

UNOFFICIAL TRANSLATION

Law "On the Bank of Latvia"

Adopted on May 19, 1992.

In effect as of May 19, 1992.

* With amendments passed by the Saeima of the Republic of Latvia on June 18, 1997 (in effect as of July 3, 1997);

** With amendments passed by the Saeima of the Republic of Latvia on October 29, 1998 (in effect as of November 18, 1998);

*** With amendments passed by the Saeima of the Republic of Latvia on November 4, 1999 (in effect as of November 24, 1999);

**** With amendments passed by the Saeima of the Republic of Latvia on June 1, 2000 (in effect as of July 1, 2001);

Section I

General Provisions

Article 1.

The Bank of Latvia is the central bank of the Republic of Latvia.

The Bank of Latvia shall enjoy the full rights of a state institution. It shall hold state property and have a stamp (seal) reproducing the full state emblem of the Republic of Latvia and bearing the Bank's name "Latvijas Banka" (Bank of Latvia).****

The Bank of Latvia administration shall be located in Riga.

Article 2

The Bank of Latvia shall be established by a resolution passed by the Supreme Council of the Republic of Latvia.

Article 3

The main objective of the Bank of Latvia shall be to implement monetary policy by controlling the amount of money in circulation with the aim to maintain price stability in the State.****

Article 4

The Bank of Latvia shall be the sole bearer of the right to issue the national currency, banknotes and coins, and these shall be the only legal tender in the State. The Bank of Latvia shall set the official exchange rate of the national monetary unit against foreign currencies.

Article 5

The Bank of Latvia shall have its own reserves of convertible foreign currency, gold, and securities in order to ensure the stability of the national currency.

The Government shall maintain foreign currency (gold) reserves with the Bank of Latvia. Upon receipt of specific authorization from the Government, the Bank of Latvia shall be entitled to act as the Government's financial agent in banking transactions.

Article 6

The Bank of Latvia shall advise the Saeima and the Cabinet of Ministers on monetary policy and other matters pertaining to the execution of its tasks.

The Bank of Latvia shall be entitled to receive information necessary for the execution of its tasks from the Financial and Capital Market Commission and other state and government institutions.****

Article 7

The Bank of Latvia shall represent the Republic of Latvia in foreign central banks and international monetary institutions. The Bank of Latvia shall be entitled to participate in the activities of other international financial and credit organisations, provided that these activities comply with the objectives and tasks of the Bank of Latvia.

Article 8

The Bank of Latvia shall perform foreign currency exchange operations at its discretion. In cases where agreements are concluded with foreign countries on currency exchange quotas and terms, the Bank of Latvia shall be entitled to regulate settlements with its foreign correspondents.

Article 9

The Bank of Latvia shall organise and ensure the operation of the settlement and payment systems in Latvia.

Settlements among banks in the Republic of Latvia shall be effected by using the settlement accounts that banks hold with the Bank of Latvia.

The Bank of Latvia shall determine the ways of settlement and payment to be used in the Republic of Latvia.

Article 10

The Bank of Latvia shall be entitled to inspect compliance with the regulations and regulatory instructions it has issued. The inspection procedures shall be performed by persons authorised by the Bank and on its assignment.****

Article 11

The Bank of Latvia shall issue permits (licences) to legal persons listed in the Republic of Latvia Register of Enterprises, except credit institutions, for the purchase and sale of foreign currency as a business activity.****

The Bank of Latvia shall be entitled to revoke a permit (licence) it has issued where the procedure it has established for effecting foreign currency purchase and sales transactions has been violated.****

Article 12

In accordance with the tasks stipulated in Articles 3 to 11 of this Law, the Bank of Latvia shall be entitled to open accounts only for the Government of Latvia, foreign banks, international monetary, financial and credit institutions, Latvia's banks and other credit institutions. *

On the accounts opened for the Government the Bank of Latvia shall keep the State budget resources and the resources of special funds, and shall effect the transfer of the budget resources free of charge.

The Ministry of Finance of the Republic of Latvia shall be entitled to receive information on the State budget resources at any time, as well as to control the utilisation of these resources.

Article 13

In fulfilling its tasks and performing supervision in accordance with the Republic of Latvia

Law "On Credit Institutions" and this Law, the Bank of Latvia shall not be subject to the decisions and regulations adopted by the Government or its institutions. *

The Bank of Latvia shall be independent in the adoption of its decisions and in their practical implementation.

Article 14

The Bank of Latvia shall be entitled to have enterprises and organisations of its own, provided that they are essential for the execution of its tasks, improvement of employees' qualifications, and ensuring its activities.

The Bank of Latvia shall not participate in any business venture.

Article 15

The Bank of Latvia shall publish monthly and annual balance sheets in accordance with the standards used by the world's central banks.

Article 16

The fiscal year of the Bank of Latvia shall begin on January 1 and end on December 31.

Article 17

The Bank of Latvia shall be liquidated upon a resolution of the Saeima of the Republic of Latvia that shall establish the procedure for settling its liabilities to its correspondent banks in the Republic of Latvia and abroad, as well as regulating the further utilisation of the Bank of Latvia's property. *

Section II

Capital of the Bank of Latvia and Appropriation of Profit

Article 18

The nominal capital of the Bank of Latvia shall be 25 million lats. *

The nominal capital shall not be utilised in financial activities of the Bank of Latvia.

Article 18¹

The Bank of Latvia shall transfer to the state revenue part of its profit earned during the reporting year and calculated by applying the tax rate set for residents by the Law "On Corporate Income Tax".***

Article 19

To cover possible losses, the reserve capital shall be established by annually deducting 10 percent from the Bank's profit until it is equivalent to one-fourth of the nominal capital. If the reserve capital is not sufficient to cover losses, the losses shall be covered from the nominal capital.

Article 20

Other reserves shall be generated from the Bank's profit remaining after deductions stipulated in this Chapter. The Bank is entitled to use other reserves for building and construction and to obtain fixed assets in accordance with the estimates approved by the Board of Governors of the Bank of Latvia. The remaining profit shall be appropriated to the nominal capital until the amount stipulated in Article 18 of this Law is reached. After this condition has been met, the remaining profit shall be transferred to the reserves.***

Section III

Administration of the Bank of Latvia

Article 21

The Bank of Latvia shall be administered by a Board of Governors and an Executive Board. The Board of Governors of the Bank shall consist of eight persons: the Governor, the Deputy Governor and six members of the Board of Governors.

The Board of Governors shall be chaired by the Governor or Deputy Governor.

Article 22

The Governor of the Bank of Latvia shall be appointed through a secret ballot by the Saeima of the Republic of Latvia upon the recommendation of at least ten members of the Saeima of the Republic of Latvia. *

The Deputy Governor of the Bank and members of the Board of Governors shall be appointed through a secret ballot by the Saeima of the Republic of Latvia upon the recommendation of the Governor of the Bank of Latvia. *

The Governor of the Bank of Latvia, the Deputy Governor, and members of the Board of Governors shall hold office for six years. In case any member of the Board of Governors resigns before his/her term of office has expired, a new member of the Board of Governors shall be appointed. *

The Governor of the Bank of Latvia, the Deputy Governor and members of the Board of Governors shall be discharged by the Saeima before the term of office stipulated by Paragraph 3 of this Article if and only if

- 1) he/she has submitted his/her resignation;
- 2) the court decision on sentencing the Governor of the Bank of Latvia, the Deputy Governor or a member of the Board of Governors for a deliberate crime has taken legal effect;
- 3) the Governor of the Bank of Latvia, the Deputy Governor or a member of the Board of Governors is not able to officiate for a period exceeding six successive months because of illness or other reasons. *

Article 23

To execute the practical work and ensure the efficient management of the Bank of Latvia, the Board of Governors shall establish a permanent Executive Board consisting of six persons. The Chairperson of the Executive Board shall be confirmed in office by the Board of Governors of the Bank upon the recommendation of the Governor of the Bank.

Other members of the Executive Board shall be confirmed in office by the Board of Governors of the Bank upon the recommendation of the Chairperson of the Executive Board. In the event the Chairperson of the Executive Board is absent, the official duties of the Chairperson shall be performed by the Governor of the Bank or by any other member of the Executive Board authorised by the Governor.

The members of the Executive Board shall be drawn from the Bank's senior management. The members of the Executive Board shall be dismissed from their positions following a decision of the Board of Governors of the Bank.

Article 24

Meetings of the Board of Governors of the Bank shall be valid if more than half of its members, including the Governor and the Deputy Governor, participate. The Board of Governors shall resolve all issues with a majority vote of those present. In the event of a tie, the chairperson of the meeting shall have the deciding vote. The meetings of the Board of Governors of the Bank shall be convened as needed, but at least once a quarter.

Article 25

The Minister of Finance shall be entitled to participate in the meetings of the Board of Governors of the Bank without voting rights. **

Article 26

The Board of Governors of the Bank of Latvia shall make decisions on behalf of the Bank of Latvia. The Board of Governors shall determine the general monetary policy, set interest rates for Bank of Latvia asset and liability operations, and make all decisions that are necessary to ensure the implementation of monetary policy in accordance with this Law.

The Board of Governors of the Bank shall review and approve the annual budget of the Bank, determining that all expenses of the Bank shall be financed from the Bank's revenue.****

Article 27

The Executive Board of the Bank of Latvia shall manage the Bank's work implementing the resolutions of the Board of Governors concerning monetary policy and other areas of the Bank's activity.***

The meetings of the Executive Board shall be convened as needed, but at least once a month, and the meetings shall be valid if more than half of the Board members, including the Chairperson of the Executive Board, participate. The Executive Board shall make decisions, following the same procedure as the Board of Governors of the Bank does.

Article 28

The Governor of the Bank of Latvia shall chair the Board of Governors of the Bank, and shall be responsible for the successful organisation of the Board's work.

The Governor of the Bank shall approve the Bank of Latvia's structure, and shall have the power to hire and fire Bank of Latvia employees.

The Governor of the Bank shall represent the Bank of Latvia in relations with other banks, with State and local government institutions of Latvia, as well as with international financial and credit organisations.

The Governor of the Bank of Latvia shall be entitled to participate in meetings of the Government of the Republic of Latvia.

In the event the Governor of the Bank of Latvia is absent, his/her rights and obligations shall be fulfilled by the Deputy Governor or by the person appointed by an express order.

Article 29

The Chairperson of the Executive Board of the Bank of Latvia shall organise and direct the Bank of Latvia's practical work by implementing decisions adopted by the Board of Governors and the Executive Board of the Bank. The Chairperson of the Executive Board of the Bank of Latvia shall be entitled to participate in meetings of Republic of Latvia Government when authorised by the Governor of the Bank or in the event of the Governor's absence, and shall be entitled to represent Bank of Latvia interests.

Article 30

The remuneration of the Governor of the Bank of Latvia, members of the Board of Governors and the Executive Board, as well as Bank employees shall be determined by the Board of Governors of the Bank. The Board of Governors also approves the staff numbers, positions, and salaries.

Article 31

The Governor of the Bank, members of the Board of Governors and the Executive Board shall be prohibited from holding more than one paid position simultaneously.

The managers of the Bank's organisational units shall be entitled to hold other paid positions with the permission of the Governor of the Bank.

Article 32

Members of the Executive Board of the Bank of Latvia and managers of the organisational units of the Bank of Latvia shall be prohibited from engaging either directly, or indirectly in any business activity.

Article 33

Bank of Latvia employees shall be responsible for any violation of the laws established by the Republic of Latvia that arise in the course of their official duties.

Section IV

Monetary Policy Instruments

Article 34

The national monetary unit of the Republic of Latvia is the lats, and it is comprised of one hundred santims. The lats is the only legal tender in Latvia. The description, serial numbering, registration of banknotes, and monetary backing of coins and banknotes shall be determined by the Board of Governors of the Bank of Latvia.

The Board of Governors of the Bank of Latvia shall also determine the procedure for the withdrawal of banknotes and coins from circulation and for the substitution of damaged banknotes and coins with valid ones.

The Bank of Latvia shall be entitled to issue jubilee and commemorative coins, as well as coins with precious metal content into circulation.

Article 35

The Bank of Latvia shall be entitled to operate in the financial markets, to buy and sell foreign currency and precious metals in its offices, on the stock exchange, and abroad, to establish a currency reserve fund, to accept deposits in foreign currency and keep in safe custody other valuables, and to perform all banking operations and transactions with foreign countries and their central banks, financial institutions, and international organisations.

Article 36

The Bank of Latvia shall be entitled to grant short-term loans against collateral to those Latvian banks and other credit institutions, foreign banks, and international foreign exchange, financial and credit organisations that have opened an account with the Bank of Latvia. The Bank of Latvia shall not be entitled to issue credits to the Government and to buy government securities on the primary market. **

Article 37

The Bank of Latvia shall be entitled to perform transactions with securities issued by Latvia's Government, foreign central banks or international credit institutions, as well as to accept such securities as a guarantee.

Article 38

All credit institutions shall deposit with the Bank of Latvia a certain percentage of their

liabilities. Each credit institution shall have a reserve requirement that is equivalent to that set for all credit institutions of the same type. *

The mandatory reserve requirement shall be set by the Board of Governors of the Bank of Latvia, and shall be published in the press. Amendments to the reserve requirement shall take effect three days after they have been published in the press. *

The manager of a credit institution shall be personally responsible for his/her credit institution's reserve account. *

If the minimum reserve balance falls below the required level, the Bank of Latvia shall be entitled to charge a certain percentage on the unpaid amount. This interest rate shall be determined by the Bank of Latvia, and shall not exceed the short-term lending rate of the Bank of Latvia by more than tenfold.

Section V Analytical Tasks

Article 39

The Bank of Latvia shall approve statistical reporting forms and the procedures for submitting such reports. **

Article 40

The Bank of Latvia shall collect, register and compile financial and balance-of-payments statistics, as well as publish the compiled statistics; such information shall not be published in a way that would make it possible to identify, directly or indirectly, any natural or legal person.

The Bank of Latvia shall also follow economic and financial developments abroad, and analyse their influence on the Latvian economy. **

Article 41

To be able to make decisions concerning the implementation of monetary policy, the Bank of Latvia shall follow the development of the financial market. ****

Article 42

Regulations and regulatory directives on the requirements regulating the activities of credit institutions, procedures for calculating credit institution performance indicators and preparing enterprise (company) business reports approved by the Bank of Latvia shall be published in the government journal "Latvijas Vestnesis" and shall take effect on the day after publication unless a different term for their becoming effective has been established. ****

Section VI

Control and Supervision of the Bank of Latvia

Article 43

The Saeima of the Republic of Latvia shall supervise the Bank of Latvia. *

The audit commission, whose members are approved by the State Auditors' Office of the Republic of Latvia, shall audit the economic activity and documents of the Bank of Latvia.

After the audit results have been reviewed, the Board of Governors of the Bank of Latvia shall approve the Bank's annual report, and the report, together with the annual balance sheet, shall be published for the public knowledge. *

A. Gorbunovs, Chairman, Supreme Council of the Republic of Latvia

I. Daudiss, Secretary, Supreme Council of the Republic of Latvia

