



LATVIJAS BANKA

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BANK OF LATVIA



The Bank of Latvia is the central bank of Latvia. It was established on 31 July 1990 and operates under the Republic of Latvia Law "On the Bank of Latvia". Pursuant to the Law, the Bank of Latvia is administered by the Council, and the Governor and other members of the Council are appointed by the Saeima of the Republic of Latvia. As of 21 December 2001, Ilmārs Rimšēvičs is the Governor of the Bank of Latvia. The Board of the Bank of Latvia manages the day-to-day operation of the Bank of Latvia. Pursuant to the resolution of the Bank of Latvia Council, Māris Kālis was appointed the Chairman of the Board of the Bank of Latvia as of 16 July 2007.

The Bank of Latvia is supervised by the Saeima of the Republic of Latvia. The Bank of Latvia's business operations and documents are audited by the Audit Commission whose composition is approved by the State Audit Office of the Republic of Latvia.

The Bank of Latvia operates within the European System of Central Banks (ESCB) and complies with the European Central Bank's (ECB) legal acts pursuant to the Treaty on the Functioning of the European Union and the Statute of the ESCB and ECB. The primary goal of the Bank of Latvia is to maintain price stability in Latvia. Pursuant to the Law "On the Bank of Latvia", its main tasks are as follows:

- establishment and implementation of monetary policy;
- management of foreign currency and gold reserves;
- issue of the national currency, both banknotes and coins;
- organisation and management of the interbank payment system and promotion of a smooth functioning of the payment system in Latvia;
- compiling and publishing financial statistics and Latvia's balance of payments;
- representation of Latvia in foreign central banks and international financial institutions;
- acting as a financial agent for the Latvian government.

The Bank of Latvia also ensures the operation of the Credit Register. The Bank of Latvia grants the legal persons registered with the Republic of Latvia Enterprise Register (except credit institutions) licences for purchasing and selling foreign currency as a commercial activity and controls compliance with the procedure for purchasing and selling foreign currency established by it.

The Bank of Latvia's priorities are as follows:

- price stability and promotion of the stability of the financial system. The Bank of Latvia promotes in-depth studies of the economic environment to use the resulting information in its monetary policy decisions;
- preparation for a full-fledged membership of Latvia in the Economic and Monetary Union. In cooperation with the government and other institutions, the Bank of Latvia facilitates implementation of the Maastricht criteria as well as ensures the financial sector settlement infrastructure, the cash changeover, the necessary amendments to the laws and regulations and full-fledged participation in the ESCB;
- promotion of public awareness of the Bank of Latvia's operation, and the decisions it has taken as well as Latvia's economic development;
- enhancement of the Bank of Latvia's management processes and operational efficiency, development of the Bank of Latvia as a learning organisation, and promotion of staff motivation.

The key task of the central bank's monetary policy is to facilitate favourable macroeconomic environment for sustainable growth of the national economy. The course of the global economic development suggests that the monetary policy can best contribute to the economic growth, employment and financial stability by ensuring low and stable inflation rate in the long term. When Latvia becomes a full-fledged member of the Economic and Monetary Union and the euro is introduced, the ECB monetary policy will be implemented in Latvia and the same monetary policy instruments will be used as elsewhere in the euro area. The monetary policy instruments of the Bank of Latvia are already in line with those used in the euro area. Like the ECB, the Bank of Latvia also uses minimum reserve requirement, market operations, as well as standing facilities (marginal lending facility and deposit facility), but procedures of performing monetary operations, their regularity and timelines, as well as the bank minimum reserve rate remain to be agreed upon.

The Maastricht criteria specify that for at least two years prior to the euro changeover the lats is to be pegged to the euro, with the fluctuation of the lats exchange rate against the euro not exceeding $\pm 15\%$ against the central parity rate of the lats vis-à-vis the euro. The Bank of Latvia unilaterally ensures the lats exchange rate fluctuations against the euro within $\pm 1\%$ of the central parity rate.

The Bank of Latvia manages its foreign reserves, which include gold, convertible foreign currencies and SDR, in compliance with the guidelines adopted by the Council of the Bank of Latvia. The Bank of Latvia invests its foreign reserves in safe and liquid financial instruments, primarily in debt securities issued by governments and government agencies of the euro area countries and the US, and international organisations, as well as in highly rated bank and corporate debt securities, asset-backed debt securities and callable bonds.

The Bank of Latvia ensures the availability of lats banknotes and coins required for cash currency circulation, and checks the banknotes and coins received from banks for wear and tear and authenticity with the help of automated cash processing systems. The Bank of Latvia develops national collector coin programmes and takes part in international ones, creating international award winning silver, gold and niobium coins featuring Latvian national heritage elements.



The Bank of Latvia compiles financial and monetary statistics, as well as balance of payments, external debt, international investment position and financial accounts statistics. For statistical purposes, data are collected from monetary financial institutions and non-financial institutions; other data sources and estimates are also used, thus easing the reporting burden for respondents. In compiling statistics, the Bank of Latvia complies with the ECB methodology and requirements. The Bank of Latvia uses the statistical data for the monetary policy, forecasting and analysis purposes, as well as provides them to data users in Latvia and abroad. The major users of the statistical data compiled by the Bank of Latvia are public institutions of the Republic of Latvia, the ECB, the Bank for International Settlements (BIS), and the IMF. Data relevant for a wider scope of data users are published on the Bank of Latvia's website.

The Bank of Latvia assesses the financial system stability, with a particular focus on the system risk analysis. In view of a predominant role of credit risk in the bank operational risk structure, considerable attention is paid to the econometric modelling of credit risk. The Bank of Latvia compiles and publishes on its website the results of bank lending survey. Dealing with financial stability issues in the EU context, representatives of the Bank of Latvia take part in the Economic and Financial Committee, Committee of European Banking Supervisors (CEBS), and the ESCB Banking Supervision Committee, as well as their working groups.



The Bank of Latvia ensures smooth operation of three payment systems (the SAMS – real-time gross settlement system for interbank and urgent payments, the EKS – clearing and settlement of net positions of batch retail payments, and in conjunction with other participants of the ESCB – TARGET2, whose component system is TARGET2-Latvija), as well as the securities settlement system. A uniform legal framework harmonises the regulation of all three payment systems maintained by the Bank of Latvia and expands the scope of potential participants.

The Bank of Latvia oversees the payment system of Latvia. In line with the "The Bank of Latvia's Payment System Policy", a day-to-day oversight of the systemically important payment systems (the SAMS and the EKS) is performed (primarily analysing the SAMS and EKS business continuity and statistical data). Within the framework of the oversight of securities settlement systems, the Bank of Latvia participates in the work of the Latvian National User Group of the Eurosystem project TARGET2-Securities. The Bank of Latvia is among the authorities responsible for the SEPA project implementation in Latvia, and a Bank's representative heads the National SEPA Working Group.

The Bank of Latvia Credit Register participants are not only banks and bank subsidiaries registered in the Republic of Latvia and providing financial services associated with credit risks, but also all companies having close links with the bank and providing financial services associated with credit risks, as well as credit unions and insurers. The data of the Credit Register are accessible to the participants of the Credit Register, the Financial and Capital Market Commission and the Bank of Latvia, borrowers and borrower guarantors (natural and legal persons regarding their liabilities).

The Bank of Latvia represents Latvia's interests at the meetings of the IMF Board of Governors and participates in the coordination of routine issues in the Nordic-Baltic Constituency. Representatives of the Bank of Latvia participate in the work of the Nordic-Baltic Monetary and Financial Committee established for developing strategies and guidelines and preparing a joint opinion on operational issues of the IMF. Cooperation with the IMF continues under the IMF Stand-By Agreement. Likewise, the Bank of Latvia continues its membership in the BIS.



Results of economic research and analysis find their reflection in the series of publications *Working Papers* and *Discussion Papers*, as well as in the regular publications *Macroeconomic Developments Report* (a quarterly comprising the Bank of Latvia forecasts of economic growth and inflation), *Monetary Bulletin* (a monthly), *Latvia's Balance of Payments* and *Financial Stability Report* (annual publications), Bank of Latvia Annual Report, and other publications on particular business areas. The Bank of Latvia publications are available on the Bank of Latvia website, and the Annual Report is published also in printed form. In compliance with the provisions of the Statute of the ESCB and of the ECB, the Bank of Latvia provides Latvian translations of the ECB Annual Report, the quarterly version of the ECB "Monthly Bulletin", the Summaries of the Convergence Reports and some other materials (available on the Bank of Latvia website).

In order that the users could better understand the procedure of the euro changeover, recognise the design of the euro banknotes and coins, and be aware of the procedure of non-cash settlement, the Bank of Latvia Visitors Centre "Money World" (naudas.pasaule@bank.lv; <http://www.bank.lv/ac/>) provides information in an interactive exposition to several thousand interested persons every year. The Bank of Latvia describes the significance of the euro changeover to the national economy and points to the need to attain, as soon as possible, compliance with the Maastricht criteria. All information has been made available on the Bank of Latvia website, in mass media, and public discourse forums. To raise public awareness of the economic benefits from changing over to the euro, the Bank of Latvia holds quizzes and competitions, and participates in events initiated by other organisations.

