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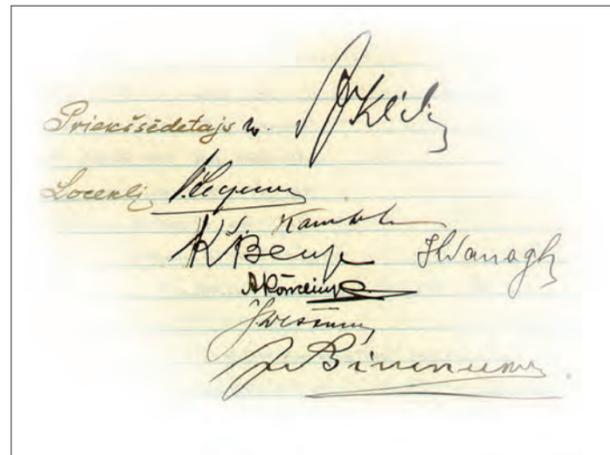
Āris Puriņš

THE BANK OF LATVIA
(1922–1940)



The idea of a national currency became compelling immediately after Latvia proclaimed its sovereignty on 18 November 1918. For Latvia to be independent indeed, not only politically but also economically, there was no alternative for the issuance of a national currency. Interestingly, the focus of the public discourse then was less on the problem of currency itself but rather on the mechanism for its creation, i.e. a currency issuing bank. The need to establish one was often discussed by the government and in the political and economic circles. It soon became clear, however, that addressing financial issues required more than political lust, that objective economic preconditions that were absent in war-devastated Latvia had to exist. For several years to come, the nation was impelled to tolerate financial havoc and exhibit forbearance with the circulation of several alien currencies in Latvia's economic space.

The shortage of funds for the backing of national currency was the main stumbling-block. First, high hopes were cherished to establish a money issuing entity as a jointstock bank with foreign capital and the state participating as a shareholder. But the situation in Latvia, both political and economic, was thought unstable by foreign governments, and foreign capital refrained from participating in founding such an institution. At the same time, the government of Latvia resolutely turned down as excessively risky the proposals of some too avaricious foreign financial companies. The proposal to establish an issuing bank using financial resources of domestic private credit institutions and free local capital also had to be declined, as the volumes were modest and in the possession of non-residents.



Facsimile signatures from the record No. 1 of the Bank of Latvia Council's meeting which took place on 23 October 1922. LSHA, F. 6209, descr. 1, f. 1, p. 2.

THE BANK OF LATVIA: PREDECESSORS AND FOUNDATION

The process of Bank of Latvia's foundation dragged on. The Bank's objective and the actions and powers for its attainment were for the first time legally defined in the Statute of the Bank of Latvia (the Statute) by the Resolution of the Cabinet of Ministers of the Republic of Latvia passed on 19 September 1922 (in accordance with powers vested with the Cabinet of Ministers on 16 July 1919)¹. Taking a legal perspective, this date should be recognised as the first day of the Bank of Latvia's existence, which was followed by a new edition of the Statute approved by the *Saeima* (Parliament) of the Republic of Latvia on 18 May 1923 and promulgated on 2 June 1923. The initial date of the bank's emergence can be argued from a practical point of view as well. The brainwork got off the ground when the Bank of Latvia Council, actually authorised on behalf of the *Saeima* by the Resolution of the Cabinet of Ministers of 19 September 1922, conveyed its very first meeting on 23 October 1922. On 1 November, the Bank of Latvia was granted financial and material resources needed for its operation. It followed the liquidation of the State Savings and Credit Bank on 1 November by the government decision of 26 October, with the assets and liabilities of this bank passing over to the Bank of Latvia. It is true, however, that on 1 November the Bank of Latvia started its operation with 6 million lats in nominal capital instead of the granted 10 million, while the rest of funding came a couple of months later². The Bank itself marked its birthday on 1 November.

To manage public finance, an establishment, usually named the Treasury, is as a rule set up. To manage state finance of the newly proclaimed Republic of Latvia, the first Treasury Division was opened in Riga already on 18 November 1918.³ From this rudimentary nucleus a set of functions began to rise; largely invigorated, it fell into the lap of the Bank of Latvia on 1 November 1922.

The first Treasury Division was followed by 15 more in 1919 and 7 more in 1920. "The General Regulation for the Treasury and Its Departments" was approved on 12 November 1921. The task of the Treasury was to conduct direct operations, while the Foreign Currency Department attached to it and the Department of Operations with Treasury Bills were under the auspices of the Credit Department of the Ministry of Finances which, in fact, took upon itself improper banking functions.

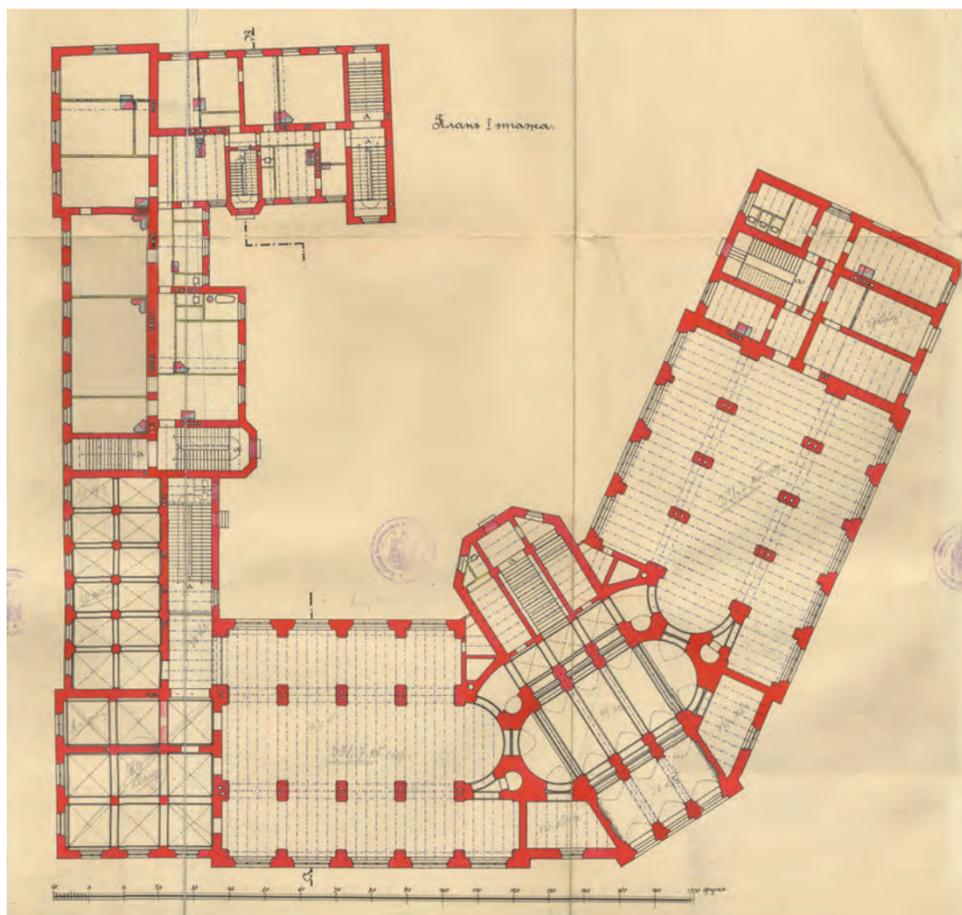
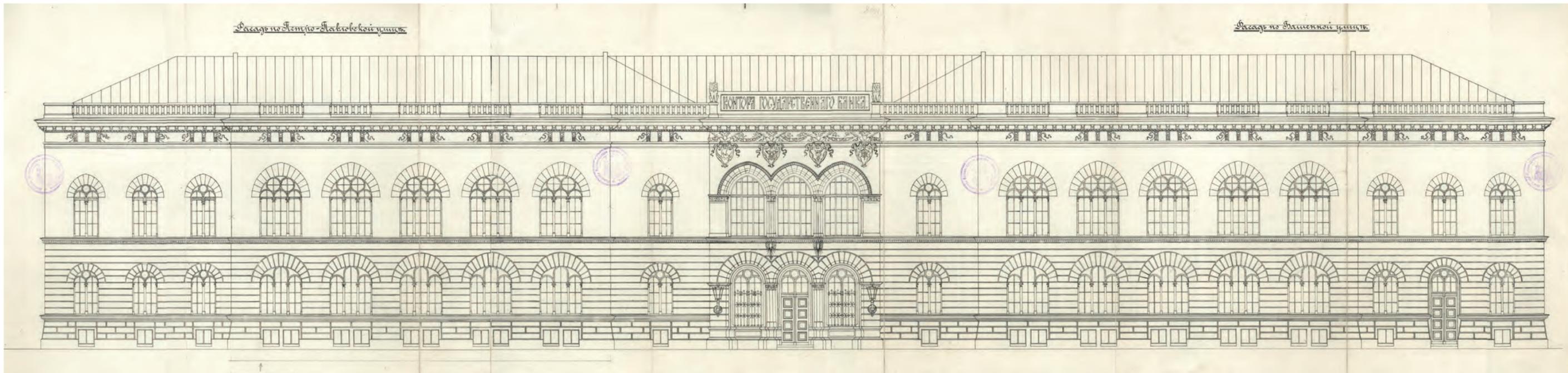
Later these diverse institutions of the Treasury were merged into a single Treasury Department, into which, along with the Treasury Divisions, the Budget Division and the Central Accounting Department were also incorporated. On 1 April 1922, the Treasury Department was finally dissolved and its functions transferred to the State Savings and Credit Bank, which on 1 October 1921 emerged from the Foreign Exchange Division of the Credit Department of the Ministry of Finance and the State Savings Bank. The Minister of Finance had expanded the functions

of the State Savings Bank to include banking operations by its decision of 30 June 1921. On 17 September 1921, the government issued a decree to grant state financing of 4 million golden francs to the State Savings and Credit Bank as nominal capital to promote banking operations and expand business activities. The Minister of Finance approved the Provisional Statute of bank's operation on 12 September. The State Savings and Credit Bank engaged in foreign exchange transactions. The currency issuing operations remained directly vested with the Ministry of Finance.

When the foreign market situation became more favourable, Latvian exports started to earn more foreign currency. The Customs, the state currency issuing monopoly, and severe tax requisitions raised funds for the Treasury. Foreign capital began to flow gradually into private businesses both as share capital and loans. In 1921, the exchange rate of the Latvian currency stabilised, and, thus, the establishment of an issuing bank using the domestic funding became possible.

On 22 November 1921, the plenary session of the Constitutional Assembly entrusted the government with the drafting of central bank legislation. This task was undertaken by the Ministry of Finance. Legislators were split on the issue whether this bank should exercise the issuing rights or a special issuing bank of a private stock bank type should be established. Both proposals had their pros and cons. As the attraction of impressive private funding was almost out of question and the reviving economy urgently needed current assets in ever growing amounts, the foundation of the issuing bank could not be postponed to a later time. There were only two options left – either to proceed with issuing new Treasury notes or to set up a state issuing bank using state funding. On the basis of the Law of the Republic of Latvia of 16 July 1919, the Cabinet of Ministers approved the "Regulation on Money" (regulation with power of law) on 3 August 1922. In accordance with this Regulation, the Latvian currency system was based on the gold standard, and 1 lats, the national currency unit, comprised 0.2903226 g of pure gold, with the rate of the Latvian ruble and lats at 50 : 1. This led to distinct official gold content of the lats and the franc (1 golden franc contained 0.29032254 g of pure gold), later (in October 1924) to be eliminated by the *Saeima* Finance Commission. Meanwhile on 19 September 1922, the Cabinet of Ministers' meeting adopted "The Statute of the Bank of Latvia" (published by *Valdības Vēstnesis* on 22 September), and, as the lats was based on the gold standard, it was the Bank of Latvia that guaranteed the exchange of the lats for gold or foreign currency units on the basis of the Bank of Latvia's officially set gold content in one monetary unit.

The Bank was founded as an autonomous state institution with issuing rights and the capital allocated by state. The Bank of Latvia commenced its activities not only with inherited balance and staff



Facade and ground floor designs of the Russian State Bank Riga Branch building.

Parapet shows changes in 1936 when the Ministry of Finance moved to its new building at Smilšu Street 1 and the Bank of Latvia became sole owner of the historical building.



THE BANK OF LATVIA AND LATVIAN MONEY

The Statute granted the monopoly right to the Bank of Latvia to issue money notes (banknotes), while, in general, the state money had two masters – the Bank of Latvia and the Ministry of Finance. The relationships between the two determined the evolution of the Republic of Latvia's independent monetary system, which began with the emergence of the Latvian ruble in the spring of 1919 and was finally defined on 14 November 1924 by the Law "On Treasury Notes". At that time, paper money of two different types was circulated in Latvia, and politicians and economists were split on whether such dualism would be useful in the future.

First, the Treasury notes denominated in rubles and, at some point in time, authorised by the Constitutional Assembly, were in circulation; their total value was 48.4 million lats or 2 420 million rubles¹³, of which the notes in 500 ruble denomination accounted for the value of around 38 million lats. These notes ensured the turnover of commodities and services and featured the inscription as being backed with all state assets. It was attested with signatures of the State Treasurer and Minister of Finance, two officials representing the state. Almost 70% of this money's nominal value was backed by state reserves, and this was reckoned as a very good backing.

Second, the Bank of Latvia banknotes worth 22.3 million lats (of the total 26.0 million lats, the remaining part of which was held by the Bank of Latvia for various payment needs) were in circulation. They were fully backed with gold and safe foreign currencies, thereby attesting to Latvia's creditworthiness.

Bronze, nickel and silver coins were also circulated. On 1 November 1924, around 0.5 million lats were circulated as bronze, 2.2 million lats as nickel, and 8.5 million lats as silver coins.¹⁴

This monetary dualism had both supporters and opponents. On 14 November 1924, the *Saeima* reviewed the draft laws submitted by both parties. Ringolds Kalnings, the Minister of Finance, had drafted one of the proposals – the Law "On the Withdrawal of Treasury Notes from Circulation". The other draft law had been drawn by the *Saeima* Finance Commission. In the period between 10 September 1922 and 26 January 1924 when R. Kalnings did not serve as the Minister of Finance, three ministers had succeeded each other (A. Riekstiņš, A. Buševics and H. Punga), and a draft had been drawn for the withdrawal of rubles, i.e. the Treasury notes, from circulation; this draft provided for a change in the name and printing of new Treasury notes, with the gold backing still at the disposal of the Ministry of Finance and the Bank of Latvia responsible only for gold storage. In the period above, a draft of such reprinting had already been once discussed at the plenary session; following the criticism voiced by R. Kalnings, then a *Saeima* deputy (from the non-party National Centre) and the Chairman of the Bank of Latvia Council, the draft was rejected and returned to the Commission.

Having returned to the Minister's position in January 1924, R. Kalnings submitted a new draft law to the *Saeima* Finance Commission, which, alas, was again rejected. Both draft laws were reviewed by the *Saeima* plenary session on 14 November 1924.

R. Kalnings based his draft on a cautious presumption that a parliamentary system might fail to guarantee constant issuance volumes of Treasury notes, which, in the circumstances of yielding to populist requests and ignoring actual economic conditions, could easily and voluntarily be increased at any point, thereby giving momentum to inflation. These inflationary threats underpinned R. Kalnings' insistence on withdrawing the Treasury notes from circulation.¹⁵

The proposal relied on the principle that only one establishment, one regulator in the country should circulate the banknotes which could be exchanged for gold at any time. The whole gold reserve should be placed at the disposal of the Bank of Latvia. It could be used solely for banking operations in compliance with the Statute of the Bank but in no case in the interests of individual political groupings. And even though R. Kalnings was the Chairman of the Council of the Bank of Latvia at that time, the latter did not discuss this proposal, which presumably was a draft of the Ministry of Finance; at the same time, R. Kalnings' veto on the project of the Bank of Latvia Council to issue 20 and 25 lats banknotes in the summer of 1924 testified to his lack of faith in project's success. It is implied also by his collaboration with A. Kārklīš who held Director's position at the Credit Department of the Ministry of Finance at that time, and the bitter remarks on the "intrigues" of the two written in exile by Adolfs Klīve. A. Kārklīš, in turn, supported the decision of the *Saeima* on retaining the Treasury notes and the gold reserve, making reference, *inter alia*, to the interests of national defence.¹⁶

Meanwhile, the *Saeima* Finance Commission turned the proposal down, primarily arguing against placing the national gold holding at the disposal of the Bank of Latvia. The Finance Commission was of the opinion that the gold reserve was a certain back-up for "extremely important and extremely urgent state needs". This strategic reserve had to be maintained with the government that was held responsible before the *Saeima*; there was no ground and need to pass the gold holding over to the Bank of Latvia, for be it so, the government and the *Saeima* would not be able to make use of it expediently enough. In such a way, the process of the national monetary system was primarily underpinned by a political, not an economic motive, to retain control of the *Saeima* over the national gold holding stockpiled in the period from the second half of 1921 to the first half of 1923.

The proposal of R. Kalnings was criticised from the *Saeima* rostrum by deputy Pēteris Bergis from the *Saeima* Democratic Centre and non-party public figure faction as well as Voldemārs

Bastjānis and Jūlijs Celms, both from the *Saeima* Social Democratic Party faction (the latter, by the way, replaced R. Kalnings in the position of the Chairman of the Bank of Latvia Council three years later). Directly or in roundabout ways, they voiced the opinion that Latvia was not ready as yet to place the responsibility for the national monetary policy solely at the disposal of Bank of Latvia economists.¹⁷ In their opinion, gold was the key to Latvia's strategic security to be held under the control of political elite. As Article 1 of R. Kalnings' draft Law "On the Withdrawal of Treasury Notes from Circulation" won the support of only 24 *Saeima* deputies, the parliamentary debate was discontinued and the draft law rejected.

The majority of the *Saeima* deputies supported the keeping of Treasury notes, and in the afternoon of 14 November 1924, the Law "On Treasury Notes" was passed with 49 deputies voting for, 12 voting against, and no deputy present abstaining (published in *Valdības Vēstnesis* on 24 November). The Law stipulated that "Treasury notes issued in rubles shall be withdrawn from circulation and shall be replaced by new Treasury notes in lats in the following denominations: 1, 2, 5, 10 and 20 lats. (...) The total value of Treasury notes in circulation shall not exceed 48 million lats, and the state shall be answerable for them with all of its assets. In order to ensure exchange rate stability of the issued Treasury notes, the state shall deposit the gold reserve in state deposit accounts with the Bank of Latvia's in the amount equal to at least one fourth of the total nominal value of Treasury notes in circulation."

As a result, the dual monetary system was preserved in Latvia: the Ministry of Finance oversaw the Treasury notes (paper and metal), whereas the Bank of Latvia issued banknotes. The stages of issuing lats banknotes and Treasury notes, including coins, are described in classified papers by Latvian researchers of numismatic history.¹⁸

The Bank of Latvia banknotes of 10, 20, 25, 50, 100 and 500 lats as well as Treasury notes of 5, 10 and 20 lats were circulated along with silver coins of 1, 2 and 5 lats denominations, 1, 2 and 5 santim coins of bronze, and 10, 20 and 50 santim nickel coins.

The money notes of the two types differed mainly by the nominal value (Treasury notes were issued as paper notes and metal coins of small denominations to serve primarily for everyday circulation), the issuer, the volume of issuance and backing. In order to avert inflation, the volume of Treasury notes stipulated by law to ensure minimum currency circulation in Latvia was not increased with time. The volume of Bank of Latvia money notes, by contrast, depended only on the available backing in accordance with the Statute. The issuance was not too voluminous, hence providing the backing for the issued banknotes did not present difficulties for the Bank of Latvia (see Chart 1).

Chart 1. BACKING OF BANK OF LATVIA BANKNOTES WITH FOREIGN RESERVES (1922–1939; millions of lats)



Source: Data from Bank of Latvia Annual Reports 1922–1939.

The foreign reserves reached a peak in 1928 (81.5 million lats)¹⁹, while the share of gold in foreign reserves increased notably during the first decade of Bank of Latvia operation.²⁰ In the meantime, the actual issuance volumes were never on par with the potential emission, and the Bank of Latvia, even though the Statute ruled otherwise, abided by the principle that all issued banknotes were to be fully backed either with gold or safe foreign currencies. According to the Statute, the issued banknotes, if not in excess of 100 million lats, had to be secured with gold or safe foreign currencies in the amount of not less than 50%, the rest could be backed by short-term bills (in accordance with the wording of 2 June 1923; pursuant to the amendment to this article published on 28 May 1936, the backing requirement for issuance of up to 100 million lats was at least 30%, and a 50% backing requirement was applicable only to amounts above 100 million lats).

The backing of the lats was more than two times above the level stipulated by law even during the global economic crisis when the foreign currency reserves dried out markedly. The government likewise managed to maintain the officially declared value of the lats in international relations. Hardships began after 21 September 1931 when the economic-crisis-hit UK and a number of other countries abandoned the gold peg and let their national currencies fall. Latvia did not follow suit but, on the basis of Cabinet of Ministers "Regulation on the Foreign Exchange Operations" passed consistently with Article 81 of the Constitution (Satversme), on 8 October 1931 cancelled the obligation to exchange banknotes for gold. This formally put an end to the period of the gold-standard-backed lats, although the lats exchange rate preserved the gold standard peg for five more years.



100 lats.
Banknote of the Bank of Latvia,
printed in 1923 in Riga.
Artists Rihards Zariņš and
Kārlis Krauze.
Paper, 154.0 × 88.0 mm.



20 lats.
Banknote of the Bank of Latvia,
printed in 1925 in England
(Waterlow & Sons Ltd.).
Paper, 135.0 × 75.0 mm.



20 lats.
Banknote of the Bank of Latvia,
printed in 1924 in England
(Waterlow & Sons Ltd.).
Artist Vilhelms Krūmiņš.
Paper, 135.0 × 75.0 mm.



50 lats.
Banknote of the Bank of Latvia,
printed in 1924 in England
(Waterlow & Sons Ltd.).
Paper, 145.0 × 80.0 mm.

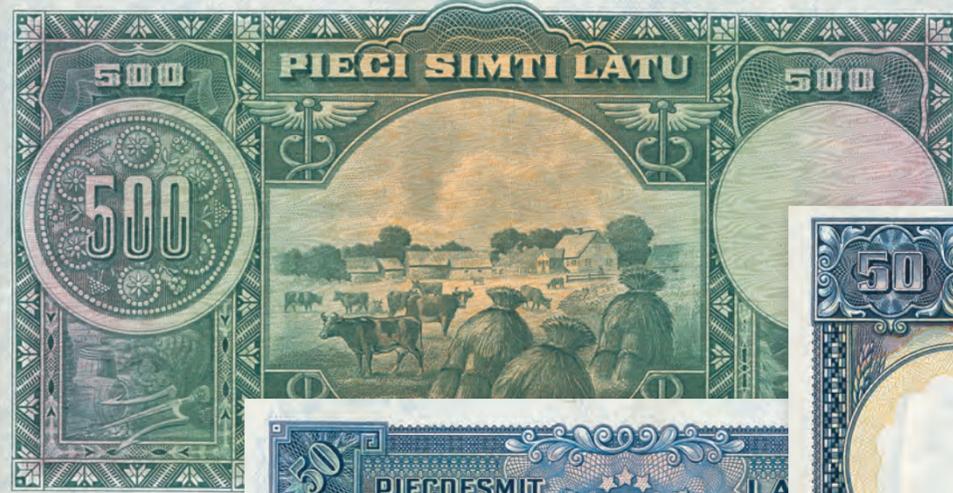


25 lats.
Banknote of the Bank of Latvia,
printed in 1928 in England
(Waterlow & Sons Ltd.).
Paper, 133.0 × 89.0 mm.





500 lats.
Banknote of the Bank of Latvia,
printed in 1929 in England
(Bradbury, Wilkinson & Co. Ltd.).
Paper, 190.0 × 104.0 mm.



50 lats
Banknote of the Bank of Latvia,
printed in 1934 in England
(Thomas de la Rue & Co. Ltd.).
Paper, 145.0 × 80.0 mm.



25 lats.
Banknote of the Bank of Latvia,
printed in 1938 in England
(Bradbury, Wilkinson & Co. Ltd.).
Paper, 142.0 × 76.0 mm.



100 lats.
Banknote of the Bank of Latvia,
printed in 1939 in Riga.
Artist Jānis Šternbergs.
Paper, 150.0 × 80.0 mm.

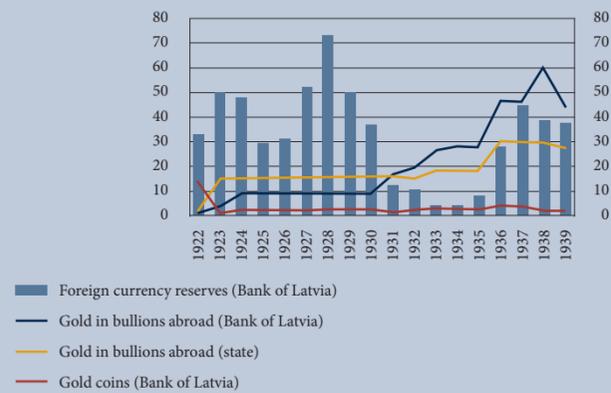


BANKNOTES OF THE BANK OF LATVIA (1922-1940)

| Face value | Measurement (mm) | Year of printing (issuing) | Author of design | Printing house |
|-------------------------------------|------------------|----------------------------|---|---|
| 10 lats (500 rubles with overprint) | 160 × 104 | 1922 | Design and overprint by Rihards Zariņš | State Securities Printing House in Riga |
| 100 lats | 154 × 88 | 1923 | Rihards Zariņš; copper engraving by Kārlis Krauze | State Securities Printing House in Riga |
| 20 lats | 135 × 75 | 1924 (1925) | Vilhelms Krūmiņš | Waterlow & Sons Ltd. (London) |
| 50 lats | 145 × 80 | 1924 (1925) | Drawing of Riga panoramic view by Ansis Cirulis; design by printing house artists | Waterlow & Sons Ltd. (London) |
| 20 lats | 135 × 75 | 1925 (1926) | Printing house artists | Waterlow & Sons Ltd. (London) |
| 25 lats | 133 × 89 | 1928 (1929) | Printing house artists | Waterlow & Sons Ltd. (London) |
| 500 lats | 190 × 104 | 1929 | Drawing of country landscape by Frīdrihs Bauris; design by printing house artists | Bradbury, Wilkinson & Co. Ltd. (New Malden) |
| 50 lats | 145 × 80 | 1934 (1935) | Printing house artists | Thomas de la Rue & Co. Ltd. (London) |
| 25 lats | 142 × 76 | 1938 | Drawing of Lāčplēsis' figure by Rihards Maurs; drawing of Staburags and River Daugava by Oskars Norītis; design by printing house artists | Bradbury, Wilkinson & Co. Ltd. (New Malden) |
| 100 lats | 154 × 82 | 1939 | Jānis Šternbergs | State Securities Printing House in Riga |

Sources: Ducmane, K., Vēciņš, Ē. Nauda Latvijā. Rīga : Latvijas Banka, 1995, 152.–160. lpp.; Platbārzdīs, A. Latvijas nauda. Stokholma, 1972, 44.–59. lpp.; Valdības Vēstnesis, Nr. 42, 1925, 21. febr., 1. lpp.; Nr. 68, 1925, 25. marts, 2. lpp.; Nr. 24, 1926, 1. febr., 3. lpp.; Nr. 197, 1938, 1. sept., 4. lpp.; Vēciņš, Ē., Rubenis, Dz., Grīns, G. R. Nauda Latvijā XX gadsimtā. Katalogs 2 daļās 5 sējumos, 1 daļa. Papīra naudas zīmes. 1. sēj. Rīga : SIA "Apgāds Zvaigzne ABC", 2000, 53.–64. lpp.

Chart 2. LATVIA'S GOLD AND FOREIGN CURRENCY RESERVES (1922–1939; millions of lats)



Source: Data from Bank of Latvia Annual Reports 1922–1939.

Table 1. OVERVIEW OF ACCOUNT "PRECIOUS METALS" OF THE BANK OF LATVIA FOREIGN DEPARTMENT (as at 11 October 1944)

| No | Name and location of correspondent | Weight of gold (kg) |
|-------|--|---------------------|
| 1. | Bank of England, London (gold of Ministry of Finance) | 3 655.2 |
| 2. | Bank of England, London (gold of Bank of Latvia) | 2 898.9 |
| 3. | Federal Reserve Bank of New York (gold of Bank of Latvia) | 3 048.1 |
| 4. | Banque de France, Paris (gold of Bank of Latvia) | 1 000.0 |
| 5. | Bank für Internationalen Zahlungsausgleich, Basel (Bank for International Settlements; gold of Bank of Latvia – deposit account) | 5.0 |
| Total | | 10 607.2 |

Sources: Brēdrihs, I. Baltijas zelts un Anglijas intereses. *Arhīvs, XI. Zelts, tiesības. Melburna, 1971, 19.–26. lpp.*; Dunsdorfs, E. Latvijas zelts Londonā. *Arhīvs, XI. Zelts, tiesības. Melburna, 1971, 27.–48. lpp.*; Klīve, A. Latvijas zelts un tā liktenis. *Arhīvs, XI. Zelts, tiesības. Melburna, 1971, 9.–18. lpp.*

For the purpose of preventing a dramatic outflow of Bank of Latvia foreign reserves in the times of heightened demand for foreign currencies, free exchange of lats banknotes for foreign currency units was discontinued by a government decree, and the foreign currency trading became state monopoly and was vested with the Bank of Latvia. With free exchange of Bank of Latvia banknotes for gold or foreign currency units suspended, the principal distinction between these banknotes and the Treasury notes was lost.

On 8 October 1931, consistently with Article 81 of the Constitution, the Cabinet of Ministers passed the first, later supplemented "Regulation on the Control of Goods Imports". A new legislative act on foreign exchange and foreign trade was adopted on 8 June 1934. It empowered the Bank of Latvia to author-

ise individual credit institutions to buy foreign currencies. On 7 March 1935, this law reappeared in new wording.

Due to external developments, the lats was officially depreciated by pegging it to the British pound sterling on 28 September 1936. The government of Latvia introduced amendments to the Credit Law (the Cabinet of Ministers passed and the President promulgated the Law "Amendments to the Credit Law"), stipulating in Article 1 that Latvia's currency unit was the lats which was equal to 0.0396487 British pound sterling (thus one British pound sterling cost 25.22 lats). In all transactions and acts concluded by this date, the unit of the lats stipulated under this Article replaced the current unit of the lats at rate 1 : 1. This amendment came into effect at 6:00 on 29 September 1936. In a radio broadcast on 28 September, the Minister of Finance Ludvigs Ēķis confessed that the need to depreciate the lats was determined by setting the exchange rates of the French franc and the British pound sterling equal.²¹ He also admitted that in the name of foreign trade and national economy Latvia was following in the steps of several world countries that figure important in Latvian exports; he, likewise, voiced his hopes that exports would gain momentum and the community would not be affected.

Measures to curb potential devaluation-ignited domestic price hikes were simultaneously introduced. The peg to the British pound sterling was maintained until 26 September 1939, when, due to the war, its value in the international market started to depreciate again. Then the Law stipulated that the Bank of Latvia would freely set the exchange rate of the lats and would not follow fluctuations in the British pound sterling, if the latter's value fell by more than 5% against the US dollar or the Swedish krona. On 16 June 1940 when "the army of the friendly country" entered Latvia, the British pound sterling cost only 20.35 lats, recording a drop of 19.3% in its value.

The formation and storing of gold reserves were managed by the Bank of Latvia Council and the Board. Although it was intended to exercise the issuing rights in lending, the Bank of Latvia used deposits and other resources to finance it. Investing solid resources in gold and foreign currencies might be disapproved as the blocking of values that might otherwise be put to use to promote production. It should be born in mind, however, that the central bank stocks were built not only as the Bank's reserve but also as that of the entire economy (see Chart 2).

The impressive volume change in 1937 in comparison with 1936 fully depended on the falling value of the lats resulting from a shift in its peg. Latvia did not manage to put these reserves to use, and the Bank of Latvia gold and foreign reserves turned into an object of protracted wrangle between occupational powers, on the one hand, and the countries where these reserves were stored, on the other (see Table 1 for gold reserves abroad).

BANK ADMINISTRATION

The Council

Consistently with the Statute promulgated on both 22 September 1922 and 2 June 1923, the Bank of Latvia was governed by the Council and the Board. Members of both were appointed by the Cabinet of Ministers from among candidates nominated by the Minister of Finance.

The tasks of the Council were laid down in the Statute. The Council was responsible for general activities of the Bank, placing the responsibility for individual areas of operation and material provision upon the Board. The Council approved or rejected issuing proposals of the Board, monitored the adequacy of the gold stock, and checked and controlled other values deemed as backing for the issued money notes. The Council approved budget plans drawn by the Board and weekly and monthly balance sheets, audited the Head Office's departments four times a year, approved annual reports and profit and loss statements prepared by the Board for submission to the Audit Commission, and jointly with the latter engaged in detailed analysis of its objections before forwarding these documents to the Minister of Finance. As a result, they were always accepted and approved by the Minister of Finance without any serious objections. The Council approved the appointment of Bank's top officials and submitted candidate lists to the Minister of Finance (a division or agency could be closed only upon consent of the Minister of Finance). An essential part of the Council's activities was related to commercial banking and consisted in accepting or rejecting various lending schemes drawn by discount committees and approved by the Board.

Consistently with Article 38 of the Statute of 22 September 1922, the Council consisted of the Chairman, Deputy Chairman and at least five Council Members, including Director General and a representative of the Ministry of Finance, whose final number was determined by the Cabinet of Ministers upon the recommendation of the Minister of Finance. Article 41 of the Statute proclaimed on 2 June 1923, provided for the Council to comprise 13 persons: the Chairman, Deputy Chairman and 11 Members of the Council, including Director General of the Board and a representative of the Ministry of Finance. Such a well-represented council was predetermined in order to balance pressures of political groupings on Bank's policy.

The Chairman, Deputy Chairman and Members of the Council (since 2 June 1923, except the representative of the Ministry of Finance and Director General) were appointed for a term of three years and could not be dismissed prior to its expiration, except extraordinary cases specified in the Statute. This procedure was also aimed at safeguarding central bank's independence against pressures from the country's political apparatus.

The composition of the first Council of the Bank of Latvia was formed on the basis of and its authority derived from the Statute passed by the Cabinet of Ministers on 22 September 1922. On 19 October, the Cabinet of Minister approved R. Kalnings as Council Chairman, and A. Klīve, Jānis Bisenieks (Fricis Menders after his demise on 3 February 1923), A. Kārklīšs, Kārlis Benze, Staņislavs Kambala, Pēteris Sיעecnieks, J. Vesmanis and Jānis Zēbergs as Council Members.²² Together with Deputy Director General of the Bank Kārlis Vanags, they participated in the first Council meeting on 23 October 1922 and continued to work till early June 1923, when the *Saeima* requested that the Bank of Latvia's Council composition be renewed, which was fulfilled.

Article 67 of the Statute published on 2 June 1923 provided for the cancellation of the previous Council's powers and, hence, the formation and approval of a new Council.²³ Consistently with this provision, the Cabinet of Ministers approved a new composition of the Council on 5 June 1923, with R. Kalnings as the Chairman, A. Klīve as the Deputy Chairman and the former Council Members P. Sיעecnieks, F. Menders, J. Zēbergs, Ansis Frišmanis, J. Vesmanis and A. Kārklīšs. K. Benze was shortly out of the Council, while S. Kambala was not reappointed. Six of the new Council Members were *Saeima* deputies (except J. Zēbergs and A. Frišmanis). The newly-formed Cabinet of Ministers extended the Council composition²⁴, with Jezups Trasuns and Francis Trasuns participating in the Council meeting on 15 August for the first time and K. Benze returning to the Council²⁵.

According to the Statute, the Council had advisory power with regard to the selection of new Council members. When after working for three years in the Council the Statutes required the replacement of its Members, it was the Council that recommended new nominees to the Minister of Finance. Usually from the point of view of expedience, the Council recommended re-appointing those who "had served their time", and the Minister more often than not respected such Council recommendations. The final appointment of Council Members was the prerogative of the Cabinet of Ministers following an initiation of the Minister of Finance. With the latter serving as a medium, the Council was afterwards informed about the appointment of a new member or reappointment of the former ones. In the reviewed period, there was not a single case of the Council recommending someone inexperienced in Council activities from outside. By contrast, the approval by the Cabinet of Ministers of candidates recommended by the Minister of Finance often proved to be a surprise, as their selection was often marred by political intrigue. In contrast to representatives of the Ministry of Finance, the position of Director General in the status of a Council Member had never been accounted for in the Bank of Latvia annual reports (see Table 2).

Table 2. COMPOSITION OF THE BANK OF LATVIA COUNCIL (at end of year; 1922–1939; on 17 July 1940)

| Year | Council Chairman | Deputy Council Chairman | Council Members |
|--------------|-------------------|-------------------------|--|
| 1922 | Ringolds Kalnings | – | Kārlis Benze, Jānis Bisenieks, Staņislavs Kambala, Aleksandrs Kārklīšs (MoF), Adolfs Klīve, Pēteris Sיעעניעקס, Jānis Vesmanis, Jānis Zēbergs |
| 1923 | Ringolds Kalnings | Adolfs Klīve | Kārlis Benze, Adolfs Bļodnieks, Ansis Frišmanis, Aleksandrs Kārklīšs (MoF), Fricis Menders, Pēteris Sיעעניעקס, Francis Trasuns, Jezups Trasuns, Jānis Vesmanis, Jānis Zēbergs |
| 1924 | Ringolds Kalnings | Jānis Vesmanis | Kārlis Benze, Adolfs Bļodnieks, Ansis Frišmanis, Aleksandrs Kārklīšs (MoF), Fricis Menders, Pēteris Plostiņš, Pēteris Sיעעניעקס, Francis Trasuns, Jezups Trasuns, Jānis Zēbergs |
| 1925 | Ringolds Kalnings | Jānis Vesmanis | Kārlis Benze, Adolfs Bļodnieks, Aleksandrs Kārklīšs (MoF), Adolfs Klīve, Fricis Menders, Pēteris Plostiņš, Pēteris Sיעעניעקס, Francis Trasuns, Jezups Trasuns, Jānis Zēbergs |
| 1926 | Ringolds Kalnings | Adolfs Klīve | Roberts Baltgailis (MoF), Kārlis Benze, Adolfs Bļodnieks, Eduards Eihmanis, Markus Gailītis, Fricis Menders, Jānis Mieziš, Pēteris Sיעעניעקס, Jezups Trasuns, Antons Velkme, Jānis Zēbergs |
| 1927 | Jūlijs Celms | Adolfs Klīve | Kārlis Benze, Adolfs Bļodnieks, Eduards Eihmanis, Markus Gailītis, Augusts Grūbe, Fricis Menders, Jānis Mieziš (MoF), Pēteris Sיעעניעקס, Jezups Trasuns, Antons Velkme |
| 1928 | Jūlijs Celms | Adolfs Klīve | Adolfs Bļodnieks, Eduards Eihmanis, Markus Gailītis, Augusts Grūbe, Kārlis Kasparsons, Fricis Menders, Jānis Mieziš (MoF), Pēteris Sיעעניעקס, Jezups Trasuns, Antons Velkme |
| 1929 | Jūlijs Celms | Adolfs Klīve | Pēteris Aronietis, Ernests Birkhāns, Adolfs Bļodnieks, Heinrihs Gābe, Markus Gailītis, Fricis Menders, Jānis Mieziš (MoF), Pēteris Sיעעניעקס, Jezups Trasuns, Antons Velkme |
| 1930 | – | Adolfs Klīve | Pēteris Aronietis, Ernests Birkhāns, Adolfs Bļodnieks, Jūlijs Celms, Heinrihs Gābe, Markus Gailītis, Jūlijs Ērglis, Fricis Menders, Jānis Mieziš (MoF), Jezups Trasuns, Antons Velkme |
| 1931 | Adolfs Klīve | Adolfs Bļodnieks | Pēteris Aronietis, Ernests Birkhāns, Kārlis Būmeisters, Jūlijs Ērglis, Pēteris Jurjāns, Rūdolfs Lindiņš, Jānis Mieziš (MoF), Vincents Streļevičs, Jezups Trasuns |
| 1932 | Adolfs Klīve | Adolfs Bļodnieks | Pēteris Aronietis, Ernests Birkhāns, Kārlis Būmeisters, Jūlijs Ērglis, Pēteris Jurjāns, Rūdolfs Lindiņš, Vincents Streļevičs, Jezups Trasuns, Alberts Zalts (MoF) |
| 1933 | Adolfs Klīve | Edmunds Ziemelis | Pēteris Aronietis, Ernests Birkhāns, Jūlijs Ērglis, Pēteris Jurjāns, Augusts Kūraus, Vincents Streļevičs, Jezups Trasuns, Adolfs Valters, Alberts Zalts (MoF) |
| 1934 | Adolfs Klīve | Edmunds Ziemelis | Pēteris Aronietis, Ernests Birkhāns, Jūlijs Ērglis, Pēteris Jurjāns, Augusts Kūraus, Jānis Skujevics (MoF), Vincents Streļevičs, Jezups Trasuns, Adolfs Valters, Alberts Zalts |
| 1935 | Adolfs Klīve | Edmunds Ziemelis | Pēteris Aronietis, Ernests Birkhāns, Jūlijs Ērglis, Pēteris Jurjāns, Augusts Kūraus, Jānis Skujevics (MoF), Vincents Streļevičs, Adolfs Valters, Alberts Zalts |
| 1936 | Adolfs Klīve | Edmunds Ziemelis | Ernests Birkhāns, Jūlijs Ērglis, Pēteris Jurjāns, Augusts Kūraus, Jānis Skujevics (MoF), Vincents Streļevičs, Adolfs Valters, Alberts Zalts |
| 1937 | Adolfs Klīve | Edmunds Ziemelis | Ernests Birkhāns, Jūlijs Ērglis, Augusts Kūraus, Eduards Rozīte, Jānis Skujevics (MoF), Vincents Streļevičs, Pēteris Vimba, Alberts Zalts |
| 1938 | Adolfs Klīve | Edmunds Ziemelis | Ernests Birkhāns, Aleksandrs Dinsbergs (MoF), Jūlijs Ērglis, Augusts Kūraus, Eduards Rozīte, Vincents Streļevičs, Pēteris Vimba, Alberts Zalts |
| 1939 | Adolfs Klīve | Edmunds Ziemelis | Ernests Birkhāns, Aleksandrs Dinsbergs (MoF), Jūlijs Ērglis, Augusts Kūraus, Eduards Rozīte, Vincents Streļevičs, Pēteris Vimba, Alberts Zalts |
| 17 July 1940 | Pēteris Ozols | – | Voldemārs Bastjānis (MoF), Ernests Birkhāns, Aleksandrs Dinsbergs, Eduards Dzelzītis, Adolfs Krūmiņš, Augusts Kūraus, Jānis Putniņš, Alberts Zalts |

Sources: Data from Bank of Latvia Annual Reports 1923–1939; LSHA, F. 1, descr. 1, f. 41, p. 18.

In 1922–1940, the powers of a Council Member were delegated only to two Directors General of the Bank, and they were Edgars Švēde and K. Vanags. E. Švēde lost his mandate in September 1926, while K. Vanags who replaced him held his powers till the summer of 1940. The reports and proposals the Directors gave to the Council formed the ideological and informative basis for much of the Council debate and many of the Council resolutions. That is why they would always be present even without the special request specified in the Statute.

Within the Bank's Council, the representative of the Ministry of Finance maintained business communication between the two institutions, and his authorisation ranked him third in importance in the Council, for in the absence of the Chairman and the Deputy Chairman his duty was to preside, if necessary, the Council meetings, which he did, albeit rarely. The Minister of Finance was entitled to substitute the Ministry representative in the Council with another person at any time by selecting one from those activity areas of the Ministry where he deemed the contacts with the Bank of Latvia most important at each particular moment of time. For this reason, the representatives of the Ministry of Finance in the Bank of Latvia Council always retained a senior position in the administration of the Ministry.

The term the Ministry of Finance representatives served in the Bank of Latvia Council varied. A. Kārklīšs' activities had a long-standing effect. He was the author of the Draft Statute, the first bank regulation for the principles and procedures of lending, and many articles on Latvia's monetary system published in the journal *Ekonomists* (published in a book in 1927²⁶).

R. Kalnings, the Chairman of the Bank of Latvia Council, was nominated to serve as the Minister of Finance for the second term on 27 January 1924 and remained in the Bank of Latvia Council Chairman's position as well. A. Klīve, his Deputy in the Council, congratulated him at the 28 January meeting and voiced a strong conviction that "this would make Council activities only more successful and productive".²⁷ This, however, was a mere courtesy, because the combining of the two jobs not only impaired the logics of administrative relationship between the two establishments (the Ministry and the Bank), but was also contradicting the Bank's independence clause under its Statute.

In accordance with Article 43 of the Statute, the first job rotation within the Council had to take place on 2 June 1924. At its meeting on 4 June, the Council decided to resolve the issued by drawing lots, as no accord of free will on leaving the Council as prescribed by the Statute was reached.²⁸ At the next Council meeting on 12 June, the marked lots went to the Chairman of the Council R. Kalnings, his Deputy A. Klīve, and also P. Sיעעניעקס. In unanimity, the Council applied to the Minister of Finance with a request to renew R. Kalnings' powers.²⁹

The last meeting of the Bank of Latvia Council to be chaired by R. Kalnings was held on 28 June 1927. With his powers expiring on the next day, the Council resolved to pass the function of presiding over meetings to the Deputy Chairman A. Klīve until a new Chairman was appointed; R. Kalnings was asked to be present at the meetings with an advisory function³⁰. As it was not prescribed by the Statute, R. Kalnings did not participate. By the Cabinet of Ministers Resolution of 28 June 1927, he was succeeded by J. Celms in the position of the Bank of Latvia Council Chairman.³¹

Pursuant to Article 44 of the Statute (wording of 2 June 1923; included as Article 59 in the Credit Law of 1935), the Council was independent in its decision-making process, while the Minister of Finance enjoyed veto powers for a period of three days after the receipt of a Council decision. If irrespective of the Minister's veto the Council held to its decision, the Minister could submit the point of contention to the Cabinet of Ministers within a seven-day period. On most occasions, ministers were not disposed to find fault with the Bank's Council decisions, and their resolutions on the latter's documents did not testify to serious disagreements. The Bank also acted with understanding relative to Minister's objections but, when rejecting any of them (which was a routine practice), always referred to the Statute. There was only a single occasion when in compliance with Article 44 of the Statute the Cabinet of Ministers was applied to for arbitration.

In 1931, a discord arose between the Council of the Bank of Latvia and the Minister of Finance in connection with the Bank of Latvia entitlement to dispose of its foreign currency. The Bank of Latvia did not give in to the requirement of the Minister of Finance for the Bank to apply, like private commercial banks did, for the Foreign Currency Commission's permission. The Minister of Finance forwarded the case to the Cabinet of Ministers for arbitration, and the latter acknowledged on 13 April 1932 that it was the position of the Bank of Latvia that conformed to the existing legislative standards regarding foreign currency operations.³²

The legal provision about the renewal of the Council's composition was not always respected. For instance, when the powers of J. Celms expired on 16 June 1930, the Cabinet of Ministers approved A. Klīve, his successor, only on 24 November 1931.³³ The explanation was to be looked for in the mutual relationships of interacting political parties that attempted to affect the country's monetary policy.

As to the remuneration of Council Members, Article 59 of the Statute was amended on 1 March 1927. From this point on, Council Members were paid only for those Council meetings in which they had been present. As previously, the amount was set by the Minister of Finance. Board Members, clerks and employees

Bank of Latvia employees at the 1930s. (Bank of Latvia Fund.)



continued to receive salaries on the basis of free job contracts; in addition, the salaries of Board Members, Board authorised persons, department and agency heads and proxies were determined by the Minister of Finance upon Council's recommendation, while those of other clerks and employees were in charge of the Council. The prohibition under the Statute for Council Members to hold positions in credit institutions and companies that were granted loans by the Bank of Latvia was defined more exactly (cooperative organisations were an exception). Board Members, department and agency heads and proxies were prohibited to participate or join, in person, by proxy or any third party, shops and enterprises whose interests were in conflict with those of the Bank of Latvia.³⁴

On the basis of these amendments, the Council passed an instruction of the Bank of Latvia Council on 1 June 1927. It was of a formal nature, because with regard to the composition, functions and powers of the Council it actually replicated the provisions under the Statute.³⁵

The Statute provided that the Bank, despite being a state enterprise, was independent in its decision-making process. The sole impediment to this independence apparently could be the Minister of Finance exercising veto powers relative to the Bank's Council decisions. Without the veto of the Minister, the Cabinet of Ministers was unauthorised to intervene in the Bank of Latvia decisions, but it enjoyed the right to grant authorisation for a period of three years to Bank Council or Board Members.

In its activities, the Bank of Latvia abided by its Statute and acted as an advisor to the Ministry of Finance on monetary policy issues; its opinion was sought and respected when drafting legislative acts. It would have been weird if the Council of the Bank, whose composition was constantly changing to comprise representatives of several political parties with different, sometimes antipodal political and economic views, had attempted to find a common denominator on the basic money circulation issues, to later engage in a debate with Ministry representatives who were from different parties as well. Thus, F. Menders, a long-standing Council Member of the Bank (1923–1931), was convinced that "Socialism will abolish that private property whose function it is to drain the life out of the needy or, to be more definite, out of the working class"³⁶. Staunch right-wing representatives were missing either in the Council or Board. It was the Bank's apolitical stances that safeguarded its integrity.

The Council of this type could be effective in dealing with internal operations of the Bank, auditing, credit distribution by majority vote, etc., while the *Saeima* and the Ministry of Finance were in charge of the country's general monetary policy. It was indirectly verified by K. Kacens, statistician from the Inspection Division, in his articles on important monetary policy

changes (with respect to lats stability, backing, exchange rate, etc.) published in journal *Ekonomists*, where he constantly and exclusively referred to "the government decision". Likewise, the sources do not display any serious intention of the Council to expand or in any other way alter its place in the monetary policy domain. The staunch negative stance voiced by researcher A. Aizsilnieks is not unfounded either: he consistently referred to the Bank of Latvia as a state commercial bank with issuing rights granted.³⁷ On the other hand, participation in currency emission, formation and storing of reserves for backing the national currency, execution of Treasury functions – all serve as evidence for the former Bank of Latvia Council Chairman's consistent description of the Bank as a central bank despite the activity areas and methods differing cardinally from conventional goals and objectives of central banking.

J. Celms, who the Cabinet of Ministers confirmed as the Bank's Council Member on 21 July 1927³⁸, replaced R. Kalnings in the position of the Bank of Latvia Council Chairman around the time when the Bank celebrated its 5th anniversary. He took part in the Bank of Latvia Council meetings from 6 October 1927 to 29 October 1931. At the beginning of the Council meeting of 3 December 1930, J. Celms announced his resignation and informed of his stepping down as presiding person. At the request of the Council, A. Klīve as Deputy Chairman presided over the meetings till end-November 1931.

On the occasion of J. Celms' appearance at the Bank's Council meeting, Director General K. Vanags announced his objections about the management framework instituted by R. Kalnings and the relations between the Bank and the Ministry of Finance; he emphasised the need for greater autonomy and independence of the Bank of Latvia as an issuing bank and voiced his hopes for the support on behalf of the new Council Chairman to the Board's efforts in this respect. One can judge from some conflict situations between the Ministry and the Bank related to the granting of credit, approval of discount committee members and other apparently unimportant issues recorded in the Council minutes, the reproof of Director General had not been without intent.³⁹ But alas! J. Celms was not positively inclined to push for changes in mutual relations of the *Saeima*, the Cabinet of Ministers, the Ministry of Finance and the Bank of Latvia. Neither was his successor A. Klīve.

The Board

The Bank of Latvia Board was also appointed by the Cabinet of Ministers from among the candidates nominated by the Minister of Finance; it comprised five directors: the Director General, Deputy Director General and three rank-and-file Directors. The Cabinet of Ministers was authorised to replace any

of them at any time, and it was entirely at the Cabinet's discretion to follow or not to follow Minister's recommendations.

Upon appointment, the Director General automatically became Member of the Bank of Latvia Council. He was a legal representative of the Bank, acting under the law and the Statute consistently with the Council resolutions without special authorisation. He likewise managed all activities and operations of the Bank and was in charge of its assets as well as of the wealth passed on to the Bank.

By 1940, the Bank of Latvia had had two Directors General approved by the Cabinet of Ministers (E. Švēde (1923–1926) and K. Vanags (1926–1940)), three Deputy Directors General (K. Vanags (1922–1926), Vilis Bandrevičs (1926–1938) and Žanis Šēnbergs (1938–1940)), and five rank-and-file Directors (S. Kambala (1925–1936), Alfrede Varenais (1922–1925), Ernests Ozoliņš (1923–1940), Jānis Stalbovs (1925–1940) and V. Bandrevičs (1923–1925); see Table 3 for changes in the Board composition). In the absence of K. Vanags un V. Bandrevičs in 1936 due to their illness, J. Stalbovs acted as Director General for a short period of time.⁴⁰

The Bank of Latvia Board started its work with only A. Varenais and K. Vanags, former Directors of the State Savings and Credit Bank, appointed to the position. By the Cabinet of Ministers Resolution of 4 January 1923, they were soon joined by V. Bandrevičs, former Director of the People's Bank, and E. Ozoliņš, former state auditor.⁴¹ Yet until 15 October 1923, the Board comprised only four members, as the search for and the appointment of Director General was delayed; afterwards the Board was joined by E. Švēde who was Latvia's Consul General in Berlin in 1920–

1923. When in 1938 V. Bandrevičs was dismissed, his place was not taken by a new Director. At the time when the Bank and the State collapsed in 1940, in their initial positions still were K. Vanags (Director General since 1926) and E. Ozoliņš (Director). E. Švēde, the first Director General, was dismissed in 1926 for misconduct punishable under the Criminal Code of the Republic of Latvia, V. Bandrevičs was allowed to step back from the position of Deputy Director General in 1938 (appointing Ž. Šēnbergs instead), but A. Varenais passed away in 1925 (J. Stalbovs took the position on 17 November).

The Board implemented the Bank's policy pursuant to the Council decisions and instructions, managed the activities of the Bank at the central and departmental levels, administered and controlled all the operations, drafted recommendations, monthly balance sheets and annual reports for the Council, worked out internal rules and regulations, conducted regular and irregular department audits, monitored the amount of money notes in circulation, was in charge of increasing the amount of gold stock and sufficient backing for the issued amount of money notes as well as took care of material procurement of Bank's operation, record keeping and circulation. The Board was responsible for appropriate accounting at the Bank and sound keeping of its all values; it likewise managed printing, withdrawal from circulation and disposal of money. The Board prepared interest rate forecasts and regular weekly reports to the Council in compliance with the weekly reporting framework established by the Bank of Latvia Council in 1923⁴².

The Directors, meanwhile, managed and were fully answerable for specific banking activity areas in accordance with the

Table 3. COMPOSITION OF THE BANK OF LATVIA BOARD (at end of year; 1922–1940)

| Year | Director General | Deputy Director General | Directors |
|------------|------------------------|-------------------------|---|
| 1922 | Kārlis Vanags (acting) | – | Alfrede Varenais |
| 1923, 1924 | Edgars Švēde | Kārlis Vanags | Vilis Bandrevičs, Ernests Ozoliņš, Alfrede Varenais |
| 1925 | Edgars Švēde | Kārlis Vanags | Vilis Bandrevičs, Ernests Ozoliņš, Jānis Stalbovs |
| 1926–1935 | Kārlis Vanags | Vilis Bandrevičs | Staņislavs Kambala, Ernests Ozoliņš, Jānis Stalbovs |
| 1936, 1937 | Kārlis Vanags | Vilis Bandrevičs | Ernests Ozoliņš, Jānis Stalbovs, Žanis Šēnbergs |
| 1938, 1939 | Kārlis Vanags | Žanis Šēnbergs | Ernests Ozoliņš, Jānis Stalbovs |
| 1940 | Kārlis Vanags | – | Ernests Ozoliņš, Jānis Stalbovs |

Sources: LSHA, F. 6209, descr. 1, f. 1, p. 38; data from Bank of Latvia Annual Reports 1923–1939.

procedure established by Director General. For performance imperfections in the areas within their competence, Directors E. Švēde, V. Bandrevičs and S. Kambala had to step down and leave the Bank of Latvia.

In June 1925, an inspection of depository where pledged credit collateral was stored disclosed that the actual amount of merchandise therein was considerably smaller than recorded. Court proceedings were initiated and investigation launched, and charges of negligence amounting to more than 1 million lats punishable under Sections 51 and 639(2) of the Criminal Code were brought against the Director General. On 7 April 1928, these charges were also confirmed by the prosecutor of Judicial Panel.⁴³

This made the Bank of Latvia conclude that serious administrative barriers should be created. In the period up to 1940, a number of internal procedures and instructions regulating almost every single step and activity of the staff were drafted and approved by the Bank of Latvia Council. A significant part of the respective work load was vested in the Inspection Department (headed by Krišjānis Vilders).

The Director General tried to enhance supervision via shifts in Board Member responsibilities. In 1938, K. Vanags personally took charge of the Inspection, Central Accounting and Legal Departments, the issuance of money and administration; V. Bandrevičs was in charge of foreign currencies, guarantees and correspondence, current accounts in foreign currencies, letters of credit, foreign transfers and payment orders, cash collection and foreign clearing operations; E. Ozoliņš supervised secured loans to manufacturers, domestic guarantees and security transactions, work of cash office and vault; J. Stalbovs was responsible for bill discounting, bills "on call", public settlements, operation of the Department of Information, Parcel Post, Duty Stamps and Other Valuables; in Ž. Šēnbergs' competence were current accounts and deposits, domestic transfers and payment orders, operation of the Settlement Department, loans to farmers, and the management of in-house maintenance, secretariat and the archives.⁴⁴

In the early days of August 1938, when stricter controls had been imposed on foreign currency circulation and the authority of the Foreign Currency Commission expanded, K. Vilders placed before the Council a report on the results of inspection at the Foreign Currency Department, stating that inspectors on several occasions had detected that its books did not give any reference to the Foreign Currency Commission's decisions ruling the sale of currency. Pēteris Role, Head of the Foreign Currency Department, informed that foreign currencies were as a rule sold at customers' requests, with all required import documents attached; after verification, the latter were returned to

customers. As the required information was included in customers' applications, the Foreign Currency Department deemed additional recording in the books unnecessary.⁴⁵

Acting in the same way as during the conflict with the Minister of Finance in 1931, the Head of the Foreign Currency Department P. Role emphasised that the Department's actions had been lawful and that the enclosed instruction on currency transactions was intended for private credit institutions and was not binding on the Bank of Latvia. On the basis of this statement, P. Role turned K. Vilders' claims down. P. Role also acknowledged that, if need arose, the requirements of the inspection could be met in the future. The situation was ambiguous, because despite the fact that the new instruction of the Foreign Currency Commission of the Ministry of Finance on foreign currency recording and accounting was just in the making and the order on the "Regulation for Credit Institutions on the Classification and Utilisation of Obtained Foreign Currency" by Commission Chair was circulated only on 19 August⁴⁶, K. Vilders was basing his judgement already on it. By stating that the issue had been long resolved while neglected by the Bank, A. Klīve, the Council Chairman, also acted weirdly. The two responsible officials P. Role, Head of the Foreign Currency Department, and V. Bandrevičs, Director in charge of foreign currency transactions, were "asked to vacate" their positions, and both submitted their employee's notices on 1 September.

Together with the employees of the State Audit Office and Ministry of Finance, a representative of the Bank also worked in the Bank of Latvia Audit Commission which audited the Bank's annual report and submitted the audit report to the Minister of Finance and the Council of the Bank of Latvia. The Audit Commission's initial instruction was drafted by the Ministry of Finance in 1923, yet it was rejected by the Council under the pretext of the proposed scope of auditing hampering the operation of the Bank; the Board and Council worked out a new audit instruction, which was approved by the Ministry of Finance on 3 October 1923⁴⁷.

People from the Bank of Latvia Board worked also in a number of other state organisations outside the Bank, which logically were related to the central banking functions of regulating the currency circulation. Among them, most significant were the Riga Exchange Foreign Currency and Securities Quotation Commission and the Ministry of Finance Foreign Currency Commission, with the Bank of Latvia representative enjoying the veto power in the latter. At the request of the Ministry of Justice of 22 July 1927, the Bank of Latvia also delegated its representative (Director J. Stalbovs who was in charge of cooperative and credit union matters) to the Audit Council for Cooperative Societies⁴⁸.

SUPERVISION AND AUDITING

The Audit commission composed of two employees of the State Audit Office and one representative of the Ministry of Finance was responsible for performing the audit function at the Bank of Latvia. One of the employees of the State Audit Office chaired the Commission. J. Mengots was the Commission Chairman until 1929, B. Krūka was in the position until July 1930, and Valentīns Rūsa was Chairman until January 1936 when he was replaced by Jānis Celms, who conducted audits of the bank annual reports jointly with Alfrēds Krancs from the State Audit Office and Vice-director H. Lielmanis from the Credit Division of the State Economic Department of the Ministry of Finance. J. Celms passed away on 2 May 1939, and his duties went over to Gustavs Ilziņš, an auditor of the State Audit Office.⁴⁹

Seeking to promote financial discipline, the Minister of Finance L. Ēķis approved a new instruction for the Bank of Latvia Audit Commission on 4 July 1936.⁵⁰ It prescribed the duties of the Commission, among them auditing of the Bank's annual report, balance sheet, profit and loss statement consistently with the bank books, documents and data obtained via inspections, and forwarding of the audit reports to the Bank's Council and Board and enclosing it also to the report to the State Auditor and the Minister of Finance. After a joint review of the said documents and the elimination of all points of contention by the Audit Commission and the Bank's Council, they were presented to the Minister of Finance for approval. The profit and loss statements underlying the distribution of profit obtained legal power only upon such approval.

Over time, the audit report analysis became ever more thorough, and the debate about the Audit Commission's opinion at the Bank's Council meetings soon turned into the most heated deliberation of the year. The Council scrapped those Commission opinions that did not comply with the Statute or were otherwise unfounded. In defence of their stances presented in the Bank's annual accounts, the Council regularly referred to the actual economic situation in the country. Thus, Director General K. Vanags reproached the auditors for neglecting the economic hardships of the country when assessing the Bank's performance in 1931. In compliance with the Audit Commission's recommendation, the Council charged the Board with the task to work out, with no delay, an instruction on storing and recording of pawned items (passed on 8 January 1932).⁵¹ After the *coup d'état* of 1934, auditing of the branches of the Head Office, which dealt with loans and foreign currency transactions, became more frequent. This marks the extension of the Bank's authority also to audit those private banks which engaged in foreign currency operations (the Northern Bank, the Latvian Private Bank, the Cooperative Transit Bank, the Industrial and Reciprocal Credit Union).

Upon Audit Commission's recommendation, the pay scheme of Bank of Latvia staff wages was streamlined and improved in 1937. On the basis of Bank of Latvia Council resolutions, a uniform framework of Bank of Latvia staff remuneration was set up.⁵²

Internal audits of Bank departments, conducted on a quarterly basis in compliance with the Statute, were carried out by the Council Members following a preliminary distribution of specific areas. As a rule, the provincial branches were inspected by Directors. In addition, the Inspection Department of the Head Office also got involved, and the Council Members used to gather for a great inspection tour of selective regional branches as well. Then the Council meetings were held in the premises of inspected local departments in the presence of local managers. Depending on the severity of breaches, sanctions for disclosed violations or against those who committed them were imposed (e.g. rotation to another position or department, reducing signatory powers, etc.).⁵³

The Bank of Latvia exercised powers also in the domain of customer control and supervision. It was authorised to request, at its discretion, corporate and private balance sheets of the borrowers, performance reports, statements from commercial ledgers and other information needed to establish the material status of the debtor. The Bank, however, lacked resources to exercise these powers, hence supervisory functions were implemented primarily by the Banking Division of the Economic Department of the Ministry of Finance. The inspectors of this division conducted audits also upon Bank's recommendation. The reports of the Economic Department's inspections of credit unions were often presented before Council meetings. In April 1927, the Bank came forth with a proposal to grant it entitlement to receive a copy of audit minutes of those cooperative societies which had received loans from the Bank of Latvia.⁵⁴

The Bank of Latvia Board Members received monthly pay of certain amount. Thus Director General K. Vanags had under-signed a monthly salary of 1 973 lats, his Deputy V. Bandrevičs' salary was 1 850 lats, the remaining three Directors got 1 727 lats each.

In those days, the Council Chair A. Klīve was paid 2 467 lats, while his Deputy received 40 lats and the other Council Members 30 lats per each meeting. Since their monthly wages were discontinued and replaced by remuneration for attended meetings, the number of Council meetings increased. Overall, 3 463 Bank of Latvia Council meetings were held in the period between 23 October 1922 and 31 July 1940.

BANK OF LATVIA'S STRUCTURE AND STAFF

When the Bank of Latvia started to operate, the historical structure of the State Savings and Credit Bank was preserved. It consisted of the Head Office at K. Valdemāra Street 2A in Riga, a network of provincial branches, and agencies with postal and telegraph offices. Despite the Council commissioning the Board to expand the network of branches already in 1923⁵⁵ and recurrent inclusion of this issue on the Council meeting agenda, the initial structure remained almost unchanged till 1940. Only two new branches were set up (in Balvi and Gulbene), and other two were authorised to or charged with executing a full spectrum of domestic banking operations (Cēsis Branch in 1923 and Alūksne Branch after the construction of its new building). All agencies of the Bank of Latvia with postal and telegraph offices were closed on 1 January 1924 (in Vecpiebalga, Vecauce, Dobele, Grobiņa, Kandava, Sasmaka (Valdemārpils), Vecgulbene, Madliena and Dundaga).⁵⁶ At the end of 1923, apart from its Head Office located in Riga, the Bank of Latvia had seven provincial branches executing all banking operations (in Liepāja, Jelgava, Ventspils, Daugavpils, Rēzekne, Valmiera and Cēsis), and 15 branches without bill discount and foreign currency operations (in Kuldīga, Tukums, Talsi, Smiltene, Limbaži, Saldus, Bauska, Jēkabpils, Jaunjelgava, Aizpute, Rūjiena, Valka, Alūksne, Madona and Ludza). The latter branches were primarily entrusted with conducting the Bank of Latvia passive and Treasury operations.

As of 1 February 1925, the working hours of the Bank of Latvia and its branches were made to conform to those of civil servants, i.e. cut by one hour. Building on the application of the Ministry of Labour about a six-hour working day, it was the decision of the Bank of Latvia Council by which the Bank's of-

ficial work hours were set from 10 a.m. to 3 p.m. Following the acceptance by the Minister of Finance, such working hours were adopted by the entire Bank.⁵⁷

In 1928, the Council introduced classification of the Bank organisational units (departments and divisions) into categories. It was done for managing convenience and matching staff remuneration to specific requirements of the job.

The first category included such Head Office units as the Department of Inspection, Central Accounting, Foreign Currency, Letters of Credit and Currency Collection, Loans to Manufacturers, Bill Discount and Bill "On Call", Current Accounts, Deposits and Transfers, Secretarial and Maintenance, Treasury Operations, Cashier's Office and Vault as well as Daugavpils, Liepāja and Ventspils Branches.

The second category comprised such remaining Head Office units as the Department of Loans to Farmers, Foreign Correspondence, and Legal Affairs, the Information and Parcels' Post as well as Cēsis, Jelgava, Rēzekne and Valmiera Branches.

The Bank's Bauska, Kuldīga and Tukums Branches were classified under the third category, but all the rest, i.e. entities engaging only in passive banking and treasury operations, fell under the fourth category.

These categories were decisive in determining salaries of top-level employees of various departments and divisions (e.g. Heads of the Head Office first category departments and Managers of provincial branches with the right of first signature received 600 lats, Heads of the Head Office first category departments with the right of second signature and a first category provincial authorised person with the right of first signature were paid 500 lats, assistant to the first category division Head with the right of second signature got 450 lats). Top-level civil servants enjoyed the right of first or second signature. Department Heads usually had the right of first signature and were seldom replaced. Top-level provincial branch employees were provided with Bank-paid apartments. The wage dynamics depended on the significance of the function. In April 1937, most department Heads of the Head Office with the right of first signature received monthly salary in the amount of 740 lats. Heads of the Maintenance Department and the State Expenditure Department, both with the right of second signature, received a lower salary (493 lats). At that time, the Head Office of the Bank employed 400⁵⁸ people (in 1923, there worked 295 people, including 12 Council Members, five Board Members, 256 civil servants and 22 employees); on 1 January 1937, the number of civil servants at provincial branches was 316 (in 1923, there were 234 civil servants and 33 employees; see Chart 3).

The largest staff numbers of provincial branches were reached in 1930–1932 (337, 336 and 337 respectively); however, due to

labour optimisation at the close of the 1930s and emigration of the Baltic Germans, this number had fallen to 280 by 1 January 1940 (354 on 1 October 1940). In terms of employees, the largest branches were those in Daugavpils, Liepāja, Jelgava and Rēzekne. Nevertheless, only Managers of the first two and the Manager of Ventspils Branch received a monthly pay of 740 lats in 1937, while those of Jelgava and Rēzekne as well as Valmiera and Cēsis Branches were paid a monthly salary of 678 lats. Managers of 11 smaller branches, which did not conduct discount and foreign currency operations (actually not a decisive factor) got a lower monthly pay of 370 lats (four managers of similar branches were paid more, e.g. 414 lats was the salary of Jaunjelgava Branch Manager, 493 lats were paid to Kuldīga, Tukums and Bauska Branch Managers).⁵⁹

All the Directors of the Head Office and Branch Managers were subject to the Bank of Latvia Council and Board. They could be withdrawn and rotated to another department point blank at any time. It sometimes happened that an employee was ordered to move over to a very distant place of work, say from Liepāja to Balvi. To escape such moving actually meant leaving the job with the Bank of Latvia.

The Bank of Latvia Head Office was composed of 19 organisational units (18 since merging the Currency Collection and Credit Letter Departments in 1929). The Cash Department (headed by Ferdinands Darginovičs; see Box), the Promissory Note Discount Department (Voldemārs Bubets) and the Current Accounts (deposits and transfers; Pāvils Gruzna) Department were those with the largest number of employees. The Inspection Department never employed more than seven people, while the staff of the Central Accounting Department rose from 15 to 24 in the 1920s, to contract to 12 people in early 1940.⁶⁰

The Clearing House commenced its activities on 3 January 1927. It was an institution outside the Bank of Latvia, founded at the initiative of private credit institutions for domestic settlements (clearing) which the Bank of Latvia supported and housed in its premises.⁶¹ The employees resolved on 23 December 1929 to change its name, and henceforth it operated autonomously as a Clearing House attached to the Bank of Latvia under the Regulation approved by the Bank of Latvia Council Resolution of 8 January 1930.⁶² It was governed by a plenary meeting and commission elected by it; the sessions of the latter were held on a working-day basis.⁶³ Some subsequent annual reports of the Bank of Latvia comprised more detailed performance accounts of the Clearing House in a separate chapter, while those between 1933 and 1939 present only the settlement statistical data. In the context of state payment system development, the number of processed payments increased, both in terms of volume and value, over the years (see Chart 4). Yet the Clearing

Chart 3. NUMBER OF BANK OF LATVIA CIVIL SERVANTS AT PROVINCIAL BRANCHES



Sources: LSHA, F. 6209. descr. 1, f. 92.; Latvijas Banka. Gada pārskats par 1923. gadu: Rīga: Latvijas Banka, 1924, 8. lpp.

Chart 4. CLEARING HOUSE PERFORMANCE (1927–1939)



Source: Latvijas Banka. Gada pārskats par 1939. gadu. Rīga: Latvijas Banka, 1940, 20. lpp.

House was included in the Bank of Latvia budget and organisation only in 1940.

The Ministry of Finance was in charge of international clearing; it entered into agreements with certain world countries mostly in the second half of the 1930s, when, due to the shortage of foreign currencies triggered by the world crisis, the demand for this type of settlements augmented. The clearing services were provided through the Bank of Latvia in liaison with the Foreign Currency Commission.

Discount Committees

Discount Committees as advisory groups for granting credits were established at the Head Office and eight Branches entitled to conduct a full spectrum of banking operations. Similar Discount Committees had been working at the State Savings and Credit Bank and continued their operation at the Bank of Latvia. Members of Discount Committees were approved in the position at the beginning of each year by the Minister of Finance following the Bank of Latvia Council recommendation. Meanwhile at the Bank, a tradition for each Council Member to exercise entitlement for nominating his/her candidate to sit on the Discount Committee became deep-rooted. From time to time, controversy regarding the competence of proposed candidates arose between the Minister of Finance and the Bank Council. More often than not, the Bank won the upper hand, yet sometimes they still had to yield to the Minister's stances. The Bank of Latvia Council elected the first new Discount Committee on 2 February 1923 for the Daugavpils Branch.

FERDINANDS DARGINVIČS IN CHARGE OF THE CASHIER'S OFFICE

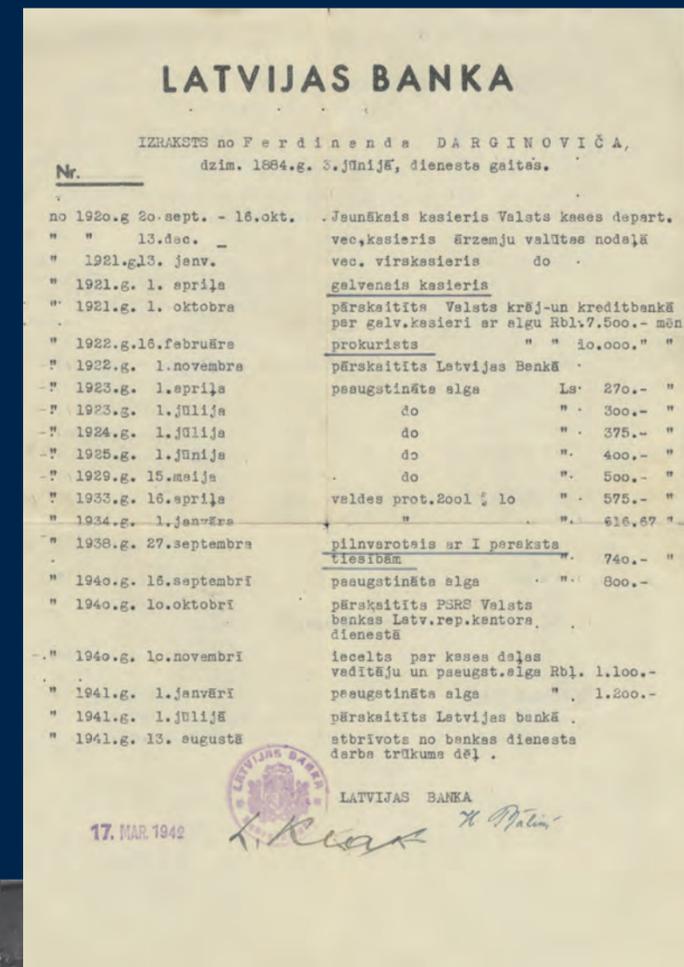
Glimpses of the Bank of Latvia's history are documented and featured in photographs entrusted to the Bank by the family members of the former Bank of Latvia employees, e. g. Viktors Bāliņš, the son of Hermanis Bāliņš, a long-term employee at the Inquiries Department, and Lidija Nāzere, the daughter of Ferdinands Darginovičs (03.06.1884–09.02.1944), chief cashier at the Bank of Latvia. A document shedding light on the Bank's two employees and the history of Latvia arouses great interest. An excerpt from F. Darginovičs service record, signed by H. Bāliņš, encompasses the entire period of his employment at the Bank of Latvia, followed by a dismissal from office at the outbreak of World War II due to the regime change in Latvia.

Ferdinands Darginovičs, the Bank of Latvia's authorised person and chief cashier, was born in Telšiai District, County of Kaunas, Lithuania. He was Lithuanian by nationality and Catholic by belief. F. Darginovičs served as a volunteer in Cēsis Infantrymen Regiment No. 178 (located in Liepāja) from 1 September

1904 until 1 October 1906. From 1 June 1907 until 1 August 1920, he was employed at the State Bank of Russia. As an external student, he graduated from Liepāja Nikolay's Grammar School with a certificate in 1907. Thereafter, he took up employment as assistant accountant at the Liepāja Branch of the State Bank of Russia. On 28 September 1909, F. Darginovičs was appointed to the position of assistant cashier at the Samara Branch. On 6 June 1911, F. Darginovičs married Emīlija Margarita Matisone (born in 1893) who gave birth to their daughter Irena on 27 March 1912. F. Darginovičs was exempt from military service on account of ill health in 1914. On 14 February 1915, F. Darginovičs was appointed, upon his request, to the position of assistant accountant at the Riga Branch of the State Bank of Russia; however, the Riga Branch was evacuated to Tula already in July. Pursuant to the Resolution of 1 December 1915, F. Darginovičs was employed as assistant secretary, and from 25 February 1916 until 10 January 1917, he held the position of accountant at the Accounting and Settlement Division.

On 21 January 1917, F. Darginovičs was appointed secretary at the Armavir Branch of the State Bank of Russia. He was also employed in the capacity of auditor at the Accounting and Settlement Division of the Riga Branch of the State Bank of Russia from 1 August 1917 until 1 September 1918. Subject to the appointment by the Central Department of the People's Bank of Russia, F. Darginovičs worked as chief cashier at the Jefremov Branch of the above Bank (according to another source, he was manager). Thereafter, he held the position of auditor at the Head Office of Tula. The above entries were included in the List of Duties of 1 May 1920.

F. Darginovičs was appointed to the position of cashier at the Currency Division of the State Treasury after his return to Riga in 1920. He worked as chief cashier at the State Savings and Credit Bank from 1 October 1921. On 16 February 1922, the Bank's management granted *procura* to the sophisticated expert for the supervision of the Republic of Latvia vault and cashier's offices.



Following the establishment of the Bank of Latvia on the basis of the State Savings and Credit Bank, F. Darginovičs continued to perform the above tasks, given his profound theoretical knowledge and know-how acquired during the appointment to different banking operations related positions at the State Bank of Russia and also in Latvia over the period of 15 years. F. Darginovičs was an expert in transactions of the Cashier's Office, and his accuracy and prudence were an asset. A man, who neither drank, nor smoked, nor gambled, was fluent in Latvian, Russian, Polish, Lithuanian and German languages and also loved specific banking operations, had worked at the Bank of Latvia since the Bank commenced its operation on 1 November 1922.

In the capacity of the authorised person of the Bank of Latvia Cashier's Office and Vault, F. Darginovičs performed the relevant functions until the Bank of Latvia was reorganised under the occupation regime. He was in charge of the keys and seal of the Bank of Latvia's Vault and was entitled to open its doors at any time on a 24-hour basis. Diploma No. 1290, signed by the President of the Republic of Latvia and issued to F. Darginovičs on 16 November 1932 upon awarding him the Order of Three Stars, Fourth Class, is displayed at the Bank of Latvia visitors centre "Money World".

F. Darginovičs had to sign in person the circular c/88 of 2 August 1940, stipulating that all branches of the Bank of Latvia had to deliver immediately all deposits of gold to the Bank of Latvia, since the Bank of Latvia's assets were taken over by the Soviet power. F. Darginovičs continued to work at the Bank, performing the functions of chief cashier until 25 July 1941. Insufficient workload was the official reason for his dismissal on 13 August 1941.



The year 1941 also saw significant changes in F. Darginovičs private life as he married Alide Ieviņa (born in 1906) who gave birth to their daughter Lidija. Hence, given the loss of the job, World War II and its aftermath seemed ever more threatening. F. Darginovičs was the member of the Latvian Pensioners' Association (card index No. 124) from 9 April 1942. F. Darginovičs died soon after he had ceased to perform his professional duties. Hence he did not live to see his 60th birthday, the next regime change, and his daughter's three-year birthday.



*Finanču ministrs
lūdz augsti godājamo Latvijas bankas
pilēt. Fr. Darginovičs kungu ar kundzei
pagodināt ar savu klātbūtni Kroguma spēka
stacijas pamatakmens likšanas svētkos
šā gada 22. maijā, pulksten 12, Krogumā.*

*Teikšana no Rīgas 1. speciālā vēstneša p. l. 10, 22.
Atgriešanās no Kroguma p. l. 17, 20.
Šis vēstneša derīgs speciālā vēstneša kā teikšanas bife.*



In 1930, there were 11 Discount Committees with 68 members, of which 13 worked at the Head Office, seven in Daugavpils, Jelgava, Liepāja and Rēzekne (each), five in Cēsis, Valmiera and Ventspils, and four in Bauska, Kuldīga and Tukums.⁶⁴

The Bank of Latvia Board reviewed opinions of Discount Committees and forwarded them to the Bank's Council for final judgement. This took much of the Council meetings' time. Thereafter, the Council-approved determinations were additionally reviewed by the Minister of Finance, yet his veto-power-based objections were seldom taken into account. The Members of Discount Committees were not on the Bank of Latvia pay-roll but were remunerated for participating in the Committee meetings. On some occasions, their travel expenses from the place of residence to the respective branch were also covered. When 2 lats were added to the existing pay, the Discount Committee Members at the Head Office received 7 lats per attended meeting as of July 1924.⁶⁵ In February 1930, the payment was raised once again, amounting to 15 lats per meeting for the Head Office Committee Members and 10 lats per meeting for Branch Committee Members.

The Minister of Finance approved the Instruction for the Bank of Latvia Discount Committees as late as 21 July 1934. By it, the legal status of these committees as advisory bodies and the traditional, time-tested procedures were defined in administrative terms.⁶⁶ In conformity with the new trends of the epoch, this document included a requirement to make a solemn pledge before taking up office.

Discount Committees at the Bank's provincial branches existed till 1 February 1939. The Bank of Latvia Council Resolution of 25 January 1939 provided for discontinuation of their activities thereafter. Only the Discount Committee of the Bank's Head Office was preserved, and, even though its composition for 1939 was approved, its liquidation was just a matter of time for reasons both political and practical. As a pseudodemocratic relict, the Discount Committees did not longer fit into Latvia's economic structure. From the practical point of view, they were unable to keep up with the lending speed. Committee meetings took place when the requested loans were pretty often already out in circulation. The initiative to discontinue their operation was rational and resulted from a joint exchange of opinions among the Prime Minister, the Minister of Finance and the Bank of Latvia Council Chairman. Consequently, the Bank's budget saved certain funds at the expense of remuneration and testified also to the management efforts to rationalise the labour process. The Council of the Bank attempted to handle this issue at the beginning of 1939, but some conflicting stances emerged, e.g. A. Klīve, the Council Chairman, referred to staff cuts at the Bank of Latvia as leading to more efficient work process, while

E. Birkhāns, a Council Member, insisted on technology upgrading as a means to attain higher efficiency; according to him, rationalisation may even require increases in staff numbers in certain circumstances.

After the dissolution of these committees, granting of loans and bill discounting were fully vested with the Branch and Head Office administration, despite Article 51 of the Statute being still in effect and stating: "The Council establishes Discount Committees with advisory power for granting loans. The Members of Discount Committees are approved by the Minister of Finance."

Upon accepting bills within the limits of granted loans, a joint opinion was issued by the Manager of the respective branch, his authorised assistant and an authorised official. If a unanimous opinion resulted or if the Manager's opinion coincided with that of one of his colleagues, the Manager's decision on the acceptance of respective bills was positive. If he considered that accepting the bills referred to in the application was not welcome, he reported to the responsible Bank of Latvia Board Director whose turn it was to decide on accepting or rejecting these bills, thereafter giving notice about the decision taken to the local branch. The Head Office was entitled to decide also on bills that were rejected by both authorised persons while deemed acceptable by the Branch Manager. The three persons referred to above issued opinions also on the increase/decrease of loaned amounts and loan discontinuation, cancelling protested bills, and other assignments which formerly had been the responsibility of Discount Committees; henceafter, the matter with the opinion enclosed was forwarded to the central bank's Head Office for further action. Senior accountant of the department could act for any of the said officials in their absence. The new regulation provided also for strict recording of discounted bills and their registration in a separate book, while the opinion and the decision to accept a bill were written on customer's application. Relative to single discount bills and discounting of 6-month commercial bills of industrial enterprises, the Council Resolution about the Bank of Latvia Board making decisions on their acceptance remained in force.⁶⁷

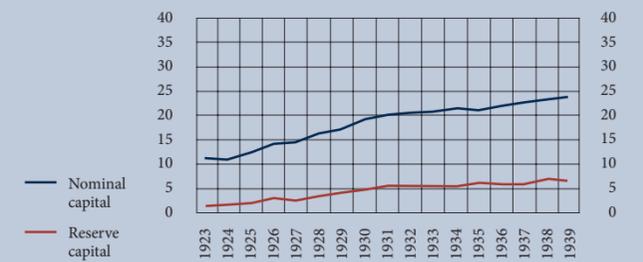
PROFIT AND LOSS

The Bank of Latvia profit depended on how efficient the economic activity of the borrowers had been. The profit of manufacturers and merchants was increasingly affected by the situation in foreign markets, where the competition was aggravating, particularly so amid the global crisis. Notwithstanding the overall unstable situation and even the tangible losses sustained due to a number of ineffective lending activities, the Bank earned profit in all years of its operation (see Table 4).

The Bank of Latvia income distribution rules were set forth in the Statute. According to it, 25% was transferred to the nominal capital, 10% went to the reserve capital (see Chart 5 for the dynamics of Bank of Latvia nominal capital and reserve capital), 0.5% was the amount payable to the Council Members and 2% to the Board Members, 5% was paid out to the staff in the form of bonuses (if the latter sum exceeded the amount of 6-month wages (2-month wages since the middle of the 1930s), the difference was to be transferred to state revenue). The remaining amount of 57.5% was transferred to state revenue.

Starting with 1935, the Bank of Latvia made numerous donations to goals that were in line with the ideology of sovereign statehood. The Bank of Latvia transferred its first large donation (15 thousand lats) to the Freedom Monument Committee in 1935; it was followed by donations from the 1936 profit (Council Resolution of 19 February 1937) for building the Victory Square (300 thousand lats), to the aviation of Latvian paramilitary organisation (100 thousand lats), the Latvian Press Association for building the Sigulda Castle (25 thousand lats), the Youth Fund (20 thousand lats), the Institute of Latvian History (15 thousand lats), etc. The Latvian paramilitary aviation corps received five airplanes in 1938 which were built at the Liepāja Naval Port workshops for the money donated by the Bank of Latvia, the Latvian Mortgage Bank, the Latvian Land Bank, and

Chart 5. BANK OF LATVIA NOMINAL CAPITAL AND RESERVE CAPITAL (1923–1939; millions of lats)



Source: Data from Bank of Latvia Annual Reports 1923–1939.

the Central Bureau of the Sickness Insurance Fund.⁶⁸ As such allocations of funds did not comply with the Bank's authority specified in the Statute, the Council proposed amendments to them to make the donated money legal.⁶⁹

By the Cabinet of Ministers Resolution of 2 September 1937, the Statute was amended and the structure of the Bank's capital and income distribution was changed. Capital was classified in special capital and specific capital. Up to 30% of net profits were transferred to special capital on an annual basis; it could be used for the needs of the bank or for general purposes at Council's discretion. The formation of specific capital and its utilisation depended on Council's decisions. In such a way, the Council exercised greater autonomy in income distribution and fund utilisation, while the profit share appropriated to state revenue remained unfixed (28.9% in 1939; permissible 30% of net profit or 1.8 million lats transferred to special capital), contracted notably and, starting with 1937, the amount appropriated to the state budget was no longer reported in the published annual reports of the Bank.

Table 4. BANK OF LATVIA PROFIT (1922–1939)

| Year | Net profit (thousands of lats) | Transferred to state revenue (thousands of lats) | Year | Net profit (thousands of lats) | Transferred to state revenue (thousands of lats) | Year | Net profit (thousands of lats) | Transferred to state revenue (thousands of lats) |
|------|--------------------------------|--|------|--------------------------------|--|------|--------------------------------|--|
| 1922 | 856.0 | 501.8 | 1928 | 5 715.1 | 3 418.0 | 1934 | 1 582.0 | 933.4 |
| 1923 | 182.2 | 104.8 | 1929 | 6 898.9 | 4 171.7 | 1935 | 1 600.0 | 944.0 |
| 1924 | 5 598.4 | 3 296.3 | 1930 | 3 765.9 | 2 242.8 | 1936 | 1 456.6 | 859.4 |
| 1925 | 7 150.6 | 4 226.8 | 1931 | 163.2 | 96.3 | 1937 | 3 107.4 | 712.6 |
| 1926 | 3 753.5 | 2 196.6 | 1932 | 1 306.5 | 770.8 | 1938 | 3 286.9 | 788.3 |
| 1927 | 4 784.6 | 2 847.4 | 1933 | 1 529.9 | 902.7 | 1939 | 5 961.9 | 1 722.5 |

Sources: Data from Bank of Latvia Annual Reports (funds appropriated to the state budget in 1937–1939) and Bank of Latvia Council meeting minutes (LSHA, F. 6209, F. 1, descr. 1, f. 34, p. 122; f. 36, p. 124; f. 40, p. 118).



Lifting of the safe in the 1920s.
Work supervised by master locksmith
Pauls Tilemanis.

The basement and vaults of the Bank of Latvia building served as currency storing premises; in the large hall, customer services were delivered; in the offices, the employees recorded payments and processed money, the Bank's Council and Board held their meetings and implemented the taken resolutions.

These ancient reflections of history have been caught by well-known and anonymous photographers and are stored in depositories of the Bank of Latvia, the National Library of Latvia, the National Archives of Latvia and elsewhere.



COMMERCIAL AND LENDING ACTIVITIES

The Bank of Latvia engaged in all regular currency and payment operations characteristic for a large commercial bank of those days.

The *Saeima*-approved Statute of the Bank of Latvia charged the Bank with the task to promote commerce, industry and agriculture by means of short-term crediting. The commercial activities of the Bank pursued several objectives. First, it was a means to regulate money supply; hence the Bank of Latvia money was put into circulation also via granting loans. Second, these activities had to boost the overall economic growth and the national policy, for credits to commerce, industry and agriculture were granted with the aim to strengthen those segments of the population which formed the basis for the new political framework (particularly the emerging farmers who had just obtained landed property from the state). Consequently, lending to agriculture ranked among the Bank of Latvia priority areas of activities despite the fact that the amount of money issued as credits to this economic sector was not among the largest and could not be compared with the sums allocated from the state budget mainly via the State Land Bank. Third, lending was aimed at pressing down interest rates via granting loans at lower rates than in the free money market.

Crediting of state enterprises and state projects can be considered the fourth objective of Bank's commercial activities. The fathers of the Latvian monetary policy did not believe that a liberal economy could lead to the establishment of a national state. The case of the Latvian Merchant Bank was a good illustrative instance. For rehabilitation of this distressed bank, the Council of the Bank of Latvia allowed the Board to grant it, as solely a Latvian bank, a loan of up to 0.3 million lats on 30 July 1926. Even though the Bank of Latvia did not have an explicitly valid entitlement to execute such a function, it had to supervise the utilisation of these funds. Some Council Members (J. Trasuns, F. Mendrs and E. Švēde) objected to this loan, arguing that it would incur losses in the future.⁷⁰

Albeit credits granted by the Bank of Latvia were definitely of a short-term nature, their regular recrediting or extension of their term turned them into long-term loans.

The commercial activities of the Bank of Latvia were regulated by Articles 19–36 of the Statute, providing for the types of commercial operations the Bank of Latvia was entitled to engage: 1) discounting of bills and other maturing liabilities; 2) opening of credits and granting short-term loans; 3) accepting cash deposits and various valuables for storing; 4) buying and selling of bills, drafts, foreign currency and other valuables; 5) issuing of letters of credit, executing money transfers and other types of commission operations; 6) conducting of various operations at the expense of public institutions. The Bank discounted only

such bills that were undersigned by at least two eligible officials, were based on commercial transactions, and were maturing in 3 months or less. Longer-term discounting was allowable solely with the consent of the Bank of Latvia Council.

The Bank of Latvia could impose sanctions and restrictions on insolvent customers. Limits were set on the amount of credit. It should not exceed 75% of the estimated value of real estate pledged as additional security (Article 24), and 60% of the market value of pledged inventory or commodities (Articles 24 and 25). A number of other commercial operations for the Bank of Latvia to conduct to earn profit were also listed.

The Bank was not set a special purpose commercial objective but was rather assigned functions of national significance: to regulate the money supply by commercial methods, to promote the economic development by injecting necessary financing in the right place and at the right time, to integrate fragmented group interests of split communities. This controversial objective of crediting to attain social, political and economic goals stemmed primarily from the thinking driven by political interests. In fact, it meant market regulation by the state. As testified by scarce information from the Bank's Council meeting minutes, it was this issue that from time to time caused Council Members' principal disagreement.

On 19 May 1925, the Council decided to allow the banks and all other credit institutions using central bank issued credits to collect a limited interest rate on bill discounting and other debt starting with 1 January 1926. This norm was not allowed to exceed by more than 4% annually the rate on loans issued by the Bank of Latvia. It already included recompense and expenses of all types. For it, credit institutions were required to undertake liabilities (reversals).⁷¹ This decision had staunch opponents among Council Members. Thus A. Bļodnieks, then a member of the *Saeima* Faction of New Farmers and Small-holders and an experienced merchant, stated that "1) it is impossible to decree, under compulsion, i.e. to lower the discount interest norm in the money market, 2) the enforced 12% is not consistent with the current private money market, because the banks already buy money for 12%, 3) the only effect of this coercive instrument on the operation of new Latvian banks, not to speak about non-resident banks without liabilities (reversals), can only be adverse, 4) it would divert deposits away from the private banks, 5) this decision could only be applied to cooperative money institutions that do not work with monies of other entities but only distribute funds received from the Bank of Latvia among their members".⁷²

The suppression of private initiative resulted in an increasingly expanding role of the state in the economic space, and the banks mostly resorted to the international money market for funds they needed. Meanwhile by the end of the 1920s, the

Bank of Latvia had lost its leading position in lending to Latvian banks. The Bank of Latvia pursued such credit policy that simultaneously was the national financial policy. Credits went to farming and industry rather than commerce. Trade had evolved and went on attracting bank financing.

The very first legislative act that the Bank of Latvia Council passed immediately after commencing operation was the "Regulation for Crediting of Agriculture" (the document was examined at the Bank of Latvia Council meeting as a draft submitted by A. Kārklīš and approved on 24 November 1922)⁷³; it provided for granting loans through rural credit cooperative societies and organisations founded and managed by farmers, their unions, joint-stock and stock companies. The aim was to alleviate the purchase of means of production for newly-landed farmers. The Bank of Latvia granted credits to them via the said credit institutions.

The Bank of Latvia policy relative to manufacturers was prudent. The Council unanimously maintained that loans to manufacturers could be granted against secured sole bills only in the circumstances where manufacturers had already started business and secured orders on their own, with bill holders having invested a good portion of their own capital. Exceptions were allowed only in extraordinary cases.⁷⁴

Extensive crediting of Latvian rural districts put the Bank of Latvia to a lot of trouble. The survey by Director J. Stalbovs of 8 January 1929 about the situation at Latgale credit unions demonstrated that farmers often treated their obligations to the Bank quite thoughtlessly. In the District of Rēzekne with 48 active credit unions at that time, 36 had not made payments to the Bank of Latvia in due time. Two of the unions had been pronounced insolvent, while the rest had delayed payments of smaller or bigger amounts of around 200 thousand lats. The union boards usually found fault with the poor harvest, but some pointed to various party instigators who escalated the situation by inciting people not to pay back the borrowed money, promising them debt write-offs. Around half of the indebted amount had accrued in the previous years. By an extensive analysis of data, J. Stalbovs proved that the District of Rēzekne had not been hit by adverse weather conditions more than any other neighbouring district or the rest of Latvia where similar activities proceeded satisfactorily. Excessive administrative expenses of cooperative societies (above 5%) were also at fault, with the intermediation interest established by the Bank of Latvia unable to offset them. The Rēzekne District Discount Committee had been of the opinion that the payment term should be extended till 1 April. The Board rejected this territorial-responsibility-based solution declaring that each instance should be reviewed separately.⁷⁵

In association with the bank loan standards for merchants and manufacturers and other types of payment services, the bank interest rates on loans were pushed up by instability of collateral, insufficiency of funds as well as inflation and craving for higher profits. In order to contain this tendency, the Bank of Latvia imposed an interest rate ceiling for those bankers that intended to borrow from the Bank of Latvia.

In its stand against excessive raising of interest rates, the Bank of Latvia demanded banks to undertake written liabilities (reversals), i.e. to promise not to charge more than 15% per annum when discounting the bills. In January 1923, such written undertakings arrived from 17 credit institutions while major commercial banks in Riga and Liepāja rejected to cooperate with the Bank of Latvia under these conditions.⁷⁶ Sanctions were imposed on the banks that refused to obey. On 26 April 1923, the Council passed a resolution on temporary closing of credit as a sanction for the first breach of rules, and almost immediately in May it was applied to the Stock Bank of Latvia (for one month) and the Central Bank of Farmers (for two months).⁷⁷

The availability of loans increased inhabitants' purchase power and consumption artificially, while the latter's incommensurable growth and weak productive capacity adversely affected trade, with its passivity aggravating and reaching a peak in 1925, thus negatively impacting also the country's balance of payments. The Bank of Latvia was forced to participate in balancing it by using its foreign currency stocks for the purpose. Within a year, the foreign currency reserves of the Bank of Latvia shrank by half. The Council took a fundamental decision "to permit only short-term credits if they promote production capacity and boost exports" on 20 November.⁷⁸

The real financial situation in the country was characterised by a Council decision of 3 February 1927 strictly rejecting the Ministry of Finance's proposal to alter the credit policy of the Bank of Latvia in support of epidemic-hit rural districts. In response, the Council wrote: "No government demand can force the Bank of Latvia to change its principled decision not to increase or decrease the total volume of credit, which is determined by the Bank's main responsibility – its monetary policy." It was emphasised thereafter that the assistance to the victims of epidemic was the state budget issue.⁷⁹

With the falling consumer goods imports, limited crediting and confined outflow of foreign currency, the Director General of the Bank of Latvia could report to the Council on 31 August 1927 that the stock of foreign currency was rising and the backing of the issued banknotes exceeded 100%. Likewise, the foreign trade balance had improved notably during the last six months. The Bank of Latvia ascribed all these attainments to its efficient lending policy.⁸⁰

THE COLD SUMMER OF 1940

However, these gains were of a short-lived nature. Already in 1931, a profound credit restricting started in order to ensure the lats stability amid the crisis-hit foreign market situation and several countries devaluing their national currencies. The joint decision of the Bank of Latvia of 14 January 1931 provided for the reduction of bank loans against bills by 5.6 million lats (largest reductions by 1.8 million lats and 1.2 million lats for the Riga City Discount Bank and the Riga Exchange Bank respectively) and commodity credit by 3.8 million lats (including by 1.0 million lats for the Riga Exchange Bank and the Cooperative Transit Bank (each), and 0.8 million lats for the Riga Commercial Bank).⁸¹

These restrictions on credit availability were accompanied by much clamour on behalf of media, to which the Bank of Latvia noted that they were basically on account of untapped credit lines, while the amounts for productive objectives remained intact.

In the process of discounting bills, the Bank of Latvia had actually departed from the optimal standards for bill makers and had accommodated itself to the current situation beforehand. The Board had resolved as early as 28 March 1930 to accept bills even if the bill maker was not trustworthy enough but had at least two endorsers whose creditworthiness matched the bill made.⁸² The Council also took the given circumstances into account and gave similar instructions to Discount Committees. As a consequence, the Bank was compelled to undertake the risk of financial loss.

The report by Director J. Stalbovs disclosed that on 1 March 1936 the discounted bills, split in 369 accounts at the Bank's Central Office totalled 15.9 million lats, with almost 20 thousand bills discounted. The credit institutions of cities had used 12.4 million lats, manufacturers 2.5 million lats, merchants 639 thousand lats, farmers' organisations 258 thousand lats, and rural credit institutions 76 thousand lats.⁸³ In comparison with the previous year, the scope of work had not increased.

In October 1936, the Bank of Latvia Council reviewed several solutions aimed at enhancing competitiveness of the economy. A. Klīve, the Council Chairman, proposed a 0.5 percentage point reduction in credit interest rates on active bank operations (from the range of current 4.5%–6.0% to 4.0%–5.5%), applying it to the private banks, the Latvian Credit Bank and the Latvian Postal Savings Bank. This proposal was supported. The interest rates on loans secured by collateral and current accounts for private persons and companies were lowered by 1.0 percentage point (from 7.0% to 6.0%).⁸⁴

Council Member E. Birkhāns objected saying that a lower interest rate was unlikely to yield particular effects, as there were no sectors to invest in.⁸⁵ This was the most serious problem of the new state. The financial framework was generally so chaotic that

state institutions, banks including, were competing, on the one hand, among themselves and, on the other, with the private banks. The issue of turning short-term credits into long-term ones was disputed by the Ministry of Finance and the Bank of Latvia over many years, yet the parties stuck to their own stances.

The so-called seasonal credits turned out to be an effective solution to the problem of small-holder lending. As a rule, these loans were extended to rural credit institutions within the amount allocated by the Bank of Latvia under specific terms in spring and were repayable by 1 December. From the middle of the 1930s, this amount (around 10 million lats) was constantly growing with every new year, and the quotas for one rural credit institution increased accordingly.

The largest loans of different type and against various security (the Bank of Latvia often issued loans against mortgages of other state banks, such as the State Land Bank and the Latvian Mortgage Bank) went to the builders of Liepāja tramlines, Riga Central Market pavilions and Ķemeri sulphur spring sanatorium. Even though the loans were issued as short-term ones, it was clear from the very start that their term would be extended again and again.

The latest checkup the Council conducted at the Manufacturers Credit Division in the spring of 1940 showed that the state financing for industry had been mostly channelled into the state corporate sector. From the beginning of the year to May, total loans to industry had grown from 148.7 million lats to 153.7 million lats, and the lion's share (117.0 million lats) had gone to state institutions and companies. 24.5 million lats was transferred to the account of the Latvian Credit Bank, while the share of private companies amounted to mere 12 million lats.

The Ministry of Finance had a special bond-secured current account for the construction of the Ķegums HPP (12.7 million lats), while the accounts of other customers were in the amount of 31.7 million lats, including also the above-referred loan of the Latvian Credit Bank. Special bond-secured current account credits were granted to state institutions (71.6 million lats, including 56.9 million lats of the Grain Bureau, 4.8 million lats of the Flax and Hemp Monopoly Company, and 4.4 million lats of the State Land Bank). State institutions had been granted financing of 1.1 million lats against bonds and different valuables, which amount was used by the Ministry of Agriculture for the purchase of grain silo, whereas private businesses had been granted 1.6 million lats. In the meantime, the Grain Bureau received a major part (31.3 million lats) of the total commodity credit (34.4 million lats), with private businesses obtaining only 3.1 million lats. Grain and timber were most often used as pledge. The general situation of the state institutions' account with the Credit Division on 25 May 1940 accurately captured the above-referred credits.

When in February 1938 the subscription to the state 5% coupon bonds to raise funds for the construction of the Ķegums HPP started, the Bank of Latvia was charged with the realisation and distribution of these bonds. Henceforth, all credit institutions using the Bank of Latvia financing were automatically entitled to circulate these bonds. The other credit institutions could obtain such entitlement only with the permission of the Bank of Latvia. The Ministry of Finance was committed to pay 0.25% of their nominal value to the Bank.⁸⁶ The Council of the Bank resolved to accept these bonds as security for standard loans and guarantees. The Bank invested 10 million lats in the construction of the Ķegums HPP and additionally around 35 million lats in the distribution of 5% coupon bonds purchased from the Ministry of Finance. However, due to the limited purchasing power of inhabitants, the Bank of Latvia credit portfolio in 1940 still contained Ķegums coupon bonds worth 13.3 million lats.

The securities portfolio of Bank's Head Office comprised stocks, mortgages, credit notes and other types of securities worth 26.8 million lats (including the shares of the Bank for International Settlements for 312.5 thousand lats).

By 1 January 1940, the Lending Division had extended 5 013 loans to farmers in the amount of 7.0 million lats. In 1939, 881 new loans totalling 1.3 million lats were granted, of which farmers in Zemgale received 489.5 thousand lats, in Kurzeme 366.0 thousand lats, in Vidzeme 306.5 thousand lats, and in Latgale 170.5 thousand lats. In 1939, these loans to farmers earned 296.8 thousand lats in profit for the Bank of Latvia. In most cases, loan repayments came in due time, and the borrowing terms were deemed favourable for farmers.⁸⁷

Like that of the other state banks (the State Land Bank and the Latvian Mortgage Bank), the credit policy of the Bank of Latvia spurred the development of rural cooperative societies and credit unions; however, after 1935, lending started to contract because the ailing banks were practically nationalised, with their balances merged with the Latvian Credit Bank. As a result, the Bank of Latvia suffered serious losses totalling 815.7 thousand lats, including the loans lost in the Farmers Central Bank in the amount of 193.9 thousand lats, 103.8 thousand lats in the Mutual Credit Union of the Latvian Central Agricultural Association, 300.4 thousand lats in the Latvian Bank of Commerce and Industry, and 200.4 thousand lats the Baltic Mutual Credit Union.⁸⁸

The liquidation of the Bank commenced with the substitution of top officials. On 15 July, Director General K. Vanags was informed by J. Pabērzs, the newly appointed Minister of Finance, that Pēteris Ozols, with his powers becoming effective as at 13:00 on 13 July, would replace A. Klīve in the position of the Council Chairman. The Council and Board Members who gathered for the meeting on 16 July learned that the Cabinet of Ministers had released, as with 15 July, Edmunds Ziemelis, Eduards Bisenieks (he had just replaced Council Member P. Vimba whose term of office expired on 16 June 1940), J. Ērglis, E. Rozīte and V. Streļevičs who all had resigned from their positions of Bank Council Members "at their own initiative". The Ministry of Finance was represented by V. Bastjānis in the Bank's Council, with A. Dinsbergs, E. Birkhāns, A. Kūraus, A. Zalts, K. Vanags (Director General), E. Dzelzītis, Ā. Krūmiņš and J. Putniņš as other Council Members.

This substitution process proceeded matter-of-factly and correctly. A. Klīve used his professional routine to speak well of everybody. Meanwhile, K. Vanags expressed his gratitude to his former colleague A. Klīve for his long-standing contribution, and the new Chairman thanked for good wishes, promising to spare no effort. The minutes at P. Ozols request were taken down by A. Zalts, and it was the only occasion in the history of the Council that the records were kept by a Council Member. The meeting on 17 July was recorded by J. Roze, and that on 23 July by K. Dzīlleja who took down the minutes also of the final meeting under No. 3 463 on 31 July 1940.⁸⁹

The response of the Bank of Latvia Council Members to the declaration of 22 July 1940 of the so-called Latvian People's *Saeima* about the nationalisation of banks and large industrial enterprises "in the presence of a friendly country's troops" was businesslike and professional. During the Council meeting on 24 July, V. Bastjānis voiced the stance of the Ministry of Finance: in Riga and all cities and towns of Bank of Latvia Branch location, the Bank was to take over the management of currency operations in the future. It would be a temporary task ending with the formation of a new credit system. V. Bastjānis hypocritically appealed for the Bank's Council consent and urged the latter to get properly ready for the implementation of this task. A. Zalts had immediately grasped the meaning of the socialist form of financing and maintained that "the nationalised banks could continue their work in the reorganised system, with their lending objectives specified and, in addition, instituting a bank administration headquarters". The Council resolved "to take over assets and liabilities of nationalised credit institutions and to undertake continuation of operations of the overtaken institutions".⁹⁰

CONCLUSION

On 31 July, the Council discussed the draft submitted by the new Board (K. Zandersons, K. Vanags, E. Ozoliņš and J. Stalbovs) for transforming the nationalised credit institutions into Bank of Latvia Branches and resolved to number them in the future, with the first number going to the former Exchange Bank. On that date, branch numbers were assigned also to the Latvian Stock Bank, the Liepāja Bank, the Vidzeme Mutual Credit Union, the Riga and Pārdaugava Mutual Credit Union, the Riga II Mutual Credit Union, and the Riga Jūrmala Mutual Credit Union. It was also decided not to merge, for the time being, the assets and liabilities of the nationalised credit institutions with those of the Bank of Latvia and to maintain separate accounts for each institution, while recording the sum total of their assets and liabilities in the Bank of Latvia balance sheet on liabilities side.

The Director General announced immediately afterwards that V. Gerashchenko, a representative of the USSR State Bank, had arrived at the Bank and had requested an office and an official who would explain the operation of the Bank in the Russian language to be placed at his disposal. K. Zandersons explicitly stated the purpose of this visit: the incorporation of the Bank of Latvia in the system of USSR banks and reorganisation of all nationalised banks.⁹¹

This was achieved by discharging the Council by a legislative act of 3 August and passing its duties over to the newly-formed Board (Board Chairman K. Zandersons, Director K. Vanags, E. Ozoliņš and J. Stalbovs). This body worked till 10 October, when the Latvian Republican Office of the USSR State Bank began its operation in the premises of the Bank of Latvia under the USSR State Bank Order No. 71 of 5 October 1940. G. Teplov, representing the USSR State Bank in Latvia, was its manager, and K. Zandersons became his Deputy.⁹²

The overall performance of the Bank of Latvia can be assessed from the point of view of its basic monetary policy objective, i.e. the stability of national currency. The activities in this respect were encumbered by the fact that the Bank of Latvia was not the only currency issuing body, and the money stock comprised only 40% of its money notes. Bank's professional administration managed to preserve the planned issuing and lending policies and, as much as possible, the stability of national currency.

Income earning was not a central objective of the Bank; hence profit earned on an annual basis cannot be used as a measure of its efficiency. However, its contribution to the state budget was noteworthy, and the sums allocated for the progress of national policy and national culture and in support of the traditional life-style were also impressive. Moreover, the Bank's ability to generate income to cover its operating expenses enhanced its independence.

Credit policy pursued by the Bank of Latvia and its operational practices both were time-dictated and contributed to the model typical for the first stage of central bank evolution, when central banks were currency issuers, provided interbank settlements, and offered banking services to governments. The Council of the Bank of Latvia lived through numerous disagreements on the issue of lending. A. Klīve, who was a member of the Latvian Farmers Union, never refrained from the opportunity to support the interests of agriculturists, insisting on a higher quota and a lower credit interest rate. Meanwhile, F. Menders from Social Democrats always objected to assisting some economic groupings at the expense of others. Yet all principal issues were always passed by voting, and the number of votes always played a decisive role. Those who lost could only appeal for their particular opinion being recorded in the meeting minutes. Over time, the number of such records decreased and later disappeared completely.

On many occasions, the Bank of Latvia violated its Statute and engaged in risky lending deals initiated by and under political pressure of the state. The Ministry of Finance and the Cabinet of Ministers borrowed money from the Bank of Latvia, paying with mortgage bonds issued by other state banks, thus disregarding the provisions under the Statute with respect to both the loan maturity and collateral, not to speak about the aim of financing; consequently, the overall money supply was impaired.

From the historical point of view, the political and economic processes, of which the Bank of Latvia became a part and which it moulded to the extent possible, were violently disrupted, while the lessons learned proved useful when after the restoration of Latvia's independent statehood the central bank was re-established to take also over the assets of that Bank of Latvia which was formed in 1922.

ENDNOTES

¹ *Valdības Vēstnesis*. Nr. 213, 1922, 22. sept., 1. un 2. lpp.

² *Latvijas Banka 1922.–1927.* Rīga : Latvijas Banka, 1927, 7. lpp.

³ *Latvija desmit gadus*. Latvijas valsts nodibināšanas un viņas pirmo 10 gadu darbības vēsture. Rīga : 1928, 94. lpp.

⁴ LSHA, F. 6209, descr. 1, f. 1, p. 187.

⁵ *Ibid.*, f. 2, p. 52.

⁶ *Ibid.*, f. 7, p. 39.

⁷ *Ibid.*, f. 34, p. 32.

⁸ *Ibid.*, f. 40, p. 102.

⁹ *Ibid.*, f. 37, p. 89.

¹⁰ *Ibid.*, f. 36, p. 90.

¹¹ *Latvijas Republikas I Saeimas stenogrammas*. II sesija. Rīga : Latvijas Republikas Saeima, 1923, 165.–172. sl.

¹² K., A. Bijušās Krievijas valsts banka. *Ekonomists*, 1929, Nr. 6, 160. lpp.

¹³ Documents also record other figures yet without a substantial difference.

¹⁴ *Latvijas Republikas I Saeimas stenogrammas*. VI sesija. Rīga : Latvijas Republikas Saeima, 1924, 492. sl.

¹⁵ *Ibid.*, 493. sl.

¹⁶ Kārklīšs, A. Naudas zīmes. *Ekonomists*, Nr. 8, 1923, 288. lpp.

¹⁷ *Latvijas Republikas Saeimas stenogrammas*. VI sesija. Rīga : Latvijas Republikas Saeima, 1924, 494. sl.

¹⁸ Ducmane, K., Vēciņš, Ē. *Nauda Latvijā*. Rīga : Latvijas Banka, 1995, 152.–173. lpp.; Vēciņš, Ē., Rubenis, Dz., Grīns, G. R. *Nauda Latvijā XX gadsimtā*. Katalogs. I daļa. Papīra naudas zīmes. 1. sēj. Rīga : SLA "Apgāds Zvaigzne ABC", 2000, 128 lpp.

¹⁹ *Latvijas Banka. Gada pārskats par 1928. gadu*. Rīga : Latvijas Banka, 1929, 23. lpp.

²⁰ *Latvijas Bankas darbība 10 gadu laikā 1922.–1932.* Rīga : Latvijas Banka, 1933, 51. lpp.

²¹ *Valdības Vēstnesis*. Nr. 221, 1936, 29. sept., 1. lpp.

²² *Ibid.*, Nr. 237, 1922, 20. okt., 3. lpp.

²³ *Ibid.*, Nr. 115, 1923, 2. jūn., 2. lpp.

²⁴ LSHA, F. 6209, descr. 1, f. 1, p. 122.

²⁵ *Ibid.*, p. 132.

²⁶ Kārklīšs, A. *Mūsu naudas reforma*. Rīga, 1927, 542 lpp.

²⁷ LSHA, F. 6029, descr. 1, f. 2, p. 14.

²⁸ *Ibid.*, p. 78.

²⁹ *Ibid.*, p. 84.

³⁰ *Ibid.*, f. 5, p. 85.

³¹ *Ibid.*, p. 105; *Valdības Vēstnesis*. Nr. 165, 1927, 29. jūl., 2. lpp.

³² LSHA, F. 6209, descr. 1, f. 18, p. 75.

³³ *Valdības Vēstnesis*. Nr. 265, 1931, 25. nov., 2. lpp.

³⁴ *Ibid.*, Nr. 48, 1927, 1. marts, 1. lpp.

³⁵ LSHA, F. 6209, descr. 1, f. 5, pp. 70–73.

³⁶ Menders, F. No kapitālisma uz socialismu. *Signāls*, Nr. 3, 1928, 74. lpp.

³⁷ Aizsilnieks, A. *Latvijas saimniecības vēsture 1914–1945*. Stokholma : Daugava, 1968, 294.–313. lpp.

³⁸ LSHA, F. 6209, descr. 1, f. 5, p. 100.

³⁹ *Ibid.*, p. 138.

⁴⁰ *Ibid.*, f. 1, p. 38.

⁴¹ *Valdības Vēstnesis*. Nr. 4, 1923, 5. janv., 3. lpp.

⁴² LSHA, F. 6209, descr. 1, f. 1, pp. 15 and 16.

⁴³ *Ibid.*, f. 145, p. 11.

⁴⁴ *Ibid.*, f. 34, p. 69.

⁴⁵ *Ibid.*, f. 35, pp. 20 and 21.

⁴⁶ *Ibid.*, p. 51.

⁴⁷ *Ibid.*, f. 1, p. 152.

⁴⁸ *Ibid.*, f. 5, p. 101.

⁴⁹ *Ibid.*, f. 36, p. 113.

⁵⁰ *Valdības Vēstnesis*. Nr. 149, 1936, 7. jūl., 2. lpp.

⁵¹ LSHA, F. 6209, descr. 1, f. 18, p. 3.

⁵² *Ibid.*, f. 31, pp. 70 et al.

⁵³ *Ibid.*, f. 13, p. 125.

⁵⁴ *Ibid.*, f. 5, p. 43.

⁵⁵ *Ibid.*, f. 1, p. 61.

⁵⁶ *Ibid.*, p. 186.

⁵⁷ *Ibid.*, f. 3, pp. 7 and 10.

⁵⁸ *Ibid.*, f. 33, pp. 1–4.

⁵⁹ *Ibid.*, f. 31, pp. 5–7.

⁶⁰ *Ibid.*, f. 91, pp. 24 and 25 (data on 1923–1931) and pp. 29 and 30 (data on 1931–1940).

⁶¹ *Ibid.*, f. 4, p. 126.

⁶² *Latvijas Banka. Gada pārskats par 1929. gadu*. Rīga : Latvijas Banka, 1930, 37. lpp.

⁶³ *Latvijas Banka. Gada pārskats par 1930. gadu*. Rīga : Latvijas Banka, 1931, 43. lpp.

⁶⁴ LSHA, F. 6209, descr. 1, f. 12, pp. 63 and 64.

⁶⁵ *Ibid.*, f. 2, p. 93.

⁶⁶ *Ibid.*, f. 30, pp. 1 un 2.

⁶⁷ *Ibid.*, f. 36, pp. 22 and 23.

⁶⁸ *Rīgas Jūrmalas Vēstnesis*. Nr. 5, 1938, 11. jūn., 3. lpp.

⁶⁹ LSHA, F. 6209, descr. 1, f. 27, p. 37.

⁷⁰ *Ibid.*, f. 4, p. 73.

⁷¹ *Ibid.*, f. 3, p. 56.

⁷² *Ibid.*, p. 60.

⁷³ *Ibid.*, f. 1, p. 21.

⁷⁴ *Ibid.*, p. 51.

⁷⁵ *Ibid.*, p. 6.

⁷⁶ *Ibid.*, p. 9.

⁷⁷ *Ibid.*, pp. 87, 88 and 95.

⁷⁸ *Ibid.*, f. 3, p. 119.

⁷⁹ *Ibid.*, f. 5, p. 11.

⁸⁰ *Ibid.*, p. 117.

⁸¹ *Ibid.*, f. 16, pp. 7 and 8.

⁸² *Ibid.*, f. 13, p. 7.

⁸³ *Ibid.*, f. 27, p. 69.

⁸⁴ *Ibid.*, f. 28, p. 88.

⁸⁵ *Ibid.*, pp. 81 and 82.

⁸⁶ *Ibid.*, f. 34, p. 28.

⁸⁷ *Ibid.*, f. 40, p. 135.

⁸⁸ *Ibid.*, f. 34, p. 43.

⁸⁹ *Ibid.*, f. 41, p. 33.

⁹⁰ *Ibid.*, p. 26.

⁹¹ *Ibid.*, p. 33.

⁹² Ducmane, K., Vēciņš, Ē. *Nauda Latvijā*. Rīga : Latvijas Banka, 1995, 176.–178. lpp.

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