



A cornerstone of an independent state is its central bank, which is given a mandate to issue money. The central bank of Latvia is a couple of years younger than the State of Latvia, as the country, devastated by World War I, could only gradually amass the resources needed to manage and organise the financial flows independently. It is a real miracle, indeed, that a little country and a small nation can exist and survive being surrounded by large powers, yet this miracle has been created by the human mind and will, people's effort and persistent determination. Talented and selfless men transformed the war debris into an orderly environment, tending to enhance the economy and its branches whose income from exports enabled the government to make savings and, thus, enhance the financial autonomy. The new institution, erected on the foundations of the State Savings and Credit Bank whose functions had been those of the Treasury, inherited the commercial banking functions and the practices of the 1920s and 1930s when this mandate to issue money was shared between the Bank of Latvia and the Ministry of Finance. Nevertheless, it was the gold and foreign currency reserves held by the Bank of Latvia that ensured the backing for the lats and allowed to preserve the gold standard in the face of the billowing crisis of 1929–1933 even longer than in the UK, the Scandinavian countries and the US.

At that time, the Bank of Latvia assumed the role of a most powerful agent directly driving the country's economy by issuing loans to farmers, supporting credit institutions in the 1930s, and organising the financing for the construction of a hydroelectric power plant at Ķegums. These activities simultaneously implied that the central bank's independence was impaired, which, in turn, rendered the bank's regulation of money supply less effective and the policy makers' influence on its decisions and functions more powerful.

Nevertheless, it was the Bank of Latvia that on its second working day issued the very first lats banknotes, using for the purpose the banknote of 500 Latvian rubles with an overprint "10 lats". Initially meant as an emergency measure, this solution was later replaced by a well-weighted lats banknote production policy, from which the tradition to create stable national currency of beautiful design took root. The lats became an integral part and a symbol of the Latvian independence, stability and

national welfare; as such, it was impressed upon the memory of the nation and in the people's minds wherever they lived – in exile or in occupied Latvia after 1940.

The succession of several occupational regimes during World War II brought nearly total transformation of the life in Latvia, with the independent statehood, central bank and national currency lost; the years of Soviet rule, on the other hand, ignited the awareness of planned economy's weaknesses, of growing economic backwardness relative to other European countries, of limited functioning of money, and of closed borders not only for the capital flows but also for the Soviet-empire-enslaved nation and its creative minds. Life behind the iron curtain was distorting the human relations, environment and economy.

The years of awakening and re-establishment of Latvia's independent statehood meant that lots of things buried in the past had to be recollected, lessons had to be learned from mistakes made or those committed by others, and novelties introduced by technologies and globalisation had to be mastered. The state had to be restored, with its people both engaging in the creative work and simultaneously adopting the newly-emerging political, economic and social conceptions.

The silver lining of all these challenges was the chance to skip the interim stages of technological development and to master and adopt the innovations in a more promptly manner. The experience gained by the Bank of Latvia through history, combined with the contemporary solutions offered by the central bank of Germany and the support by the IMF and the Bank for International Settlements, cemented the Bank's commitment to enhance the independence and to create a strong and sustainable national currency. Consequently indeed, the reintroduction of the lats using the Latvian ruble as the launching pad, pegging of the lats to the SDR, and its repegging to the euro as from 1 January 2005 were the only logical choices.

Following the re-establishment of Latvia's independence, in a short span of time the Bank of Latvia emerged as an institution with a wide spectrum of functions and full-fledged participation in the European System of Central Banks, mature to take new challenges to ensure the changeover to the euro, the single European currency, and explore new economic development opportunities.

The debate about how focused Latvia's intention to join the euro area is and whether the year 2014 is the right time to do it is definitely to continue until Latvia's full-fledged participation in the EMU. Lots of scientifically verifiable assertions in favour of the euro exist; at the same time, the economic arguments tested during the recent crisis by the new Member States of the EU that endeavoured to introduce the euro should not be neglected either. It is an opportunity to reduce taxes, strive for higher credit ratings, and borrow unlimited amounts from the European Central Bank. In general, it means opportunities for greater stability and faster growth. The central bank, accordingly, will gain momentum for attaining its core objective of maintaining price stability.

The recently weathered crisis has taught Latvia a serious lesson. It is high time now to demonstrate that the causes of the crisis have been appropriately perceived, that we are strongly committed to avoid previously made mistakes and do our utmost to support Latvia's return to the European family of major developed countries. The representatives of Latvia have to join, as equal partners, the negotiating table to resolve the issues that are valid for the economic development of the country; moreover, they have to disseminate their experience and know-how in an effort to promote the growth in entire Europe.

Hence, the conception of the Latvian poet Rainis that only that endures which changes, may serve as a magic formula to drive the dynamics of the economy, the central bank and the national currency alike. The euro area as a target implies quality changes of monetary policy and the lats replacement by the euro. However, the everlasting nexus will live on via symbols, as the euro coins will also feature the image once created by the hand of Rihards Zariņš, imprinted on the 500 lats banknote and later reborn on the 5 lats coin. The image of Latvian folk-maid has for years been an emotional link, a symbol of the Latvian identity.

The book dedicated to the 90th anniversary of the Bank of Latvia and the national currency unit, the lats, also features the profile of Latvian folk-maid. It has been created with the aim to provide an insight into the roles the central bank and the national currency play for the economy, to sort out the opportunities used and missed on our way to garner wisdom in the

fields of experience, and to preserve, in a summarised manner, the information so essential for the history of Latvia.

The economic history of Latvia with its never-to-be-written and partly-written pages was the impetus for a contest to get researchers involved. On the other hand, the studies of the Bank of Latvia's history, in general, have been so scarce that the few existing, occasionally appearing arguments are widely and indiscriminately cited. Without any claims for capturing, in full, the abounding wealth of materials at the Latvian National Archives and the data analysis offered by other sources, this book presents a body of studies consistently reviewing the history of both the Latvian economy and the Bank of Latvia, suggesting, in the meantime, the directions for further research. As distinctive as the authors of the papers published herein are, their stances and habits of research and analysis differ as well. Their specific ways of reasoning either to know a lot or only that which is stately, a free choice of the historians and economists represented herein, set out a spectrum of unknown perspectives of economic history for each and every reader to explore. Moreover, freedom of a country is a guarantee of personal freedoms to its people, which in the case of this dedication has accommodated the emergence of a many-sided, cross-sectional picture of previous years, with the public opinion remaining a sole censor nowadays.

This book is a tribute to the Latvian nation on the occasion of the 90th birthday of the Bank of Latvia and the national currency unit, the lats, created by it. More than simply a remembrance and critical assessment of history let it be an encouragement for people to become stronger, wiser and more skilful in addressing fundamentally new challenges. *Facta, non verba!*

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