistical data via its [regular publications and website](#), including the [internet statistical database INTS](#), and compiled data for publishing in the ECB publications and the ECB Statistical Data Warehouse, as well as in IMF publications and within [the framework of the IMF Special Data Dissemination Standard \(SDDS Plus\)](#). Latvijas Banka continued to perform the tasks of the coordinating institution in Latvia within the framework of SDDS Plus.

In 2021, Latvijas Banka **improved the opportunities for data providers**, upon submission of statistical data, **to authenticate** their identity in the Non-bank Statistics System (eSTAT system), using any of the authentication tools offered by the State Regional Development Agency – eID card, eParaksts, eParaksts mobile – or the means of authentication offered by credit institutions.

The main data sources, types of statistics and the main direct users



Financial and general economic statistics

In 2021, the **improvements** introduced by Latvijas Banka in the domain of financial and general economic statistics were related to:

- the statistical reporting requirements;
- the compilation and publication of statistics;
- the published [lists of data providers](#).

Substantial changes were observed in the field of payments statistics as Latvijas Banka introduced new statistical reporting requirements and **optimised the process of reporting payments data in Latvia**. According to the new requirements, data on fraudulent payment transactions will also be reported to Latvijas Banka, while Latvijas Banka will transfer the data required for the supervisory purposes to the FCMC.

In 2021, Latvijas Banka **started the collection of weekly data on card-based payment transactions** from the largest Latvian credit institutions without identifying the card holder. The collection of data on card-based payment transactions from a wider range of data providers is based on Latvijas Banka's Regulation No. 196 "Regulation for Compiling the Payments Statistics Reports on Card-Based Payment Transactions" of 11 June 2021 (in effect as of 1 August 2021). These data are required by Latvijas Banka for compiling balance of payments statistics, in particular, to assess travel and e-commerce, compiling payments statistics, analysing

financial stability and dynamic changes in the economy, as well as for economic forecasting. Likewise, these data are used to ensure the implementation of the new requirements of the ECB. Data on household spending behaviour also help anyone interested to better and more efficiently analyse and understand the economic developments in Latvia.

At the same time, Latvijas Banka's new recast Regulation No. 195 "Regulation for Compiling the Payments Statistics Reports on Customer Payments" of 11 June 2021 (in effect as of 1 August 2021) establishing the **requirements for reporting statistical data on the payments made by the customers of payment service providers** will allow for obtaining the statistical data in a more detailed breakdown (e.g. by payment initiation channel and authentication method, and payment instrument scheme), as well as on the new types of payment services and innovative payment opportunities (e.g. payment initiation services, mobile payment solutions and contactless payments). Data on instant payments executed via internet banking applications, ATMs or other terminals and mobile payment solutions will also be available. These data are necessary to carry out the supervision and oversight of the payment instruments used in Latvia, to analyse fraudulent payment transactions as well as to meet the requirements of the ECB.

Due to changes in several EU legal acts applicable to MFI statistics, it was necessary to introduce corresponding amendments to Latvijas Banka's Regulations **by incorporating the amendment made to the definition of the term "credit institution"** which envisages that systemic investment firms may become credit institutions, as well as **by expanding the range of the statistical data collected from MFIs and by ensuring EU-harmonised statistical data** for the purposes of monetary and financial analysis. Latvijas Banka's Regulation No. 132 "Regulation for Compiling the Monthly Financial Position Report of Monetary Financial Institutions" of 16 May 2014 was amended accordingly (in effect as of 26 June 2021) and a new version of Latvijas Banka's Regulation No.192 "Regulation for Compiling the Monthly Financial Position Report" of 4 June 2021 was approved (in effect as of 1 January 2022).

In light of improving regular compilation and publication of statistical data, revised monetary aggregate time series of Latvijas Banka and the banking system, starting from data of 1 January 2015, were published to ensure that the securities purchased under the APP are classified according to harmonised issuer classification broken down by their country of registration. The publication of money market statistics in Latvijas Banka's internet statistical database INTS was also started, thereby expanding the opportunities for anyone interested to analyse Latvia's money market developments.

A fact-finding survey of insurance corporations and the branches of foreign insurance corporations in Latvia was also conducted in relation to the revision of the statistical requirements for insurance corporations and changes thereto planned by the ECB.

In 2021, Latvijas Banka expanded the range of the [lists of data providers](#) published on its website and maintained in consistency with the statistical domains falling within the competence of Latvijas Banka by publishing for the first time the List of Pension Funds containing private pension plans and investment plans of the state-funded pension schemes.

Latvijas Banka also **started to include** the **Legal Entity Identifier** assigned by the institutions accredited by the Global Legal Entity Identifier Foundation in the **lists** of data providers published on the website, thus enhancing the identification of data providers and taking into account the Recommendation of the European Systemic Risk Board of 24 September 2020 on identifying legal entities (ESRB/2020/12).

The first financial vehicle corporation in Latvia – SIA DN Funding Alpha – was identified at the end of 2021.

External statistics

In 2021, the activities in the field of external statistics were pursued in two **main directions**, which included:

- **the reduction of the reporting burden;**
- **the introduction of new requirements.**

Upon reviewing the mathematical methods and the data content, Latvijas Banka found a way to **reduce the reporting burden** for a part of non-financial corporations and credit institutions by revoking or amending several statistical reporting regulations. Reporting agents no longer have to submit the annual report on foreign assets and liabilities (1-MB), the quarterly reports on long-term foreign debt and the quarterly report on long-term foreign loans (2-MB), while they may report a reduced scope of data under the quarterly report on foreign assets and liabilities (1-MB). Thus, the reporting burden has been reduced for approximately 900 respondents.

Credit Register and AnaCredit Statistics

In 2021, the operation of **the Credit Register** was improved by ensuring:

- **access** to the Credit Register data by **sworn notaries, custody courts and sworn bailiffs**;
- **more convenient access** to the Credit Register data by **the public** with a possibility to use a credit institution's internet banking service for the authentication on the website for electronic servicing (<https://manidati.kreg.lv>);
- **new data for the performance of financial stability tasks and the analysis of sustainability** (cadastre number and the customer's principal amount due in next 12 months) and adding the data upon expiration of the Covid-19-related support measures.

In 2021, Latvijas Banka continued to maintain and develop the Credit Register by collecting and storing in the [Credit Register](#) data on 4.3 million obligations pertaining to 1.19 million borrowers and borrowers' guarantors from its 92 [participants](#) (with the actual outstanding amount of the obligations amounting to 20.47 billion euro and the off-balance sheet amount of the obligations amounting to 4.4 billion euro).

By using the Credit Register data, in 2021 Latvijas Banka continued to report the Credit Register data to [AnaCredit](#) on a monthly and quarterly basis in accordance with the requirements of the Regulation (EU) 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data ([ECB/2016/13](#)). AnaCredit brings together the data provided by the euro area central banks on loans granted to legal persons into a single system with the aim to improve the availability of

detailed lending information for statistical needs, monetary policy analysis and decision-making as well as the financial stability analysis and risk assessment. Data on 14.4 thousand loans (on average) granted to legal entities and credit exposures between the credit institutions and the central bank with the total actual outstanding amount of the obligations (on average) amounting to 15.4 billion euro were reported to AnaCredit on a monthly basis (see also Chart 32).

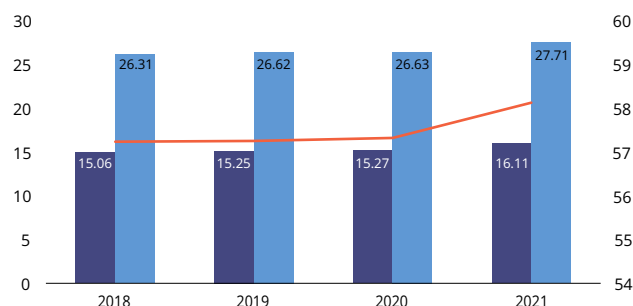
Chart 32

Credit Register data and credit risk data

(actual outstanding amount of the obligations; billion euro at the end of the year)

■ Data transmitted to AnaCredit
■ Total Credit Register data and credit risk data
— Percentage (right-hand scale)

Source: Latvijas Banka.



Latvijas Banka provided the possibility to any person to receive the Credit Register data pertaining to them free of charge (see Chart 33), continuing to improve the website for electronic servicing (<https://manidati.kreg.lv>) (access is granted by using internet bank authentication tools offered by credit institutions and the possibility for authorised persons holding an electronically signed power of attorney to receive data has been ensured). The procedure for receiving data by post in Latvia has been simplified.

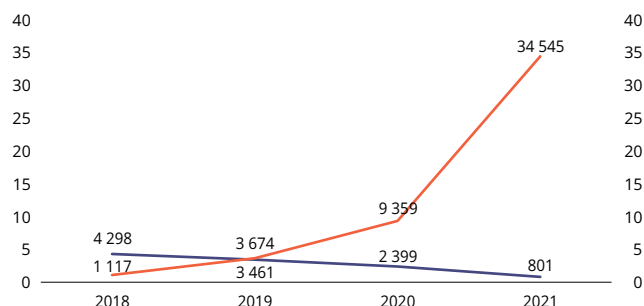
Chart 33

Dynamics of provision of the Credit Register data

(volume; thousands)

— Latvijas Banka*
— Requests made on the website manidati.kreg.lv

* Persons who have received the data in person, as a direct mail delivery or to the official electronic address, as well as the data provided to institutions.
Source: Latvijas Banka.



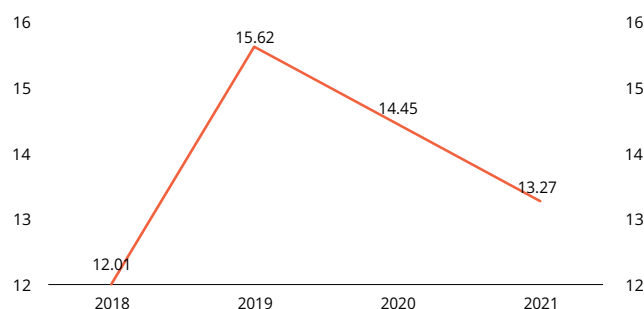
The Credit Register participants submitted 13 million requests (see Chart 34) to the Credit Register to use the Credit Register data for the purpose of assessing the creditworthiness of their current or potential borrowers and borrowers' guarantors.

Chart 34

Requests made by participants

(volume; millions)

Source: Latvijas Banka.





Providing financial services to the government

In order to facilitate efficient and safe budgetary payments of Latvia, Latvijas Banka ensured the management of the Treasury's settlement accounts in euro and foreign currencies opened with Latvijas Banka. The Treasury used the payment services provided by Latvijas Banka for effecting settlement and participated in TARGET2-Latvija and the EKS as direct participant. In 2021, in addition to payments of the Treasury processed by payment systems, Latvijas Banka settled 394 payments of the Treasury in euro and foreign currencies **totalling 3 billion euro**.



Advice on matters within Latvijas Banka's competence

One of the tasks of Latvijas Banka is to advise the *Saeima* and the Cabinet of Ministers of the Republic of Latvia on issues related to monetary policy and economic policy associated with Latvia's participation in the euro area, as well as other issues related to the performance of the tasks of Latvijas Banka.

In 2021, officials of Latvijas Banka and its employees held regular meetings with the representatives of the *Saeima* and the government of the Republic of Latvia, inter alia, participated in meetings of the committees of the *Saeima* and the Cabinet of Ministers of the Republic of Latvia and in the work of several committees and working groups established by the government, providing opinion on the financial and economic development. In 2021, when assessing Latvia's economic growth prospects, Latvijas Banka focused on analysing the impact of the Covid-19 pandemic on the economy and drafting proposals on improving the government support instruments to mitigate the consequences of the crisis, as well as on the issues related to taxes, social security and education policy. Latvijas Banka also continued to analyse the role of Latvia's financial sector in the economy by continuing an in-depth discussion with financial sector participants on lending trends, their underlying factors and the future development in Latvia. Among other topical issues, Latvijas Banka continued to analyse the potential impact of Brexit on Latvia's economy.

Employees of Latvijas Banka contributed to the promotion of Latvia's economic development by participating in different working groups and professional organisations, sharing experience and providing advice and support, including in the fields of economic forecasts, the government expenditure and the programming and uptake of EU funds, the financial sector and financial services (including payment services) development and the prevention of money laundering and financing of terrorism, as well as in other areas and in the process of drafting legal acts and their amendments regulating them.

Experts of Latvijas Banka continued to participate in the Working Group for the Preparation of the Notification of the General Government Budget Deficit and Debt chaired by the CSB by compiling the notification data of the general government budget deficit and debt for 2020 and dealing with the methodological issues related to accounting of the general government budget deficit and debt. In 2021, experts of Latvijas Banka together with the colleagues from the CSB, the Treasury and the Ministry of Finance also participated in the process of addressing methodological issues organised by Eurostat and the surveys on recording Covid-19 vaccine purchase agreements in the government accounts, loans by Member States to the IMF and the time of making book entries of the transfers to the International Development Association and other development banks.

Experts of Latvijas Banka provided support to the government, enabling Latvia to take an active part in the EU and the OECD, as well as ensured the provision of information to the international rating agencies and information exchange.



Information and educational activities provided to the public

Similarly to 2020, the principal factors influencing the area of communication in 2021 were related to the Covid-19 pandemic and its effect on the economy and the well-being of every economic operator. In the second half of the year, the issue of inflation grew increasingly topical for society, businesses and decision-makers, as energy prices and the prices of other goods and services rose significantly.

The experts of Latvijas Banka focused both on the topics mentioned above and on several other ones, including delays in investment, lending development that was not swift enough, the fight against the shadow economy, the increase in inequality and the formation of so-called two-speed labour market, as well as the emergence of sustainable development and the Green Deal on the global agenda.

The Governor of Latvijas Banka and member of the Governing Council of the ECB Mārtiņš Kazāks actively communicated with the international financial media on the issues on the agenda of euro area monetary policy makers. Overall, during 2021 the Governor of Latvijas Banka gave more than 20 interviews to representatives of international financial press and participated in seminars together with experts of investment banks and other global financial market institutions. He also gave speeches in various high-level conferences (Eurofi Forum, European Court of Auditors, etc.).

In 2021, Latvijas Banka's officials, economists and other experts provided answers to questions of approximately 600 journalists and other interested persons concerning the issues falling within the remit of Latvijas Banka and macroeconomic and financial analysis; approximately 200 interviews were published and broadcasted. In 2021, more than 6000 articles and stories on monetary policy and economic development issues were overall published in Latvia's mass media, and the public's interest in economic subjects was very high. Experts' assessments of and comments on various economic developments make up almost two thirds of Latvijas Banka's publicity.

The most visited sections on the website bank.lv included the ones on statistics, coins and services, as well as news on the latest developments at Latvijas Banka. Meanwhile, the most interest on the website macroeconomics.lv was attracted by Latvijas Banka's conferences and materials of Expert Roundtable Discussions, as well as articles and commentaries by Latvijas Banka's economists on inflation, government debt and the response of the economy to the challenges caused by the Covid-19 pandemic.

Despite the pandemic, Latvijas Banka respected its tradition of combining the macroeconomic forecast announcement with a discussion involving economic analysts and journalists specialising in the given subject, thus

Latvijas Bankas prezidents: Valstis, kuras pirmās uzvarēs vīrusu, pirmās arī atgūsies



Kazāks: jāatsakās no priekšstata par Latviju kā tiltu starp Austrumiem un Rietumiem un ekonomika jāintegrē Rietumos

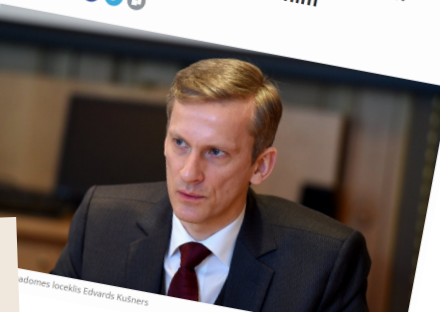
Ir pārāgri runāt par atbalsta izbeigšanu Covid-19 krīzē skartajiem uzņēmumiem

LETA
18:13, 5. jūlijs 2021

Latvijas Banka aicina iedzīvotājus uzmanīties no krāpniekiem, kuri zvana Latvijas Bankas vārdā un aicina atklāt iedzīvotāju materiālo stāvokli, kā arī izsaka apgalvojumus par it kā nepareizi veiktiem bezskaidrās naudas pārskaitījumiem, liecina informācija Latvijas Bankas mājaslapā.

Latvijas Banka brīdina par tuvošanos pārāk augstam budžeta deficīta līmenim

Dalīties:



Latvijas Bankas padomes loceklis: Latvijai nav izlēmības lieliem lēmumiem darbaspēka nodokļu izmaiņu jomā

BIZNESS | BALTIJA | LATVIJA
LETA 2021.gada 27.maijs

Eksperts: Iecere mazināt iemaksas pensiju otrajā līmenī būtu ļoti nepareizs lēmums

Ziņu aģentūra LETA 17.jūn 2021

Latvijas Banka: Ekonomika sāk pielāgoties Covid-19 pandēmijai, vēl ir daudz nezināmā

Saeima pieņem jaunu Latvijas Bankas likumu (23.09.2021.)

Izveidota Latvijas teritorijā uzstādīto bankomātu karte

Publicēts Ekonomika 01 Nov 2021



Latvijas Banka samazinājusi iekšzemes kopprodukta (IKP) pieauguma prognozi šim gadam no iepriekš lēstajiem 5,3% līdz 4,6%.

Valsts prezidents ar Latvijas Bankas prezidentu runā par straujo ekonomikas izaugsmi un nepieciešamību ieguldīt valsts ilgtspējā



contributing to the quality of discussions in Latvia. It has been intended to continue this tradition in 2022 as well, and it is particularly important, considering the challenges monetary policy enforcers will face in relation to the inflation trends and the review of monetary policy instruments, as the Covid-19 pandemic eases.

Dialogue with the public, measures

Latvian Bank encouraged a public discussion on the issues relevant to Latvia's society by organising digital Expert Roundtable Discussions on labour market problems and on the possibilities to limit the shadow

economy and envelope wages. The annual high-level international economic conference on sustainable economy – interaction of monetary and fiscal policies of the euro area –, as well as future sustainability challenges was organised by Latvijas Banka online, making it the event of the year for the economic and financial experts.

Improvement of formats and sites, user-friendliness

2021 was the first full "working year" for the virtual assistant Mona that operates on Latvijas Banka's website bank.lv. During the year she sent the users 6766 messages within 4229 conversations. In December, Mona started servicing customers in English as well.

I am Mona, Your virtual assistant. I am here to help – just ask!



In March 2021, Latvijas Banka started providing information and educational activities to the public on the photo and video sharing social media application [Instagram](https://www.instagram.com).

The first entry of Latvijas Banka's podcast [Skanošais](https://www.skanošais.lv) ("Money" in slang) focusing on a study exploring envelope wages saw the light of day at the end of the year.

Promoting financial and economic literacy and taking over the coordination function of the Strategy for Financial Literacy

As of 1 January 2022, [the coordination function of the National Strategy for Financial Literacy in Latvia](#) has been successfully taken over from the FCMC. By continuing to take part in both the implementation of Latvia's Financial Sector Development Plan and elaboration of the National Strategy for Financial Literacy in Latvia, a significant contribution has been made to the public education on economic and financial matters.



Support for teachers and pupils

The refinement of the digital teaching aid "My Economics" for pupils of all ages and classes has been continued, and highly-estimated and sought-after [teacher seminars](#) have been organised.



*"I'd like to thank Latvijas Banka for this teaching aid!
Brilliant!"*

Teacher, a participant of the seminar "My Economics"



*"It was awesome! It's a pity we don't have such
carefully designed materials in other subjects!"*

Teacher, a participant of the seminar "My Economics"

Support for students of economics

[The regular and comprehensive guest lectures by Latvijas Banka's experts offered to students](#) are also popular remotely.



*"A very informative presentation, meaningful,
detailed information."*

Student, a participant of the guest lecture



*"The lecture was very interesting and useful!
Students' feedback is nothing but positive."*

Professor, a coordinator of several guest lectures

Expertise and technical assistance on financial literacy matters have been provided both nationally and internationally.

The offer of remote visits and [possibilities of virtual visits](#) to the Knowledge Centre "Money World" has been enhanced.



Cooperation with international organisations and foreign central banks

Latvijas Banka is the representative of the Republic of Latvia in foreign central banks and international financial institutions. Latvijas Banka may participate in operations of other international financial and credit organisations consistent with its objectives and tasks.

Representation of Latvijas Banka in international organisations

European Union	Board of Supervisors of the EBA	Economic and Financial Committee for the Council of the EU (EFC)
	EFC's Sub-Committee on IMF and Related Issues (SCIMF)	Advisory Technical Committee of the ESRB
	EFC's Euro Coin Sub-Committee (ECSC)	EC Public Administration Network (PAN II)
	ESRB	Permanent Representation of Latvia to the EU
	Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)	
International Monetary Fond	Board of Governors	Nordic-Baltic IMF Office in Washington
	Nordic-Baltic Monetary and Financial Committee (NBMFC)	
	Alternates of Nordic-Baltic Monetary and Financial Committee (NBMFC Alternates)	
Bank for International Settlements	Irving Fisher Committee on Central Bank Statistics	
Network for Greening the Financial System		

In 2021, Latvijas Banka continued to represent Latvia's interests at meetings of the **IMF** Board of Governors and in the coordination of operational issues. Priorities of the IMF policy were mainly related to the developments in the global economy and the financial system. In 2021, the IMF focused particularly on the crisis caused by the Covid-19 pandemic and the provision of the financial assistance to more than 90 countries in the world. The financial assistance instruments were improved for this purpose, including to reduce the burden of debt servicing costs for poor countries. The development of a comprehensive strategy was launched to support emerging market economies, given their already high debt levels.

Discussions also continued on IMF resources, challenges related to climate change and inequality.

Latvia's interests in the IMF were represented in the **Nordic-Baltic Constituency** that includes Denmark, Estonia, Iceland, Latvia, Lithuania, Norway, Finland and Sweden. One Executive Director represented this constituency on the IMF Executive Board, with a total of 3.3% votes.

An employee of Latvijas Banka was appointed the new Adviser to the Executive Director of the Nordic-Baltic Constituency of the IMF in 2021 as the term of office of the former employee had expired.

In 2021, cooperation with the IMF, based on consultations under Article IV of the IMF Articles of Agreement, continued.

In 2021, Latvijas Banka continued its membership in the **BIS**. In the course of the year, Latvijas Banka was actively involved in the work of the Eurosystem "Innovation Forum" (*Innov8*). The Forum prepared the Eurosystem's proposals for the work programme of the BIS Innovation Hub (BISIH) and the procedure for recruiting staff and financing the operation of the Hub. With this preparation period coming to an end, the Eurosystem BISIH was opened in two locations (Frankfurt and Paris) at the end of the year. Within *Innov8*, Latvijas Banka will continue its participation in the development of a framework in the central bank innovation area.

At the beginning of the year, Latvijas Banka engaged in the work of the newly established BIS Innovation Network, in which an expert of Latvijas Banka participates in the High-Level Task Force on Central Bank Digital Currency.

Latvijas Banka has been a member of the **Network for Greening the Financial System** ([Network for Greening the Financial System](#); NGFS) since 2020.

Cooperation between the **central banks of the Nordic and Baltic countries** also continued to be the case, including the discussion on topical issues in central banking. As part of the long-term cooperation between the central banks of the Baltic States, seminars and high-level meetings for experts were organised in Riga.

Latvijas Banka in the Eurosystem and institutions of the European Union

In 2021, the Governor of Latvijas Banka participated in the work of the **Governing Council** and the **General Council of the ECB**, namely, in the formulation of the Eurosystem's monetary policy and decision-making related to the tasks of the Eurosystem and the ESCB.

A representative of Latvijas Banka, in cooperation with the FCMC, participated in the work of the **Supervisory Board of the ECB**, ensuring the fulfilment of the ECB tasks relating to the supervision of credit institutions and preparing the respective draft decisions to be submitted to the Governing Council of the ECB according to the non-objection procedure.

Representatives of Latvijas Banka participated in the **Eurosystem/ESCB committees and working groups**, addressing issues pertaining to monetary policy, market operations, financial stability, payment systems, euro banknotes, statistics, international relations, communication and

accounting, as well issues in other areas. The working groups of different levels addressed issues in the relevant fields of sustainability and climate, central bank digital currency, innovative technologies, data processing platforms, as well as other issues.

Participation of Latvijas Banka in the Eurosystem and the European System of Central Banks

Governing Council of the ECB	Accounting and Monetary Income Committee (AMICO)	High-level Task Force in respect of the Integrated Reporting Framework project	International Relations Committee (IRC)
	Banknote Committee (BANCO)	High-Level Task Force on Central Bank Digital Currency	Legal Committee (LEGCO)
General Council of the ECB	Budget Committee (BUCOM)	High-Level Task Force on Sustainable and Responsible Investment principles in non-monetary policy portfolios	Market Infrastructure and Payments Committee (MIPC)
	Committee on Controlling (COMCO)		Market Operations Committee (MOC)
	Eurosystem "Innovation Forum"		Monetary Policy Committee (MPC)
Supervisory Board of the ECB	Eurosystem/ESCB Communications Committee (ECCO)	Human Resources Conference (HRC)	Organisational Development Committee (ODC)
	Financial Stability Committee (FSC)	Information Technology Committee (ITC)	Risk Management Committee (RMC)
		Internal Auditors Committee (IAC)	Statistics Committee (STC)

Experts of Latvijas Banka also participated in **committees and working groups of the Council of the EU and the EC**. Sitting on the EFC and its subcommittees, representatives of Latvijas Banka regularly participated in the preparation of decisions concerning the economic development and financial stability of the EU, the development of the EU economic policy strategy and improvement of crisis instruments with a particular focus on EU-level measures to overcome the crisis caused by the Covid-19 pandemic, on facilitating economic sustainability and sustainable development, taking account of the opportunities and challenges resulting from both digitalisation and climate change.

Representatives of Latvijas Banka participated in the **EC and Eurostat working groups** addressing issues related to euro coins, economic forecasting and statistics.

In 2021, Latvijas Banka participated in the work of the **ESRB** which made decisions on the issues related to the EU macroprudential policy. Representatives of Latvijas Banka also engaged in the work of the Advisory Technical Committee of the ESRB and its working groups.

With the FCMC's consent, a representative of Latvijas Banka also participated in the work of the **Board of Supervisors** of the **EBA** whose general objective is to maintain financial stability and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

Financial Statements of Latvijas Banka for the Year Ended 31 December 2021

Balance Sheet

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

	Note ¹	2021	2020
ASSETS			
Gold and gold receivables	6	344 166	330 139
Claims on non-euro area residents denominated in foreign currency	7	4 495 181	3 970 780
Receivables from the International Monetary Fund		542 959	142 411
Balances with banks and security investments, external loans and other external assets		3 952 222	3 828 369
Claims on euro area residents denominated in foreign currency	8	528 428	333 706
Claims on non-euro area residents denominated in euro	9	174 081	119 143
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10	616 600	1 260 000
Longer-term refinancing operations		616 600	1 260 000
Other claims on euro area credit institutions denominated in euro	11	4 255	120
Securities of euro area residents denominated in euro	12	12 839 996	11 129 440
Securities held for monetary policy purposes		11 690 783	10 008 456
Other securities		1 149 213	1 120 984
Intra-Eurosystem claims	13	5 868 008	5 673 974
Participating interest in the European Central Bank		116 472	114 095
Claims equivalent to the transfer of foreign reserves		157 202	157 202
Other claims within the Eurosistem		5 594 334	5 402 677
Other assets	14	203 714	228 440
TOTAL ASSETS		25 074 429	23 045 742

¹ The accompanying Notes set out on pages 72 to 118 are an integral part of these financial statements.

(cont.)

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

	Note	2021	2020
LIABILITIES			
Banknotes in circulation	15	5 536 624	5 142 726
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	6 406 673	6 053 812
Current accounts (covering the minimum reserve system)		6 406 673	6 053 812
Other liabilities to euro area credit institutions denominated in euro	17	649 746	577 746
Liabilities to other euro area residents denominated in euro	18	3 438 792	3 012 014
General government		1 803 339	1 588 192
Other liabilities		1 635 453	1 423 822
Liabilities to non-euro area residents denominated in euro	19	57 955	238 737
Liabilities to euro area residents denominated in foreign currency	20	1 594 262	615 986
Liabilities to non-euro area residents denominated in foreign currency	21	688 359	1 364 010
Intra-Eurosystem liabilities	13	5 356 980	4 837 613
Liabilities related to TARGET2 and correspondent accounts (net)		5 322 638	4 809 553
Other liabilities within the Eurosystem		34 342	28 060
Other liabilities	22	436 383	409 700
Capital and reserves	23	908 655	793 398
TOTAL LIABILITIES		25 074 429	23 045 742

Profit and Loss Statement

(in thousands of euro)

	Note	2021	2020
Net interest income	33	123 981	139 537
Interest income		165 248	190 313
Interest expense		-41 267	-50 776
Net result of financial operations, recognition of revaluation result in profit and loss statement and financial risk provisions		-50 235	-68 947
Realised gains arising from financial operations	34	357	44 471
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	-36 618	-35 237
Provisions for market risk and credit risk	36	-13 974	-78 181
Net expense from fees and commissions		-3 951	-3 394
Fees and commissions income		981	949
Fees and commissions expense		-4 932	-4 343
Income from equity securities and participating interest	37	14 575	18 605
Net result of pooling of monetary income	38	-34 342	-27 701
Other operating income	39	3 591	1 268
NET INCOME		53 619	59 368
Remuneration	40	-16 403	-16 867
Social security costs and solidarity tax	40	-3 582	-3 764
Banknote and coin acquisition costs	41	-1 831	-1 546
Depreciation of fixed assets and amortisation of intangible assets	14	-3 802	-3 851
Other operating expenses	42	-7 093	-6 694
PROFIT FOR THE YEAR		20 908	26 646

Statement of Total Recognised Gains and Losses

(in thousands of euro)

	Note	2021	2020
Profit for the year		20 908	26 646
Revaluation	23	119 670	140 950
Realisation of the accumulated revaluation result	23	-43 287	-24 056
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	36 618	35 237
Total changes in the revaluation account	23	113 001	152 131
TOTAL		133 909	178 777

The financial statements set out on pages 68 to 118 were authorised by the Council of Latvijas Banka on 10 March 2022.

Governor of Latvijas Banka

Mārtiņš Kazāks

EXPLANATION REGARDING TRANSLATION

This is a translation of the financial statements from the original, which was prepared in Latvian, and all due care has been taken to ensure that it is an accurate representation. However, the original language version of the financial statements takes precedence.

Notes to the Financial Statements

1. Principal activities

Latvijas Banka is the central bank of the Republic of Latvia and a member of the ESCB and the Eurosystem. It was established on 19 September 1922 (re-established in 1990). In its activities, Latvijas Banka complies with the legislation of the Republic of Latvia and the EU, inter alia, ECB legal acts, in compliance with the Treaty on the Functioning of the European Union and the Statute of the ESCB and of the ECB.

Pursuant to the Law on Latvijas Banka, the primary goal of Latvijas Banka is to maintain price stability. Latvijas Banka has the following main tasks:

- participate in the formulation and implementation of the Eurosystem's monetary policy;
- manage foreign reserves and other financial investments;
- ensure cash currency circulation in Latvia and contribute to ensuring cash currency circulation in the euro area;
- participate in promoting the smooth functioning of payment systems;
- compile and publish statistical information in order to ensure the performance of the tasks of Latvijas Banka;
- cooperate with the ECB, the central banks of other EU Member States and other countries as well as other financial institutions;
- promote the stability of Latvia's financial system at the macro level;
- operate as the financial agent of the Latvian government and provide financial services to other market participants;
- act as an advisor to the *Saeima* (Parliament) and Cabinet of Ministers of the Republic of Latvia on monetary policy issues and other issues related to the implementation of Latvijas Banka's tasks;
- maintain and develop the Credit Register;
- issue licences to legal persons listed in the Register of Enterprises of the Republic of Latvia, except credit institutions, for the purchase and sale of foreign currency as a commercial activity;
- perform the function of the National Analysis Centre and the Coin National Analysis Centre, ensuring efficient analysis of currency counterfeits.

Latvijas Banka neither seeks nor takes instructions from the government of Latvia and other EU Member States, EU institutions and other national, foreign or international institutions and their entities. Latvijas Banka is independent in setting and implementing policy under its legal mandate. Latvijas Banka is supervised by the *Saeima* of the Republic of Latvia.

Latvijas Banka's execution of operating activities is mainly financed from income received from its investment management and monetary policy operations.

The Head Office of Latvijas Banka is situated at K. Valdemāra iela 2A, Riga. Latvijas Banka manages the storage, processing and circulation of cash through its branch in Riga.

In line with amendments to the Law on Latvijas Banka Latvijas Banka introduced a single-tier top management model, discontinuing the operation of the Board of Latvijas Banka and reassigning its tasks to the Council of Latvijas Banka, committees and departments. Ensuring more effective management, as of 1 June 2021, all significant decisions on behalf of Latvijas Banka, within the scope of their respective competencies, are made by the Council of Latvijas Banka and the Governor of Latvijas Banka.

2. Principal accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Guideline of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34), Financial Accounting Policy of Latvijas Banka approved by Latvijas Banka's Council, and the requirements of the Law on Latvijas Banka governing financial reporting.

2.2 Basis of measurement

Gold, participating interest in the BIS, and securities are measured at fair value, except held-to-maturity debt securities and securities held for monetary policy purposes that are measured at amortised cost. Securities held to maturity are securities with fixed or determinable payments and fixed maturity which Latvijas Banka intends to hold to maturity. The participating interest in the ECB is measured according to the procedure referred to in Note 13.1.

Derivatives are accounted for at fair value, except forward exchange rate contracts and currency swap arrangements that are measured according to the principles described in Note 2.4 and 2.10.

Loans to credit institutions, deposits and similar financial claims and financial liabilities are recorded at nominal value on the balance sheet.

Euro banknotes and coins issued are recorded at nominal value on the balance sheet. The lats banknotes and coins issued by Latvijas Banka which have not yet been exchanged for the euro banknotes and coins are recognised on the balance sheet as liabilities, considering the exchange probability of such lats banknotes and coins within 20 years from the euro changeover. Euro collector coins, lats gold circulation coins and lats collector coins are not recognised on the balance sheet (see also Notes 22.1 and 45).

Fixed assets and intangible assets are reported on the balance sheet at cost less the accumulated depreciation and amortisation.

Other assets and liabilities are measured in accordance with the historical cost basis of accounting.

2.3 Fair value of financial assets and financial liabilities

Fair value is the price at which a financial asset could be sold or a financial liability could be transferred in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is determined by Latvijas Banka using quoted prices in active markets, other financial market information sources or discounted cash flows, except for the fair value of the BIS shares: the method of its estimation is 70% of the BIS net asset value (see also Note 14.2). The discounted cash flows are modelled using money market interest rates. The breakdown of assets measured at fair value as well as of financial instruments that have not been measured at their fair value but whose estimated fair value is different from their book value, taking into account the hierarchy of fair value determination, is provided in Note 5.

2.4 Foreign currency and gold translation

For foreign currency translation Latvijas Banka applies foreign exchange rates published by the ECB. The price of gold is set on the basis of the quoted gold market price in US dollars and the exchange rate of the US dollar against the euro published by the ECB. The exchange rate of the SDR is set on the basis of the weights of currencies in the SDR basket published by the IMF and the exchange rates of the respective currencies published by the ECB.

Transactions denominated in foreign currencies are recorded in euro at the respective exchange rates on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the exchange rates prevailing at the end of the reporting period. Non-monetary assets and liabilities, measured at cost or amortised cost, are translated into euro at the exchange rate for the respective foreign currency prevailing on the day of the transaction.

Transactions in foreign currencies are included in the calculation of net foreign currency position of the respective currency. Forward exchange rate contracts, currency swap arrangements, and spot exchange rate contracts are included in the net position of the respective currency on the transaction day at the spot rate of the transaction and are recorded on the balance sheet in euro at the exchange rate of the respective currency prevailing at the end of the reporting period. The principles for valuation and recording of transactions denominated in foreign currencies are also applied to gold.

The exchange rates of major foreign currencies (currency units per euro) and gold price (euro per troy ounce) in euro used in the preparation of the balance sheet for the year ended 31 December 2021 and the year ended 31 December 2020 are as follows:

(at the end of the year)

	2021	2020	Changes (%)
US dollar (USD)	1.1326	1.1234	-7.7
Japanese yen (JPY)	130.38	121.94	3.1
Canadian dollar (CAD)	1.4393	1.4598	-7.9
British pound sterling (GBP)	0.84028	0.85080	-6.5
Gold (XAU)	1609.483	1354.104	4.2

2.5 Reverse and other collateralised transactions

Securities that are pledged for the benefit of Latvijas Banka or purchased under reverse transactions are not reported on Latvijas Banka's balance sheet. Securities that are lent, pledged for the benefit of a counterparty or sold under reverse transactions are reported on Latvijas Banka's balance sheet along with other securities that are not pledged in such transactions. Any cash paid or received in reverse or collateralised transactions is reported on Latvijas Banka's balance sheet as loans or deposits respectively.

2.6 Fixed and intangible assets

Fixed and intangible assets are long-term assets with the useful life of over one year. The capitalisation limit of fixed and intangible assets was

1000 euro in 2021 (150 euro in 2020), except for the costs related to real estate improvements and replacement of fixed asset parts for which the Council of Latvijas Banka has set a higher capitalisation limit depending on their significance.

Depreciation and amortisation are recognised using the straight-line method over the estimated useful life of the fixed or intangible asset. Buildings and structures are accounted for by separate components, with individual useful life set for each such component.

In 2021, the useful lives set for fixed and intangible assets were not changed. In 2021 and 2020, the useful lives set were as follows:

	(years)	
	2021	2020
Buildings and their components, improvements to the territory, incl.	5-100	5-100
structures	100	100
finishing, equipment and engineering communications	5-20	5-20
Transport vehicles	10-15	10-15
Office equipment and tools	5-25	5-25
Cash processing, verifying and storage equipment	5-15	5-15
Computer and telecommunications equipment	2-5	2-5
Other fixed assets	5-15	5-15
Intangible assets	1-10	1-10

2.7 Use of estimates and assumptions

The major estimates and assumptions in the preparation of the financial statements have been made with respect to the following: the accounting policy for securities held to maturity (see Note 2.2), the useful life of fixed assets and intangible assets (see Note 2.6), impairment of assets (see Note 2.8), the exchange probability of those lats banknotes and coins that have not been yet exchanged for euro banknotes and coins (see Note 2.2), the repurchasing probability of collector coins (see Note 45), provisions for market risk and credit risk (see Note 36), the breakdown of fair value determination (see Note 5), the method for establishing the fair value of the BIS shares (see Note 14.2).

2.8 Impairment of assets

An asset is impaired when its carrying amount exceeds its recoverable amount. Upon detecting any indications of impairment of an asset, the recoverable amount of the respective asset is estimated. If the recoverable amount is less than the carrying amount of the respective asset, adequate impairment allowances for the respective asset are made. Such impairment allowances are recognised in the profit and loss statement with a respective reduction in the asset's carrying amount.

The ECB carries out impairment assessment of securities held for monetary policy purposes, identifying any potential changes in future cash flows and any other factors encumbering the fulfilment of the liabilities

by the securities issuer. Assets are impaired when the carrying amount of securities held for monetary policy purposes exceeds their recoverable amount. The latter is defined as the present value of a future cash flow estimate. The Governing Council of the ECB approves the results of the asset impairment assessment carried out by the ECB (see Note 36).

2.9 Recognition of gains and losses on financial instruments, foreign currency and gold positions

Gains and losses on financial instruments, foreign currency and gold positions are recognised in accordance with the following principles provided by the ECB's legal framework for accounting and financial reporting:

- (a) realised gains and losses shall be recognised in the profit and loss statement;
- (b) unrealised gains shall be recognised in the balance sheet item "Capital and reserves" as the revaluation reserve;
- (c) unrealised losses recognised in the balance sheet item "Capital and reserves" as the revaluation reserve at the end of the reporting year shall be transferred to the profit and loss statement if they exceed the previous revaluation gain on the respective financial instrument, foreign currency or gold position;
- (d) unrealised losses recognised in the profit and loss statement at the end of the reporting year shall not be reversed and offset by unrealised gains of the respective financial instrument, foreign currency or gold position in the subsequent years;
- (e) there shall be no netting of unrealised losses in a financial instrument, foreign currency or gold position against unrealised gains in another financial instrument, foreign currency or gold position;
- (f) the average cost method shall be used to calculate the realised and unrealised gains and losses arising from a financial instrument, foreign currency or gold position;
- (g) the average cost of a financial instrument, foreign currency or gold position shall be increased or reduced by unrealised losses that are recognised in the profit and loss statement at year-end;
- (h) when recognising income from equity securities, the income recognition principles are applied to the investment portfolio rather than individual securities, where externally managed investments in equity securities replicate the structure of an index-linked equity fund.

Dividends on equity securities and participating interest are recognised in the profit and loss statement when the right to receive payment is established.

2.10 Interest income and expense

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

Interest on securities also includes premium and discount, which are amortised over the remaining life of the respective securities using the straight-line method.

The spot and forward currency exchange rate spread of forward exchange

rate contracts and currency swap arrangements, is recognised in the profit and loss statement as interest income or interest expense over the term of the agreement.

2.11 Other expenses and income

Banknote and coin acquisition costs are charged to the profit and loss statement at the time of banknote and coin acquisition.

Proceeds from sales of collector coins are recognised in the profit and loss statement when incurred.

Latvijas Banka's other operating expenses and income are recognised in the profit and loss statement on an accrual basis. The amount of accrued expenses and income for the reporting period is calculated in accordance with the volume of services received or rendered in the reporting period. Lease payments are recognised in the profit and loss statement proportionally over the term of the respective agreement.

3. Summary of the financial position and financial performance of Latvijas Banka

3.1 Financial position

In 2021, Latvijas Banka's assets grew by 2028.7 million euro.

In 2021, the balance sheet item "Securities held for monetary policy purposes" increased by 1682.3 million euro due to asset purchases made by Latvijas Banka under the PEPP and PSPP.

In 2021, the amount of loans granted to credit institutions by Latvijas Banka as a result of longer-term refinancing operations decreased by 643.4 million euro (see also Note 10.2).

Other claims related to other operational requirements within the Eurosystem grew by 191.7 million euro, mostly due to a rise in claims on banknote allocation in the Eurosystem (see also Note 13.4).

In 2021, banknotes in circulation increased by 393.9 million euro, in line with the pickup in the overall amount of banknotes in circulation of the euro area NCBs.

The increases of 978.3 million euro under balance sheet item "Liabilities to euro area residents denominated in foreign currency" respectively, as well as a decrease of 675.7 million euro under the balance sheet item "Liabilities to non-euro area residents denominated in foreign currency" are mostly related to repurchase agreements and gold swaps arrangements to reduce the costs for hedging currency risks and increase return on financial investments.

At the end of 2021, credit institution deposits, reported under the balance sheet item "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro", increased by 352.9 million euro. As a result of cross-border payments, liabilities to the ECB for the settlement result in TARGET2, reported under the balance sheet item "Intra-Eurosystem liabilities", increased by 513.1 million euro.

The capital and reserves of Latvijas Banka increased by 115.3 million euro due to net changes in the "Revaluation account" balance (113.0 million euro) and the profits earned in 2021 (20.9 million euro), while the share

of profits earned in 2020 and remitted to the state budget revenue (18.7 million euro) had a decreasing effect.

3.2 Financial performance

In 2021, Latvijas Banka's profit amounted to 20.9 million euro (26.6 million euro in 2020).

Net interest income in 2021 decreased by 15.6 million euro as compared to 2020 and reached the amount of 124.0 million euro. This mainly resulted from a 25.1 million euro decrease in interest income and a 9.5 million euro decrease in interest expense on account of lower average yields on securities and costs of hedging currency risks and larger interest expense on monetary policy operations on account of increased volume of monetary policy operations and larger interest payments.

The realised gains on financial operations amounted to 0.4 million euro (44.5 million euro in 2020), while the recognition of the negative revaluation result on financial assets and positions in the profit and loss statement increased to stand at 36.6 million euro (35.2 million euro in 2020), mostly on account of decreasing market value of debt securities due to rising yields.

In 2021, additional provisions in the amount of 14.0 million euro were established for market risk and credit risk (78.2 million in 2020).

Income from equity securities and participating interest amounted to 14.6 million euro (18.6 million euro in 2020), the decrease resulting from lower income from participating interest in the ECB.

Pursuant to the Statute of the ESCB and of the ECB, the income generated by euro area NCBs through the implementation of the single monetary policy of the Eurosystem is allocated to euro area NCBs in proportion to their shares in the ECB's capital. Latvijas Banka's net result of pooling of monetary income was negative (34.3 million euro; 27.7 million euro in 2020).

Other operating income stood at 3.6 million euro (1.3 million euro in 2020). Income increased primarily on account of a revaluation of liabilities for the issued Latvian banknotes and coins.

The total recognised financial result, including changes in the "Revaluation account" balance, decreased by 44.9 million euro in comparison with 2020 and reached 133.9 million euro on account of a decrease of 40.5 million euro in the positive result of revaluation and a 1.4 million euro rise in the negative result on revaluation of financial assets and positions in the profit and loss statement, while the profit for the reporting year was 5.7 million euro lower than in 2020.

In the future, Latvijas Banka's financial performance will mostly be affected by the monetary policy pursued by the Eurosystem and by the interest rate and capital market developments in the financial markets of the euro area and the US since Latvijas Banka is exposed to interest rate risk.

During the reporting year, the COVID-19 pandemic had no material effect on Latvijas Banka's operating income and expenses, except net interest income related to conducting monetary policy operations. The restrictions imposed to limit the spread of the pandemic in Latvia in the reporting year had no significant impact on the implementation of Latvijas Banka's tasks.

4. Financial investment policy

Investments are managed in compliance with the basic principles set by the Council of Latvijas Banka, which include preserving the value of investments, ensuring their liquidity and earning income within the framework of acceptable risk and in the medium term without contradicting the monetary policy implemented by the Eurosystem.

Investments include assets reported under the balance sheet items "Gold and gold receivables", "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency", "Claims on non-euro area residents denominated in euro", "Other claims on euro area credit institutions denominated in euro" and "Other securities", as well as accrued income on debt securities reported under the balance sheet item of other assets "Accrued interest on other securities" and derivative financial instruments and spot exchange rate contracts whose book value is reported under relevant balance sheet items of other assets or other liabilities.

Investments are managed by classifying them into different investment portfolios by investment strategy and source of funding. The portfolio of borrowed funds includes investments which correspond to Latvijas Banka's liabilities in foreign currencies to government or government deposits. Investments that are not included in the portfolio of borrowed funds are included in the portfolios of 1–10 year fixed income securities, mortgage-backed securities, developed markets equity securities, long-term fixed income securities, emerging markets equity securities, emerging markets fixed income securities, Latvian government securities, and gold. The developed markets equity securities portfolio, one of the 1–10 year fixed income securities portfolios and the mortgage-backed securities portfolios are managed by external managers.

The parameters for a benchmark reflecting the acceptable level of financial risks and expected return are set out for the 1–10 year fixed income securities portfolios, mortgage-backed securities portfolios, the portfolio of borrowed funds, the developed markets equity securities portfolio, the emerging markets equity securities portfolio and emerging markets fixed income securities portfolio.

The breakdown of investments by type of investment portfolio at the end of 2021 and 2020 was as follows:

	Book value (in thousands of euro)		Proportion (%)	
	2021	2020	2021	2020
1–10 year fixed income securities portfolios	3 209 547	3 445 980	47.9	58.2
Mortgage-backed securities portfolios	1 186 537	1 211 775	17.7	20.5
Developed markets equity securities portfolio	793 702	573 316	11.8	9.7
The portfolio of borrowed funds	544 413	143 350	8.1	2.4
Gold portfolio	344 166	330 139	5.1	5.6
Emerging markets fixed income securities portfolio	325 212	–	4.9	–
Long-term fixed income securities portfolio	168 246	168 173	2.5	2.8
Emerging markets equity securities portfolio	94 391	–	1.4	–
Latvian government securities portfolio	39 167	47 025	0.6	0.8
Total	6 705 381	5 919 758	100.0	100.0

The 1–10 year fixed income securities portfolio benchmark comprised the weighted 1–10 year government securities index of the UK and euro area countries, and the 1–3 year government securities index of the US and Canada.

The mortgage-backed securities portfolio benchmark is the US mortgage-backed securities index.

The developed markets equity securities portfolio benchmark is the equity securities index comprised of issuers from developed countries.

The benchmark for the portfolio of borrowed funds is formed in compliance with the parameters of respective liabilities.

The gold portfolio comprises the gold of Latvijas Banka and the related financial instruments.

In 2021, Latvijas Banka established an emerging markets fixed income securities portfolio. The emerging markets fixed income securities portfolio benchmark is the public sector issuer index of emerging market countries with an investment grade rating by international credit rating agencies.

The long-term fixed income securities portfolio comprises euro area government securities denominated in euro, with term to maturity of 10 years at the time of acquisition.

In 2021, Latvijas Banka established an emerging markets equity securities portfolio. The emerging markets equity securities portfolio benchmark is the equity securities index comprised of issuers from emerging market countries.

The Latvian government securities portfolio comprises euro denominated Latvian government bonds with term to maturity of 5–10 years at the time of acquisition.

The benchmark currency of Latvijas Banka's investment portfolios is the euro, except for the portfolio of borrowed funds, the equity securities portfolio, developed markets equity securities portfolio, emerging markets equity securities portfolio and the gold portfolio, thus limiting the currency risk. For the portfolio of borrowed funds, the benchmark currency structure is formed considering the currency of the respective liabilities.

The description of the main methods used in financial risk management is provided in Note 25.1.

Balance Sheet Notes

5. Fair value measurement

The fair value of Latvijas Banka's assets is determined using the following hierarchy (see also Note 2.3):

- quoted market price. The fair value is determined using quoted prices for identical financial instruments in active markets;
- observable data. The fair value is determined using quoted prices for similar financial instruments in active markets, quoted prices for identical or similar financial instruments in inactive markets or using models where all significant inputs are observable;
- non-observable data. The fair value is determined using a model where significant inputs are non-observable.

At the end of 2021 and 2020, Latvijas Banka's assets carried at fair value were generally valued on the basis of a quoted market price in active markets.

At the end of 2021 and 2020, the participating interest in the BIS was assessed using non-observable data. The assessment was conducted using the 70% net asset value method (see also Note 14.2).

At the end of 2021 and 2020, the breakdown of financial instruments and gold carried at fair value and of the financial instruments whose fair value is different from their book value, according to the fair value hierarchy, was as follows:

	Book value	Fair value			Total fair value	Difference between fair value and book value
		Quoted market price	Observable data	Non-observable data		
As at 31 December 2020						
Gold	330 139	330 139	-	-	330 139	-
Securities in investment portfolios	5 362 253	4 842 019	541 405	-	5 383 424	21 171
Forward exchange rate contracts	25 613	-	25 063	-	25 063	-550
Interest rate swap arrangements	1	1	-	-	1	-
Securities held for monetary policy purposes	10 082 251	10 897 433	-	-	10 897 433	815 182
Participating interest in the Bank for International Settlements	35 960	-	-	35 960	35 960	-
Total	15 836 217	16 069 592	566 468	35 960	16 672 020	835 803
As at 31 December 2021						
Gold	344 166	344 166	-	-	344 166	-
Securities in investment portfolios	5 741 342	5 014 198	741 456	-	5 755 654	14 312
Forward exchange rate contracts	-5 850	-	-6 314	-	-6 314	-464
Interest rate swap arrangements	1	1	-	-	1	-
Securities held for monetary policy purposes	11 761 724	12 096 792	-	-	12 096 792	335 068
Participating interest in the Bank for International Settlements	37 309	-	-	37 309	37 309	-
Total	17 878 692	17 455 157	735 142	37 309	18 227 608	348 916

The securities, including accrued interest on the above securities, are reported under the balance sheet items "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency", "Claims on non-euro area residents denominated in euro", "Securities of euro area residents denominated in euro", "Other assets" and "Other liabilities".

The book value of forward exchange rate contracts is reported under the balance sheet items "Other assets" or "Other liabilities", while the present Note discloses the total net book value.

The average market prices on the last trading day of the reporting year are obtained from the electronic information systems Bloomberg and Refinitiv (quoted market price if the market of the respective financial instrument is active; observable data if the market is inactive). Where the above quoted price for a financial instrument is absent in the electronic information systems and the market for the financial instrument is inactive, the price provided by a market participant or the discounted cash flow is used for evaluating the financial instrument (observable data).

6. Gold and gold receivables

	Troy ounces	In thousands of euro
As at 31 December 2019	213 457	289 043
During 2020		
Increase in gold market value	x	40 511
Net change resulting from gold swaps arrangements	379	585
As at 31 December 2020	213 836	330 139
During 2021		
Increase in gold market value	x	14 027
As at 31 December 2021	213 836	344 166

The revaluation result of gold is recognised under the balance sheet item "Capital and reserves" as the revaluation reserve.

To limit the gold maintenance costs and ensure return on gold investments, at the end of 2021, all gold in the amount of 344 166 thousand euro (330 139 thousand euro at the end of 2020) was involved in gold swaps arrangements (see also Notes 21 and 43). Gold swap arrangements are treated as repurchase agreements.

At the end of 2021 and 2020, Latvijas Banka had no gold receivables.

7. Claims on non-euro area residents denominated in foreign currency

7.1 Receivables from the International Monetary Fund

Pursuant to the Law on the Republic of Latvia Joining the International Monetary Fund, Latvijas Banka serves as a depository for the IMF and services the IMF accounts in the member state currency without compensation. The IMF holdings in euro comprise a promissory note issued by the Latvian government, Account No. 1 used for financial transactions with the IMF, and Account No. 2 used for the IMF administrative expenditure and receipts.

Latvia's claims on the IMF include SDR and Latvia's quota in the IMF. SDR is an international reserve asset created by the IMF and used in transactions between the IMF and its members. The quota in the IMF reflects the subscription in the IMF of respective members. Latvia's quota in the IMF is secured by the Latvian government promissory note issued to the IMF and denominated in SDR.

Latvia's liabilities to the IMF are made up of the IMF holdings in euro and IMF allocations.

At the end of 2021, the receivables from the IMF in SDR as recorded on Latvijas Banka's balance sheet were equivalent to 542 959 thousand euro (142 411 thousand euro at the end of 2020), whereas the liabilities to the IMF are made up of funds at the disposal of the IMF in the amount of 1436 thousand euro (983 thousand euro at the end of 2020) held on its Accounts No. 1 and No. 2 (see also Note 19). In 2021, the IMF member countries were granted a general SDR allocation of 456 billion SDR to boost global liquidity, of which Latvia received 318 million SDR.

At the end of 2021 and 2020, Latvia's net receivables from the IMF were as follows:

	(in thousands of euro)		(in thousands of SDR)	
	2021	2020	2021	2020
Latvia's quota in the International Monetary Fund	410 690	391 649	332 300	332 300
International Monetary Fund holdings in euro	-410 621	-391 588	-332 244	-332 249
Promissory note of the Latvian government	-409 185	-390 605	-331 082	-331 414
Account No. 1	-1 027	-979	-831	-831
Account No. 2	-409	-4	-331	-4
Reserve position in the International Monetary Fund	478	65	387	55
SDR	542 959	142 411	439 323	120 830
General allocation	-509 799	-110 786	-412 493	-93 998
Special allocation	-33 152	-31 615	-26 824	-26 824
Latvia's net receivables from the International Monetary Fund	486	75	393	63

The reserve position in the IMF is the difference between Latvia's quota in the IMF and the IMF holdings in euro, excluding the balance on Account No. 2.

7.2 Balances with credit institutions and security investments, external loans and other external assets

(in thousands of euro)

	2021	2020
Securities	3 881 610	3 783 432
Demand deposits	70 594	44 920
Foreign currency in cash	18	17
Total	3 952 222	3 828 369

8. Claims on euro area residents denominated in foreign currency

(in thousands of euro)

	2021	2020
Securities	527 531	332 969
Demand deposits	897	737
Total	528 428	333 706

9. Claims on non-euro area residents denominated in euro

(in thousands of euro)

	2021	2020
Securities	167 048	105 509
Demand deposits	7 033	13 634
Total	174 081	119 143

10. Lending to euro area credit institutions related to monetary policy operations denominated in euro

At the end of 2021, the total amount of Eurosystem loans in monetary policy operations reached 2 201 882 million euro (1 793 194 million euro at the end of 2020), including 616.6 million euro (1260 million euro at the end of 2020) of loans granted by Latvijas Banka. Pursuant to the Statute of the ESCB and of the ECB, the risks associated with the implementation of monetary policy (if any materialise) are allocated among euro area NCBs in proportion to their share in the ECB's capital. Losses from Eurosystem lending related to monetary policy operations might only be incurred where the counterparty defaults on its obligations and the funds recovered as a result of the disposal of the collateral provided by the counterparty are not sufficient (see also Note 25.1.2).

10.1 Main refinancing operations

Main refinancing operations are open market operations executed through liquidity providing reverse transactions, conducted through weekly standard tenders with a maturity of one week. These operations play a key role in steering interest rates, managing market liquidity and signalling the monetary policy stance. At the end of 2021 and 2020, Latvijas Banka had granted no loans in main refinancing operations.

10.2 Longer-term refinancing operations

Longer-term refinancing operations are open market operations, executed through reverse transactions with the aim to provide credit institutions with additional longer-term refinancing. Such operations are conducted through monthly standard tenders with maturities between 3 and 48 months. In addition, following the decision of the Governing Council of the ECB, TLTROs were launched in 2014. They are liquidity providing reverse operations providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. In 2016, the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO II). These operations had a four-year maturity, with a possibility of early repayment after two years. In 2021, the operations were discontinued. Additionally, in 2019, the Governing Council of the ECB introduced a new series of seven targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of early repayment after two years and since September 2021 – after one year. In 2020, the Governing Council of the ECB added three further operations to this series, which were conducted in 2021 and have a three-year maturity, with a possibility of early repayment. According to the initial decisions, the interest rate applicable to TLTRO III operations could be as low as the average interest rate on the deposit facility. In response to the impact of the COVID-19 pandemic, in 2020 the Governing Council of the ECB decided to lower this rate, establishing that for the period between 24 June 2020 and 23 June 2022 the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility, but in any case may not become less negative than -1%. Additionally, in April 2020, the Governing Council of the ECB decided to conduct a new series of seven additional longer-term refinancing operations (maturing in the third quarter of 2021) called pandemic emergency longer-term refinancing operations (PELTROs). These operations provide further liquidity support after the

expiry of the bridge longer-term refinancing operations (LTROs) that have been conducted since March 2020. In 2021, Latvijas Banka granted loans in the amount of 101 600 thousand euro to Latvian credit institutions at TLTRO III auctions and received 745 000 thousand euro as repayment of loans granted to credit institutions. At the end of 2021, the balance of the TLTROs conducted by Latvijas Banka stood at 616 600 thousand euro; these operations will mature in 2023 and 2024 (at the end of 2020, the balance was 1 260 000 thousand euro).

11. Other claims on euro area credit institutions denominated in euro

Other claims on euro area credit institutions denominated in euro mostly include Latvijas Banka's demand deposits in euro with euro area credit institutions (4255 thousand euro at the end of 2021; 120 thousand euro at the end of 2020).

12. Securities of euro area residents denominated in euro

At the end of 2021, the amount of securities held by the Eurosystem for monetary policy purposes totalled 4 713 403.5 million euro (3 694 641.8 million euro at the end of 2020). Of them, Latvijas Banka held 11 691.7 million euro (10 008.5 million euro at the end of 2020). Pursuant to the Statute of the ESCB and of the ECB, any income and losses, if any materialise, are allocated among euro area NCBs in proportion to their share in the ECB's capital, except any risks associated with the purchases of government securities carried out by Latvijas Banka and other euro area NCBs under the PSPP and PEPP. Of the total amount of securities held by the Eurosystem for monetary policy purposes, at the end of 2021, the amount of government securities purchased by the euro area NCBs under the PSPP totalled 1989 billion euro (1872 billion euro at the end of 2020); of them, Latvijas Banka held Latvian government securities in the amount of 2307 million euro (1848 million euro at the end of 2020). At the end of 2020, the amount of government securities purchased by the euro area NCBs under the PEPP totalled 1244 billion euro (586 billion euro at the end of 2020); of them, the amount of Latvian government securities held by Latvijas Banka was 1242 million euro.

In 2021, the Eurosystem's purchases of securities under the APP continued at a monthly net pace of 20 billion euro. The Governing Council of the ECB expects them to run for as long as necessary to reinforce the accommodative impact of its monetary policy rates, and to end shortly before the ECB starts raising the key ECB interest rates. In response to the COVID-19 pandemic and the related potential risks to the monetary policy transmission mechanism and the euro area economic outlook, in March 2020, the Governing Council of the ECB launched a new asset purchase programme, the PEPP, whereby net asset purchases will be continued until March 2022 or until the crisis caused by the COVID-19 pandemic is over.

(in thousands of euro)

	Book value	
	2021	2020
Securities held for monetary policy purposes	11 690 783	10 008 456
Latvian government securities	3 548 199	2 596 791
PSPP government securities	2 306 559	1 848 233
PEPP government securities	1 241 640	748 558
Debt securities issued by international institutions	8 142 584	7 411 665
PSPP debt securities issued by international institutions	6 564 407	6 469 341
PEPP debt securities issued by international institutions	1 578 177	942 324
Other securities	1 149 213	1 120 984
Securities not held to maturity	980 967	952 811
Securities held to maturity	168 246	168 173
Total	12 839 996	11 129 440

13. Intra-Eurosystem claims/liabilities (-)

(in thousands of euro)

	Note	2021	2020
Participating interest in the European Central Bank	13.1	116 472	114 095
Claims in respect of foreign reserves transferred to the European Central Bank	13.2	157 202	157 202
Claims related to the allocation of banknotes in the Eurosystem	13.4	5 593 565	5 397 767
Claims related to other operational requirements within the Eurosystem	13.5	769	4 910
Total intra-Eurosystem claims		5 868 008	5 673 974
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	13.3	-5 322 638	-4 809 553
Other liabilities within the Eurosystem	13.5	-34 342	-28 060
Total intra-Eurosystem liabilities		-5 356 980	-4 837 613
Intra-Eurosystem claims		511 028	836 361

13.1 Participating interest in the European Central Bank

With Latvia's accession to the EU, Latvijas Banka became a subscriber to the capital of the ECB. In accordance with the Statute of the ESCB and of the ECB, the weighting assigned to Latvijas Banka in the ECB capital subscription key is calculated on the basis of the share of Latvia's population and gross domestic product in the EU. The weightings assigned to the NCBs in the ECB's capital subscription key are adjusted every five

years or at shorter intervals depending on changes in the number of the EU NCBs that contribute to the ECB's capital. The ECB's capital subscription key was last adjusted in 2020 because of the departure of the United Kingdom from the European Union and the subsequent withdrawal of the Bank of England from the ESCB. The Bank of England's share in the ECB's subscribed capital (14.3374%) was reallocated among other NCBs; hence the capital key of Latvijas Banka increased from 0.2731% to 0.3169%, equivalent to 34 304 thousand euro.

The Statute of the ESCB and of the ECB stipulates that a euro area NCB shall pay up its subscribed share in the ECB's capital in full, as well as contribute to the ECB's reserve capital, to those provisions equivalent to reserves and to the revaluation account for financial instruments in proportion to its share in the ECB's capital. Following the withdrawal of the Bank of England from the ESCB, the ECB's total paid-up capital increased by 1221 million euro, as the subscriptions of the euro area NCB's (subscribed capital paid up in full) in the ECB's subscribed capital grew and the subscriptions of non-euro area NCB's (pay up 3.75% of their subscriptions) in the ECB's subscribed capital decreased accordingly. The Governing Council of the ECB decided that the euro area NCBs were to pay up their subscriptions fully; therefore, their subscribed capital would increase in two installements, at the end of 2021 and 2022 respectively.

In 2021, Latvijas Banka made the first of two payments in the amount of 2377 thousand euro. At the end of 2021, Latvijas Banka's participating interest in the ECB consisted of the paid-up shares in the amount of 31 927 thousand euro in the ECB's capital, transfers to the financial instrument revaluation account amounted to 42 752 thousand euro and the difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim amounted to 41 793 thousand euro (see also Note 13.2).

The ECB's capital shares are not traded in the public securities market, and Latvijas Banka's participating interest in the ECB can be increased or decreased only in the cases referred to in this Note.

(in thousands of euro)

	2021	2020
Total amount of the European Central Bank's subscribed capital	10 825 007	10 825 007
The subscribed share of Latvijas Banka in the European Central Bank's capital	34 304	34 304
The paid-up share of Latvijas Banka in the European Central Bank's capital	31 927	29 550
The percentage share of Latvijas Banka in the European Central Bank's capital (capital key; %)	0.3169	0.3169

13.2 Claims equivalent to the transfer of foreign reserves to the European Central Bank

Pursuant to the Statute of the ESCB and of the ECB, euro area NCBs shall transfer a definite amount of their foreign reserves to the ECB. The amount of foreign reserves to be transferred is fixed in proportion to the capital key weighting of each euro area NCB in the ECB's capital. In exchange for the foreign reserves transferred to the ECB, Latvijas Banka received

a euro-denominated claim on the ECB in proportion to the value of the respective claims of other euro area NCBs. At the end of 2021 and of 2020, this claim amounted to 157 202 thousand euro. The difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim in the amount of 41 793 thousand euro is reported as participating interest in the ECB (see also Note 13.1). The interest rate on the main refinancing operations set by the ECB is applied to the claims equivalent to the transfer of foreign reserves to the ECB (see also Note 33).

13.3 Claims/liabilities related to TARGET2 and national central bank correspondent accounts (net)

TARGET2 is a real-time gross settlement system for large value payments in euro. Claims and liabilities related to TARGET2 settlements originate as a result of cross-border payments settled in the central bank money. The above settlements result in bilateral claims and liabilities in the TARGET2 accounts held by NCBs. The net positions for the bilateral balances are attributed to the ECB and calculated on a daily basis, leaving each NCB with a single net position vis-à-vis the ECB. This is reported on the NCB's balance sheet as net claims or liabilities related to TARGET2 settlements.

In 2021, the liabilities related to TARGET2 and national central bank correspondent accounts (net) increased as a result of the cross-border payments effected by credit institutions and Latvijas Banka.

The interest rate on the main refinancing operations set by the ECB is applied to the above claims and liabilities.

13.4 Claims related to the allocation of banknotes within the Eurosystem

In view of the fact that euro banknotes are issued by all euro area NCBs and the ECB, they report a definite share of the total amount of euro banknotes issued by the Eurosystem on their balance sheets. Of the total amount of euro banknotes issued, the share allocated to Latvijas Banka is larger than the net amount of euro banknotes it has actually issued (see Note 15). In view of the above, the adjustment related to banknotes in circulation results in corresponding claims on the ECB for the allocation of banknotes, reported under the balance sheet item "Claims related to other operational requirements within the Eurosystem".

13.5 Claims/liabilities related to other operational requirements within the Eurosystem

Claims/liabilities related to other operational requirements within the Eurosystem comprise claims for the ECB's interim profit distribution and other claims on and liabilities to the ECB associated with the net result of pooling of monetary income.

Monetary income to be pooled by Latvijas Banka in 2021 was higher than monetary income to be received. This resulted in a liability to the ECB associated with the net result of pooling of monetary income, standing at 34 342 thousand euro at the end of 2021 (28 060 thousand euro claim at the end of 2020; see also Notes 38).

Claims for the ECB's interim profit distribution in the amount of 584 thousand euro are set as per Latvijas Banka's percentage share in the ECB's capital (4910 thousand euro at the end of 2020; see also Note 37).

14. Other assets

(in thousands of euro)

	Note	2021	2020
Accrued interest on securities held for monetary policy purposes		70 941	73 795
Participating interest in the Bank for International Settlements	14.2	37 309	35 960
Claims on collateral for the use of the instant payment service	17	37 022	26 306
Fixed assets	14.1	30 825	33 590
Accrued interest on other securities		15 111	18 196
OTC financial derivative contracts and spot exchange rate contracts	24	7 203	34 169
Intangible assets	14.1	2 039	2 160
Other accrued income		1 634	2 660
Prepaid expenses		1 070	1 030
Other		560	574
Total		203 714	228 440

14.1 Fixed assets and intangible assets

(in thousands of euro)

	Buildings, improvement of territory and land	Furniture and office equipment	Computer and telecommunication equipment	Cash processing and storage equipment	Other fixed assets	Total fixed assets	Intangible assets
As at 31 December 2019							
Cost	58 298	6 231	4 767	5 333	9 830	84 459	8 110
Accumulated depreciation/amortisation	-30 581	-4 246	-3 778	-3 031	-7 504	-49 140	-5 847
Net book value	27 717	1 985	989	2 302	2 326	35 319	2 263
During 2020							
Additions	346	48	430	673	165	1 662	457
Change in classification	-1	-6	6	-	-24	-25	25
Disposals and write-offs	-	-146	-154	-86	-1 483	-1 869	-
Net change in cost	345	-104	282	587	-1 342	-232	482
Depreciation/amortisation charge	-1 917	-252	-444	-251	-427	-3 291	-560
Change in classification	1	6	-6	-	24	25	-25
Accumulated depreciation/amortisation on disposals and write-offs	-	144	153	86	1 386	1 769	-
Net change in accumulated depreciation/amortisation	-1 916	-102	-297	-165	983	-1 497	-585

(cont.)

(in thousands of euro)

	Buildings, improve- ment of territory and land	Furniture and office equipment	Computer and tele- commu- nication equipment	Cash process- ing and storage equipment	Other fixed assets	Total fixed assets	Intangible assets
As at 31 December 2020							
Cost	58 643	6 127	5 049	5 920	8 488	84 227	8 592
Accumulated depreciation/ amortisation	-32 497	-4 348	-4 075	-3 196	-6 521	-50 637	-6 432
Net book value	26 146	1 779	974	2 724	1 967	33 590	2 160
During 2021							
Additions	174	-	171	38	215	598	432
Change in classification	-	-	-	-	-145	-145	145
Disposals and write-offs	-	-72	-240	-665	-421	-1 398	-34
Net change in cost	174	-72	-69	-627	-351	-945	543
Depreciation/amortisation charge	-1 952	-234	-398	-279	-420	-3 283	-519
Change in classification	-	-	-	-	145	145	-145
Accumulated depreciation/ amortisation on disposals and write-offs	-	72	240	662	344	1 318	-
Net change in accumulated depreciation/ amortisation	-1 952	-162	-158	383	69	-1 820	-664
As at 31 December 2021							
Cost	58 817	6 055	4 980	5 293	8 137	83 282	9 135
Accumulated depreciation/ amortisation	-34 449	-4 510	-4 233	-2 813	-6 452	-52 457	-7 096
Net book value	24 368	1 545	747	2 480	1 685	30 825	2 039

At the end of 2021, Latvijas Banka's contractual commitments related to acquisition of fixed assets were 128 thousand euro (24 thousand euro at the end of 2020).

14.2 Participating interest in the Bank for International Settlements

At the end of 2021 and 2020, Latvijas Banka owned 1070 shares in the BIS, which corresponded to 0.19% of the total subscribed and paid-up BIS capital.

The total nominal value of Latvijas Banka's shareholding in the BIS is SDR 5350 thousand (the nominal value per share is SDR 5 thousand), paid up in the amount of SDR 1338 thousand or 25% (see also Note 45). At the end of 2021 and 2020, the BIS shareholding is reported in Latvijas Banka's balance sheet at fair value. The shares in the BIS are not traded in the public securities market. In the opinion of Latvijas Banka, the most appropriate method for establishing the fair value of the BIS shares is the use of 70% of the BIS net asset value based on the latest published financial statements

of the BIS. Pursuant to the Statutes of the BIS, only central banks can be shareholders in the BIS. At the end of 2021, the estimated fair value of BIS shares was 37 309 thousand euro (35 960 thousand euro at the end of 2020).

15. Banknotes in circulation

(in thousands of euro)

	2021	2020
Euro banknotes	5 536 624	5 142 726
Net issuance of euro banknotes by Latvijas Banka	-56 941	-255 041
Adjustment for banknote allocation in the Eurosystem	5 593 565	5 397 767
Total	5 536 624	5 142 726

In view of the fact that euro banknotes are issued by all euro area NCBs and the ECB, they report a certain share of the total amount of euro banknotes issued by the Eurosystem on their balance sheets. The ECB's share is 8% of the total amount of euro banknotes issued by the Eurosystem; the remaining 92% are allocated to the Eurosystem NCBs in proportion to their respective shares in the ECB's capital and reported under the balance sheet item "Banknotes in circulation". Of the total amount of euro banknotes issued by the Eurosystem, the share allocated to Latvijas Banka is larger than the actual net amount of euro banknotes it has issued (see Note 15); consequently, claims on the ECB related to the allocation of banknotes within the Eurosystem are reported under the balance sheet item "Intra-Eurosystem claims".

The euro coins issued by Latvijas Banka are reported under the balance sheet item "Other liabilities" (see also Note 22).

Cross-border flows of euro banknotes in 2021 decreased, reducing the difference between the amount of banknotes deposited with Latvijas Banka and the amount of banknotes withdrawn from Latvijas Banka; consequently, the negative net issuance of euro banknotes by Latvijas Banka reached 56 941 thousand euro. At the end of 2021, the total amount of euro banknotes in circulation in the Eurosystem grew to 1544 billion euro (1435 billion euro at the end of 2020); as a result, an increase in the adjustment for banknote allocation in the Eurosystem was reported on the balance sheet of Latvijas Banka.

16. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

16.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. The latest available interest rate used by the Eurosystem in its tenders for main refinancing operations is applied to the balances held on those accounts within the framework of the reserve requirements. Since June 2014, the lower rate of either 0% or the ECB's deposit facility rate has been applied to the reserves held in excess of the minimum requirements. On 12 September 2019, the Governing Council of the ECB decided to introduce a two-tier system for reserve remuneration, which exempts part of credit

institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from the negative remuneration rate applicable on the deposit facility.

At the end of 2021, the balance on the current accounts with Latvijas Banka was 6 406 673 thousand euro (6 053 812 thousand euro at the end of 2020), including the minimum reserves in the amount of 183 129 thousand euro (168 154 thousand euro at the end of 2020).

16.2 Deposit facility

Deposit facility is a standing facility of the Eurosystem used by credit institutions to place their overnight deposits at a pre-specified rate. No such deposits were placed with Latvijas Banka at the end of 2021 and 2020.

17. Other liabilities to euro area credit institutions denominated in euro (in thousands of euro)

	2021	2020
Liabilities for repurchase agreements	612 898	551 537
Collateral received for the use of the instant payment service	36 848	26 209
Total	649 746	577 746

18. Liabilities to other euro area residents denominated in euro

Liabilities to other euro area residents denominated in euro comprise demand deposits by the Latvian government and other financial institutions. Government deposits comprise the Treasury demand deposits received by Latvijas Banka acting as the financial agent of the Latvian government.

19. Liabilities to non-euro area residents denominated in euro

Liabilities to other financial institutions mostly comprise funds received under repurchase agreements.

(in thousands of euro)

	2021	2020
Other financial institutions	56 509	237 745
International Monetary Fund	1 436	983
European Commission	10	9
Total	57 955	238 737

20. Liabilities to euro area residents denominated in foreign currency (in thousands of euro)

	2021	2020
Liabilities for repurchase agreements	1 049 849	472 636
Demand deposits of the Latvian government	544 413	143 350
Total	1 594 262	615 986

21. Liabilities to non-euro area residents denominated in foreign currency

(in thousands of euro)

	2021	2020
Liabilities for repurchase agreements	347 148	1 042 015
Liabilities for gold swap arrangements	341 211	321 995
Total	688 359	1 364 010

22. Other liabilities

(in thousands of euro)

	Note	2021	2020
Provisions for market risk and credit risk	36	295 697	281 723
Euro coins in circulation	22.1	86 274	79 690
Lats banknotes in circulation	22.1	19 264	22 584
Accrued expense and similar liabilities		15 353	13 637
OTC financial derivative contracts and spot exchange rate contracts	24	12 257	7 479
Lats coins in circulation	22.1	2 631	2 750
Tax liabilities		703	19
Other		4 204	1 818
Total		436 383	409 700

22.1 Banknotes and coins in circulation

Euro coins in circulation include the euro coins issued by Latvijas Banka in circulation, except collector coins. The extent of liabilities regarding the lats banknotes and coins in circulation has been estimated, considering the probability of exchanging the lats banknotes and coins in a period of 20 years following the euro changeover (see also Note 2.2).

Apart from the lats and euro circulation coins issued by Latvijas Banka and recognised on the balance sheet, euro collector coins, lats collector coins and precious metal circulation coins were also in circulation with the total nominal value of 7096 thousand euro at the end of 2021 (7034 thousand euro at the end of 2020). The above coins in circulation have not been reported under the balance sheet item "Other liabilities" (see also Notes 45).

Issued lats banknotes and coins with a low probability of exchange in the amount of 97 980 thousand euro (lats banknotes in the amount of 38 189 thousand euro and lats coins in the amount of 59 791 thousand euro at the end of 2021; 95 600 thousand euro at the end of 2020, including lats banknotes in the amount of 35 791 thousand euro and lats coins in the amount of 59 808 thousand euro) have not been reported as a liability on the balance sheet at the end of 2021 (see also Note 45). The exchange probability of the lats banknotes and coins is assessed annually on the basis of the actual exchange data of the above banknotes and coins.

23. Capital and reserves

(in thousands of euro)

	Nominal capital	Reserve capital	Revaluation account	Profit for the year	Capital and reserves
As at 31 December 2019	100 000	240 733	265 742	27 155	633 630
During 2020					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	152 131	x	152 131
Profit appropriated to the state budget	x	x	x	-19 009	-19 009
Profit transferred to the reserve capital	x	8 146	x	-8 146	-
Profit for the year	x	x	x	26 646	26 646
As at 31 December 2020	100 000	248 879	417 873	26 646	793 398
During 2021					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	113 001	x	113 001
Profit appropriated to the state budget	x	x	x	-18 652	-18 652
Profit transferred to the reserve capital	x	7 994	x	-7 994	-
Profit for the year	x	x	x	20 908	20 908
As at 31 December 2021	100 000	256 873	530 874	20 908	908 655

The capital and reserves of Latvijas Banka comprises the nominal capital, reserve capital and the revaluation account, as well as the undistributed profit for the reporting year.

The legal framework does not provide for any capital adequacy requirements for Latvijas Banka; nevertheless, the amount of its capital should be adequate to promote credibility of the monetary policy implemented by Latvijas Banka, and to ensure implementation of its operations and financial independence when performing the tasks set forth by the Statute of the ESCB and of the ECB and the Law on Latvijas Banka. The implementation of the monetary policy, as well as exposure to financial and operational risks may adversely affect Latvijas Banka's income or result in losses to be covered from the capital and reserves of Latvijas Banka.

The nominal capital of Latvijas Banka has historically been comprised of the state-allotted resources, transfers from the reserve capital and Latvijas Banka's profit allocations.

The Law on Latvijas Banka establishes that a part of Latvijas Banka's profit for the reporting year, calculated by applying the same percentage as the corporate income tax rate set by the Law on Corporate Income Tax, together with a payment in the amount of 50% of the profit for the reporting year for the usage of state capital shall be transferred to the state budget. Furthermore, the Council of Latvijas Banka, upon approving the annual report, may make a decision on reducing the percentage share of the payment for the usage of state capital, where it is necessary for increasing the reserve capital of Latvijas Banka in relation to the financial risks Latvijas Banka is exposed to when executing its tasks. At the end of

2021 and 2020, the corporate income tax rate was 20%. Therefore, unless the Council of Latvijas Banka decides otherwise, 70% of Latvijas Banka's profit for 2021 or 14 636 thousand euro will be transferred to the state budget in 2022 (18 652 thousand euro were transferred in 2021 and 19 009 thousand euro in 2020).

After making the above deductions, the remaining profit of Latvijas Banka shall be transferred to the reserve capital as prescribed by the Law on Latvijas Banka. The reserve capital shall be formed to cover potential losses.

The revaluation account comprises the positive result on revaluation of the financial instruments and gold. The accounting policy, harmonised with the principal accounting policies established by the ECB's legal framework for accounting and financial reporting and described in Note 2 stipulates that only the realised gains are recognised in the profit and loss statement, while unrealised gains are recorded under the balance sheet item "Capital and reserves" as the revaluation reserve, thus facilitating preservation of capital in the circumstances of adverse changes in prices of financial instruments and gold.

In 2021 and 2020, the changes in the revaluation account were as follows:

(in thousands of euro)

	2021	Recognition in profit and loss statement	Revaluation	Realisation	2020
Revaluation reserve for participating interest	34 800	-	1 349	-	33 451
Result on revaluation of foreign currencies and gold	164 481	935	31 864	-1	131 683
Result on revaluation of interest rate swap arrangements	-	21	-21	-	-
Result on revaluation of securities	331 593	35 662	86 478	-43 286	252 739
Total	530 874	36 618	119 670	-43 287	417 873

	2020	Recognition in profit and loss statement	Revaluation	Realisation	2019
Revaluation reserve for participating interest	33 451	-	1 619	-	31 832
Result on revaluation of foreign currencies and gold	131 683	28 642	11 622	-	91 419
Result on revaluation of interest rate swap arrangements	-	296	-296	-62	62
Result on revaluation of securities	252 739	6 299	128 005	-23 994	142 429
Total	417 873	35 237	140 950	-24 056	265 742

The revaluation reserve for participating interest has been established to account for the result on revaluation of the BIS shares. The result on revaluation of the BIS shares is not recognised in the profit and loss statement.

24. Derivative financial instruments and spot exchange rate contracts

Latvijas Banka enters into forward and spot exchange rate contracts, currency and interest rate swap arrangements, forward transactions in securities, and interest rate and currency future contracts in order to manage interest rate and currency risks associated with Latvijas Banka's investments. At the end of 2021 and 2020, the contract or notional amounts and book value of the above transactions were as follows:

(in thousands of euro)

	Contract or notional amount		Book value			
	2021	2020	Assets		Liabilities	
			2021	2020	2021	2020
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	2 477 704	2 487 071	4 091	31 971	11 604	5 004
Spot exchange rate contracts	403 020	409 272	1 663	-	-	1 354
Forward transactions in securities	1 817 672	1 186 202	1 448	2 197	618	812
Interest rate swap arrangements	37 696	24 366	1	1	35	309
Total	x	x	7 203	34 169	12 257	7 479
Derivative OTC gold swap arrangements	341 211	321 995	344 166	330 139	339 203	322 104
Traded financial derivative contracts						
Interest rate future contracts	869 374	912 276	x	x	x	x
Currency future contracts	-	100 000	x	x	x	x

The book value of the OTC financial derivative contracts and spot exchange rate contracts is reported under the balance sheet items "Other assets" or "Other liabilities" (see also Notes 14 and 22). Since a settlement is made for the daily changes in the fair value of traded financial derivative contracts, the changes are reported as demand deposits under the respective balance sheet asset item.

To limit the gold maintenance costs and increase return on financial investments, Latvijas Banka engages in gold swap arrangements (see also Notes 6 and 21).

Major Risks and Principles for Their Management

25. Risk management

Financial and operational risks are the main risks associated with the activities of Latvijas Banka. Latvijas Banka's risk management is organised and implemented according to the Risk Management Policy of Latvijas Banka approved by the Council of Latvijas Banka.

Risk management at Latvijas Banka is carried out as part of a systemic process that includes identifying, analysing and assessing risks, developing and implementing relevant risk mitigating measures, and overseeing and reviewing risks on a regular basis. This allows to identify in advance,

assess and efficiently manage risks that are likely to have a negative effect on Latvijas Banka's financial position and financial performance, and on Latvijas Banka's capability to perform in a quality and efficient manner the tasks set out in the legislation, including participation in the implementation of the ESCB functions.

The risk management process is organised in compliance with the international principles of best practice in risk management, in view of the aims and tasks of Latvijas Banka and the external environment developments, as well as in compliance with the requirements of the ECB.

25.1 Financial risks

Market risk (price, interest rate and currency risks), credit risk and liquidity risk are the most significant financial risks Latvijas Banka is exposed to in its daily activities. Financial risks are managed to mitigate a potential negative impact on Latvijas Banka's financial position and financial performance that might arise from adverse changes in financial market factors or a counterparty default. When managing financial risks, acceptable types of risks and their parameters are taken into consideration to preserve the value of investments ensuring the required liquidity and income earning in the long term.

Latvijas Banka manages financial risks related to its investments in line with the Procedure adopted by the Council of Latvijas Banka; the basic principles of the investment policy are described in Note 4. Investments are managed by classifying them into different investment portfolios. The parameters for a benchmark reflecting the acceptable level of financial risks and expected return are set out for each financial instrument portfolio. The Risk Management Division of the Market Operations Department monitors the compliance of investments with the established requirements and, in case of any departure from the provisions of the Procedure established by the Council of Latvijas Banka, duly notifies the Council of Latvijas Banka in accordance with the procedure adopted by the Council of Latvijas Banka.

For the purpose of investment management, including management of the related financial risks, the Investment Committee of Latvijas Banka develops an investment management strategy, approves tactical decisions and sets detailed limits for financial risks, as well as oversees the operation of the external managers. The Investment Committee of Latvijas Banka reviews the investment strategy once a quarter, and on a weekly basis receives and reviews reports on and forecasts for the developments in financial markets prepared by financial investment portfolio managers, receives and reviews reports by financial risk managers and approves the investment management tactical decisions for the forthcoming week. The Market Operations Department informs the Council of Latvijas Banka about the results of investment management on a regular basis.

Latvijas Banka purchases assets under the PSPP and PEPP in accordance with the decisions of the Governing Council of the ECB. Latvijas Banka makes the purchases and manages financial risks in line with the guidelines of the Governing Council of the ECB and the procedure adopted by the Council of Latvijas Banka. Financial risks arising from the implementation of monetary policy are shared among the euro area NCBS in proportion to their shares in the ECB's capital, except risks associated with the purchases of Latvian government securities carried out by Latvijas Banka under the PSPP.

25.1.1 Market risk

Market risk is the exposure to losses due to adverse changes in financial markets.

Latvijas Banka is exposed to interest rate risk due to investing in foreign debt securities and interest rate derivatives that are subject to interest rate fluctuations and have been purchased within the course of investment management. Latvijas Banka manages interest rate risk by using the effective duration and deviation limits set individually for each investment portfolio.

Latvijas Banka's exposure to currency risk is determined by its investment structure. Latvijas Banka manages currency risk by establishing that the benchmark currency is the euro, thus hedging the currency risk (except for the portfolio of borrowed funds where the currency structure is built considering the currency of the respective liabilities, as well as the gold portfolio and the equity securities portfolios where investments are made in the stock denomination currencies of the respective equity securities index), and using tracking error limits in relation to the respective benchmark. Tracking error is calculated as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark. The aggregate market risk of 1–10 year fixed income securities portfolios, mortgage-backed securities portfolios, and the developed markets equity securities portfolio (see Note 4) is managed by determining the tracking error limit. The tracking error in 2021 and 2020 is disclosed in Note 28.

Deviations from the benchmark currency structure give rise to the open currency position. In order to achieve the compliance of open foreign currency positions with the set limits, Latvijas Banka hedges the currency risk by using forward exchange rate contracts, currency swap arrangements and currency future contracts.

Equity securities portfolios are exposed to the market price risk (a risk that the value of an investment could decrease due to price changes). As the equity securities portfolios are highly diversified, they are mainly exposed to a systematic stock volatility risk.

The Risk Management Division of the Market Operations Department monitors the compliance of the effective duration, tracking error, and open currency positions with the Procedure adopted by the Council of Latvijas Banka and the related resolutions passed by the Investment Committee of Latvijas Banka.

Latvijas Banka's exposure to market risk (as at the end of 2021 and 2020) is disclosed in Notes 26–28.

25.1.2 Credit risk

Credit risk is the exposure to losses resulting from a counterparty default. Latvijas Banka's exposure to credit risk results mainly from investments in foreign financial instruments and from monetary policy operations. Pursuant to the Statute of the ESCB and of the ECB, the risks associated with the implementation of monetary policy (if any materialise) are shared among the euro area NCBs in proportion to their share in the ECB's capital, except for the risks associated with the purchases of Latvian government securities carried out by Latvijas Banka under the PSPP.

Latvijas Banka manages exposure to credit risk related to investments made in foreign financial instruments by establishing limits on investments of different credit quality. Credit quality is evaluated on the basis of ratings assigned by the international credit rating agencies Fitch Ratings, Moody's Investors Service, Standard & Poor's, and DBRS. Limits are also set on the maximum investment in financial instruments of the same class and counterparty as well as in financial instruments of one issuer. Forward transactions in mortgage-backed securities are partly secured with short-term financial instruments. To hedge the credit risk associated with OTC derivative counterparties, Latvijas Banka and the respective counterparties enter into Master Agreements of International Swaps and Derivatives Association, Inc. (ISDA Master Agreement) with Credit Support Annex. To hedge the credit risk associated with the counterparties of repurchase agreements and reverse repurchase agreements, Latvijas Banka and the respective counterparties enter into Global Master Repurchase Agreements of Securities Industry and Financial Markets Association (SIFMA) and International Capital Market Association (ICMA), whereas the external managers of mortgage-backed securities portfolios enter with their counterparties into Treasury Market Practices Group (TMPG) Master Securities Forward Transaction Agreements. In order to monitor Latvijas Banka's credit risk exposure associated with its investments, the Risk Management Division of the Market Operations Department monitors the compliance with the Procedure adopted by the Council of Latvijas Banka.

In 2021 and 2020, loans granted to credit institutions in monetary policy operations were secured by securities collateral in compliance with the ECB requirements. The Market Operations Department monitors the adequacy of collateral of the respective loans and its eligibility and compliance with the ECB's requirements on a regular basis, as well as maintains a list of securities eligible for monetary policy operations issued and held in the Republic of Latvia.

Latvijas Banka's exposure to credit risk (as at the end of 2021 and 2020) is disclosed in Notes 30–32.

25.1.3 Liquidity risk

Liquidity risk is associated with a failure to dispose of investments in a short time and at a competitive market price. Since Latvia joined the euro area, the need for liquidity and the risk associated with a failure to meet liabilities in a timely manner have considerably decreased. In compliance with its investment strategy, Latvijas Banka manages liquidity risk by investing a certain amount of its investments in liquid debt securities issued by international institutions, foreign governments and the corporate sector, in short-term deposits with foreign financial institutions and in other financial instruments. The liquidity structure of Latvijas Banka's assets and liabilities as at the end of 2021 and 2020 is disclosed in Note 29.

Liquidity risk can be limited by investment diversification. Latvijas Banka manages liquidity risk also by setting limits on the maximum investment in financial instruments of the same class and in financial instruments of the same issuer.

25.2 Operational risks

Operational risks are managed to ensure that processes are implemented in a continuous, adequate and safe manner and that the processes

and projects are completed efficiently and to a high standard in order to mitigate any potential negative impact on Latvijas Banka's financial performance, financial position, reputation or capability to accomplish its tasks. Such impact could be triggered by inadequate or defective performance of Latvijas Banka's processes, an act or omission by an employee or unavailability of staff, as well as by inadequate operation or unavailability of Latvijas Banka's information systems, information systems infrastructure or other infrastructure, or by external events.

Latvijas Banka's operational risks are managed under a uniform operational risk management framework, with the major operational risks being compliance risks (inter alia in preventing conflicts of interest, anti-corruption control, personal data protection, prevention of money laundering and terrorism financing, and ensuring workplace environment protection), risks related to business continuity, physical security, information security and information systems (including cyber security).

Latvijas Banka's operational risks are managed through processes and projects by classifying the processes and risks, evaluating the impact of risks on the results of the processes or projects and, depending on the risk classification, defining and implementing the most appropriate actions to ensure adequate risk management. The Operational Risk Management Department is in charge of maintaining a common operational risk management framework, organising incident management, as well as providing regular information on operational risk management pursuant to the legal acts of Latvijas Banka. The improved risk management process is based on the best practice in the field of risk management and concentrates the resources allocated to operational risk management, thereby increasing the effectiveness of this management model. Operational risk management is overseen by the Security Oversight Commission of Latvijas Banka.

Compliance risks are managed to ensure the compliance of Latvijas Banka's operation with legislative acts.

The risks related to Latvijas Banka's business continuity are managed to mitigate a potential negative impact on the execution of critical processes, where their discontinuity may cause negative consequences for the Latvian financial system or adversely affect the implementation of Latvijas Banka's tasks. The risks are managed, inter alia, by ensuring efficient incident management and the continuity or recovery of the critical processes as soon as possible and to a full extent in the event of a disruption or failure.

Risks related to physical security, inter alia, risks associated with fire safety and civil protection are managed to mitigate a potential negative impact on the physical security of persons, the premises of Latvijas Banka, the transportation of its valuables and other events, with a priority focus on protecting the life and health of individuals.

Risks related to information security are managed to prevent unauthorised disclosure or use of confidential information, classifying it by its degree of confidentiality and ensuring appropriate protection, at the same time taking care that the protective measures do not prevent Latvijas Banka from providing non-classified information to its cooperation partners and general public.

Risks related to information systems, including cyber security risks are

managed to prevent a potential negative impact on the availability, security and integrity of the information systems and infrastructure of Latvijas Banka. Information systems at Latvijas Banka are classified based on their importance for implementing Latvijas Banka's tasks and on the basis of the confidentiality, integrity and availability requirements for the data to be processed, establishing appropriate physical and logical protection for each level of classification.

Latvijas Banka provides risk management training for its employees, inter alia, to maintain appropriate level of their know-how and skills, and conducts, on a regular basis, training sessions and tests in risk management for employees.

Within the framework of operational risk mitigation measures, Latvijas Banka is insured against potential impact of certain types of operational risks.

In 2021, the main focus of operational risk management was on managing risks related to the COVID-19 pandemic, remote working, changes in the physical security framework, as well as the risks associated with the merger with the FCMC as of 1 January 2023. Operational risks were appropriately managed in 2021, and the risk mitigation measures limit those risks to acceptable levels.

26. Currency structure

(in thousands of euro)

	EUR	USD	CAD	GBP	Gold	Other	Total
As at 31 December 2021							
Total assets	19 865 163	3 795 589	359 253	439 453	344 166	270 805	25 074 429
Total liabilities	22 989 156	1 487 248	302 731	207 936	–	87 358	25 074 429
Net position on balance sheet	–3 123 993	2 308 341	56 522	231 517	344 166	183 447	–
Net position on financial instruments' off-balance sheet accounts	2 018 068	–1 759 042	–29 245	–199 913	–	–34 922	–5 054
Net position on balance sheet and off-balance sheet accounts	–1 105 925	549 299	27 277	31 604	344 166	148 525	–5 054
Net position on balance sheet and off-balance sheet accounts to total assets (%)	–4.4	2.2	0.1	0.1	1.4	0.6	0
As at 31 December 2020							
Total assets	18 443 448	3 400 387	367 842	348 093	330 139	155 833	23 045 742
Total liabilities	21 108 390	1 445 139	337 486	127 662	–	27 065	23 045 742
Net position on balance sheet	–2 664 942	1 955 248	30 356	220 431	330 139	128 768	–
Net position on financial instruments' off-balance sheet accounts	1 842 451	–1 575 561	–10 287	–195 983	–	–33 930	26 690
Net position on balance sheet and off-balance sheet accounts	–822 491	379 687	20 069	24 448	330 139	94 838	26 690
Net position on balance sheet and off-balance sheet accounts to total assets (%)	–3.5	1.6	0.1	0.1	1.4	0.4	0.1

27. Repricing maturity

The table below reflects the sensitivity of Latvijas Banka's assets, liabilities and off-balance sheet accounts to interest rate changes. The items reported in this table are stated at carrying amounts, except for interest rate and currency future contracts and forward transactions in securities, which are stated at notional amounts and included in the off-balance sheet accounts. The nearest contractual interest repricing or residual maturity date to 31 December of the reporting year is used for categorising the items sensitive to interest rates changes reported in this table.

(in thousands of euro)

	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Non- interest bearing items	Total
As at 31 December 2021							
Gold and gold receivables	-	-	-	-	-	344 166	344 166
Claims on non-euro area residents denominated in foreign currency	14 124	272 185	99 584	462 493	2 327 595	1 319 200	4 495 181
Claims on euro area residents denominated in foreign currency	-	-	17 775	87 739	83 817	339 097	528 428
Claims on non-euro area residents denominated in euro	1 230	-	-	1 623	164 471	6 757	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-	-	616 600	-	-	-	616 600
Other claims on euro area credit institutions denominated in euro	4 138	-	-	-	-	117	4 255
Securities of euro area residents denominated in euro	-	-	261 894	180 054	12 398 048	-	12 839 996
Intra-Eurosystem claims	5 750 951	-	-	-	-	117 057	5 868 008
Other assets	5	34	426	2 650	82 203	118 396	203 714
Total assets	5 770 448	272 219	996 279	734 559	15 056 134	2 244 790	25 074 429
Banknotes in circulation	-	-	-	-	-	5 536 624	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 406 673	-	-	-	-	-	6 406 673
Other liabilities to euro area credit institutions denominated in euro	649 746	-	-	-	-	-	649 746
Liabilities to other euro area residents denominated in euro	3 438 792	-	-	-	-	-	3 438 792
Liabilities to non-euro area residents denominated in euro	56 519	-	-	-	-	1 436	57 955
Liabilities to euro area residents denominated in foreign currency	1 594 262	-	-	-	-	-	1 594 262

(cont.)

(in thousands of euro)

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	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Non- interest bearing items	Total
Liabilities to non-euro area residents denominated in foreign currency	688 359	-	-	-	-	-	688 359
Intra-Eurosystem liabilities	5 322 638	-	-	-	-	34 342	5 356 980
Other liabilities	24 198	-	-	-	-	412 185	436 383
Capital and reserves	-	-	-	-	-	908 655	908 655
Total liabilities	18 181 187	-	-	-	-	6 893 242	25 074 429
Net position on balance sheet	-12 410 739	272 219	996 279	734 559	15 056 134	-4 648 452	-
Assets on financial instruments' off-balance sheet accounts	4 423 728	33 551	180 823	42 681	886 285	-	5 567 068
Liabilities on financial instruments' off-balance sheet accounts	4 031 948	-	146 151	133 672	1 260 351	-	5 572 122
Net position on balance sheet and off-balance sheet accounts	-12 018 959	305 770	1 030 951	643 568	14 682 068	-4 648 452	-5 054
As at 31 December 2020							
Gold and gold receivables	-	-	-	-	-	330 139	330 139
Claims on non-euro area residents denominated in foreign currency	201 815	163 406	119 098	653 618	2 137 144	695 699	3 970 780
Claims on euro area residents denominated in foreign currency	-	-	95 974	112 328	115 143	10 261	333 706
Claims on non-euro area residents denominated in euro	-	-	205	6 908	97 408	14 622	119 143
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-	-	1 260 000	-	-	-	1 260 000
Other claims on euro area credit institutions denominated in euro	-	-	-	-	-	120	120
Securities of euro area residents denominated in euro	-	-	247 995	193 961	10 687 484	-	11 129 440
Intra-Eurosystem claims	-	-	-	-	-	5 673 974	5 673 974
Other assets	192	4	1 433	4 029	86 166	136 616	228 440
Total assets	202 007	163 410	1 724 705	970 844	13 123 345	6 861 431	23 045 742
Banknotes in circulation	-	-	-	-	-	5 142 726	5 142 726
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 053 812	-	-	-	-	-	6 053 812

(cont.)

(in thousands of euro)

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	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Non- interest bearing items	Total
Other liabilities to euro area credit institutions denominated in euro	574 869	-	-	-	-	2 877	577 746
Liabilities to other euro area residents denominated in euro	3 012 014	-	-	-	-	-	3 012 014
Liabilities to non-euro area residents denominated in euro	232 019	-	-	-	-	6 718	238 737
Liabilities to euro area residents denominated in foreign currency	615 986	-	-	-	-	-	615 986
Liabilities to non-euro area residents denominated in foreign currency	1 364 010	-	-	-	-	-	1 364 010
Intra-Eurosystem liabilities	4 809 553	-	-	-	-	28 060	4 837 613
Other liabilities	463	-	-	-	-	409 237	409 700
Capital and reserves	-	-	-	-	-	793 398	793 398
Total liabilities	16 662 726	-	-	-	-	6 383 016	23 045 742
Net position on balance sheet	-16 460 719	163 410	1 724 705	970 844	13 123 345	478 415	-
Assets on financial instruments' off-balance sheet accounts	3 464 812	16 299	417 896	4 700	789 748	-	4 693 455
Liabilities on financial instruments' off-balance sheet accounts	4 201 209	31 782	60 328	98 688	274 758	-	4 666 765
Net position on balance sheet and off-balance sheet accounts	-17 197 116	147 927	2 082 273	876 856	13 638 335	478 415	26 690

28. Tracking error

The exposure to aggregate market risk and credit risk of investments, included in the 1-10 year government fixed income securities portfolios, mortgage-backed securities portfolios and the developed markets equity securities portfolio is characterised by the tracking error, which is measured as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark (see also Note 25.1). At the end of 2021 and 2020, the actual (ex-post) tracking error was as follows:

(basis points)

	2021	2020
1-10 year fixed income securities portfolios	34	89
Mortgage-backed securities portfolios	102	159
Developed markets equity securities portfolio	14	17

The expected (ex-ante) tracking error of the developed markets equity securities portfolio does not exceed 30 basis points during the year and

the compliance with this limit is monitored by the respective external manager. The expected (ex-ante) tracking error in the 1–10 year government fixed income securities portfolios and mortgage-backed securities portfolios lay within the following basis point intervals during the year:

	Book value (at the end of the year; in thousands of euro)	Expected tracking error (number of business days)				
		10–39	40–69	70–99	100–139	140–179
During 2021						
1–10 year fixed income securities portfolios	3 209 547	107	145	–	–	–
Mortgage-backed securities portfolios	1 186 537	–	143	106	3	–
During 2020						
1–10 year fixed income securities portfolios	3 445 980	51	106	45	23	26
Mortgage-backed securities portfolios	1 211 775	49	8	146	48	–

29. Liquidity structure

In the liquidity structure, asset items are reported on the basis of Latvijas Banka's capability to convert them into cash. Liabilities items are reported by their expected settlement date.

(in thousands of euro)

	Up to 3 months	Over 3 months	No fixed maturity	Total
As at 31 December 2021				
Assets				
Gold and gold receivables	344 166	–	–	344 166
Claims on non-euro area residents denominated in foreign currency	4 495 181	–	–	4 495 181
Claims on euro area residents denominated in foreign currency	528 428	–	–	528 428
Claims on non-euro area residents denominated in euro	174 081	–	–	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	616 600	–	616 600
Other claims on euro area credit institutions denominated in euro	4 255	–	–	4 255
Securities of euro area residents denominated in euro	12 671 750	168 246	–	12 839 996
Intra-Eurosystem claims	769	–	5 867 239	5 868 008
Other assets	131 911	–	71 803	203 714
Total assets	18 350 541	784 846	5 939 042	25 074 429

(cont.)

(in thousands of euro)

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	Up to 3 months	Over 3 months	No fixed maturity	Total
Liabilities				
Banknotes in circulation	-	-	5 536 624	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 406 673	-	-	6 406 673
Other liabilities to euro area credit institutions denominated in euro	649 746	-	-	649 746
Liabilities to other euro area residents denominated in euro	3 438 792	-	-	3 438 792
Liabilities to non-euro area residents denominated in euro	57 955	-	-	57 955
Liabilities to euro area residents denominated in foreign currency	1 594 262	-	-	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	688 359	-	-	688 359
Intra-Eurosystem liabilities	5 356 980	-	-	5 356 980
Other liabilities	328 191	-	108 192	436 383
Total liabilities	18 520 958	-	5 644 816	24 165 774
Net position	-170 417	784 846	294 226	x
As at 31 December 2020				
Assets				
Gold and gold receivables	330 139	-	-	330 139
Claims on non-euro area residents denominated in foreign currency	3 970 780	-	-	3 970 780
Claims on euro area residents denominated in foreign currency	333 706	-	-	333 706
Claims on non-euro area residents denominated in euro	119 143	-	-	119 143
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-	1 260 000	-	1 260 000
Other claims on euro area credit institutions denominated in euro	120	-	-	120
Securities of euro area residents denominated in euro	10 961 267	168 173	-	11 129 440
Intra-Eurosystem claims	4 910	-	5 669 064	5 673 974
Other assets	155 126	-	73 314	228 440
Total assets	15 875 191	1 428 173	5 742 378	23 045 742

(cont.)

(in thousands of euro)

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	Up to 3 months	Over 3 months	No fixed maturity	Total
Liabilities				
Banknotes in circulation	-	-	5 142 726	5 142 726
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 053 812	-	-	6 053 812
Other liabilities to euro area credit institutions denominated in euro	577 746	-	-	577 746
Liabilities to other euro area residents denominated in euro	3 012 014	-	-	3 012 014
Liabilities to non-euro area residents denominated in euro	238 737	-	-	238 737
Liabilities to euro area residents denominated in foreign currency	615 986	-	-	615 986
Liabilities to non-euro area residents denominated in foreign currency	1 364 010	-	-	1 364 010
Intra-Eurosystem liabilities	4 837 613	-	-	4 837 613
Other liabilities	304 655	-	105 045	409 700
Total liabilities	17 004 573	-	5 247 771	22 252 344
Net position	-1 129 382	1 428 173	494 607	x

30. Sectoral structure of assets

	Amount (in thousands of euro)		Proportion (%)	
	2021	2020	2021	2020
Investment operations	6 717 638	5 927 237	26.8	25.7
Central governments and other governmental institutions	2 533 137	2 726 649	10.2	11.7
Other financial institutions	1 861 846	1 474 111	7.4	6.4
Central banks and credit institutions	680 415	710 982	2.7	3.1
Non-financial corporations	695 528	519 143	2.8	2.3
International institutions	713 453	275 804	2.8	1.2
Local governments	233 067	219 950	0.9	1.0
Unclassified assets	192	598	0	0
Monetary policy operations	12 378 324	11 342 251	49.4	49.2
International institutions	8 191 153	7 461 626	32.7	32.4
Central governments and other governmental institutions	3 570 571	2 620 625	14.2	11.3
Credit institutions	616 600	1 260 000	2.5	5.5
Other operations	5 978 467	5 776 254	23.8	25.1
Intra-Eurosystem claims	5 868 008	5 673 974	23.4	24.6
International institutions	74 331	62 266	0.3	0.3
Unclassified assets	36 128	40 014	0.1	0.2
Total	25 074 429	23 045 742	100.0	100.0

31. Assets by their location or the counterparty's domicile

	Amount (in thousands of euro)		Proportion (%)	
	2021	2020	2021	2020
Investment operations	6 717 638	5 927 237	26.8	25.7
US	2 381 318	2 293 603	9.5	9.9
Euro area countries	1 688 507	1 441 336	6.7	6.2
UK	780 426	707 186	3.1	3.1
Canada	691 395	669 855	2.8	2.9
International institutions	713 453	275 804	2.8	1.2
Other EU countries	68 137	165 045	0.3	0.7
Japan	141 048	152 276	0.6	0.7
Other countries	253 354	222 132	1.0	1.0
Monetary policy operations	12 378 324	11 342 251	49.4	49.2
International institutions	8 191 153	7 461 626	32.7	32.4
Euro area countries	4 187 171	3 880 625	16.7	16.8
Other operations	5 978 467	5 776 254	23.8	25.1
Intra-Eurosystem claims	5 868 008	5 673 974	23.4	24.6
International institutions	74 331	62 266	0.3	0.3
Unclassified assets	36 128	40 014	0.1	0.2
Total	25 074 429	23 045 742	100.0	100.0

32. Assets by credit rating assigned to the counterparty

	Amount (in thousands of euro)		Proportion (%)	
	2021	2020	2021	2020
Investment operations	6 717 638	5 927 237	26.8	25.7
AAA	3 592 177	3 203 434	14.4	13.8
AA	1 137 779	1 288 025	4.5	5.6
A	422 964	495 629	1.7	2.2
BBB	668 350	367 665	2.7	1.6
Assets without counterparty credit rating	10 587	1 944	0	0
Assets not exposed to credit risk	885 781	570 540	3.5	2.5
Monetary policy operations	12 378 324	11 342 251	49.4	49.2
AAA	6 024 560	5 983 541	24.1	25.9
AA	2 166 593	1 478 085	8.6	6.4
A	3 570 571	2 620 625	14.2	11.4
Assets without counterparty credit rating	616 600	1 260 000	2.5	5.5
Other operations	5 978 467	5 776 254	23.8	25.1
Intra-Eurosystem claims	5 868 008	5 673 974	23.4	24.6
Unclassified assets	77 595	66 530	0.3	0.3
Assets not exposed to credit risk	32 864	35 750	0.1	0.2
Total	25 074 429	23 045 742	100.0	100.0

Based on the credit ratings assigned by international credit rating agencies Fitch Ratings, Standard & Poor's, Moody's Investors Service and DBRS to the counterparties and securities issuers, the above table shows the breakdown of Latvijas Banka's assets as at the end of the reporting period. "AAA" rating is the highest possible long-term creditworthiness rating, which indicates an extremely strong capacity of the counterparty to meet its financial commitments; "AA" rating indicates very strong capacity, while "A" rating – strong capacity. "BBB" is a medium rating considered to be the lowest level of investment-grade rating.

Assets without counterparty credit rating mostly comprise securities purchased in longer-term refinancing operations with Latvian credit institutions. Assets not exposed to credit risk mostly comprise securities in the developed markets equity securities portfolio, participating interest in the BIS, fixed assets and intangible assets.

Profit and Loss Statement Notes

33. Net interest income

(in thousands of euro)

	2021	2020
Interest income	165 248	190 313
Interest on investments	78 780	105 848
Interest on customer deposits	15 481	16 662
Interest on monetary policy operations	70 987	67 803
Interest expense	-41 267	-50 776
Interest on investments	-21 082	-40 021
Interest on monetary policy operations	-20 185	-10 755
Net interest income	123 981	139 537

Net interest income was mainly derived from debt securities investments in debt securities, as well as from interest income on monetary policy operations. In 2021, net interest income decreased by 15 556 thousand euro compared to 2020.

In 2021, interest income on investment declined on account of lower average yields on securities and a reduction of the 1–10 year fixed income securities portfolio. A decrease in interest expense on investment resulted from lower costs of hedging currency risk, as the average money market interest rates in the US dollar, Canadian dollar and British pound sterling were considerably higher in 2021 than in 2020, while the average euro money market rate in 2021 was only slightly higher than in 2020.

In 2021, interest income on deposits received was mostly shaped by negative interest on deposits from the government and other financial institutions. The application of interest on deposits is stipulated in Guideline (EU) 2019/671 of the ECB of 9 April 2019 on domestic asset and liability management operations by the national central banks (recast) (ECB/2019/7). Pursuant to this Guideline, Latvijas Banka applies the euro overnight index average (EONIA) rate (it was negative at the end of both 2021 and 2020 (-0.505% and -0.498% respectively)) to the amount of the Treasury's deposits in euro up to 200 million euro. As regards the total outstanding amount of the Treasury's settlement accounts in euro and foreign currencies exceeding 200 million euro, until 30 September 2019, Latvijas Banka applied the deposit facility rate set by the ECB, whereas from 1 October 2019 – the lower of the following rates: the ECB's deposit facility rate or the euro overnight index average (EONIA) rate (the ECB's deposit facility rate was negative at the end of both 2021 and 2020 at -0.50%).

In 2021, interest income on monetary policy operations grew as a result of increasing the PSPP and PEPP. A rise in interest expense on monetary policy operations in 2020 mostly resulted from granting TLTRO III and higher negative interest under the PSPP and PEPP. Interest income from and interest expense on the intra-Eurosystem claims and liabilities are remunerated by applying the ECB's interest rate on the main refinancing operations and include income from foreign reserves transferred to the ECB and claims on allocation of banknotes in the Eurosystem, as well as expense on liabilities related to TARGET2 settlements. The interest rate on

the main refinancing operations set by the ECB was 0% in 2021 and 2020; therefore, Latvijas Banka had neither such interest income nor interest expense.

34. Realised gains/losses arising from financial operations

(in thousands of euro)

	2021	2020
Foreign exchange transactions	10 063	827
Derivative financial instruments	-7 503	11 392
Debt securities	-2 203	32 252
Total	357	44 471

In 2021, the realised gains on foreign exchange transactions were 9236 thousand euro larger than in 2020 and that was positively affected by the appreciation of the US dollar against the euro.

The result on derivative financial instruments showed an improvement of 18 895 thousand euro compared to 2020, mostly on account of the negative result on interest rate future contracts due to rising interest rates in the course of 2021, and on account of the negative result on currency future contracts concluded for the purpose of hedging currency risk exposure, affected by the US dollar appreciation against the euro. The negative result of the currency future contracts concluded for the purpose of hedging currency risk exposure is offset in an equal value by the positive revaluation result of the balance sheet items hedged for foreign currency risk.

The result on the disposal of debt securities decreased by 34 455 thousand euro compared to 2020, mostly due to a decrease in the market value of the securities on account of rising yields.

35. Recognition of revaluation result on financial assets and positions in the profit and loss statement

(in thousands of euro)

	2021	2020
Securities	-35 662	-6 299
Foreign currency positions	-935	-28 642
Interest rate swap arrangements	-21	-296
Total	-36 618	-35 237

The revaluation result of several debt securities, foreign currency positions, and interest rate swap arrangements at the end of 2021 and 2020 was negative and has been recognised in the profit and loss statement. The positive result on the revaluation of debt securities, equity securities, foreign currency positions, and interest rate swap arrangements has been reported under the balance sheet item "Capital and reserves" as the revaluation reserve of securities, foreign currency, and interest rate swap arrangements respectively (see also Note 23).

The increase in the negative result on debt securities revaluation is related to a rise in market yields.

The decrease in the negative result on the revaluation of foreign currencies is related to appreciation of the US dollar against the euro.

36. Provisions for market risk and credit risk

On the basis of reasonable risk estimates and in accordance with the legal framework for accounting and financial reporting in the ESCB, Latvijas Banka's Council takes decisions on making provisions for market risk (price, interest rate and currency risks) and credit risk associated with Latvijas Banka's investment management and other financial transactions, as well as on the use of these provisions should the above risks materialise.

Latvijas Banka's financial risks relate primarily to investments in financial instruments and to the implementation of the single monetary policy operations associated with Latvijas Banka's participation in the Eurosystem and sharing of the related risks and financial results. Latvijas Banka's financial assets are mostly exposed to the market risk and credit risk.

The level of Latvijas Banka's financial risks for monetary policy operations and investment portfolio credit risk has been assessed in compliance with the ECB's common methodology for Eurosystem financial risk assessment, whereas for investment portfolio market risk – in compliance with the risk assessment methodology used by Latvijas Banka in its financial risk management system; in both cases, the Expected Shortfall (ES) measure with a confidence level of 99% for a risk horizon of one year is used: it describes the losses determined by the average value of 1% of the most unfavourable simulated profitability scenarios. When assessing the level of financial risks, various market risk and credit risk factors, assumptions defined by the Eurosystem/ESCB's Risk Management Committee and assumptions used in the financial risk management system are taken into account, as well as historical data and assumptions concerning the development of adverse financial market factors, e.g. an increase in interest rates, widening interest rate spreads, euro appreciation and credit rating downgrades.

In 2021, the level of financial risks has been estimated at 1048.4 million euro (771.9 million euro in 2020). In 2021, the level of financial risks rose mainly on account of changes in the placement of investments, i.e. the creation of an emerging markets fixed income securities portfolio and an emerging markets equity securities portfolio along with an increase in the developed markets equity securities portfolio.

Provisions for market risk and credit risk are established during a longer period in the amount of 25%–75% of the positive total financial performance result included in the profit and loss statement of the reporting year before establishing provisions for financial risks, not exceeding the level of financial risks. Provisions for the market risk and credit risk are used if the financial risks materialise and their negative result is not covered by other income, or the balance of the provisions considerably exceeds the level of financial risks and this excess is of permanent nature.

(in thousands of euro)

	2021	2020
Level of financial risks	1 048 400	771 900
Provisions for the market risk and credit risk	295 697	281 723
Provisions for the market risk and credit risk against the level of financial risks (%)	28	36

In 2021, due to the above-mentioned risk assessment, the Council of

Latvijas Banka decided to increase the provisions for market risk and credit risk related to the financial investments managed by Latvijas Banka by 13 974 thousand euro according to a percentage of the positive total financial performance result included in the profit and loss statement before establishing provisions for financial risks as laid down in the above-mentioned methodology (in 2020, the respective provisions were increased by 78 181 thousand euro). Latvijas Banka had no provisions for the credit risk associated with the Eurosystem monetary policy operations at the end of 2021 and at the end of 2020.

37. Income from equity securities and participating interest

Income from equity securities comprises dividends of the equity securities portfolio in the amount of 11 828 thousand euro (8989 thousand euro in 2020). Income grew on account of higher dividends due to an increase in the developed markets equity securities portfolio.

Income from participating interest comprises dividends received from the participating interest in the BIS (670 in 2021, dividends from the participating interest in the BIS were not paid out in 2020; see also Note 14.2) and income from the ECB's interim profit distribution for the reporting year, the remainder of the ECB's annual profit for the previous year in the amount of 2077 thousand euro (9616 thousand euro in 2020).

Pursuant to the decision of the Governing Council of the ECB, the income gained by the ECB on the claims related to the allocation of banknotes within the Eurosystem, and from the Securities Markets Programme, the asset-backed securities purchase programme, the third covered bond purchase programme, the PSPP and the PEPP shall be distributed as interim profit for the reporting year in which it accrues. The Governing Council of the ECB decides on the interim profit distribution in January of the following year; however, it may resolve not to do so in cases when the ECB's net profit for the reporting year is less than its income included in the ECB's interim profit distribution, as well as in the event the Governing Council of the ECB decides to establish provisions for financial risks.

After the approval of the ECB's Annual Accounts, the Governing Council of the ECB distributes the remainder of the ECB's annual profit for the reporting year to euro area NCBs in proportion to their shares in the ECB's capital (see Note 13.1).

38. Net result of pooling of monetary income

(in thousands of euro)

	2021	2020
Monetary income pooled	-39 502	-44 679
Monetary income received	5 160	16 978
Net result of pooling of monetary income	-34 342	-27 701

Pursuant to the Statute of the ESCB and of the ECB, euro area NCBs gain income from the implementation of the single monetary policy of the Eurosystem. Total monetary income of the Eurosystem equals the income on assets arising from the issue of euro banknotes and receiving deposits from credit institutions. The income is allocated to euro area NCBs in proportion to their shares in the capital of the ECB.

The monetary income pooled by Latvijas Banka includes the income

derived from earmarkable assets of Latvijas Banka, reduced by expenses for the monetary liabilities of Latvijas Banka. The earmarkable assets of Latvijas Banka for the allocation of monetary income include gold, assets acquired as a result of monetary policy operations, intra-Eurosystem claims, as well as other assets in the amount necessary to fully cover the monetary liabilities. The monetary liabilities of Latvijas Banka include banknotes in circulation, deposits of credit institutions resulting from monetary policy operations and intra-Eurosystem liabilities.

Latvijas Banka's monetary income received comprises Latvijas Banka's share in the Eurosystem's total monetary income set on the basis of Latvijas Banka's share in the ECB's capital. Net result of pooling of monetary income decreased on account of smaller monetary income received, primarily due to the decisions of the Governing Council of the ECB on applying more favourable conditions to TLTRO III.

39. Other operating income

(in thousands of euro)

	2021	2020
Revaluation of liabilities for the issued lats banknotes and coins	2 380	-
Income from sale of numismatic products	627	613
Other	584	655
Total	3 591	1 268

Revaluation of liabilities for the issued lats banknotes and coins resulted in income, as the issued lats banknotes and coins with a low exchange probability are not reported on the balance sheet pursuant to the "Financial Accounting Policy of Latvijas Banka" (see also Note 2.2). In 2021, with the exchange of the lats banknotes and coins decelerating, the valuation of liabilities for the issued lats banknotes and coins decreased (see also Note 22.1).

40. Remuneration, social security costs and solidarity tax

(in thousands of euro)

	2021	2020
Remuneration		
Remuneration for performance of duties of the Council and the Board	-728	-855
Remuneration of other personnel	-15 675	-16 012
Total remuneration	-16 403	-16 867
Social security costs and solidarity tax	-3 582	-3 764
Total remuneration, social security costs and solidarity tax	-19 985	-20 631

At the end of 2021, the number of employees was 380 (421 at the end of 2020), representing 400 full-time equivalents at the end of 2021 (425 at the end of 2020). The decrease in the number of employees is mostly related to the implementation of cost efficiency improvement measures.

Latvijas Banka introduced a single-tier top management model as of 1 June 2021, and the Board of Latvijas Banka discontinued its operation.

41. Banknote and coin acquisition costs

(in thousands of euro)

	2021	2020
Acquisition of banknotes	-1 363	-1 229
Acquisition of collector coins	-380	-188
Acquisition of circulation coins	-88	-129
Total	-1 831	-1 546

42. Other operating expenses

(in thousands of euro)

	2021	2020
Maintenance and operation of information systems	-4 116	-4 023
Municipal services	-771	-547
Acquisition of low value office supplies	-360	-94
Maintenance of buildings, territory and equipment	-335	-436
Information and public relations	-289	-231
Tax on real estate	-217	-220
Telecommunication services and system maintenance	-190	-168
Risk insurance	-134	-254
Personnel training	-126	-85
Disposal of material values	-33	-30
Business travel	-26	-66
Transport provision	-12	-30
Event services	-10	-32
Other	-474	-478
Total	-7 093	-6 694

Other operating expenses also comprise remuneration in the amount of 33 thousand euro paid to SIA ERNST & YOUNG BALTIC for the audit of 2021 financial statements of Latvijas Banka (33 thousand euro in 2020).

Other Notes**43. Pledged assets**

Debt securities, other financial instruments and gold purchased by Latvijas Banka with the total market value of 2 503 139 thousand euro as at the end of 2021 (2 667 712 thousand euro at the end of 2020) have been pledged to provide repurchase agreement deals, collateral for gold swap arrangements, forward exchange rate contracts, interest rate and currency future contracts, and to ensure the operation of payment systems. At the end of 2021, the pledged assets mostly consisted of securities pledged under repurchase agreements in the amount of 2 135 996 thousand euro (2 309 742 thousand euro at the end of 2020).

44. Securities lending

On behalf of Latvijas Banka, its agents conclude securities lending transactions, as part of an automated security lending programme, where securities held by Latvijas Banka are lent against cash or other securities collateral. Securities lending transactions provide additional income without any material impact on investment liquidity as the securities lent are readily available to Latvijas Banka. The above agents administer the securities lending transactions and monitor the eligibility of the securities lending transactions and related collateral. The fair value of collateral provided in securities lending transactions is higher than that of the securities lent.

To improve securities market liquidity, Latvijas Banka, simultaneously with other euro area NCBs, lends securities purchased under the PSPP and PEPP; Latvijas Banka conducts the above lending under the automated security lending programme.

At the end of 2021, the fair value of the securities lent, determined using quoted prices in an active market, was 27 418 thousand euro (439 thousand euro at the end of 2020); inter alia, the fair value of securities purchased and lent under the PSPP and PEPP stood at 22 650 thousand euro at the end of 2021 (285 thousand euro at the end of 2020).

Foreign currency cash or securities received in the agent account of Latvijas Banka's automated security lending programme as collateral for securities lending transactions are not recognised in Latvijas Banka's balance sheet.

45. Contingent liabilities and commitments

The Statute of the ESCB and of the ECB stipulates that a euro area NCB shall pay up its subscribed share in the ECB's capital in full, as well as make payments into the ECB's reserve capital, provisions equivalent to reserves and the valuation account for financial instruments, in proportion to its share in the ECB's capital. Following the Bank of England's withdrawal from the ESCB, the total amount of the ECB's capital to be paid up increased. The ECB's Governing Council decided that euro area NCBs would pay up in full their increased subscriptions in two instalments: at the end of 2021 and 2022 respectively. In 2022, Latvijas Banka has to make a payment in the amount of 2377 thousand euro (see also Note 13.1).

The uncalled portion of the BIS shares held by Latvijas Banka is 75% of their nominal value; these shares are callable following a respective decision of the BIS Board. At the end of 2021, the uncalled portion of the BIS shareholding was 4012 thousand SDR (4958 thousand euro; 4012 thousand SDR (4729 thousand euro) at the end of 2020; see also Note 14.2).

At the end of 2021, Latvijas Banka had issued euro collector coins, lats collector coins and precious metal circulation coins in the nominal value of 7096 thousand euro (7034 thousand euro at the end of 2020). These coins may be represented to Latvijas Banka at a nominal value. In the opinion of Latvijas Banka's management, the probability that Latvijas Banka will be required to repurchase these coins from their holders is considered low.

At the end of 2021, Latvijas Banka had issued lats banknotes and coins with the face value of 119 875 thousand euro (120 934 thousand

euro at the end of 2020), reported on the balance sheet in the amount of 21 895 thousand euro (25 334 thousand euro at the end of 2020). Pursuant to the Law on the Procedure for Introducing the Euro, the period for exchanging the lats cash to the euro at Latvijas Banka is unlimited. In the opinion of Latvijas Banka's management, the probability that Latvijas Banka would be required to exchange lats banknotes and coins in the amount of 97 980 thousand euro (95 600 thousand euro at the end of 2020) at face value is low.

The new Law on Latvijas Banka, which was adopted on 23 September 2021 and is coming to effect on 1 January 2023, provides for a merger of the FCMC with Latvijas Banka, including the take-over of the FCMC's rights and liabilities.

46. Events after the reporting year

Geopolitical crisis caused by the war against Ukraine started by Russia in February 2022 has increased the degree of uncertainty and caused significant volatility in the global financial markets, which will continue to affect the financial performance of Latvijas Banka due to its exposure to the interest rate risk and other financial risks. Nevertheless, it has no significant effect on the financial position and the financial performance of Latvijas Banka in 2021.

There have been no other events requiring adjustments to these financial statements or disclosure in these financial statements from the last day of the reporting year to the date of signing these financial statements.

Independent Auditors' Report

10 March 2022

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To the Council of Latvijas Banka¹

Opinion

We have audited the accompanying financial statements of Latvijas Banka (the Bank) set out on pages 68 to 118, which comprise the balance sheet as at 31 December 2021 and the statement of profit and loss and the statement of total recognised gains and losses for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Latvijas Banka as at 31 December 2021, and of its financial performance for the year then ended in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) and its amendments, the Financial Accounting Policy of Latvijas Banka approved by the Council of the Bank, and the requirements of the Law on Latvijas Banka.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Council and Those Charged with Governance for the Financial Statements

The Council of the Bank is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) and its amendments, the Financial Accounting Policy of Latvijas Banka approved by the Council of the Bank, and the requirements of the Law on Latvijas Banka. The Council of the Bank is responsible for such internal control as the Council of the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council of the Bank is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

¹ Translation from Latvian.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council of the Bank.
- Conclude on the appropriateness of Council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

ERNST & YOUNG BALTIC SIA

Licence No. 17

Dāna Krišjāne

Chairperson of the Board

Latvian Certified Auditor

Certificate No. 124

Riga, 10 March 2022

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Appendices

Appendix 1 Monetary Indicators in 2021

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(at the end of the period; millions of euro)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
LATVIJAS BANKA												
Latvia's contribution to the euro area monetary base	10 533.5	10 782.2	11 098.7	10 965.5	10 976.9	11 433.7	11 161.1	11 042.7	10 880.4	10 786.7	10 884.3	12 029.6
Currency in circulation	5 197.7	5 224.5	5 272.1	5 298.9	5 352.4	5 395.5	5 454.1	5 460.9	5 480.2	5 511.3	5 533.0	5 622.9
Current accounts (covering the minimum reserve system)	5 335.8	5 557.7	5 826.6	5 666.6	5 624.5	6 038.2	5 707.0	5 581.8	5 400.2	5 275.4	5 351.3	6 406.7
Foreign assets outside the euro area	10 899.2	10 915.4	11 166.4	11 145.7	11 173.1	11 359.6	11 452.0	11 903.0	11 872.8	11 972.1	12 062.2	12 117.5
Foreign liabilities outside the euro area	1 484.9	926.6	728.3	700.2	710.9	728.8	719.3	720.1	735.3	748.7	747.8	746.3
Credit	6 337.2	6 535.3	6 738.0	6 984.6	7 005.3	7 246.5	7 193.7	7 190.8	7 428.3	7 388.1	7 477.2	6 885.1
To MFIs in the euro area	1 520.0	1 553.5	1 518.8	1 540.7	1 480.7	1 531.0	1 519.8	1 499.1	1 518.6	1 471.2	1 486.3	781.9
To the general government sector in the euro area	4 397.5	4 542.8	4 748.0	4 965.2	5 012.9	5 018.5	4 965.8	4 968.3	5 088.6	5 094.9	5 143.3	5 154.9
To other euro area residents	419.7	439.0	471.2	478.7	511.7	697.0	708.1	723.4	821.1	822.0	847.6	948.3
MFI												
Overnight deposits (Latvia's contribution to M1 of the euro area)	15 654.7	15 869.5	16 402.6	16 155.1	16 254.7	16 623.4	16 655.4	16 583.7	16 645.1	16 838.9	16 954.2	17 354.9
Deposits with an agreed maturity of up to 2 years	1 114.2	1 013.9	1 003.0	1 001.0	998.8	941.5	965.9	947.0	904.2	878.7	860.0	797.6
Deposits redeemable at notice of up to 3 months	670.4	677.1	685.4	691.1	690.3	688.8	688.6	687.8	683.0	685.3	685.9	690.9
Latvia's contribution to M2 of the euro area	17 439.3	17 560.5	18 091.0	17 847.2	17 943.7	18 253.7	18 309.8	18 218.5	18 232.3	18 402.9	18 500.1	18 843.4
Repo transactions	122.9	169.3	170.9	202.6	201.6	203.6	242.5	243.1	234.8	217.2	218.0	219.2
Money market fund shares and units	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities with a maturity of up to 2 years	-1.6	0	0	0	0	0	0	0	0	0	0	0
Latvia's contribution to M3 of the euro area	17 560.6	17 729.8	18 261.8	18 049.8	18 145.3	18 457.3	18 552.3	18 461.6	18 467.1	18 620.1	18 718.1	19 062.6
Net foreign assets outside the euro area	10 541.9	11 084.2	11 611.3	11 538.4	11 762.2	12 009.7	12 294.7	12 597.9	12 655.3	12 916.4	12 967.1	11 425.7
Credit to euro area financial institutions, non-financial corporations and households	13 199.8	13 173.6	13 327.8	13 245.5	13 237.3	13 241.8	13 375.4	13 449.8	13 557.5	13 715.9	13 642.6	13 637.0
Loans to resident financial institutions, non-financial corporations and households	11 957.8	11 934.4	12 075.8	11 987.8	12 008.6	12 029.3	12 200.8	12 254.9	12 371.4	12 559.6	12 497.1	12 423.8
Deposits by resident financial institutions, non-financial corporations and households	14 878.1	15 005.5	15 525.3	15 366.7	15 454.2	15 790.9	15 830.8	15 777.0	15 839.4	15 977.9	16 143.7	16 539.5
INTEREST RATES												
Interest rate on the main refinancing operations (at end of period; %)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Weighted average interest rates on transactions in euro (%)	-0.50	-0.50	-0.50	-0.32	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Interbank loans	-0.50	-0.50	-0.50	-0.32	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Loans to non-financial corporations and households with a floating interest rate and an initial rate fixation of up to 1 year (new business)	3.0	3.1	3.0	3.3	2.6	2.8	2.7	2.3	3.3	2.3	2.6	2.9
Time deposits by non-financial corporations and households (new business)	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.2	0.3

Appendix 2 Month-End Balance Sheets of Latvijas Banka for 2021

(at the end of the month; thousands of euro)

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	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ASSETS	23 060 952	23 277 499	23 690 804	23 867 958	23 977 117	24 425 907	24 521 185	25 011 443	25 233 591	25 311 439	25 506 392	25 074 429
Gold and gold receivables	329 327	311 166	307 231	312 932	333 978	316 787	328 685	327 693	318 668	328 072	337 512	344 166
Claims on non-euro area residents denominated in foreign currency	4 128 737	4 088 032	4 223 533	4 149 069	4 046 897	4 114 662	4 091 303	4 460 088	4 479 979	4 492 459	4 492 050	4 495 181
Receivables from the IMF	143 498	143 547	145 987	143 607	143 049	144 994	145 127	528 857	534 744	533 821	541 949	542 959
Balances with credit institutions and security investments, external loans and other external assets	3 985 239	3 944 485	4 077 546	4 005 462	3 903 848	3 969 668	3 946 176	3 931 231	3 945 235	3 958 638	3 950 101	3 952 222
Claims on euro area residents denominated in foreign currency	335 634	362 390	334 724	331 097	277 029	437 418	436 647	419 115	499 774	433 249	454 505	528 428
Claims on non-euro area residents denominated in euro	123 644	124 572	144 554	149 954	160 102	195 609	191 910	190 657	202 695	190 940	183 436	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	1 260 000	1 260 000	1 267 700	1 277 700	1 277 700	1 321 600	1 311 600	1 311 600	1 311 600	1 311 600	1 311 600	616 600
Longer-term refinancing operations	1 260 000	1 260 000	1 267 700	1 277 700	1 277 700	1 321 600	1 311 600	1 311 600	1 311 600	1 311 600	1 311 600	616 600
Other claims on euro area credit institutions denominated in euro	430	10 089	3 601	21 486	6	1 212	628	1 706	10 348	4 833	1 867	4 255
Securities of euro area residents denominated in euro	11 058 623	11 294 415	11 623 012	11 888 111	12 082 595	12 218 799	12 284 998	12 382 945	12 478 103	12 599 007	12 758 419	12 839 996
Securities held for monetary policy purposes	9 935 212	10 149 726	10 451 276	10 715 544	10 908 458	11 025 002	11 085 975	11 173 052	11 253 570	11 436 108	11 588 976	11 690 783
Other securities	1 123 411	1 144 689	1 171 736	1 172 567	1 174 137	1 193 797	1 199 023	1 209 893	1 224 533	1 162 899	1 169 443	1 149 213
Intra-Eurosystem claims	5 629 683	5 633 840	5 597 827	5 536 904	5 599 989	5 637 773	5 683 498	5 712 375	5 742 981	5 765 020	5 774 825	5 868 008
Participating interest in the ECB	114 095	114 095	114 095	114 095	114 095	114 095	114 095	114 095	114 095	114 095	114 095	116 472
Claims equivalent to the transfer of foreign reserves to the ECB	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202
Claims related to other operational requirements within the Eurosystem	5 358 386	5 362 543	5 326 530	5 265 607	5 328 692	5 366 476	5 412 201	5 441 078	5 471 684	5 493 723	5 503 528	5 594 334
Other assets	194 874	192 995	188 622	200 705	198 821	182 047	191 916	205 264	189 443	186 259	192 178	203 714

Appendix 2 (cont.)

(at the end of the month; thousands of euro)

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	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
LIABILITIES	23 060 952	23 277 499	23 690 804	23 867 958	23 977 117	24 425 907	24 521 185	25 011 443	25 233 591	25 311 439	25 506 392	25 074 429
Banknotes in circulation	5 117 799	5 144 167	5 191 069	5 216 637	5 270 183	5 311 791	5 369 850	5 376 227	5 395 457	5 425 026	5 446 640	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 335 824	5 557 689	5 826 602	5 666 568	5 624 494	6 038 201	5 706 979	5 581 831	5 400 156	5 275 407	5 351 275	6 406 673
Current accounts (covering the minimum reserve system)	5 335 824	5 557 689	5 826 602	5 666 568	5 624 494	6 038 201	5 706 979	5 581 831	5 400 156	5 275 407	5 351 275	6 406 673
Other liabilities to euro area credit institutions denominated in euro	604 084	701 857	790 798	788 381	748 439	789 290	793 108	603 675	725 797	724 121	578 769	649 746
Liabilities to other euro area residents denominated in euro	2 511 227	2 508 676	3 155 086	3 116 310	3 205 734	2 638 410	2 880 634	2 950 622	3 459 224	3 293 487	3 403 422	3 438 792
General government	987 436	970 057	1 619 333	1 573 555	1 667 956	1 102 293	1 276 080	1 351 207	1 860 778	1 707 002	1 814 516	1 803 339
Other liabilities	1 523 791	1 538 619	1 535 753	1 542 755	1 537 778	1 536 117	1 604 554	1 599 415	1 598 446	1 586 485	1 588 906	1 635 453
Liabilities to non-euro area residents denominated in euro	144 095	49 935	20 751	25 438	31 986	58 566	59 301	67 387	58 092	61 715	59 023	57 955
Liabilities to euro area residents denominated in foreign currency	692 978	1 187 484	1 415 369	1 407 183	1 284 007	1 338 949	1 307 101	1 666 623	1 696 924	1 591 570	1 585 998	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	1 340 832	876 664	707 572	674 768	678 959	670 218	659 953	652 665	677 164	686 993	688 801	688 359
Intra-Eurosystem liabilities	6 087 230	6 069 768	5 336 069	5 757 800	5 888 969	6 285 785	6 422 683	6 772 621	6 492 283	6 919 878	7 013 871	5 356 980
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	6 087 230	6 069 768	5 336 069	5 757 800	5 888 969	6 285 785	6 422 683	6 772 621	6 492 283	6 919 878	7 013 871	5 322 638
Liabilities related to other operational requirements within the Eurosystem	-	-	-	-	-	-	-	-	-	-	-	34 342
Other liabilities	421 354	424 295	462 550	422 061	427 623	464 925	443 598	445 487	481 445	457 646	478 613	436 383
Capital and reserves	805 529	756 964	784 938	792 812	816 723	829 772	877 978	894 305	847 049	875 596	899 980	908 655

Appendix 3 Year-End Balance Sheets of Latvijas Banka for the Years 2017–2021

(at the end of the year; thousands of euro)

	2017	2018	2019	2020	2021
ASSETS	17 498 642	18 247 147	18 745 509	23 045 742	25 074 429
Gold and gold receivables	230 856	239 195	289 043	330 139	344 166
Claims on non-euro area residents denominated in foreign currency	3 608 692	3 566 027	3 688 972	3 970 780	4 495 181
Receivables from the IMF	143 477	146 833	149 082	142 411	542 959
Balances with banks and security investments, external loans and other external assets	3 465 215	3 419 194	3 539 890	3 828 369	3 952 222
Claims on euro area residents denominated in foreign currency	355 065	326 308	460 415	333 706	528 428
Claims on non-euro area residents denominated in euro	101 333	101 837	90 139	119 143	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	244 660	38 750	12 250	1 260 000	616 600
Longer-term refinancing operations	244 660	38 750	12 250	1 260 000	616 600
Other claims on euro area credit institutions denominated in euro	438	488	8	120	4 255
Securities of euro area residents denominated in euro	8 131 197	8 813 038	8 721 137	11 129 440	12 839 996
Securities held for monetary policy purposes	6 719 984	7 423 080	7 636 472	10 008 456	11 690 783
Other securities	1 411 213	1 389 958	1 084 665	1 120 984	1 149 213
Intra-Eurosystem claims	4 604 114	4 952 780	5 277 483	5 673 974	5 868 008
Participating interest in the ECB	115 082	115 082	114 108	114 095	116 472
Claims equivalent to the transfer of foreign reserves to the ECB	163 480	163 480	158 264	157 202	157 202
Claims related to other operational requirements within the Eurosystem	4 325 552	4 674 218	5 005 111	5 402 677	5 594 334
Other assets	222 287	208 724	206 062	228 440	203 714

Appendix 3 (cont.)

(at the end of the year; thousands of euro)

	2017	2018	2019	2020	2021
LIABILITIES	17 498 642	18 247 147	18 745 509	23 045 742	25 074 429
Banknotes in circulation	4 314 088	4 536 729	4 666 799	5 142 726	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 712 980	5 050 101	5 660 676	6 053 812	6 406 673
Current accounts (covering the minimum reserve system)	5 712 980	5 050 101	5 660 676	6 053 812	6 406 673
Other liabilities to euro area credit institutions denominated in euro	22 610	13 847	11 871	577 746	649 746
Liabilities to other euro area residents denominated in euro	215 712	1 449 237	1 506 709	3 012 014	3 438 792
General government	29 516	129 113	442 044	1 588 192	1 803 339
Other liabilities	186 196	1 320 124	1 064 665	1 423 822	1 635 453
Liabilities to non-euro area residents denominated in euro	2 535	16 524	307 239	238 737	57 955
Liabilities to euro area residents denominated in foreign currency	144 324	150 535	153 351	615 986	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	634	115 284	1 642 368	1 364 010	688 359
Intra-Eurosystem liabilities	6 339 683	6 212 645	3 833 540	4 837 613	5 356 980
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	6 339 683	6 212 645	3 826 452	4 809 553	5 322 638
Liabilities related to other operational requirements within the Eurosystem	-	-	7 088	28 060	34 342
Other liabilities	305 552	251 877	329 326	409 700	436 383
Capital and reserves	440 524	450 368	633 630	793 398	908 655

Appendix 4

Profit and Loss Statements of Latvijas Banka for the Years 2017–2021

(at the end of the year; thousands of euro)

	2017	2018	2019	2020	2021
Net interest income	71 498	79 494	95 946	139 537	123 981
Interest income	138 189	180 907	198 804	190 313	165 248
Interest expense	-66 691	-101 413	-102 858	-50 776	-41 267
Net result of financial operations, recognition of revaluation result in profit and loss statement and financial risk provisions	-28 175	-42 387	-37 821	-68 947	-50 235
Realised gains arising from financial operations	33 292	-49 690	46 253	44 471	357
Recognition of revaluation result on financial assets and positions in profit and loss statement	-18 791	-47 903	-3 856	-35 237	-36 618
Provisions for market risk and credit risk	-42 676	55 206	-80 218	-78 181	-13 974
Net expense from fees and commissions	-3 087	-2 783	-3 607	-3 394	-3 951
Fees and commissions income	397	644	811	949	981
Fees and commissions expense	-3 484	-3 427	-4 418	-4 343	-4 932
Income from participating interest	5 258	6 922	14 884	18 605	14 575
Net result of pooling of monetary income	3 651	122	-6 801	-27 701	-34 342
Other operating income	12 382	9 270	1 300	1 268	3 591
NET INCOME	61 527	50 638	63 901	59 368	53 619
Remuneration	-17 616	-17 515	-17 660	-16 867	-16 403
Social security costs and solidarity tax	-3 962	-4 031	-3 941	-3 764	-3 582
Banknote and coin acquisition costs	-4 542	-2 104	-1 791	-1 546	-1 831
Depreciation of fixed assets and amortisation of intangible assets	-3 750	-4 189	-4 129	-3 851	-3 802
Other operating expenses	-7 773	-8 233	-9 225	-6 694	-7 093
PROFIT OF THE REPORTING YEAR	23 884	14 566	27 155	26 646	20 908
Profit transferrable to the reserve capital	8 359	4 370	8 146	7 994	6 272
Profit transferrable to the state budget	15 525	10 196	19 009	18 652	14 636

Appendix 5

Latvijas Banka publications and major publications by the experts of Latvijas Banka in 2021

Regular publications and serial publications

Latvijas Banka: Annual Report 2020. Latvijas Banka, 2021.

Financial Stability Report, 2021. Latvijas Banka, 2021.

Latvijas Maksājumu Balance = Latvia's Balance of Payments, 2020. Latvijas Banka, 2021.

Macroeconomic Developments Report. No. 32, March; No. 33, September 2021. Latvijas Banka, 2021.

Working papers

BUŠS, Ginters, GRÜNING, Patrick. Fiscal DSGE Model for Latvia. Working Paper, No. 5, 2020 [online]. Latvijas Banka, 2021. 60 p. Available: https://datnes.latvijasbanka.lv/papers/wp_5_2020_en.pdf

ZLOBINS, Andrejs. ZLB and Beyond: Real and Financial Effects of Low and Negative Interest Rates in the Euro Area. Working Paper, No. 6 [online]. Latvijas Banka, 2021. 40 p. Available: https://datnes.latvijasbanka.lv/papers/wp_6_2020_en.pdf

SILVERSTOVS, Boriss. Gauging the Effect of Influential Observations on Measures of Relative Forecast Accuracy in a Post-COVID-19 Era: Application to Nowcasting Euro Area GDP Growth. Working Paper No. 1, 2021 [online]. Latvijas Banka, 2021. 22 p. Available: https://datnes.latvijasbanka.lv/papers/wp_1_2021_en.pdf

ZLOBINS, Andrejs. On the Time-varying Effects of the ECB's Asset Purchases. Working Paper No. 2, 2021 [online]. Latvijas Banka, 2021. 47 p. Available: https://datnes.latvijasbanka.lv/papers/wp_2_2021.pdf

BUŠS, Ginters, GRÜNING, Patrick. Choosing the European Fiscal Rule. Working Paper No. 3, 2021 [online]. Latvijas Banka, 2021. 52 p. Available: https://datnes.latvijasbanka.lv/papers/wp_3_2021.pdf

Discussion papers

FADEJEVA, Ludmila, MIGALE, Anete, ZONDAKS, Mīkelis. Household Finance and Consumption Survey 2017 in Latvia. Discussion Paper No. 1, 2020 [online]. Latvijas Banka, 2021. 54 p. Available: https://datnes.latvijasbanka.lv/papers/discussion/DM_1_2020-en.pdf

FADEJEVA, Ludmila, TKAČEVŠ, Oļegs. Are Tax-Favoured Savings Plans Effective in Raising Private Savings? Discussion Paper No. 1, 2021 [online]. Latvijas Banka, 2021. 31 p. Available: https://datnes.latvijasbanka.lv/papers/discussion/DM_1-2021-en.pdf

BENĶOVSKIS, Konstantīns, TKAČEVŠ, Oļegs, VILERTS, Kārlis. Interest Rate Spreads in the Baltics and the Rest of the Euro Area: Understanding the Factors behind the Differences. Discussion Paper No. 2, 2021 [online]. Latvijas Banka, 2021. 27 p. Available: https://datnes.latvijasbanka.lv/papers/discussion/dp_2_2021.pdf

Publications

BESSONOV, Andrejs, KRASNOPJOROV, Oļegs. Short-term inflation projections model and its assessment in Latvia. *International Journal of Microsimulation* [online], vol. 21, issue 2, 2021, pp. 184–204.

BODNÁR, Katalin, FADEJEVA, Ludmila, HOEBERICH, Marco, PEINADO, Mario Izquierdo, JADEAU, Christophe, VIVIANO, Eliana. The impact of credit shocks on the European labour market. *International Journal of Microsimulation* [online], vol. 21, issue 1, 2021, pp. 1–25.

REUTER, Wolf Heinrich, TKAČEV, Oļegs, VILERTS, Kārlis. Fiscal rules and volatility: the role of stabilising properties and compliance. *Empirica* [online]. Available: <https://doi.org/10.1007/s10663-021-09522-9>

SILVERSTOV, Boriss. New York FED Staff Nowcasts and Reality: What Can We Learn about the Future, the Present, and the Past? *Econometrics*, vol. 9, issue 1, 2021 [online]. Available: <https://doi.org/10.3390/econometrics9010011>

SANDQVIST, Anna Pauliina, SILVERSTOV, Boriss. Is it good to be bad or bad to be good? Assessing the aggregate impact of abnormal weather on consumer spending. *Empirical Economics*, vol. 61, issue 6, Springer, December 2021, pp. 3059–3085.

Appendix 6 Glossary

AnaCredit (analytical credit datasets): a common Eurosystem's granular analytical credit and credit risk database collecting data on loans granted to legal entities by the credit institutions of all euro area Member States based on harmonised ECB statistical reporting requirements.

Asset Purchase Programme (APP): part of a package of non-standard monetary policy measures approved by the Governing Council of the ECB, comprising corporate sector purchase programme (CSPP), public sector purchase programme (PSPP), asset-backed securities purchase programme (ABSPP) and the third covered bond purchase programme (CBPP3).

Balance of payments: a statistical statement summarising transactions between Latvia's residents and the residents of the rest of the world. It incorporates the current account, the capital account and the financial account.

Bank for International Settlements (BIS): an international financial organisation operating to facilitate international monetary and financial cooperation. The BIS acts as a bank for central banks.

Banking union: an EU-level framework for banking supervision and resolution operating based on a single rulebook applicable in the entire EU. Euro area countries and those EU countries outside the euro area opting to participate in the banking union are members of the banking union.

Clearing: the process of transmitting, processing and reconciling payment documents or securities transfer orders prior to settlement, resulting in establishment of the net position of each settlement participant by netting all payment documents submitted by the settlement participants, i.e. establishing net cash liabilities to or claims on other settlement participants.

Collateral: assets that are pledged or otherwise transferred to secure the recovery of losses in the case of counterparty default or insolvency. The collateral used in the Eurosystem's reverse transactions must meet certain eligibility criteria.

Council of the EU (EU Council): the institution representing the governments of EU countries. The ministers of EU countries meet in the EU Council to adopt legislative acts and coordinate policies. The EU Council is an essential EU decision-maker. It is a single legal entity, but it meets in 10 different configurations, depending on the subject being discussed. The most significant tasks of the EU Council include negotiating and adopting legislative acts, developing common foreign and security policy of the EU, signing international agreements on behalf of the EU as well as adopting the EU budget together with the European Parliament.

Credit institution: a capital company whose business is to receive deposits or other repayable funds from the public and to grant credits on its own account and provide other financial services.

Debt security: a security representing an obligation on the part of the issuer to make one or more payment(s) to the holder of the security at

Appendix 6 (cont.)

a specified future date or dates. Such security usually carries a specific interest rate (the coupon) or is sold at a discount/premium to the amount that will be repaid at maturity.

Deposit facility: a standing facility of the Eurosystem which credit institutions registered in the Republic of Latvia and branches, registered in Latvia, of credit institutions registered in other countries may use to make overnight deposits with Latvijas Banka at a pre-specified interest rate.

Deposits redeemable at notice: funds deposited with an MFI without any specified maturity, with the possibility of withdrawing on demand either subject to notifying the MFI within an agreed period of notice or subject to payment of a substantial penalty.

Deposits: funds placed on the accounts of MFIs for a specified or unspecified period of time, with or without earning interest.

Direct investment: investment by an investor (direct investor) made directly or indirectly (through subsidiaries or associated companies) to acquire a lasting interest (corresponding to at least 10% ownership of ordinary shares or voting rights) in an enterprise (direct investment enterprise). The components of direct investment are equity and debt instruments. Direct investment data are compiled both on an asset/liability basis (balance of payments and the international investment position data) and according to the directional principle – direct investment in Latvia and direct investment abroad.

E-commerce: trade of goods and services with the help of electronic communications.

Economic and Financial Committee (EFC): a counselling body set up to promote economic and financial policy coordination among the EU countries. In its fields of competence, the EFC delivers opinions at the request of the EU Council or the EC, as well as provides framework for the dialogue between the EU Council and the ECB and contributes to the preparation of the work of the EU Council. The EFC is composed of representatives of the governments (usually Ministries of Finance) and central banks of the EU Member States as well as representatives of the EC and ECB.

Electronic Clearing System of Latvijas Banka (EKS): Latvijas Banka's payment system ensuring the processing of retail payment orders across the SEPA. The EKS system provides two services: clearing service which is netting the payments and ensuring several clearing cycles per the EKS business day for settlements in euro and instant payment service which is processing payments within seconds, 24 hours a day, 7 days a week, 365 days a year.

Equities: securities representing ownership of a stake in a commercial company. They comprise shares and other forms of equity. Equities usually produce income in the form of dividends.

Euro area: EU countries which have adopted the euro as their single currency in accordance with the Treaty on the Functioning of the European Union and in which a single monetary policy is conducted under the responsibility of the Governing Council of the ECB. As at the end of 2021,

Appendix 6 (cont.)

the euro area comprised Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

European Banking Authority (EBA): an EU body with legal personality which forms part of the European System of Financial Supervisors and works to ensure effective and consistent prudential regulation and supervision across the EU banking sector. Its overall objective is to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

European Central Bank (ECB): the central institution of the ESCB and the Eurosystem having a legal personality under the EU law. The ECB implements the tasks conferred upon the Eurosystem and the ESCB pursuant to the Statute of the ESCB and the ECB in cooperation with the national central banks of the EU Member States.

European Council: an EU institution defining the EU's overall political direction and priorities. It is comprised of the heads of state or government of the EU Member States, the President of the European Council and the President of the EC.

European System of Central Banks (ESCB): includes the ECB and the national central banks of the EU Member States. The national central banks of those EU countries that have not yet adopted the euro implement an independent monetary policy according to their national law and are thus not involved in the conduct of the monetary policy of the Eurosystem.

European Systemic Risk Board (ESRB): an independent EU body which is a part of the European System of Financial Supervision and is responsible for the macro-prudential oversight of the financial system within the EU in order to contribute to the prevention or mitigation of systemic risks to financial stability in the EU that arise from developments within the financial system, taking into account macroeconomic developments, so as to avoid periods of widespread financial distress. It contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.

Eurosystem: comprises the ECB and the national central banks of the Member States of the euro area. The decision-making bodies of the Eurosystem are the Governing Council and the Executive Board of the ECB.

Financial stability: a condition of the financial system enabling it to withstand shocks, thereby mitigating the likelihood of disruptions in the financial intermediation process.

Financial vehicle corporation: an institutional unit other than an MFI that has been set up for the purpose of carrying out one or more securitisations.

Fine-tuning operation: an open market operation executed by the Eurosystem in order to deal with unexpected liquidity fluctuations in the market. The frequency and maturity of these operations are not standardised.

Fixed rate instrument: a financial instrument for which the coupon rate is fixed throughout the life of the instrument.

General Council of the ECB: one of the decision-making bodies of the ECB, comprising the President and the Vice-President of the ECB and the Governors of the central banks of all EU countries.

General government: public institutional units engaged in production of goods or provision of services intended for individual or collective consumption free of charge or at economically insignificant prices, primarily financed from the compulsory payments (taxes and duties) imposed on economic agents, as well as institutional units engaged in redistribution of national income or wealth. General government in the Republic of Latvia includes central government, local governments and social security funds. The list of the institutional units of the Latvian general government is prepared by the CSB.

Governing Council of the ECB: the main decision-making body of the ECB. It consists of members of the Executive Board of the ECB and the governors of the national central banks of the euro area.

Household: a natural person or group of natural persons in the capacity of a consumer and producer of goods and a provider of non-financial services for exclusively own final use; a sole proprietor which is an economic unit established by a natural person or a group of natural persons; this natural person or group of natural persons is liable for the settlement of the obligations of the economic unit with its entire property and the unit's accounting is organised in accordance with the single-entry system.

Instant payment: execution of payments of bank and other payment service provider customers within a matter of seconds, making cash transfers 24 hours a day, 7 days a week, 365 days a year, including on holidays and weekends.

International Monetary Fund (IMF): an international organisation operating to facilitate international monetary cooperation, exchange rate stability, national economic growth and employment growth, and provide short-term financial assistance to IMF member countries for balancing the payment flow.

Key ECB interest rates: the interest rates on the main refinancing operations, on the marginal lending facility and on the deposit facility set by the Governing Council of the ECB.

Local government: institutional units of the local public administration, whose competence covers only a local economic territory. The list of the institutional units of the Latvian general government is prepared by the CSB.

Longer-term refinancing operation (LTRO): an open market operation, executed through reverse transactions with the aim to provide credit institutions with additional longer-term financing.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Marginal lending facility: a standing facility, offered by the Eurosystem, which credit institutions registered in the Republic of Latvia and branches,

Appendix 6 (cont.)

registered in Latvia, of credit institutions registered in other countries may use to receive overnight credit from Latvijas Banka at a pre-specified interest rate against marketable or non-marketable assets.

Market risk: the risk related to fluctuations of the fair value or cash flow of financial instruments on account of movements in market prices. Market risk reflects the interest rate risk, currency risk and price risk.

Monetary base (base money): currency (banknotes and coins) in circulation, the minimum reserves credit institutions are required to hold with the Eurosystem as well as any excess reserves they may hold under the Eurosystem's deposit facility or as other liabilities related to the monetary policy operations.

Monetary financial institution (MFI): a central bank, credit institution (except a non-MFI credit institution), credit union, money market fund and other financial institution whose business is to receive deposits or close substitutes for deposits from customers other than MFIs and, on their own account, to grant credits and invest in securities, as well as an electronic money institution whose core business is to issue electronic money. MFIs in the Republic of Latvia include Latvijas Banka, credit institutions registered in the Republic of Latvia (except non-MFI credit institutions), credit unions, electronic money institutions that have commenced the issue of electronic money, money market funds managed by investment management companies that are registered in a European Economic Area country as well as branches, registered in the Republic of Latvia, of MFIs of other countries. Latvijas Banka sets up, maintains and regularly updates the List of Monetary Financial Institutions of the Republic of Latvia (see the Statistics section of Latvijas Banka's website www.bank.lv). The list is also available on the ECB website where the ECB publishes the list of MFIs of the EU Member States on a regular basis. As at the end of 2021, there were 52 MFIs in Latvia.

Monetary income: income accruing to the national central banks of the euro area in the process of the Eurosystem's monetary policy implementation, derived from assets earmarked in accordance with guidelines established by the Governing Council and held against banknotes in circulation and credit institutions' deposits with central banks of the euro area.

Net issuance of banknotes and coins: amount of euro banknotes and coins issued (difference between withdrawals and deposits of euro banknotes and coins) by the national central bank. It is estimated as at a specific date or for a specific period of time, in amounts or numbers.

Non-financial corporation: an institutional unit whose principal activity is producing goods and providing non-financial services, including an economic unit established by a natural person or a group of natural persons; this natural person or group of natural persons is liable for the settlement of the obligations of the economic unit with its entire property and the unit's accounting is organised in accordance with the double-entry system; head offices, whose subsidiaries or their largest part are non-financial corporations.

Non-MFI credit institution: a non-MFI credit institution within the meaning of Article 2(4) of Regulation (EU) 2021/379 of the European Central Bank of

Appendix 6 (cont.)

22 January 2021 on the balance sheet items of credit institutions and of the monetary financial institutions sector (recast) (ECB/2021/2).

Open market operation: an operation executed in the financial market on the initiative of a central bank. With regard to their aims, regularity and procedures, Eurosystem's open market operations can be divided into four categories: main refinancing operations, longer-term refinancing operations, fine-tuning operations and structural operations.

Organisation for Economic Co-operation and Development (OECD): an intergovernmental organisation, a forum providing a platform for seeking answers to common problems, identifying good practices and stimulating policies that improve the economic and social well-being of persons.

Pandemic emergency asset purchase programme (PEPP): a non-standard monetary policy measure approved by the Governing Council of the ECB to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the Covid-19 pandemic.

Pandemic emergency longer-term refinancing operation (PELTRO): a non-standard monetary policy measure approved by the Governing Council of the ECB to ensure sufficient liquidity to the euro area's financial system and smooth money market conditions during the Covid-19 pandemic period.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council of the ECB has defined price stability as a year-on-year increase in the HICP for the euro area that is 2%. The Governing Council has also stated that, in the pursuit of price stability, it aims to maintain inflation rates at 2% in the medium term.

Proxy (instant link): a link between the customer's current account number and his/her mobile phone number or other identifier. The customers who have registered the links between their current account numbers and identifiers with the Proxy Registry "Instant Links" can also receive transfers when the payer indicates the phone number only.

Request to pay: a payment request sent by the payee to the payer; the payer just has to confirm the request for the initiator of the request to receive the requested amount. It is possible to initiate a request to pay also by indicating the payer's mobile phone number only.

Reserve requirement: a requirement for credit institutions and credit unions to hold their minimum reserves with the national central bank over the reserve maintenance period. Compliance with the requirement is determined on the basis of the average end-of-day balance on the reserve account over the reserve maintenance period.

Residual maturity: time remaining until the maturity date of a debt instrument or a loan or time remaining until the final date of any other financial operation.

Reverse transaction: a transaction whereby the Eurosystem buys or sells assets under a repurchase agreement or conducts credit operations against collateral.

Appendix 6 (cont.)

Securities settlement system: an agreement between at least three participants, apart from the operator of the system, on the execution of securities' transfer orders between those participants in accordance with uniform regulations and standardised procedures.

Single Euro Payments Area (SEPA): a process developed by the Eurosystem for retail payments in euro, making payments in euro across European countries as fast, secure and effective as domestic payments. SEPA enables consumers, businesses and other economic agents to make both domestic and cross-border payments in euro on the same main terms and conditions, with the same rights and obligations, regardless of their location. As at the end of 2021, SEPA encompassed all EU Member States, Andorra, Iceland, Liechtenstein, Monaco, Norway, San Marino, Switzerland, the United Kingdom and the Vatican City.

Single Supervisory Mechanism (SSM): an EU-level framework for a prudential supervision of credit institutions in the euro area countries and in those EU countries outside the euro area opting to participate in the mechanism. The SSM is one of the central pillars of the banking union, comprising the ECB as the final responsible supervisory authority and the relevant national supervisory authorities of the EU countries.

Special Data Dissemination Standard Plus (SDDS Plus): the highest data dissemination standard of the IMF. Its purpose is to provide comprehensive, internationally comparable, timely, accessible, reliable and high-quality statistical data on population, financial, economic, fiscal and external sectors, including information on statistical data categories and responsible institutions in each country, as well as links to data and their clarification notes.

Structural operations: open market operations executed by the Eurosystem on a regular or non-regular basis whenever the ECB wishes to adjust the structural liquidity position of the Eurosystem vis-à-vis the financial sector.

Systemic risk: a risk of disruptions in the financial system with the potential to have significant negative consequences for the discharge of the functions of the financial system as a whole and the real economy.

TARGET: a new payment system that is being developed within the framework of TARGET2 and TARGET2-Securities consolidation project and will replace TARGET2 as of 21 November 2022.

TARGET2: a multiplicity of the TARGET2 component systems of all central banks. TARGET2 settles payments in euro in central bank money and functions on the basis of a single IT platform, to which all payment orders are submitted for processing. TARGET2 operation is ensured by Latvijas Banka in conjunction with the national central banks of the ESCB participating in TARGET2.

TARGET2-Latvija: a component system of TARGET2 in Latvia.

TARGET2-Securities (T2S): the Eurosystem's single technical platform enabling central securities depositories and national central banks to provide borderless and neutral core securities settlement services in the central bank money in Europe.

Targeted longer-term refinancing operation (TLTRO): a reverse operation of the Eurosystem providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. It is part of a package of non-standard monetary policy measures approved by the Governing Council of the ECB.

Travel: goods purchased and services received by travellers, except international carriage of passengers.

World Bank: the world's largest institutional investor whose primary objectives are the reduction of poverty and stimulating the economic growth of developing countries. It was founded in 1944 at the Bretton Woods (USA) conference. Currently, the World Bank Group consists of five closely linked institutions: International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency and International Centre for Settlement of Investment Disputes.

Appendix 7

Abbreviations and explanations

AML/CFT	anti-money laundering and combating the financing of terrorism and proliferation
APP	asset purchase programme
AS	joint stock company
AUKUS	trilateral pact between Australia, the United Kingdom and the United States
BIS	Bank for International Settlements
CSB	Central Statistical Bureau of Latvia
DSGE model	Dynamic Stochastic General Equilibrium model
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EFC	Economic and Financial Committee
EKS	Latvijas Banka's electronic clearing system
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
EU	European Union
FCMC	Financial and Capital Market Commission
FRS	US Federal Reserve System
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
LTRO	longer-term refinancing operation
MFI	Monetary Financial Institution
NCB	national central bank
OECD	Organisation for Economic Co-operation and Development
PEPP	pandemic emergency purchase programme
PIT	personal income tax
PSPP	public sector purchase programme
SDDS	Plus Special Data Dissemination Standard Plus
SDR	Special Drawing Rights
SEPA	Single Euro Payments Area
SIA	limited liability company
SSM	Single Supervisory Mechanism
TLTRO	targeted longer-term refinancing operation
UK	United Kingdom
UN	United Nations
US	United States of America
VAT	Value Added Tax

Details may not add because of rounding-off.

-	no transactions or no outstanding amounts in the period.
x	no data available or no computation of indicators possible.
0; 0.0	magnitude less than half of the unit employed.