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CONTENTS

INTRODUCTION

Strict monetary and fiscal policies, successful structural reforms and further adjustment of the country's economy to comply with market economy principles were the key factors that allowed Latvia to maintain its macroeconomic stability and helped to overcome difficulties provoked by the instability of the world financial system, and the Russian crisis in particular. Russia failed to meet its obligations, the Russian ruble was devalued, major world stock markets registered a sharp fall, the US dollar weakened, and financial markets experienced a liquidity squeeze. The Russian default, which followed the East Asian crisis, altered the global economic outlook for the long term. Latvia's macroeconomic indicators are evidence that the country has not only withstood the pressure, but also ranks among the most successful Central and East European transition economies. Both the low annual inflation rate (2.8%) and the growth in GDP (3.6%) were close to the level of developed countries.

The Government adhered to a tight fiscal policy thus ensuring a balanced general government consolidated budget and maintaining a low level of interest rates. In 1998, the revenue of the general government consolidated budget increased by 21.6% year-on-year, and the financial surplus totalled 8.1 million lats. As there was no demand for credit on the part of the Government, banks were stimulated to invest in the private sector of the Latvian economy (domestic lending showed a year-on-year growth of 52.0%). The increase in long-term loans was more rapid than in short-term loans, a difference of 8.3 times. (The weighted average interest rate was at 12.9% for long-term loans and at 14.2% for short-term loans.)

The rapid growth in industrial output in the first half of the reporting year was followed by a decline in September–December as a result of the Russian crisis. Nevertheless, the volume index of industrial output (at constant prices) rose by 2.0%.

In the reporting year, Latvia's exports and imports rose (by 10.0% and 18.9%, respectively). Trade turnover with the EU countries reached 55.7% of the total. In October, Latvia was the first of the three Baltic states to join the World Trade Organization. This step is expected to promote the expansion of Latvia's exports and growth in GDP.

In 1998, the average calculated (gross) monthly wage in the public sector (excluding social and religious organizations) showed a year-on-year increase of 12.7%. Though the number of unemployed persons rose and unemployment rate was 9.2%, domestic consumption continued to grow. Domestic trade turnover at constant prices rose by 21.9%.

The national currency in circulation was fully backed by gold and foreign convertible currency reserves. The stability of the lats was maintained through fixing the currency to the SDR[1] basket of currencies. Fluctuations in the exchange rates of foreign currencies against the lats were prompted by developments in the global foreign exchange market.

The Bank of Latvia's net foreign assets grew by 6.4%. Despite the current account deficit and increased demand for foreign currency during the second half of the year, the Bank's reserve assets increased, and the balance of payments was positive.

Several banks experienced difficulties as they had not adequately assessed country and credit risks when investing their assets in the Russian securities market; this, however, did not impair the stability of the Latvian banking sector.

Having assessed, upon the Bank of Latvia's request, the compliance of Latvian banking regulations and the Bank of Latvia's supervisory practice with the Basle Core Principles for Effective Banking Supervision, the Technical Assistance Mission of the International Monetary Fund expressed a positive evaluation. The Bank of Latvia amended and expanded

[1] The code for Special Drawing Rights (SDR) in accordance with the International Standard ISO 4217 (Codes for the Representation of Currencies and Funds) is XDR.

the regulatory framework concerning the activity of credit institutions and calculation of credit institution performance indicators, as well as further improved other banking regulations. The Bank of Latvia upgraded the country's payment system by introducing an electronic clearing system.

The main priority of Latvian foreign and economic policies was the planned accession to the European Union. The amendments to the Law "On the Bank of Latvia", which were prepared by the Bank of Latvia and which came into effect on November 18, 1998, harmonized the Law with the respective EU requirements and provided the legal foundation for the Bank's policy to abstain from lending to the Government. The Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity" (in effect as of June 1, 1998) and the respective amendments to the Criminal Code of Latvia were important in creating a banking environment that would meet EU requirements. The Saeima, the parliament of the Republic of Latvia, also adopted the Law "On Natural Person Deposit Guarantees" (in effect as of October 1, 1998). This was done with the aim of strengthening confidence in Latvian banks and promoting an increase in deposits.

In February 1998, the Saeima expressed its support of the Bank of Latvia's policy by reelecting the Bank's Deputy Governor Ilmars Rimsevics for another six-year term.

In 1998, Latvia's economic policy was also recognized internationally: the rating agencies *Moody's*, *Fitch IBCA* and *Standard & Poor's* ranked Latvia as an investment-grade country. In view of the Russian and other regional crises, major rating agencies were cautious in assigning credit ratings; therefore, the favourable rating of Latvia reflected the country's good future prospects and acknowledged that Latvia was developing one of the soundest banking systems in the Central and East European transition economies.

THE NATIONAL ECONOMY AND THE BANK OF LATVIA'S MONETARY POLICY

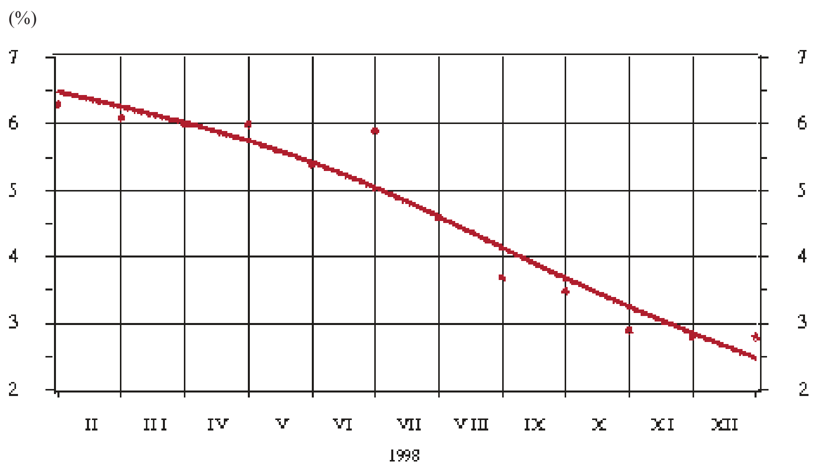
INFLATION AND PRICES

In 1998, especially in the first half of the year, Latvia's economic indicators were stable. The Bank of Latvia's monetary policy and the tight fiscal policy pursued by the Latvian Government were the key factors to ensure the stability of the lats and to continue a decrease in inflation. The growth in the country's GDP was promoted by the positive development of the goods-producing and service sectors. The third quarter of 1998 witnessed a turmoil in the global financial market, which was caused by the events taking place in Russia. Latvia was also affected by the overall situation, which was characterized by Russia's failure to meet its obligations, the devaluation of the Russian ruble, a sharp fall on major world stock markets, the weakening of the US dollar, and a liquidity squeeze in financial markets. The Russian default, which followed the East Asian crisis, altered the global economic outlook in the long run. In Latvia, the first to be affected by the negative external shock were banks, whose investment in Russian securities was frozen, and export industries, whose markets contracted causing layoffs and an increased unemployment rate. On the one hand, the external shock, undeniably, worsened Latvia's economic outlook in the short run. On the other hand, the resulting difficulties probably speeded up the necessary structural reforms, enhancing the country's competitiveness in the longer run. On the whole, Latvia successfully withstood the pressure. The international rating agencies *Fitch IBCA* (in September) and *Standard & Poor's* (in October) confirmed that they saw no reason to revise the favourable credit rating assigned to Latvia in the first half of the year (BBB for long-term liabilities in foreign currency).

The increase in the consumer price index (2.8%; see Chart 1) was considerably smaller in 1998 than in 1997 (7.0%). The highest rise in the index was recorded in January (1.3%), while the increase in other months did not exceed a 0.7% level. Consumer prices fell in July

Chart 1

CHANGES IN CONSUMER PRICE INDEX (YEAR-ON-YEAR BASIS)



Source: Central Statistical Bureau of Latvia and August. On the average, the consumer price index rose by 4.7% in 1998 compared with 1997 (by 8.4% in 1997 compared with 1996).

In the reporting year, as before, inflation was largely a result of a rise in administered (i.e., monopoly) prices and of administrative decisions. A rapid increase was registered for telephone tariffs (15.6%), public transport fares (14.2%), the prices of water supply, sewerage and refuse collection (9.6%), and electricity price (5.4%). The prices of several goods also rose at a rather rapid pace; for example, the prices of vegetables and potatoes increased by 16.6%, whereas those of clothing and footwear went up by 8.5%. On the whole, in 1998, the prices of services rose more rapidly than the prices of goods (by 7.0% and 1.6%, respectively). The prices of the largest commodity group, food products, increased by only 0.3% during the year, and actually fell for some products. The largest decrease was that in the prices of eggs, fish preserves and cheese (12.7%, 4.9% and 3.9%, respectively).

In 1998, the average calculated (gross) monthly wage in the public sector (excluding social and religious organizations) increased by 12.7% year-on-year, totalling LVL 142.97 (USD 242.32). The gross wage increased more rapidly than annual inflation; therefore, the real gross wage rose by 7.6% year-on-year. The average net wage totalled LVL 104.10 or 72.8% of the gross wage. An increase of 6.8% in the real net wage during the year was indicative of an improving living standard. (In 1997, the real net wage increased by only 2.6%.)

In the reporting year, the producer price index in industry rose at a slower pace. In 1998, the average year-on-year increase in the index was 1.9% (4.1% in 1997), including a small increase of 0.5% in manufacturing. The rise recorded for producer prices in mining and quarrying as well as electricity, gas and water supply was considerably higher (5.9% and 7.9%, respectively).

The construction price index rose by 11.2% in the reporting year (by 7.9% in 1997).

Export prices fell by 0.2% in 1998 (a 1.6% increase in 1997). The Russian crisis made producers look for other markets in the CIS countries, and the most substantial decrease was recorded for export prices of prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products; 17.6%), pulp of wood, paper and paper board (10.8%), live animals and animal products (4.4%). The most rapid price rise was that of base metals and articles of base metals (14.0%).

GROSS DOMESTIC PRODUCT

In 1998, Latvia's GDP amounted to 3 773.5 million lats, showing a year-on-year increase at constant prices (3.6%, including 2.3% in the goods-producing sector and 4.7% in the service sector). The dynamics of the country's GDP was affected by the Russian crisis. The year-on-year growth in the indicator fell from 8.9% in the first quarter to 5.6% in the second quarter and to 2.2% in the third quarter, whereas in the fourth quarter, GDP decreased by 1.9% year-on-year (see Table 1). Value added rose in the goods-producing sector, largely as a result of the increase in construction (11.1%) and manufacturing (3.4%). The growth in the service sector was mainly influenced by the increase in the value added of trade (20.4%). The growth of value added in transport, storage and communication, the second largest branch of the service sector, showed a year-on-year decline (1.3%).

Industrial output rose rapidly in the first half of the reporting year, but decreased in September–December. The volume index of industrial output rose by 2.0% at constant prices, including 2.5% in manufacturing. A more pronounced year-on-year growth in the index was recorded in those sectors that did not depend solely on the Russian market: the manufacture of other non-metallic mineral products (30.7%), publishing, printing and reproduction of recorded media (28.3%), the manufacture of rubber and plastics products (21.8%), the manufacture of wood and products of wood and cork, except furniture (13.7%), and the manufacture of wearing apparel, dressing and dyeing of fur (13.0%).

Sectors whose exports were mostly Russia-oriented showed a considerably lower output than in 1997. Among these were the manufacture of motor vehicles, trailers and semi-trailers (a 40.9% decrease), the manufacture of chemicals and chemical products (10.5%), and the manufacture of textile articles (4.8%). Though the production of food products fell in the second half of the year, the increase achieved in the first half of the year led to a rise in the volume index of industrial output (1.1%).

The fall in the value added of agriculture had two major influences: crops declined because of unfavourable weather conditions, and cattle-breeding, affected by contracting markets, also decreased (milk, egg and meat production fell by 4.4%, 3.8% and 0.5%, respectively).

In contrast to the previous year, the transport sector did not develop smoothly in 1998. As oil prices decreased on the world markets and the transit of oil through the Ventspils port fluctuated, cargoes handled at the Ventspils port declined by 2.0%. Nevertheless, total cargoes loaded and unloaded at Latvian ports rose by 3.2%, since the indicator showed considerable growth for the Riga port (an 18.7% increase) and for small ports (a 58.5% increase). Transport by pipeline grew. In the reporting year, the transportation of oil and oil products by pipeline increased by 6.6% and 8.2%, respectively. With transit as well as export and domestic transportation decreasing (by 9.2%, 8.3% and 3.6%, respectively), transportation by rail fell by 7.7%.

The turnover of domestic trade at constant prices showed a year-on-year growth of 21.9%, reaching 1 088.9 million lats. The rapid increase in retail trade turnover in the first half of the year was followed by a period of slower growth in the second half of the year as a result of the Russian crisis.

The number of unemployed persons rose by 31.1% during 1998, and at the end of the year, the number of persons registered at the State Employment Service totalled 111 383 or 9.2% of the economically active population (7.0% at the end of 1997). Trends in the number of unemployed persons were associated with the fact that Latvian companies were forced to decrease output as their export market share, influenced by the Russian crisis, contracted.

The above increase was concurrent with a 9.4% fall in the number of persons registered as long-term unemployed.

At the end of 1998, unemployment was lowest in Riga and the Saldus district (4.8% and 6.1%, respectively). The highest unemployment rate, exceeding significantly the overall unemployment level in the country, was in the Rezekne, Kraslava and Preili districts (28.2%, 23.2% and 23.2%, respectively).

Table 1

GROSS DOMESTIC PRODUCT AND GROSS VALUE ADDED AT CONSTANT PRICES (YEAR-ON-YEAR BASIS)

(%)

	Q1	Q2	Q3	Q4	1998
GDP	8.9	5.6	2.2	–1.9	3.6
Goods-producing sector	13.0	5.6	0.4	–7.7	2.3
Service sector	6.4	5.7	3.6	2.9	4.7

Source: Central Statistical Bureau of Latvia.

FOREIGN TRADE

Latvian foreign trade turnover amounted to 2 950.2 million lats in 1998, increasing by 15.5% year-on-year. Both exports and imports rose over the previous year's level (by 10.0% and 18.9%, respectively). The largest increase in trade turnover was registered for transport vehicles (40.4%), miscellaneous manufactured articles (28.2%), and base metals and articles of base metals (26.1%). A decrease in trade turnover was observed for live animals and animal products (6.3%) and mineral products (6.1%). Beginning with August, the growth in exports and imports slowed due to the Russian crisis; however, in the first half of the year, the growth rate was more rapid than in the corresponding period of the previous year.

The negative foreign trade balance increased, reaching 812.4 million lats (see Table 2). The largest deficit was recorded for machinery, mechanical appliances and electrical equipment, mineral products, transport vehicles, and products of the chemical and allied industries. A considerable reduction was observed in the trade balance of prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products) as exports of this product group decreased while its imports increased. With imports declining, the negative balance of mineral products decreased.

Latvia's major trading partners were the EU countries, whose share in total foreign trade turnover expanded (from 51.5% in 1997 to 55.7% in 1998). The share of the CIS countries decreased from 23.5% in 1997 to 17.1% in 1998. The largest trade turnover Latvia had was with Germany, Russia, Sweden, the United Kingdom, Finland and Lithuania. In 1998, exports to and imports from Russia declined year-on-year (by 36.6% and 10.4%, respectively). Hence in terms of export, Russia ranked after Germany and the United Kingdom, and in terms of import, after Germany. Trade with other countries also expanded, indicating that exporters searched for and found new markets. A substantial growth was recorded for exports to the United States (ferrous metals), Cyprus (food), Poland (wood, ferrous metals), Egypt (wood) and Hong Kong (ferrous metals).

In the reporting year, the most significant of Latvia's export goods were wood and articles of wood (33.5% of total exports), textiles and textile articles (16.1%), base metals and articles of base metals (9.8%), as well as machinery, mechanical appliances and electrical equipment (6.8%). The export share of the following commodity groups expanded: wood and articles of wood; textiles and textile articles; base metals and articles of base metals; plastics and articles thereof; mineral products; and pulp of wood, paper and paperboard. The share of prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products), as well as machinery, mechanical appliances and electrical equipment contracted. Within the group of wood and articles of wood, the most rapid growth was recorded for exports of fuel wood and wood in the rough. Within the group of base metals and articles of base metals, exports of non-ferrous metals and articles thereof increased.

Table 2

LATVIA'S FOREIGN TRADE TURNOVER

(exports – in FOB prices; imports – in CIF prices; in millions of lats)

	1996	1997	1998
Exports	795.2	971.7	1 068.9
Imports	1 278.2	1 582.4	1 881.3
Balance	–483.0	–610.7	–812.4

Source: Central Statistical Bureau of Latvia.

In 1998, the principal imports were machinery, mechanical appliances and electrical equipment (20.5% of total imports), products of the chemical and allied industries (11.1%), mineral products (10.5%), as well as transport vehicles (10.4%). The import share of transport vehicles, machinery, mechanical appliances and electrical equipment, base metals and articles of base metals, as well as prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products) increased, whereas that of mineral products decreased. The decrease affected all mineral products, except diesel oil. Imports of electricity reached only about one-third of the 1997 volume, because electricity production in Latvia continued to increase.

The US dollar and the German mark were the currencies used most frequently in foreign trade transactions. The share of transactions in US dollars decreased from 50.7% in 1997 to 46.7% in the reporting year, while that of transactions in German marks increased from 22.0% to 25.4%.

In 1998, the deficit in the balance-of-payments current account totalled 417.4 million lats or 11.0% of the country's GDP. The turnover of services rendered fell, and their positive balance decreased, covering only a small part of the foreign trade deficit. Foreign direct investment and long-term borrowing covered a significant part of the current account deficit. Notwithstanding the deficit in the current account and increased demand for foreign currency in the second half of the year, the Bank of Latvia's reserve assets increased in 1998, and the surplus in the balance of payments totalled 23.0 million lats.

FISCAL POLICY

In the reporting year, the Latvian Government remained committed to a conservative fiscal policy to avoid budgetary deficit. In 1998, the general government consolidated budget revenue amounted to 1 589.5 million lats (a year-on-year increase of 21.6%), and the financial surplus was 8.1 million lats. Net lending in the general government consolidated budget totalled 2.6 million lats, and the fiscal surplus reached 5.5 million lats. The budget's revenue equalled 42.1% of the country's GDP (43.0% in 1997), expenditure, excluding net lending, 41.9% (41.1% in 1997), and fiscal surplus, 0.1% (1.3% in 1997).

Until August 1998, the fiscal surplus in the general government consolidated budget showed steady growth, reaching 74.7 million lats in August. This was possible due to the rapid growth of the Latvian economy and lower-than-planned expenditure in the budgets in the first half of 1998. As the Russian crisis had a negative influence on tax revenue and expenditure grew during the second half of the year, the fiscal surplus in the consolidated budget decreased beginning with September.

The share of tax revenue in GDP continued to increase. The most rapid increase, 41.2%, was registered for the excise tax; this could be explained with changes in legislation which prescribed an increase in the tax rate. An increase was observed for revenue from the enterprise income tax (17.5%), social security payments (12.3%), the private person income tax (12.0%) and the value added tax (9.6%). Since tax administration improved, growth in tax revenue was more substantial than in GDP.

In 1998, the revenue of the central government basic budget amounted to 678.4 million lats and the expenditure totalled 670.3 million lats. Year-on-year, capital expenditure rose considerably, accounting for 9.1% of total expenditure.

Privatization was continued in 1998, and the revenue of the State Property Privatization Fund totalled 37.0 million lats (42.0 million lats in 1997).

In 1998, the revenue of the central government special budget totalled 660.3 million lats, and the expenditure, 674.0 million lats. The social security budget ran into a deficit of 7.1 million lats (a surplus of 21.0 million lats in 1997). In the fourth quarter, the budget's expenditure exceeded the revenue by 10.8 million lats, because additional funds were needed for the indexation of pensions in November and because the payment of unemployment benefits increased in line with the rising unemployment rate.

The local government budget revenue was 396.1 million lats in 1998, and the financial surplus amounted to 2.1 million lats. The fiscal deficit in the budget reached 7.1 million lats in 1998. The local government budget was influenced by a seasonal rise in expenditure during the autumn and winter months; and the revenue could not completely cover this rise.

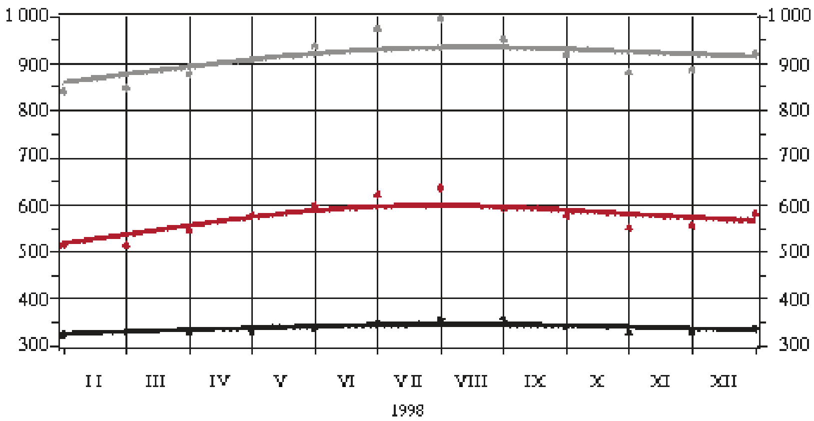
MONEY SUPPLY

The monetary indicators of the Latvian banking system and the Bank of Latvia are included in Appendix 1 to the Annual Report. Broad money, M2X[1] grew from 871.3 million lats at the end of 1997 to 923.0 million lats at the end of 1998 (see Chart 2; a 5.9% increase). Money supply followed different patterns of development in 1997 and 1998. In 1997, money supply grew steadily throughout the year and the growth rate of M2X was more rapid (38.7%). In the reporting year, money supply increased predominantly in the first half of the year (by 11.9%), whereas in the second half of the year, it declined by 5.3%. The falling trend was caused by uncertainty regarding the stability of several banks and a subsequent fall in deposits with these banks. As a result, the average monthly increase in money supply was only 0.5%. In contrast to previous years, when the main reason for the growth in money supply was the

Chart 2

BROAD MONEY

(in millions of lats)



M2X (broad money)
Deposits of domestic enterprises and private persons
Currency outside banks

[1] Currency outside banks plus deposits of domestic enterprises and private persons in the national and foreign currencies.

inflow of foreign capital, in 1998 its growth was promoted by an economic upturn in the country and an increased bank activity in domestic lending.

Velocity of money rose from 3.76 in 1997 to 4.09 in 1998, indicating an economic uncertainty and a decrease in savings.

Though several sectors of the national economy were subject to short-lived influences and rises and falls in the economic activity, the banking sector enjoyed increased public confidence. With purchasing power rising, banks were able to increase, though at a slower pace than the year before, deposits by domestic enterprises and private persons (see Chart 3; by 8.2% in 1998, and by 47.8% in 1997). Currency outside banks increased by only 2.3% (by 26.0% in 1997); this reflected an increase in the share of non-cash transactions. The share of demand deposits in broad money decreased from 48.2% at the end of 1997 to 44.3% at the end of 1998. The growth in time deposits, from 13.6% to 18.9%, was indicative of the country's long-term economic stability. Private person deposits accounted for 55.2% of time deposits, while enterprise deposits (67.4%) still dominated demand deposits.

A rather rapid increase in deposits made in lats (22.1%) showed that the national currency was gaining greater trust. At the same time, deposits in foreign currency declined by 4.7%. As a result, the share of lats deposits in total deposits expanded, to 54.4% at the end of 1998 (48.2% at the end of 1997).

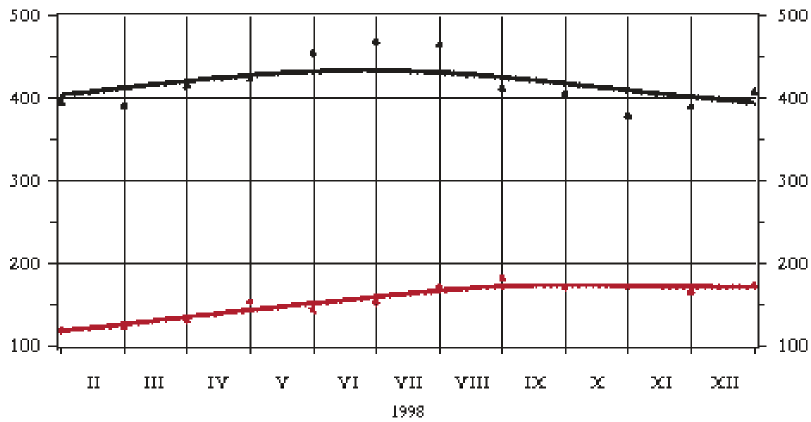
Quasi-money, the less liquid component of M2X, increased slightly more rapidly than its more liquid component, M1, (by 6.8% and 5.5%, respectively).

Many transition economies experienced a lesser capital inflow, contraction of securities markets and disruptions in the activity of the banking sector because the global financial turmoil affected investment capacity and risk assessment regarding investments in transition economies. The Latvian banking sector also felt the above influences. The net foreign assets of the banking system declined (by 185.9 million lats or 30.9%, including a 214.1 million lats decrease for the banking sector), because part of its funds were blocked in the Russian financial markets, there was some outflow of capital, and the demand for foreign currency increased.

Chart 3

DEPOSITS OF DOMESTIC ENTERPRISES AND PRIVATE PERSONS WITH BANKS

(at end of period; in millions of lats)



Time deposits
Demand deposits

In the reporting year, the banking sector's investment opportunities changed substantially, and so did its policy. Foreign assets declined significantly (by 243.0 million lats or 22.9%), while lending to domestic enterprises and private persons showed a rapid growth (by 194.8 million lats or 1.5 times). In foreign assets, demand deposits with foreign credit institutions decreased (by 42.5%; to 199.2 million lats), and so did the stock of foreign government securities (by 38.2%; to 123.4 million lats). A decline was also registered for investments in shares of foreign companies (22.7%) and for trust assets (31.4%). At the same time, loans to non-resident enterprises and private persons increased by 27.0% (to 158.7 million lats). The favourable fiscal situation led to a decrease in the banking system's net credit to the central and local governments (by 44.9 million lats; to 70.2 million lats).

Lending to enterprises and private persons grew rapidly, because in the first half of the reporting year, credit risk decreased, interest rates fell, funds raised by banks increased and the maturity of deposits became longer. Problems affecting the banking sector in the second half of 1998 influenced only short-term lending, while long-term loans continued to increase. In the reporting year, loans issued to domestic enterprises and private persons grew by 194.8 million lats or 52.0%, including 20.9 million lats or 12.6% for short-term loans, and 173.9 million lats or 83.6% for long-term loans (see Chart 4). The term structure of loans as at the end of 1998 followed the trends of previous years. At the end of 1997, short-term loans accounted for 44.4% of the total, but at the end of 1998, their share decreased to 32.9%. Long-term loans increased correspondingly.

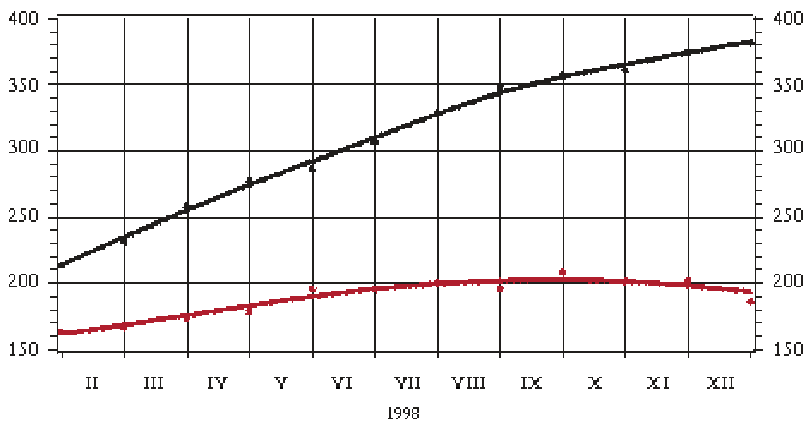
Demand was at approximately the same level for loans in lats and in foreign currency. Loans granted in the national currency accounted for 45.3% of total credit at the end of 1998 (46.5% at the end of 1997).

Lending was on the increase in most sectors of the national economy, except mining and quarrying, and electricity, gas and water supply. The largest growth was recorded for loans to financial intermediation (1.9 times), agriculture, hunting and forestry (1.9 times),

Chart 4

LOANS TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS IN NATIONAL AND FOREIGN CURRENCIES

(at end of period; in millions of lats)



Short-term
Long-term

construction (1.8 times), as well as transport, storage and communication (1.6 times). Of total loans to the national economy, 66.3% went to manufacturing, trade, and transport, storage and communication.

DEPOSIT AND LENDING RATES

The worsening of the country's macroeconomic outlook in the autumn, which was associated with an increasing credit risk and the rise in interest rates in the securities and interbank markets, led to an increase in interest rates for loans in lats. A fall in funds raised made banks increase their interest rate on deposits in lats. Interest rates for such loans increased by 2–4 percentage points, whereas interest rates on deposits in lats showed an average increase of 1 percentage point. Interest rates on loans issued and deposits made in the currencies of the OECD countries fluctuated slightly during the year, tending to decrease.

At the end of 1998, the weighted average interest rate of long-term deposits in lats was 6.7% (see Chart 5), while that of long-term deposits in the currencies of the OECD countries was 6.3%. In December, the weighted average interest rate for short-term deposits in lats reached 6.5% and for short-term deposits in the currencies of the OECD countries 4.3%.

At the end of the reporting year, the weighted average interest rate of short-term and long-term loans in lats increased to 16.4% and 15.3%, respectively (see Chart 6).

In December, the weighted average interest rate of short-term and long-term loans in the currencies of the OECD countries fell to 13.9% and 11.1%, respectively.

On the whole, in 1998 interest rates on deposits raised and loans granted in the currencies of the OECD countries were slightly lower than those on similar transactions in lats.

With inflation falling, the real interest rate of time deposits turned positive after a period of two years (3.7% in December).

Chart 5

WEIGHTED AVERAGE INTEREST RATES ON LATS DEPOSITS OF DOMESTIC ENTERPRISES AND PRIVATE PERSONS

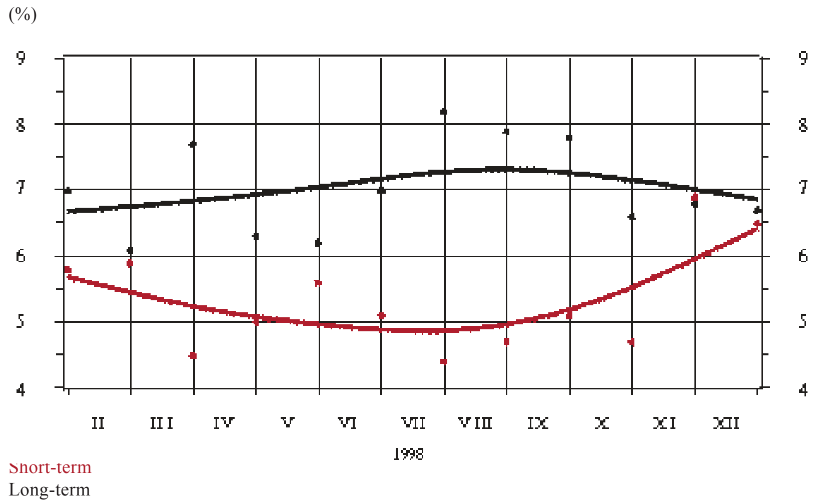
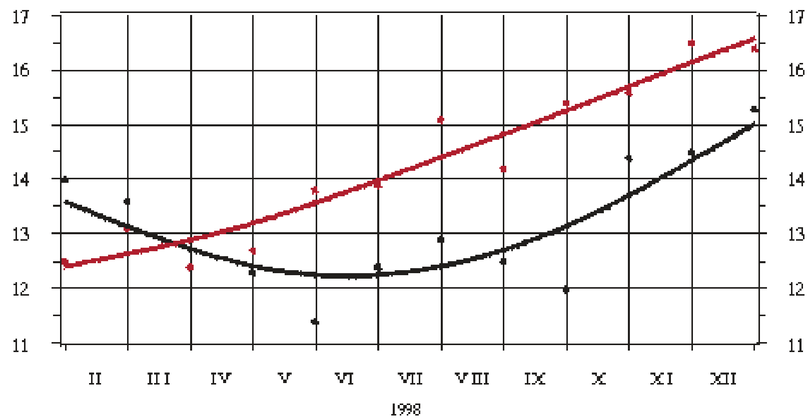


Chart 6

WEIGHTED AVERAGE INTEREST RATES ON LOANS GRANTED IN LATS

(%)



Short-term
Long-term

THE INTERBANK MARKET

The domestic interbank market experienced substantial changes in the reporting year. At the beginning of the year, banks were active in the market as funds at the banking sector's disposal decreased because of the Government's February decision to deposit the largest part of budgetary funds with the Bank of Latvia. The banking sector's excess reserves, therefore, decreased from 12.8 million lats in January to 5.2 million lats in February. In March, banks were active on the interbank market, and domestic interbank transactions peaked at 437.9 million lats. In the following months transactions decreased, falling to the lowest monthly figure, 203.2 million lats, in December. Beginning with August, the interbank market felt the impact of the Russian crisis, which gave rise to caution among banks. Consequently, the number of market participants decreased from 29 to 18 during the reporting year. At the same time, interest rates rose, and banks more often used the Bank of Latvia's credit facility to maintain their liquidity.

Since activity on the interbank market was high at the beginning of the year, interbank lending to domestic banks totalled 3.7 billion lats in 1998 (2.6 billion lats in 1997). The bulk of loans were overnight and with maturity up to one month (83.4% and 15.5%, respectively). The highest demand was registered for interbank loans in lats (71.8% of total domestic interbank loans).

Uncertainty in the global financial market in the second half of the year, the concentration of excess funds in several banks and the increasing cost of funds were the reasons for a substantial rise in the weighted average interest rate of loans denominated in lats. The weighted average interest rate of overnight loans rose from 4.4% in January to 6.9% in December; the lowest point, 2.0%, was in May and June, whereas the highest one, 8.1%, was in November. Interbank loans granted in the currencies of the OECD countries followed a different trend: their interest rate fluctuations were small, and the weighted average interest rate fell from 5.8% in January to 4.8% in December.

Lending to foreign banks was an important activity of the banking sector (the most popular maturities for such loans were overnight and up to one month). Total credit to foreign banks amounted to 18.1 billion lats in 1998 (a year-on-year increase of 1.5 times).

MONETARY BASE

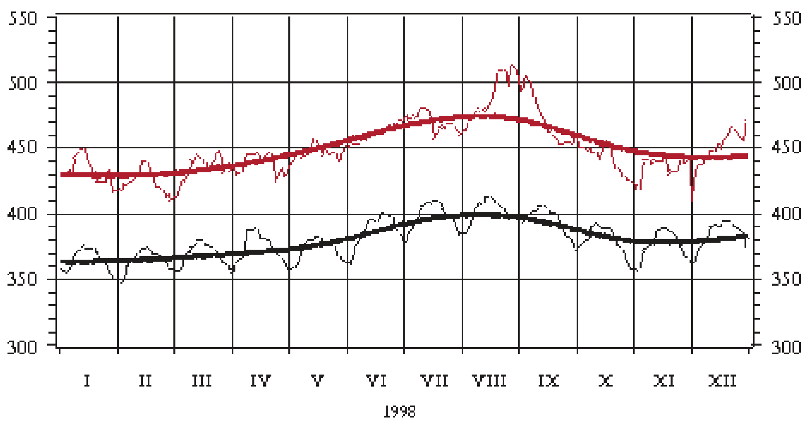
The monetary base, M0[1], totalled 471.5 million lats at the end of 1998 (see Chart 7). It increased by 6.7% during the year, showing a much slower increase than in 1997. Changes in the monetary base were largely prompted by the supply of foreign currency and an increase in the Bank of Latvia's net foreign assets in the first half of 1998, as well as an increase in the Bank's net domestic assets (credit to banks). Currency in circulation increased by 4.2%, while the cash component in the monetary base declined to 79.4% at the end of 1998 (81.4% at the end of 1997).

The Bank of Latvia's net foreign assets grew by 28.1 million lats or 6.4%, totalling 465.3 million lats at the end of the year (see Chart 8). The Bank's net foreign assets covered 3.0 months' imports (3.3 months' imports at the end of 1997), and the backing of the national currency by the Bank of Latvia's net foreign assets was 98.7% (99.0% at the end of 1997). Significant net foreign currency purchases by the Bank of Latvia were registered in the first and second quarters of 1998 (27.0 million lats and 42.2 million lats, respectively), when funds intended for investing in to-be-privatised companies were exchanged for lats. The highest level of the Bank of Latvia's net foreign assets and the monetary base was registered in August (538.7 million lats and 510.1 million lats, respectively). In the two following months, influenced by an increased demand for foreign currency and liquidity problems in several banks, the above indicators decreased; however, in November and December, they

Chart 7

MONETARY BASE

(in millions of lats)



Monetary base
Currency in circulation

[1] Currency in circulation plus deposits with the Bank of Latvia.

rebound to growth. During this period, growth in the Bank of Latvia's net foreign assets occurred mainly because of the Bank's currency swap deals, which increased 2.6 times or by 17.6 million lats in the reporting period.

Though the net domestic assets of the Bank of Latvia grew by only 1.5 million lats in the reporting year, a substantial increase was observed for the Bank's credit to banks (from 7.6 million lats at the end of 1997 to 52.0 million lats at the end of 1998).

The demand for the Bank of Latvia's loans peaked in the fourth quarter (in this quarter, the Bank's lending amounted to 52.1% of total credit in 1998), when caution among banks mounted and the interest rate level in the interbank market was much higher than at the Bank of Latvia. In the first half of the year, banks' demand for the Bank of Latvia's loans was rather moderate, since banks preferred relatively more favourable lending conditions in the interbank

Chart 8

NET FOREIGN ASSETS OF THE BANK OF LATVIA

(in millions of lats)

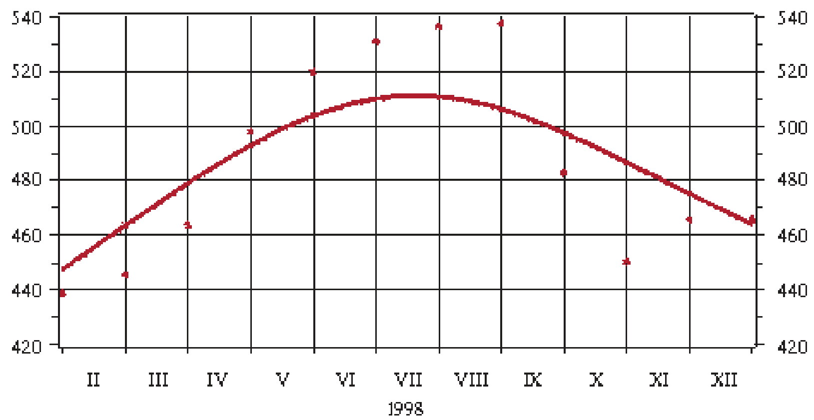


Table 3

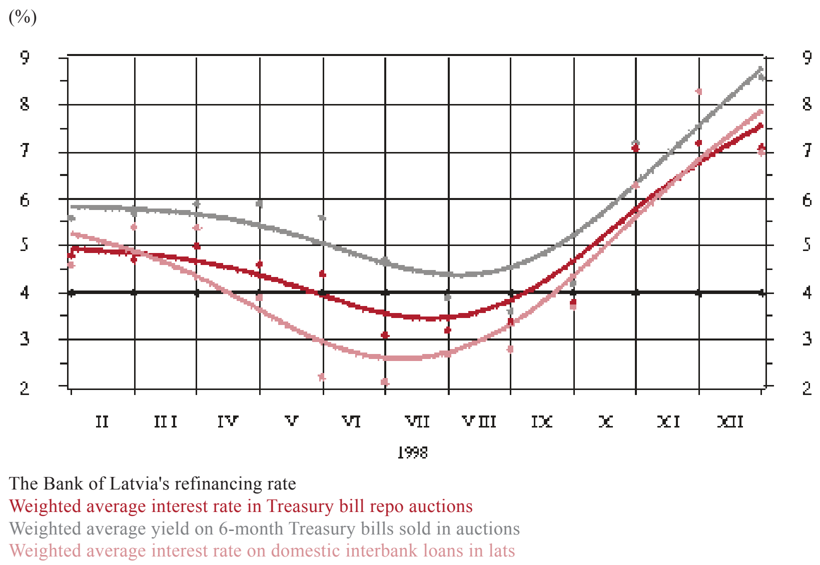
THE BANK OF LATVIA'S CREDIT TO BANKS

(average balances; in millions of lats)

	1996	1997	1998
JanuaryJanuary	3.4	2.7	8.5
February	5.7	0.7	11.9
March	6.3	1.8	14.4
April	5.0	1.8	13.4
May	0.5	7.3	15.8
June	0.6	6.8	10.1
July	2.4	9.0	17.2
August	2.1	4.2	17.4
September	2.0	0.3	33.1
October	2.6	3.2	34.2
November	4.6	6.9	33.9
December	3.2	8.3	37.5

Chart 9

INTEREST RATES IN THE MONEY MARKET



market. In 1998, the Bank of Latvia's total credit to banks amounted to 458.0 million lats (a year-on-year increase of 4.1 times). Of this amount, repo credit accounted for 58.8%, demand Lombard credit for 33.1%, automatic Lombard credit for 4.2% and credit for extraordinary situations for 3.9% (for average monthly credit, see Table 3).

In the reporting year, loans issued under repo agreements showed the following totals by maturity: 194.4 million lats with 7-day maturity, 40.6 million lats with 28-day maturity, and 34.5 million lats with 91-day maturity. Repo loans supplied by the Bank of Latvia increased 1.4 times, banks' demand for these loans rose 4.4 times, and the Bank's repo credit increased 2.9 times. Lombard loans were also issued in a significant amount: demand Lombard loans totalled 151.7 million lats, whereas automatic Lombard loans reached 18.9 million lats.

The Bank of Latvia's refinancing rate remained at the same level of 4.0% in 1998. Repo rate changed in line with the fluctuations of interbank market rates: 4.8% in January, 3.1% in June and 7.2% in November (see Chart 9). The weighted average interest rate on Lombard loans rose from 5.0% in January to 7.5% in December.

Growth in the monetary base was partly offset by a decrease in the Bank of Latvia's net credit to the Government (by 13.8 million lats or 18.3% in the reporting year). This decrease occurred because of a 19.9 million lats increase in the Government's deposit with the Bank of Latvia, which was partly compensated by an 8.4 million lats increase in the Bank's portfolio of government securities. As the fiscal situation was favourable, the Government did not utilize direct borrowing from the Bank of Latvia. Moreover, in accordance with the amendments to the Law "On the Bank of Latvia" (in effect as of November 18, 1998), the Bank of Latvia no longer has the right to issue such credit to the Government.

THE FOREIGN EXCHANGE MARKET

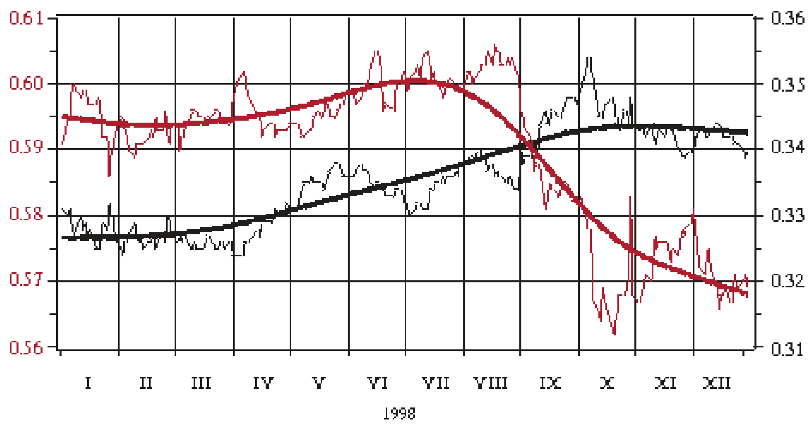
Though the Latvian economy felt external pressures during the reporting year, the Bank of Latvia's foreign reserves increased from 833.4 million US dollars at the end of 1997 to 872.6 million US dollars at the end of 1998. In 1998, the net amount of foreign currency sold to banks by the Bank of Latvia totalled 96.0 million US dollars, and funds acquired as a result of repo agreements amounted to 50.1 million US dollars (the largest monthly totals were recorded in September and October). The increase in the foreign reserves was due to net interest income gained from investing these reserves in foreign financial markets in accordance with the guidelines approved by the Bank's Board of Governors. The Bank's foreign reserves were decreased as a result of repaying a part of the IMF's loan.

In 1998, the global foreign exchange market was rather volatile. Major influences on the market were the anticipated establishment of the European Monetary Union, a crisis in the Japanese economy, changes in the US monetary policy and the consequences of the East Asian crisis. In the reporting year, the US dollar depreciated against the German mark by 6.6% (from 1.7980 to 1.6785), peaking at 1.8540 on April 2. The downward trend of the US dollar in the second half of the year was triggered by the Federal Reserve System, which lowered interest rates in several steps and eased its monetary policy in view of a slowdown in the US economy and the negative impact of the East Asian crisis. In anticipation of the introduction of the euro in non-cash settlements as of January 1, 1999, the German mark appreciated in the second half of the year. Influenced by the change in the US monetary policy, the US dollar depreciated against the Japanese yen (by 11.5%; from 130.55 to 115.59). During the year, the Federal Reserve System and the Bank of Japan intervened in the foreign exchange market by selling US dollars to support the Japanese yen. These interventions were successful, and the US dollar was weaker at the end of the year. The British pound was relatively stable throughout 1998, and its exchange rate against the US dollar did not change substantially (1.6600 at the end of the year).

Chart 10

EXCHANGE RATE OF THE US DOLLAR AND GERMAN MARK SET BY THE BANK OF LATVIA

(in lats)



Exchange rate of the US dollar
Exchange rate of the German mark

The US dollar depreciated against the other currencies of the SDR basket-the German mark, the French franc, the Japanese yen and the British pound; as a result, the US dollar weakened also against the lats, from 0.5900 to 0.5690 (by 3.6%; see Chart 10 and Appendix 5). Since in the second half of 1998, the exchange rate of the lats in the domestic foreign exchange market was close to the selling rate for the US dollar quoted by the Bank of Latvia, the Bank intervened in the market by selling US dollars and buying lats.

GOVERNMENT FOREIGN DEBT

The Government's foreign borrowing totalled 231.5 million lats or 6.1% of GDP at the end of 1998. Foreign borrowing by enterprises in the amount of 42.9 million lats was backed by government guarantees. During 1998, total foreign borrowing increased by 13.1 million lats, while the Government's guarantees increased by 11.5 million lats. By the end of 1998, the Latvian Government had signed loan agreements and issued guarantees in the total amount of 416.1 million lats.

In 1998, 37.0 million lats was spent to service the government foreign debt (70.8 million lats in 1997). This amount is equal to 3.5% of the annual volume of exports. In accordance with the Stand-By Arrangement, the Bank of Latvia repaid 14.5 million XDR (11.6 million lats) to the International Monetary Fund. Payments in the amount of 3.8 million XDR (3.0 million lats) were made for 45.8 million XDR received under the IMF's Systemic Transformation Facility. The Latvian Government repaid ahead of time 7.6 million US dollars (4.5 million lats) of the 21.0 million US dollar loan received from the Swedish Export Credit Corporation.

THE SECURITIES MARKET

The Bank of Latvia acted as the Government's agent in organizing auctions of and accounting for government securities in the primary market for Latvian Government securities. The placement of government securities was ensured through auctions, which were organized by a commission established by the Bank of Latvia and the Ministry of Finance.

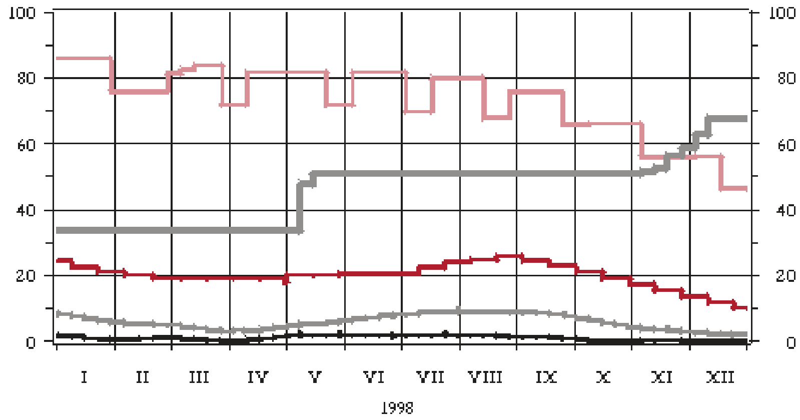
In 1998, the development of the market for government securities was not smooth. In the first months of the year, with the surplus in the general government consolidated budget increasing, the State Treasury decreased the supply of government securities to the primary market. Several auctions failed to take place as there was no demand. The demand for securities rose significantly in May–August, when high liquidity in the financial market resulted in a fall in the yield on government securities. Due to the negative impact of the Russian financial crisis on bank liquidity in September, the demand for government securities remained at a low level for the following three months. Demand again rose slightly in December. In the reporting year, 35 auctions of 1-month Treasury bills, 43 of 3-month bills, 23 of 6 month-bills and 9 of 12-month bills were held. Two issues of 2-year bonds were sold in eight auctions. The demand/supply ratio fell to 1.2 (2.3 in 1997). Treasury bills of shorter maturity (1-, 3- and 6-months) gradually lost their market share, while the share of 12-month bills and 2-year bonds expanded (see Chart 11). The strategy of the Ministry of Finance in respect of longer maturity securities was to supply these securities to auctions rarely but in larger amounts, thus making them more attractive for investors.

The stock of government securities outstanding decreased by 18.4% in 1998, totalling 127.0 million lats by the end of the year. At the end of 1998, the term structure of outstanding securities revealed a year-on-year decrease in the share of all Treasury bills: 12-month bills accounted for 36.5% of the total, 6-month bills for 8.0%, 3-month bills for 1.7% and 1-month bills for 0.2%. At the same time, the share of 2-year bonds reached 53.6% of the total. The decrease in the Government's domestic debt resulted in smaller debt servicing costs.

Chart 11

STOCK OF LATVIAN GOVERNMENT SECURITIES OUTSTANDING

(in millions of lats)

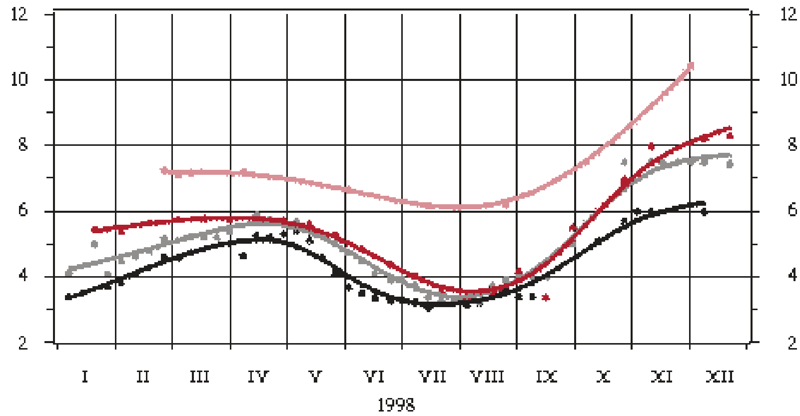


Maturity 1 month
Maturity 3 months
Maturity 6 months
Maturity 12 months
Maturity 2 years

Chart 12

WEIGHTED AVERAGE DISCOUNT RATES OF TREASURY BILLS

(%)



Maturity 1 month
Maturity 3 months
Maturity 6 months
Maturity 12 months

At the beginning of 1998, the weighted average discount rates on Treasury bills were between 3.5% (1-month bills) and 7.2% (12-month bills), whereas in July, with demand rising, they fell to 3.2% and 6.2%, respectively.

In the following months, the weighted average discount rates on Treasury bills again rose, ranging between 6.0% and 10.4% at the end of the year (see Chart 12). The fixed income rate of 2-year bonds rose from 8.75% in May to 12.0% in December.

In 1998, the Ministry of Finance and the Bank of Latvia (in the fourth quarter) were less active in the secondary securities market. With yields on the rise, residents' interest in government securities increased. In 1998, the turnover on the secondary securities market rose 1.9 times, amounting to 704.5 million lats. The share of transactions with residents increased from 46.4% in 1997 to 78.0% in the reporting year. A decrease in a market share was recorded for transactions with the Bank of Latvia, non-residents and domestic banks (from 24.0% to 15.6%, from 18.0% to 2.3%, and from 11.6% to 4.1%, respectively).

In 1998, the purchases and sales of securities by the Bank of Latvia totalled 109.5 million lats (89.7 million lats in 1997). The largest monthly totals for such transactions were recorded in August (buying in the amount of 30.2 million lats) and September (selling in the amount of 11.5 million lats). These transactions were entered into with the aim of supporting the banking sector's liquidity.

The Dow Jones Riga Stock Exchange Index fell from 345.2 to 98.0. Nevertheless, the country's macroeconomic outlook was not affected seriously, since the Latvian stock market is only at a formative stage. Starting from the very beginning of the year, the market experienced a change in foreign investors' attitude, as they, in view of the East Asian crisis, reassessed their investment strategies in emerging markets and transition economies generally because of these countries' higher risk factor. As a result, foreign investors' activity on the Riga Stock Exchange was low, whereas domestic investors, who had mostly short-term capital at their disposal, were not motivated to make domestic portfolio investments. Latvia was also sensitive to events in Russia: a rapid downward trend in the index started after events in March (political disagreements between Russia and Latvia) and August (Russia stopped redeeming government securities and devalued the Russian ruble).

In the reporting year, the Riga Stock Exchange started quoting the shares of the JSC[1] *Ventspils nafta*, the JSC *Latvijas gaze*, the JSC *Latvijas Balzams* and the JSC *Rinuzi*. A number of large companies made their shares available via a public offering; among them were the JSC *Ventspils nafta*, the JSC *Latvijas Balzams*, the JSC *Hansapank*, the JSC *Rigas Komercbanka*, the JSC *Rezeknes Piena konservu kombinats*, the JSC *Gutta* and the JSC *Grindekss*. The capitalization of the stock market increased from 199 million lats to 218 million lats (5.8% of GDP). In December, the stock market outlook improved when the *Skandinaviska Enskilda Banken AB* (Sweden) bought part of shares in the JSC *Latvijas Unibanka*. The total turnover on the Riga Stock Exchange amounted to 45.9 million lats in 1998, exceeding by 12.2% the 1997 level.

[1] Joint-stock company.

THE 1998 HIGHLIGHTS OF NORMATIVE ACTS ADOPTED IN PURSUIT OF THE BANK OF LATVIA'S MAIN TASKS

January 12 The Bank of Latvia introduced two money market indexes RIGIBID and RIGIBOR.

January 15 The Board of Governors of the Bank of Latvia approved amendments to "Regulation for Annual Financial Statements of Credit Institutions".
The Board of Governors of the Bank of Latvia approved amendments to "Regulation for Calculating Credit Institution Performance Indicators" (in effect as of February 28, 1998).
The Board of Governors of the Bank of Latvia approved "Regulation for Buying and Selling Cash Foreign Currency" (in effect as of February 1, 1998).

January 29 The Executive Board of the Bank of Latvia set the Lombard rate at 6% per year for the first ten days of credit utilization in a calendar month, at 7% beginning with the eleventh day of credit utilization in a calendar month, and at 8% beginning with the twenty-first day of credit utilization in a calendar month.

March 12 The Board of Governors of the Bank of Latvia approved "Regulation for Credit Transfers" (in effect as of November 1, 1998).
The Board of Governors of the Bank of Latvia approved "Regulation for Compiling Bank Statements" (in effect as of September 1, 1998).
The Board of Governors of the Bank of Latvia approved "Regulation for Issuing Cash Collection Licences" (in effect as of April 15, 1998).
The Board of Governors of the Bank of Latvia approved additional amendments to "Regulation for Calculating Credit Institution Performance Indicators".

May 7 The Executive Board of the Bank of Latvia approved "Regulation for Using the Interbank Network".

May 14 The Board of Governors of the Bank of Latvia approved "Regulation for Issuing and Registering Credit Institution Guarantees" (in effect as of June 15, 1998).

May 28 The Executive Board of the Bank of Latvia approved "Regulation for Issuing Bank of Latvia Lombard Credits" (in effect as of July 1, 1998).
The Executive Board of the Bank of Latvia approved "Regulation for Encrypting and Digitally Signing Information".

June 11 The Executive Board of the Bank of Latvia approved "Regulation for Interbank Settlements Effected by the Bank of Latvia" (in effect as of November 2, 1998).

June 25	The Executive Board of the Bank of Latvia approved "Regulation for Transmission of Electronically Prepared Reports by Credit Institutions".
July 16	The Board of Governors of the Bank of Latvia passed a resolution on introducing the 500-lats banknote as of July 20, 1998. The Board of Governors of the Bank of Latvia approved "Regulation for the Security of Bank Information Technologies". The Board of Governors of the Bank of Latvia approved "Regulation for Preparing Information on External Payments of Banks" (in effect as of November 1, 1998).
September 17	The Board of Governors of the Bank of Latvia approved "Regulation for Preparing Reports on Investments Made by a Credit Institution". The Board of Governors of the Bank of Latvia approved "Regulation for Performing Trust Operations" (in effect as of January 1, 1999). The Board of Governors of the Bank of Latvia passed a resolution "On Establishing Credit Institution Performance Standards" (in effect as of October 1, 1998). The Board of Governors of the Bank of Latvia approved amendments to "Regulation for Calculating Credit Institution Performance Indicators" (in effect as of October 1, 1998).
October 19	The Executive Board of the Bank of Latvia set the Lombard rate at 7% per year for the first ten days of credit utilization in a calendar month, at 8% beginning with the eleventh day of credit utilization in a calendar month, and at 9% beginning with the twenty-first day of credit utilization in a calendar month.
Ocober 29	The Saeima of the Republic of Latvia adopted the Law "Amendments to the Law 'On the Bank of Latvia' " (in effect as of November 18, 1998).
November 12	The Board of Governors of the Bank of Latvia approved "Regulation for Issuing Credit Institution Operating Licences and Permits" (in effect as of January 1, 1999).

CREDIT INSTITUTIONS SUPERVISION

SYSTEM OF CREDIT INSTITUTIONS

At the end of the reporting year, there were 35 licensed credit institutions in the Republic of Latvia, comprising 27 banks, 7 credit unions, the Riga Branch of Societe Generale (France), and the representative office of *Dresdner Bank AG* (Germany).

In 1998, the Bank of Latvia issued an operating licence to the credit unions *Rucavas krajaizdevu sabiedriba* and *Rujienas Kooperativa krajaizdevu sabiedriba*.

The Bank of Latvia revoked credit institution operating licences of four banks: the JSC *Doma banka* and the JSC Commercial Bank *Viktorija* (for failure to meet requirements concerning own funds as stipulated in the Law "On Credit Institutions" and regular non-compliance with the regulations governing the activity of credit institutions), the JSC *Latvijas kapital-banka* (due to bankruptcy), and the JSC *Latvijas Zemes banka* (due to its merger with the JSC *Hansabank – Latvija*).

The share of the Latvian Government in the banking sector's paid-up share capital continued to contract (from 6.8% at the end of 1997 to 4.9% at the end of 1998). The JSC *Latvijas investiciju banka* became a subsidiary of *Merita Bank Ltd*. (Finland) after the Government's holding, 33.8% at the beginning of the year, had been sold. Aiming to increase its share capital, the JSC *Latvijas Unibanka* attracted additional funds from a foreign investor, *Skandinaviska Enskilda Banken* AB (Sweden), and as a result, the government participation in this bank was reduced (from 7.6% at the beginning of the year to 5.9% at the end of the year). The Latvian Government was the sole owner of the JSC *Latvijas Hipoteku un zemes banka*, and it still held 54.3% in the share capital of the JSC *Latvijas Krajbanka*.

At the end of 1998, the paid-up share capital of credit institutions totalled 200.0 million lats (a 29.5% increase over the 1997 level). Seventeen banks received the Bank of Latvia's permission to increase their share capital in 1998. Foreign capital share in bank capital continued to increase, reaching 67.7% on December 31, 1998. Foreign investment was made in twenty-four banks; in fifteen of these, foreign shareholders owned over 50% of the capital, and six banks were the subsidiary of a foreign bank.

DEVELOPMENT OF THE BANKING SECTOR

Positive development trends characteristic for the Latvian banking sector in 1997 continued in the first months of 1998. Credit institution performance indicators still increased, but at a slower pace. In the first half of the reporting year, growth was recorded in credit institutions' assets, loans granted, deposits accepted and equity (by 11.2%, 29.6%, 7.7% and 6.2%, respectively).

In the second half of the reporting year, the Latvian banking sector suffered the consequences of the Russian financial crisis because a number of banks had placed a significant part of their assets in the CIS countries. As deposits of and transactions with customers related to eastern markets decreased, those banks that had not made large investments in this region were influenced indirectly.

According to the audited financial statements for 1998, the losses of credit institutions totalled 52.9 million lats[1]. Since banks revalued their investment in Russia and other CIS

[1] Excluding the JSC Rigas Komercbanka and the JSC Latvijas Industriala banka.

countries and made additional loan loss provisions, the total equity of credit institutions decreased to 154.4 million lats[1] at the end of 1998.

At the end of the reporting year, the capital adequacy of the banking sector was at 17.4%[1] (in accordance with the Law "On Credit Institutions" the capital adequacy ratio has to be at least 10%).

The assets of banks as at the end of 1998 showed a decrease over the previous year's level, and the structure of assets was different: the share of claims on Latvian and foreign credit institutions decreased by 10.9 percentage points[1], while the share of bonds and other debt securities with a fixed income issued by Latvia's and other countries' governments declined by 7.4 percentage points[1]. Credit unions were particularly active in the reporting period, and their assets grew by 59.7%, though remaining below 0.03% of credit institutions' total assets.

Gross lending continued to increase, yet at a slower pace than in the previous year (by 46.0% in 1998, by 74.4% in 1997), and the share of loans in bank assets increased from 29.7% to 43.5%. The highest rise, 78.3%, was observed for loans granted to residents (loans to non-residents grew by 27.0%). In 1998, the term structure of the credit portfolio changed. An increase was recorded for the share of medium-term loans, maturity of 1 to 5 years, and long-term loans, maturity over 5 years, (from 37.0% to 46.9%, and from 7.9% to 12.7%, respectively). At the same time, the share of short-term loans contracted (from 49.4% to 35.8%).

Total deposits accepted by banks declined by 37.8 million lats or 3.5% during the year. This was due to a 73.2 million lats or 15.7% decrease in non-residents' deposits. At the same time, residents' deposits rose by 35.4 million lats or 5.7%. The share of demand deposits decreased from 82.5% to 74.9% of the total, while that of time deposits increased accordingly.

The increasing share of loans issued to and deposits attracted from residents indicates that Latvian banks have started to shift the focus of their activity to the domestic market. The Russian crisis put an end to the more profitable and risky investment possibilities in the east, making Latvian banks engage in financing the Latvian economy. Tougher domestic bank competition was another stimulus for consolidation.

EXAMINATIONS OF THE ACTIVITIES OF CREDIT INSTITUTIONS

In 1998, the Bank of Latvia's staff conducted 95 on-site inspections, of which 89 were in banks. As in previous years, attention was mainly directed at the evaluation of risk assets. Upon the Bank of Latvia's request, a number of examinations were carried out by international auditing companies.

The lending activities of banks in 1998 resulted in a substantial increase in loans and the introduction of new types of loan; therefore, attention during examinations was increasingly paid to the assessment of the borrowers' financial standing and solvency so as to timely detect difficulties that might arise in meeting their debt obligations.

As credit institutions expanded their activity and introduced new financial services, stress was laid on the establishment and improvement of the internal control systems at banks to provide for prudential management of traditional and new risks.

Cognizant of the possible effect of the year 2000 problem on financial institutions, the Credit Institutions Supervision Department, in collaboration with the Information Systems

[1] Excluding the JSC Rigas Komercbanka and the JSC Latvijas Industriala banka.

Audit Division of the Internal Audit Department, conducted bank examinations, which included a survey in the form of a questionnaire, to get assurance that banks realise the importance of the issue and have taken measures to address it.

REGULATIONS GOVERNING THE ACTIVITY OF CREDIT INSTITUTIONS

In the reporting year, the Bank of Latvia continued to harmonize banking regulations with the requirements of EU directives and the Basle Core Principles for Effective Banking Supervision.

In May 1998, the Saeima adopted the Law "Amendments to the Law 'On Credit Institutions' " establishing the consolidated supervision of credit institutions (in effect as of January 1, 1999). The amendments also lay the legal foundation for the Bank of Latvia's cooperation with other domestic and foreign supervisory authorities. Substantial changes have been made to the procedure for liquidating a credit institution, the process of insolvency and bankruptcy, the procedure for applying rehabilitation, and the activity of an administrator. The Bank of Latvia is granted the right to control the activity of a liquidator. This Law also provides for setting up a register of credit institutions' debtors.

On June 1, 1998, the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity" took effect. This Law is aimed at preventing the possibility of using the Latvian financial system for money laundering purposes. Credit institutions, other financial institutions, their officials and employees are under obligation to report to the Disclosures Office about unusual financial transactions in due course of law.

The Law "On Natural Person Deposit Guarantees" (in effect as of October 1, 1998) was adopted to protect depositors' interests. The Law stipulates that banks have to make payments to the Deposit Guarantee Fund and that in case of a bank's bankruptcy its depositors who are natural persons are entitled to receive a compensation in the amount of the principal of the deposit, but not more than 500 lats. The Law prescribes a gradual increase in the maximum guaranteed compensation up to 13 000 lats by January 1, 2008.

The Law "On Mortgage Bonds", promulgated by President of State on September 29, 1998, paves the way for the development of mortgage lending in Latvia. The Law prescribes the procedure for issuing and circulating mortgage bonds.

To control the compliance with the requirements of the Law "On Credit Institutions", which refer to investments made by credit institutions in the paid-up share capital of enterprises (undertakings) and in movable and immovable property, the Bank of Latvia's Board of Governors approved "Regulation for Preparing Reports on Investments Made by a Credit Institution".

The Bank's Board of Governors approved the new "Regulation for Issuing Credit Institution Operating Licences and Permits" (in effect as of January 1, 1999). As regards consolidated supervision, the regulation clarifies and supplements the requirements as well as specifies the documents to be submitted to identify the founders and owners of a credit institution, their financial standing and qualifying holdings in other companies. The regulation also establishes the legal basis for cooperation and exchange of information with foreign supervisory authorities. Another improvement in the new regulation is the requirements regarding the documents that specify the bank's proposed activities and evidence an appropriate structure and organization thereto.

Since the number of trust operations entered into by Latvian banks has increased, the Bank of Latvia has worked out "Regulation for Performing Trust Operations" (in effect as of

January 1, 1999), which contains minimum requirements for preventing a conflict of interest between an investor and a bank. The regulation lays out requirements for the accounting of trust operations, as well as the procedure for holding and maintaining the property of investors in the form of securities and cash funds.

The deterioration in the overall situation in Zone B countries[1] and the unprecedented events in Russia were the reasons why the Bank of Latvia resolved to reassess the degree of risk for claims on central banks and central governments in Zone B countries denominated in the national currency of these countries and to raise the degree of risk assigned to such assets from 0% (as established in accordance with internationally approved practice and EU requirements) to 50% for the purpose of calculating the capital adequacy ratio. Restrictions regarding exposures that arise from transactions with residents of Zone B countries (excluding the Republic of Latvia) as well as total exposures to residents of Zone B countries have been established. The new regulation will enhance the diversification of bank investments in Zone B countries and will reduce country risk.

Having assessed, upon the Bank of Latvia's request, the compliance of Latvian banking regulations and the Bank of Latvia's supervisory practice with the Basle Core Principles for Effective Banking Supervision, the Technical Assistance Mission of the International Monetary Fund expressed a positive evaluation, acknowledging that 22 of the 25 principles for effective banking supervision had been implemented in Latvia by September 1998. Latvia is one of the few countries where an independent assessment has been conducted, providing recommendations for improving banking regulations and supervision practices. The work done by the end of the reporting year showed that only three of the core principles for effective banking supervision had yet to be implemented. Two of these refer to controlling market risks and one to controlling and monitoring country risk.

In the reporting year, work on a number of regulatory documents was begun to establish the procedure for calculating credit institution performance indicators on the basis of consolidated financial statements, and the procedure for applying the capital adequacy requirement to market risks.

[1] Countries that are not full members of the Organization for Economic Cooperation and Development (OECD) and those OECD member states that during the period of the last five years have restructured their external debt and have delayed repayment, as well as those countries that are not the members of the OECD and have not concluded the General Arrangements to Borrow with the International Monetary Fund.

INTERNATIONAL COOPERATION

INTERNATIONAL FINANCIAL INSTITUTIONS

In 1998 Latvia, as a member country, continued its activity within the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation, as well as the European Bank for Reconstruction and Development. The Bank also continued its participation in the Bank for International Settlements.

In 1998, the agreement on a Stand-By Arrangement (33 million XDR), signed between Latvia and the International Monetary Fund, for supporting the government's economic policy was in force. The credit facility, however, was not utilized in the reporting year.

Latvia's quota in the International Monetary Fund totalled 91.5 million XDR at the end of 1998.

COOPERATION WITH FOREIGN CENTRAL BANKS

During the reporting year, the Bank of Latvia continued cooperation and exchange of expertise and information with central banks in other countries.

In 1998, the Governor of the Bank of Latvia visited the National Bank of Ukraine. The Bank's employees visited *Deutsche Bundesbank* with the aim of exchanging experience in different areas of central banking.

A regular exchange of information and visits with *Eesti Pank* and *Lietuvos Bankas* was continued in the reporting year. In May, the Bank of Latvia organized the fifth seminar for the central banks of the Baltic countries in Riga to discuss issues of monetary policy, statistics and central bank accounting.

TECHNICAL ASSISTANCE

During the reporting year, the Bank of Latvia continued to receive technical assistance from international financial organizations and foreign central banks.

With financial support from the EU Phare program, the project of on-call audit assistance was continued and the second stage of the interbank payment system development project was completed. With the support of the IMF's Technical Assistance Mission, the Credit Institutions Supervision Department of the Bank of Latvia worked to introduce consolidated supervision in Latvia and to improve credit quality assessment.

Regular technical assistance was provided by Deutsche Bundesbank. Within the framework of technical assistance programs, the Bank of Latvia's employees participated in several courses organized at the IMF Institute and the Joint Vienna Institute, as well as in seminars organized by the Bank of England, *Banca d'Italia*, *Banque de France*, *Banque Nationale Suisse*, *Deutsche Bundesbank* and *Oesterreichische Nationalbank*.

Two of the Bank's employees received scholarships from the Nordic Council of Ministers for working at the central banks and public institutions of Denmark, Norway and Sweden.

In the reporting year, the Bank of Latvia also provided technical assistance. A number of employees from the Credit Institutions Supervision Department participated in restructuring the Ukrainian banking system within the EU TACIS program.

PREPARATION FOR THE EUROPEAN UNION

The Bank of Latvia continued its cooperation with the Latvian Government and governmental institutions to promote Latvia's accession to the European Union. The Bank's employees participated in reviewing Latvian legislation pertaining to capital mobility, financial services, the European Monetary Union and statistics at the European Commission.

An EU integration working group was formed at the Bank of Latvia. The working group developed a strategic plan in view of pre-accession negotiations.

In the reporting year, the Bank prepared amendments to the Law "On the Bank of Latvia" (in effect as of November 18, 1998) as well as reviewed and amended regulations governing the activities of Latvian credit institutions so as to harmonize them with the requirements of EU directives.

In June 1998, a delegation headed by the Governor of the Bank of Latvia visited Brussels to present to the European Commission the macroeconomic development of Latvia, the Bank of Latvia's monetary policy and credit institutions supervision policies.

REPORT OF THE BANK OF LATVIA'S EXECUTIVE BOARD

PRINCIPIAL ACTIVITIES OF THE BANK OF LATVIA

In accordance with the Republic of Latvia Law "On the Bank of Latvia", the main tasks of the Bank of Latvia were as follows:

– determining and implementing monetary policy with the aim of maintaining price stability in the country;

– issuing the national currency;

– determining the foreign exchange policy;

– managing foreign reserves;

– acting as the Government's financial agent;

– organising and ensuring the functioning of settlement and payment systems in the country;

– supervising credit institutions with the aim of facilitating soundness, stability and development of the Latvian banking system;

– issuing to credit institutions operating licences, as well as licences for foreign exchange operations;

– collecting, registering, processing and publishing statistics.

FINANCIAL RESULTS OF THE BANK OF LATVIA

The Bank of Latvia's profit for 1998 totalled 7 735 thousand lats (7 820 thousand lats in 1997).

The successful and effective investment of gold and foreign convertible currency reserves in safe and profitable financial instruments accounted for the largest part of the income.

Since the fiscal policy of Latvia's government continued to be successful, the State Treasury was able to deposit funds with the Bank of Latvia. This resulted in an increase in the Bank's interest expense on government deposits (5 054 thousand lats; 2 726 thousand lats in 1997). Interest income from government securities and income from servicing the government foreign borrowing increased to a lesser extent, reaching 4 528 thousand lats (3 322 thousand lats in 1997).

As the Bank of Latvia's lending increased, interest income from loans to banks rose 5.0 times, amounting to 1 024 thousand lats (204 thousand lats in 1997).

APPROPRIATION OF THE BANK OF LATVIA'S PROFIT

Article 19 of the Republic of Latvia Law "On the Bank of Latvia" stipulates that 10% of the Bank's profit is annually appropriated to the reserve capital until it reaches one-fourth of the nominal capital. To comply with this requirement, the Bank of Latvia is to appropriate 774 thousand lats of its 1998 profit to the reserve capital. Pursuant to Article 20 of the Law, the Bank is entitled to use other reserves for capital construction and to obtain fixed assets in accordance with the estimates approved by the Board of Governors of the Bank of Latvia. Consequently, 6 666 thousand lats of the Bank's profit for 1998 goes to other reserves. Of the Bank of Latvia's profit for 1998, 295 thousand lats is transferable to the nominal capital.

THE BANK OF LATVIA'S FOREIGN EXCHANGE POLICY AND FOREIGN RESERVES

The Bank of Latvia did not change its foreign exchange policy in 1998, and the stability of the lats against the SDR basket of currencies was retained (XDR 1 = LVL 0.7997 since 1994). The exchange rate of the lats against other currencies changed in line with developments on the global foreign exchange market.

The Bank of Latvia's foreign reserves consist of gold, convertible foreign currencies and XDRs. The Bank's foreign reserves amounted to 496.5 million lats at the end of 1998 (491.7 million lats at the end of 1997).

The Bank of Latvia's foreign reserves were managed in compliance with the revised "Basic Principles and Guidelines for Investing the Bank of Latvia's Foreign Currency and Gold Reserves" adopted by the Bank's Board of Governors on January 15, 1998.

The Bank of Latvia invests its foreign reserves in safe and liquid financial instruments, predominantly in government and government agency securities of the United States of America, Germany, France, the United Kingdom and Japan, as well as in securities of international institutions. The Bank introduced new financial instruments and entered into the related markets. The Bank's gold reserves were invested as short-term deposits at banks with a high credit rating.

Since October 1994, the Bank of Latvia has been employing three fund managers in New York and London to manage a part of its foreign currency reserves. The fund managers operate in compliance with the guidelines established by the Bank of Latvia's Board of Governors.

The Investment Committee reviews and amends the Bank of Latvia's investment strategies every week. The Committee consists of the following bank officers and employees: the Chairman of the Bank's Executive Board, the Head of the Foreign Exchange Department, and the Heads of the Trading and Investment, Analysis, and Risk Control Divisions of the Foreign Exchange Department, as well as the foreign reserves portfolio managers and/or dealers from the Trading and Investment Division.

On January 8, 1998, the Executive Board of the Bank of Latvia approved "The Foreign Exchange Department's Regulation for Managing Foreign Currency and Gold Reserves and Effecting Payments". This regulation was elaborated with the aim of reducing transaction-related risks.

THE BANK OF LATVIA'S FINANCIAL INSTRUMENTS

The financial instruments used by the Bank of Latvia to implement its monetary policy corresponded to the market economy principles and followed the strategy of the European System of Central Banks for utilizing monetary policy instruments.

The Bank of Latvia sets the refinancing rate as a reference rate for the entire Latvian financial system. The low inflation rate and monetary policy aimed at the stabilization of money market rates were the key factors enabling the Bank of Latvia to retain the refinancing rate at the level of 4% throughout the reporting period; the refinancing rate had been at this level since April 25, 1997. To restore a reasonable structure of interest rates and to prevent Lombard loans from being used to regularly support bank liquidity, the Lombard rate was raised, by 1.0 percentage points, two times during the year (on January 30 and October 19). At the end of the period, it was 7% per year for the first ten calendar days of credit utilization, 8% per year as from the eleventh calendar day of credit utilization, and 9% per year as from the twenty-first calendar day of credit utilization.

With the aim of promoting the money market, the Bank of Latvia started calculating two money market indexes as of January 12, 1998: RIGIBID and RIGIBOR. Initially, the indexes were based on the quotes of the most active money market participants: the JSC *Hansabank – Latvija*, the JSC *Latvijas Krājbanka*, the JSC *Latvijas Unibanka*, the JSC *Parekss-banka*, the JSC *Rigas Komercbanka*, and the Riga Branch of *Société Générale*. Later the JSC Vereinsbank Riga was also added to the selected credit institutions. To calculate the indexes, the highest and lowest rates were eliminated and the average of the remaining quotes was taken. RIGIBID and RIGIBOR were fixed each business day at noon local time, for six different time periods (overnight, tomorrow-next, spot-week, and one, three and six months).

The Bank of Latvia's lending to the Latvian banking sector increased significantly, from 7.6 million lats at the beginning of the year to 52.0 million lats at the end of the year.

To pursue strict monetary policy in conditions of an increased demand for credits, as of mid-September 1998, the Bank of Latvia began to attract time deposits from banks more actively. As of September 15, time deposits of 7-day maturity (previously 31-day maturity) at a 3.5% interest rate (previously 1.5%) were introduced. Interest rates on such deposits were raised gradually (to 4.0% as of September 17, to 4.5% as of October 12, to 5.0% as of October 15, to 5.5% as of October 29, and to 6.0% as of November 11). Starting with November 11, 15-day deposits were also introduced (at a 6.5% interest rate). As the interest rate level was rather favourable, the Bank of Latvia received 7-day time deposits in the amount of 40.8 million lats from eleven banks (the weighted average interest rate was 4.8%) and 15-day deposits in the amount of 9.6 million lats.

The Bank of Latvia continued to organise currency swap auctions. In November and December, the Bank started organising auctions three times a week, thus providing more opportunities for obtaining funds in lats without entering into exchange operations and with lower exchange risk. Currency swaps were of 7-, 28- and 91-day maturity. (Previously, only 91-day maturity [January–October] and 1-year deals [May–October] were auctioned once a week.) Banks actively responded to this move, and in the last two months of the year, funds involved in currency swaps totalled 54.0 million lats or 68.6% of the annual total (78.7 million lats). At the end of the year, the following totals were registered for currency swaps: 18.7 million lats for deals of 7-day maturity (at the weighted average interest rate of 6.9%), 17.9 million lats for deals of 28-day maturity (at the weighted average interest rate of 8.2%), 38.35 million lats for deals of 91-day maturity (at the weighted average interest rate of 7.8%), and 3.75 million lats for deals of 1-year maturity (at the weighted average interest rate of 7.9%).

The Bank of Latvia's reserve requirement for credit institutions remained at 8% of the average deposits received by the respective credit institution (irrespective of currency and maturity, and excluding liabilities to domestic credit institutions, the State budget and funds raised by foreign branches of Latvian banks).

The reserve requirement was met with balances on accounts of credit institutions with the Bank of Latvia and average vault cash balances in lats (the cash component was not to exceed 50% of the required reserves). The cash component of the required reserves increased (from 33.3% in December 1997 to 38.3% in December 1998).

To implement the monetary policy more efficiently, the Bank of Latvia participated in the secondary market for government securities. The volume of the Bank's transactions on the market totalled 109.5 million lats in 1998, a 22.1% increase over the 1997 level.

As the Government implemented tight fiscal policy, it deposited excess funds with the

Bank of Latvia. As of February 20, 1998, the Government was able to make not only a demand deposit but also time deposits. Maturities proposed by the Bank were one or two weeks, or one or three months, and the interest was calculated from the respective RIGIBID rate. To lessen the impact of the Government's deposit on money supply, the Bank increased its portfolio of government securities.

BALANCE-OF-PAYMENTS AND FINANCIAL STATISTICS

Amendments to the Law "On the Bank of Latvia" were adopted in the reporting year to provide for the legislative basis enabling the Bank of Latvia to take over the compilation of the country's balance of payments. International practice, however, shows that the compilation of the balance of payments usually pertains to the activities of a central bank since relations between credit institutions and the central bank are closer than those between credit institutions and the central statistical institution. A central bank, therefore, can more successfully collect, verify, process and analyse data received from banks on non-bank external payments and compile a reliable country's balance of payments on a timely basis.

To improve the compilation of the balance of payments, the Bank of Latvia's Board of Governors adopted "Regulation for Compiling Information about Non-Bank External Payments" (in effect as of November 1, 1998). The adoption of this regulation will provide for a wider range of statistical data sources, extend data coverage, as well as improve and speed up the compilation of the balance of payments. This will also make possible compilation of the monthly balance of payments for basic indicators. Pursuant to the regulation, the Bank of Latvia will collect information on those external payments of a resident non-bank that exceed LVL 1 000 when translated into lats in accordance with the Bank of Latvia foreign exchange rates as on the date of payment. Data for external payments made between Latvian businesses and their foreign partners in November and December 1998 proved the usefulness of such statistical information.

The Bank of Latvia disseminated financial statistics through its regular publications and the Bank's Internet site, as well as the IMF's Dissemination Standards Bulletin Board and the IMF publication *International Financial Statistics*. The Bank also supplied financial information to the Bank for International Settlements and the Eurostat.

SETTLEMENT AND PAYMENT SYSTEMS

In 1998, the Bank of Latvia launched the electronic clearing system (ECS). It is a fully automated multilateral inter-bank net settlement system, whose introduction in November 1998 marked the transition from a paper-based clearing system to the electronic exchange of information.

The ECS operates in accordance with "Regulation for Credit Transfers" (in effect as of November 1, 1998) and "Regulation for Compiling Bank Statements" (in effect as of September 1, 1998), which govern the procedure for credit transfers in the Republic of Latvia and stipulate that a bank statement shall be deemed a source document for the purposes of accounting.

SOLUTION TO THE YEAR 2000 ISSUE

A special working group, formed upon the Bank of Latvia Governor's instruction to deal with the year 2000 issue, commenced its activity on October 15, 1998. The working group has the following objectives: to identify all of the Bank's information systems and other technical resources which might be susceptible to the year 2000 problem; to perform detailed testing of all identified systems and resources; to assess the readiness of the Bank's partners and the Latvian banking sector for the year 2000; and to represent the Bank of Latvia on other similar domestic or international working groups addressing the year 2000 issue.

The working group, which is comprised of representatives from all the Bank's organizational units involved in the maintenance and supervision of information systems and other technical resources, as well as representatives from the internal audit, is headed by a member of the Board of Governors, who reports to the Governor and the Board of Governors. The working group convenes its meetings at least once a month.

By the end of 1998, all the Bank of Latvia's most important systems, including purchased software, developed in-house systems, hardware and communications platforms, as well as other technical resources that might contain date sensitive processing functionality and therefore be susceptible to the year 2000 problem, had been identified.

To confirm year 2000 rollover compliance, the Bank's specialists have either performed the initial testing of these systems by utilising special-purpose programs or other testing facilities, or obtained information on the issue from distributors and producers.

The Bank of Latvia plans to reach year 2000 rollover compliance by June 30, 1999, by either introducing new systems or undertaking necessary remedial work.

MONEY CIRCULATION

The exclusive rights of currency issue are vested with the Bank of Latvia. Banknotes in the denominations of 5, 10, 20, 50 and 100 lats, and coins of lats and santims were in circulation. The supply of cash was ensured through five branches of the Bank of Latvia in Riga, Liepaja, Rezekne, Daugavpils and Valmiera. In 1998, the Daugavpils Branch was modernized by installing automated cash processing machines.

In the reporting year, currency in circulation increased by 4.2% (from 359.4 million lats to 374.4 million lats), while increasing 2.1 times over a period of five years. The share of banknotes of larger denominations expanded more quickly, both in terms of number and value.

On July 20, 1998, the 500-lats note was introduced to complete the series of banknotes. On October 26, the first gold circulation coin of .999 fineness was put into circulation. At the beginning of the year, a new issue of the 1-santims coin was introduced as well.

Cash received from the banking system was checked for authenticity and fitness for circulation by using automated cash processing machines. During the reporting year, the amount of processed cash (565.7 million lats, of which 122.0 million lats or 21.6% were worn and destroyed notes and coins) exceeded that of currency in circulation by 1.5 times (1.2 times in 1997). Counterfeit banknotes and coins totalled 16.8 thousand lats, reaching only 0.004% (0.003% in 1997) of currency in circulation.

Within the framework of two international coin programs, the Bank of Latvia issued three collector coins in 1998. Two silver 10-lats coins were dedicated to the history of seafaring:

"Riga Ship" (in circulation as of March 23, 1998) and "Icebreaker Krisjanis Valdemars" (in circulation as of September 1, 1998). A gold 10-lats collector coin, whose design featured the same motif as the 14th century Riga coin of the series commemorating Riga's 800th Anniversary and whose weight was 1.24 grams, was issued under the program "History of Gold" (in circulation as of July 20, 1998). The series of eight silver 10-lats coins commemorating the 800th Anniversary of Riga was completed by issuing the coins dedicated to the 19th century (in circulation as of February 26, 1998) and the 20th century (in circulation as of June 20, 1998). In the reporting year, 14 400 collector coins were sold in Latvia, and 9 700 coins were sold abroad through distributor companies.

THE BANK OF LATVIA'S ORGANIZATIONAL STRUCTURE

The composition of the Board of Governors of the Bank of Latvia at the end of 1998 was as follows:

– Chairman of the Board of Governors, Governor	Einars Repse;
– Deputy Governor	Ilmars Rimsevics;
– members of the Board of Governors:	Harry Bush,
	Valentina Kolotova,
	Vita Pilsuma,
	Arvils Sautins,
	Varis Zarins,
	Valentina Zeile.

On July 2, 1998, the term of office ended for the Deputy Governor and four members of the Board of Governors. On February 12, 1998, the Saeima of the Republic of Latvia re-elected the Bank's Deputy Governor Ilmars Rimsevics and three members of the Board of Governors – Harry Bush, Valentina Kolotova and Varis Zarins – for a second term of six years. Arvils Sautins was elected on June 10, 1998.

The Bank of Latvia's Executive Board at the end of 1998 was as follows:

– Chairman of the Executive Board	Ilmars Rimsevics;
– Deputy Chairperson of the Executive Board	Mara Raubisko;
– members of the Executive Board:	Helmuts Ancans,
	Roberts L. Grava,
	Reinis Jakovlevs,
	Antonija Sileniece.

The Bank of Latvia's Executive Board managed the day-to-day work of the Bank, implemented the Board of Governors' directives on money circulation and credit institutions supervision, as well as developed draft resolutions for the Bank's Board of Governors. In the reporting year, the Bank of Latvia's Executive Board convened 61 meetings and passed 136 resolutions on credit institutions supervision, 10 resolutions on the utilisation of monetary policy instruments and 158 resolutions on conducting other day-to-day business of the Bank.

At the end of 1998, 703 persons were employed by the Bank of Latvia (710 at the end of 1997).

In the reporting year, the organisational structure of three departments, the Credit Institutions Supervision Department, the Information Systems Department and the Statistics Department, was expanded.

PERSONNEL TRAINING

During 1998, employees of the Bank of Latvia improved their professional knowledge on the issues of monetary policy, techniques of macroeconomic and monetary analyses, foreign exchange transactions, credit institutions supervision and accounting by taking part in seminars, courses and conferences in Latvia and abroad.

In the reporting year, the Bank's employees upgraded their computer, foreign language, personnel management and other skills.

THE BANK OF LATVIA'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998

THE BANK OF LATVIA'S BALANCE SHEET

(at the end of the period; in thousands of lats)

ASSETS	Notes[1]	1998	1997
FOREIGN ASSETS		575 311	569 645
Gold	1	40 651	43 147[2]
Special Drawing Rights		165	1 201
Convertible currencies	2	455 729	447 318[3]
International Monetary Fund	3	72 929	72 929
Shares in the Bank for International Settlements	4	951	1 010[4]
Non-convertible currencies	5	346	1 364
Other foreign assets	6	4 540	2 676[5]
DOMESTIC CREDITS		155 800	107 943
To credit institutions	7	52 040	7 551
Transit credits	8	54 344	59 394
Government securities	9	49 416	40 998
OTHER ASSETS	10	862	857
FIXED ASSETS	11	9 243	6 274
TOTAL ASSETS		741 216	684 719

[1] The accompanying notes are an integral part of these financial statements.
[2] Restated, in accordance with the revised gold valuation policy, to account for the decrease in gold reserves (578 thousand lats) as a result of valuing gold at market rate (see Notes 1 and 16).
[3] Restated to include both accrued interest income on foreign securities (5 385 thousand lats) and funds held on behalf of the Government (2 641 thousand lats), which were reported in the financial statements for the year ended December 31, 1997 under the captions "Other assets" and "Other foreign assets", respectively.
[4] Restated, in accordance with the revised gold valuation policy, to account for the decrease (14 thousand lats) in the value of shares in the Bank for International Settlements, which is stated at the gold equivalent, as a result of valuing gold at market rate (see Notes 4 and 16).
[5] Restated to include both accrued interest income on deposits with foreign banks and other financial institutions (749 thousand lats), which was reported in the financial statements for the year ended December 31, 1997 under the caption "Other assets", and the surplus arising from unsettled forward contracts and swap arrangements with non-residents (1 901 thousand lats) in accordance with the revised accounting policy for the respective financial instruments.

(cont.) (at the end of the period; in thousands of lats)

LIABILITIES, CAPITAL AND RESERVES	Notes	1998	1997
FOREIGN LIABILITIES		109 890	124 622
International Monetary Fund	12	109 418	124 134
Foreign bank deposits in lats		250	251
Non-convertible currencies	5	53	231
Other foreign liabilities		169	6
LATS IN CIRCULATION	13	374 448	359 353
DOMESTIC DEPOSITS		198 644	152 077
From credit institutions		95 669	80 531
From the Government		101 639	69 689[1]
Other deposits		1 336	1 857
OTHER LIABILITIES	14	3 750	3 076[2]
CAPITAL AND RESERVES		54 484	45 591
Nominal capital	15	4 750	4 455
Reserve capital	15	2 181	1 407
Other reserves	15	25 243	18 577
Valuation account	16	21 864	20 713[3]
European Union grant		446	439
TOTAL LIABILITIES, CAPITAL AND RESERVES		741 216	684 719

[1] Restated to include the Government's foreign borrowings (44 780 thousand lats) and humanitarian aid deposits (207 thousand lats), which were reported in the financial statements for the year ended December 31, 1997 under separate captions.
[2] Restated to include the deficit arising from unsettled foreign currency swap arrangements with residents (138 thousand lats).
[3] Restated to account for the decrease in the value of gold reserves and the shares in the Bank for International Settlements (592 thousand lats) as a result of valuing gold at market rate in accordance with the revised gold valuation policy (see Notes 1, 4 and 16) and to include the net surplus arising from unsettled forward contracts and swap arrangements (1 763 thousand lats) in accordance with the revised accounting policy for the respective financial instruments.

THE BANK OF LATVIA'S PROFIT AND LOSS STATEMENT

(in thousands of lats)

	Notes	1998	1997
INTEREST INCOME			
Foreign operations			
Interest on deposits with banks and other financial		2 245	2 613
Income from securities		23 418	20 567
Dividends on shares in the Bank for International Settlements		119	184
Other income		52	30
GROSS foreign interest income		25 834	23 394
Domestic operations			
Interest on loans to credit institutions		1 024	204
Interest on transit credits		1 778	1 924
Interest on Government securities		2 750	1 398
Other income		36	32
GROSS domestic interest income		5 588	3 558
INTEREST EXPENSE			
Foreign operations			
Interest on deposits		363	1 198
Other expense		361	331
GROSS foreign interest expense		724	1 529
Domestic operations			
Interest on credit institutions deposits		59	24
Interest on Government deposits		5 054	2 726
GROSS domestic interest expense		5 113	2 750
NET INTEREST INCOME		25 585	22 673

(cont)			(in thousands of lats)
	Notes	1998	1997
SPECIFIC PROVISIONS	17	3 000	2 658
OPERATING INCOME		482	622
OPERATING EXPENSE			
Salaries, wages and other personnel costs		6 578	5 473
Social security		1 395	1 500
Banknote production and coinage costs		310	109
Depreciation charge		1 470	1 656
Other operating expense		5 579	4 079
TOTAL operating expense		15 332	12 817
PROFIT BEFORE APPROPRIATION		7 735	7 820
APPROPRIATION OF PROFIT			
Nominal capital		295	1 955
Reserve capital		774	782
Other reserves		6 666	5 083

THE BANK OF LATVIA'S STATEMENT OF RECOGNISED GAINS AND LOSSES

(in thousands of lats)

	1998	1997
RESULT ON REVALUATION		
Decrease in gold market value	–2 590	–8 196[1]
Increase/decrease (–) in financial instruments' market value	3 791	–266[2]
Increase/decrease (–) arising from revaluation of assets and liabilities denominated in foreign currency	–50	11 108
NET RESULT ON REVALUATION	1 151	2 646
PROFIT BEFORE APPROPRIATION	7 735	7 820
TOTAL	8 886	10 466

[1] Reflects the decrease in the value of gold reserves and the shares in the Bank for International Settlements as a result of valuing gold at market rate in accordance with the revised gold valuation policy (see Notes 1, 4 and 16).
[2] Includes the net surplus arising from unsettled forward contracts and swap arrangements (1 763 thousand lats) in accordance with the revised accounting policy for the respective financial instruments.

THE BANK OF LATVIA'S CASH FLOW STATEMENT

(in thousands of lats)

	Notes	1998	1997
Net cash and cash equivalents inflow/outflow (–) from operating activities	18 (i)	31 472	–15 193
Cash transferred to the Deposit Guarantee Fund		–500	–
Remaining profit appropriated to the State budget		–	–2 023
Acquisition of fixed assets		–4 446	–2 148
Decrease in balance due to the International Monetary Fund		–14 716	–21 363
Cash and cash equivalents inflow/outflow (–)	18 (ii)	11 810	–40 727

THE EXECUTIVE BOARD

Ilmārs Rimšēvičs
Māra Raubiško
Helmūts Ancāns   Roberts L. Grava   Reinis Jakovļevs   Antonija Sileniece

NOTES TO THE BANK OF LATVIA'S FINANCIAL STATEMENTS

FORM OF PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with the Law "On the Bank of Latvia" and the Law "On Accounting". International Accounting Standards have been applied where they are appropriate and applicable to the activities of a central bank.

These financial statements have been prepared in accordance with the historical cost basis of accounting, modified for revaluation of certain assets as referred to in the accompanying notes. A summary of the principal accounting policies is set out below.

GOLD

In conformity with the best international practice and to reflect the devaluation of world gold prices, the Bank of Latvia has revised its gold valuation policy (175.50 lats per troy ounce) to value its gold reserves at market rate. This revision of accounting policy has been applied retrospectively. The comparative balance sheet as at December 31, 1997 has been restated to comply with the revised gold valuation policy. Any surplus or deficit arising from the gold revaluation is credited or charged to the valuation account.

FINANCIAL INSTRUMENTS DENOMINATED IN FOREIGN CURRENCY

Financial instruments denominated in foreign currency are marked to market. Any surplus or deficit arising on valuation is credited or charged to the valuation account. On the disposal of financial instruments, the market value adjustment is transferred from the valuation account to the profit and loss statement.

The Bank of Latvia enters into commitments involving forward exchange rate contracts and foreign currency swap arrangements, which are carried in off-balance sheet accounts. Subsequent to initial recognition and measurement, financial assets and financial liabilities arising from forward exchange rate contracts and foreign currency swap arrangements are re-measured on a regular basis and reported at their fair value. Any surplus or deficit arising from a change in the fair value of the respective financial assets and financial liabilities is credited or charged to the valuation account.

LATVIAN GOVERNMENT SECURITIES

Latvian Treasury bills are stated in the balance sheet at cost plus amortised discount. Latvian Government bonds are carried in the balance sheet at cost. The discount arising on purchase of Latvian Treasury bills is amortised to interest income on a straight-line basis over the term to maturity.

FIXED ASSETS

Fixed assets are recorded at historical cost less accumulated depreciation. Depreciation is provided using the straight-line method. The following depreciation rates have been applied on an annual basis:

Buildings	1–3%
Furniture and fittings	10%
Transport vehicles	20%
Computer equipment and information systems	20%

INTEREST INCOME AND EXPENSE RECOGNITION

Interest income and expenses are recognised on an accrual basis.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into lats at the rates of exchange set forth by the Bank of Latvia at the end of the year. Any gain or loss resulting from translation is credited or charged to the valuation account.

NOTES TO THE BALANCE SHEET, PROFIT AND LOSS STATEMENT AND CASH FLOW STATEMENT

1. GOLD

At the end of 1998 and 1997, the Bank of Latvia's gold reserves were placed in gold time deposits.

Movements in gold reserves during 1998 were as follows:

	Troy ounces	Amount in thousands of lats
As at December 31, 1997 (as previously reported)	249 143	43 725
Result of the revision of gold valuation policy	–	–578
As at December 31, 1997 (as restated)	249 143	43 147
Changes resulting from gold deposits and withdrawals	202	35
Deficit arising from gold revaluation	–	–2 531
As at December 31, 1998	249 345	40 651

2. CONVERTIBLE CURRENCIES

The Bank of Latvia's foreign convertible currency assets are invested primarily in foreign banks and other financial institutions as cash deposits and securities of high liquidity.

Coupon bearing debt securities include both interest income purchased at the date of acquisition (2 807 thousand lats at the end of 1998; 3 142 thousand lats at the end of 1997) and interest income accrued subsequent to the date of acquisition of the respective securities (3 587 thousand lats at the end of 1998; 5 385 thousand lats at the end of 1997).

At the end of the year, the foreign convertible currency reserves of the Bank of Latvia were as follows:

(in thousands of lats)

	1998	1997
Debt securities of foreign governments	237 305	346 753
Debt securities of foreign banks	56 267	36 633
Debt securities of other foreign financial institutions	32 981	21 022
Debt securities of foreign corporate entities	64 621	9 789
Other debt securities	6 209	1 723
Short-term deposits with foreign banks and other financial institutions	56 527	30 014
Foreign currency in cash	1 819	1 384
Total	455 729	447 318

The following table provides the currency profile of the Bank of Latvia's assets denominated in foreign convertible currency at the end of the year:

(percentage)

	1998	1997
US dollars	51	48
German marks	24	24
British pounds	10	14
French francs	7	5
Japanese yen	2	6
Other foreign currencies	6	3
Total	100	100

In order to maintain a neutral foreign currency profile as stated in the Bank of Latvia's guidelines, the Bank of Latvia engages in foreign exchange rate derivative contracts.

3. INTERNATIONAL MONETARY FUND

The Republic of Latvia's participation in the International Monetary Fund (IMF), which is secured by a promissory note issued by the Government of Latvia, is recorded as an asset denominated in XDR. The IMF holdings in lats are accordingly stated as a liability (see Note 12). The quota of the Republic of Latvia in the IMF is 91 500 thousand XDR.

4. SHARES IN THE BANK FOR INTERNATIONAL SETTLEMENTS

The Bank of Latvia owns one thousand shares in the Bank for International Settlements. These shares are denominated in the gold equivalent (5 834 troy ounces).

The value of the respective shares reported in the comparative balance sheet as at December 31, 1997 has been restated to comply with the revised gold valuation policy. As a result, the restated value of the shares in the Bank for International Settlements declined by 14 thousand lats compared to that in the financial statements for the year ended December 31, 1997.

5. NON-CONVERTIBLE CURRENCIES

This item is comprised of the net book value of the balances held on the accounts opened during 1991 and 1992 for settlement of payments with the CIS countries.

6. OTHER FOREIGN ASSETS

At the end of the year, other foreign assets were comprised of the following items:

(in thousands of lats)

	1998	1997
Accrued interest income on deposits with foreign banks and other financial institutions	776	749
Gold held at a foreign mint	1 130	–
Surplus arising from unsettled forward contracts and swap arrangements with non-residents	2 608	1 901
Other foreign assets	26	26
Total	4 540	2 676

7. CREDITS TO CREDIT INSTITUTIONS

At the end of the year, credit facilities provided to credit institutions registered in the Republic of Latvia were as follows:

(in thousands of lats)

	1998	1997
Loans under repo agreements	20 246	6 746
Lombard loans	19 500	–
Refinancing credit facilities	12 000	–
Long-term loans	198	198
Credit facilities provided to credit institutions for further distribution to ultimate borrowers	–	513
Credit facilities provided in respect of the European Union grant	96	94
Total	52 040	7 551

8. TRANSIT CREDITS

This item represents credit facilities granted as a result of the Latvian government's foreign borrowings, which are provided in order to finance the state owned enterprises and to support the state investment programmes.

9. GOVERNMENT SECURITIES

The Bank of Latvia is a market maker for government securities issued by the Ministry of Finance. At the end of the year, the Bank of Latvia held the following securities:

(in thousands of lats)

Residual maturity	1998	1997
Within 1 month	3 995	6 214
Within 1–3 months	6 968	8 456
Within 3–6 months	12 313	9 519
Within 6–12 months	13 788	14 053
More than 12 months	12 352	2 756
Total	49 416	40 998

10. OTHER ASSETS

At the end of the year, other assets were comprised of the following items:

(in thousands of lats)

	1998	1997
Accrued interest income on government bonds	286	325
Other accrued interest income	102	24
Surplus arising from unsettled foreign currency swap arrangements with residents	102	–
Prepaid renovation costs	272	367
Other assets	100	141
Total	862	857

11. FIXED ASSETS

The following changes in fixed assets took place in 1998:

(in thousands of lats)

	Construction in progress	Buildings	Furniture and fittings	Transport vehicles	Other	Total
Net book value as at December 31, 1997	615	1 955	2 439	316	949	6 274
Additions	1 602	1 036	991	162	655	4 446
Disposals	–	–	–6	–	–1	–7
Depreciation charge	–	–53	–842	–165	–410	–1 470
Net book value as at December 31, 1998	2 217	2 938	2 582	313	1 193	9 243

12. INTERNATIONAL MONETARY FUND

Liabilities to the IMF are comprised of three separate balances: credit facilities under the Stand-By Arrangement (SBA), the Systemic Transformation Facility (STF) and the liability arising from the country's participation in the IMF (see Note 3).

Credit facilities under the SBA and the STF have been provided to the Republic of Latvia with the aim of supporting the Government's economic and financial programmes, and are scheduled for repayment by instalments until July 1999 and July 2004, respectively.

Movements in liabilities to the IMF during 1998 were as follows:

(in thousands of lats)

	SBA	STF	Participation	Total
As at December 31, 1997	14 330	36 586	73 218	124 134
Revaluation	–	–	–81	–81
Repayment	–11 586	–3 049	–	–14 635
As at December 31, 1998	2 744	33 537	73 137	109 418

13. LATS IN CIRCULATION

At the end of the year, the following units of lats (LVL) and santims (s) were in circulation:

Nominal	Amount (in thousands of lats)		Number (in thousands of units)		Percentage	
	1998	1997	1998	1997	1998	1997
Banknotes						
LVL 500	6 269	–	13	–	1.7	–
LVL 100	47 434	35 795	474	358	12.7	10.0
LVL 50	57 040	53 787	1 141	1 076	15.2	15.0
LVL 20	108 089	97 224	5 404	4 861	28.9	27.0
LVL 10	86 874	98 128	8 687	9 813	23.2	27.3
LVL 5	47 764	54 930	9 553	10 986	12.7	15.3
Total banknotes	353 470	339 864	–	–	94.4	94.6
Coins						
LVL 2	5 826	5 286	2 913	2 644	1.5	1.5
LVL 1	6 366	6 105	6 366	6 105	1.7	1.7
50 s	3 590	3 422	7 180	6 843	1.0	1.0
20 s	1 733	1 560	8 662	7 798	0.5	0.4
10 s	1 138	997	11 380	9 972	0.3	0.3
5 s	776	709	15 520	14 182	0.2	0.2
2 s	589	493	29 470	24 658	0.2	0.1
1 s	521	451	52 127	45 083	0.1	0.1
Sub-total	20 539	19 023	–	–	5.5	5.3
Collector coins						
LVL 100	306	314	3	3	0.1	0.1
LVL 10	133	152	13	15	0.0	0.0
Sub-total	439	466	–	–	0.1	0.1
Total coins	20 978	19 489	–	–	5.6	5.4
Total lats in circulation	374 448	359 353	–	–	100.0	100.0

During 1998, the Bank of Latvia commenced the issue of gold circulation coins (fineness .999) with a nominal value of LVL 100. At the end of 1998, the total nominal value of such coins in circulation was 670 thousand lats. These coins are not included in the balance sheet caption "Lats in circulation", since their nominal value is directly supported by their content of gold.

14. OTHER LIABILITIES

At the end of the year, other liabilities were comprised of the following items:

(in thousands of lats)

	1998	1997
Accrued interest expense on deposits from the Government	710	526
Other accrued expense	2 008	817
Reserve for the Deposit Guarantee Fund	–	500
Tax liabilities	297	282
Deficit arising from unsettled foreign currency swap arrangements with residents	–	138
Other liabilities	735	813
Total	3 750	3 076

15. NOMINAL CAPITAL, RESERVE CAPITAL AND OTHER RESERVES

The Law "On the Bank of Latvia" prescribes that the authorised nominal capital of the Bank of Latvia is 25 million lats.

The nominal capital is composed of the State allotted resources and the Bank of Latvia's profit allocation. 10% of the Bank's profit is annually appropriated to the reserve capital, which is established to cover potential losses, until it reaches one-fourth of the authorised nominal capital. Other reserves are comprised of net profit after the aforementioned appropriation to the reserve capital. Other reserves may be used to finance construction in progress and fixed assets purchase.

16. VALUATION ACCOUNT

Movements in the valuation account during 1998 were as follows:

(in thousands of lats)

	Surplus from gold revaluation	Surplus/ deficit (–) from change in financial instruments' market value	Deficit (–) from revaluation of assets and liabilities in foreign currency	Total
As at December 31, 1997 *(as previously reported)*	50 047	–1 222	–29 283	19 542
Result of the revision of accounting policies	–592	1 763	–	1 171
As at December 31, 1997 (as restated)	49 455	541	–29 283	20 713
Increase/decrease (–)	–2 590	3 791	–50	1 151
As at December 31, 1998	46 865	4 332	–29 333	21 864

17. SPECIFIC PROVISIONS

The following specific provisions were made during the year:

(in thousands of lats)

	1998	1997
On credit facilities granted to credit institutions	3 000	–
On receivables arising from settlements with the CIS countries in 1992	–	2 658
Total	3 000	2 658

18. CASH FLOW STATEMENT

(i) Reconciliation of operating profit to net cash and cash equivalents inflow/outflow (–) arising from operating activities:

(in thousands of lats)

		1998	1997
Profit before appropriation		7 735	7 820
Decrease in gold		2 496	8 029
Decrease in XDR		1 036	50
Increase (–)/decrease in foreign debt securities and other foreign investments		18 537	–70 468
Surplus/deficit (–) arising from revaluation and financial instruments' market value adjustment		1 151	2 646
Decrease in shares held in the Bank for International Settlements		59	188
Decrease in non-convertible currencies		1 018	22
Increase (–) in other foreign assets		–1 864	–2 202
Increase (–) in domestic credits		–47 857	–33 634
Increase (–)/decrease in other assets		–5	1 031
Depreciation charge		1 470	1 656
Loss on disposals of fixed assets		7	304
Increase/decrease (–) in foreign bank deposits in lats		–1	184
Decrease (–) in non-convertible currency deposits		–178	–4
Increase in other foreign liabilities		163	–
Increase in lats in circulation		15 095	76 751
Increase/decrease (–) in deposits from the Government		31 950	–3 889
Decrease (–) in other deposits		–521	–3 438
Increase/decrease (–) in other liabilities		1 174	–251
Increase in European Union grant	7	12	
Net cash and cash equivalents inflow/outflow (–) arising from operating activities		31 472	–15 193

Cash and cash equivalents include foreign currency in cash, short-term deposits with foreign banks and other financial institutions less deposits from Latvian credit institutions with residual maturity of 90 days or less.

(ii) Analysis of the balances of cash and cash equivalents:

(in thousands of lats)

	1998	Change	1997
Foreign currency in cash	1 819	435	1 384
Short-term deposits with foreign banks and other financial institutions	56 527	26 513	30 014
Short-term deposits from Latvian credit institutions	–95 669	–15 138	–80 531
Total	–37 323	11 810	–49 133

REPORT OF THE AUDIT COMMISSION TO THE BOARD OF GOVERNORS OF THE BANK OF LATVIA

We have audited the balance sheets of the Bank of Latvia as at December 31, 1998 and 1997, and the related profit and loss statements, statements of recognised gains and losses, and cash flows statements for the years then ended as well as the accompanying notes. These financial statements are the responsibility of the Bank of Latvia's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing issued by International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank of Latvia as at December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with the accounting principles adopted by the Bank of Latvia and the Law "On the Bank of Latvia".

ARTHUR ANDERSEN THE REPUBLIC OF LATVIA STATE CONTROL

Riga
March 4, 1999

RESOLUTION OF THE BOARD OF GOVERNORS OF THE BANK OF LATVIA

On March 30, 1999, the Bank of Latvia's Board of Governors passed Resolution No. 55/1 "On the Bank of Latvia's Annual Report and Financial Statements for 1998".

Having reviewed the results of the audit of the Bank of Latvia's economic activity in 1998, the Bank of Latvia's Board of Governors resolves:

1. To approve the Bank of Latvia's annual report for 1998, including the balance sheet, profit and loss statement, statement of recognised gains and losses and cash flow statement.

2. To appropriate the Bank of Latvia's profit for 1998 in the following way.

2.1. 774 thousand lats to be transferred to the Bank's reserve capital.

2.2. 6 666 thousand lats to be transferred to the Bank's other reserves.

2.3. 295 thousand lats to be transferred to the Bank's nominal capital.

3. The Bank of Latvia's Executive Board ensures that the Bank of Latvia's annual report for 1998, including the balance sheet, profit and loss statement, statement of recognised gains and losses and cash flow statement, are published in Latvian and English and are sent to respective institutions.

Einars Repse
Governor
Bank of Latvia

APPENDIXES

Appendix 1

MONETARY INDICATORS IN 1998

(at end of month; in millions of lats)

	I	II	III	IV	V	VI
BANK OF LATVIA						
Monetary base M0	416.9	410.9	433.9	432.7	445.8	470.5
Currency in circulation	349.9	357.8	357.2	357.4	364.5	380.5
Deposits with the Bank of Latvia	67.0	53.2	76.7	75.3	81.2	90.0
Currency vs monetary base (%)	83.9	87.1	82.3	82.6	81.8	80.9
Net foreign assets	439.0	446.2	464.0	498.2	519.9	531.2
Net domestic assets	-22.1	-35.2	-30.1	-65.5	-74.1	-60.8
Credits	56.5	46.2	47.9	35.7	31.4	44.9
To banks	16.3	12.2	10.3	12.9	12.3	13.0
To the Government (net)	40.2	34.0	37.6	22.8	19.1	31.9
Other items (net)	-78.6	-81.4	-78.0	-101.2	-105.5	-105.7
BANKING SYSTEM						
Broad money M2X	841.8	849.9	879.0	911.4	939.6	975.0
Currency outside banks	326.1	333.8	331.5	332.4	339.8	351.8
Non-bank[1] deposits	515.8	516.1	547.5	579.0	599.8	623.2
In foreign currencies	271.0	274.9	274.2	291.6	293.9	302.0
Domestic money supply M2D[2]	570.8	575.0	604.8	619.8	645.6	673.0
Net foreign assets	608.2	618.8	608.2	643.8	646.3	677.3
Net domestic assets	233.7	231.1	270.8	267.6	293.3	297.7
Credits	378.3	399.0	433.5	457.9	483.7	503.5
Bank of Latvia refinancing rate (at end of month; %)	4.0	4.0	4.0	4.0	4.0	4.0
Weighted average interest rates (%)						
In the interbank market	4.6	5.4	5.4	3.9	2.2	2.1
In the non-bank sector						
Short-term credits granted in lats	12.5	13.1	12.4	12.7	13.8	13.9
Time deposits in lats	5.8	5.9	4.6	5.0	5.6	5.1
LVL vs USD (at end of month)	0.592	0.594	0.595	0.594	0.597	0.602

[1] Enterprises and private persons.
[2] Currency outside banks plus deposits of domestic enterprises and private persons in the national currency.

Appendix 1

(cont.) (at end of month; in millions of lats)

VII	VIII	IX	X	XI	XII	
						BANK OF LATVIA
460.6	510.1	457.4	425.5	440.3	471.5	Monetary base M0
384.8	398.9	374.0	358.3	365.5	374.4	Currency in circulation
75.8	111.2	83.4	67.2	74.8	97.0	Deposits with the Bank of Latvia
83.5	78.2	81.8	84.2	83.0	79.4	Currency vs monetary base (%)
537.3	538.7	483.1	450.6	465.9	465.3	Net foreign assets
-76.7	-28.6	-25.7	-25.2	-25.6	6.1	Net domestic assets
29.0	78.9	84.6	83.0	91.3	113.8	Credits
11.2	24.0	33.4	37.5	45.0	52.0	To banks
17.8	54.8	51.2	45.5	46.3	61.7	To the Government (net)
-105.7	-107.5	-110.3	-108.1	-116.8	-107.6	Other items (net)
						BANKING SYSTEM
996.1	953.6	921.2	881.9	888.4	923.0	Broad money M2X
359.1	358.2	343.8	329.4	331.9	340.2	Currency outside banks
637.0	595.4	577.3	552.5	556.5	582.9	Non-bank[1] deposits
307.8	290.7	271.0	260.3	255.2	266.0	In foreign currencies
688.4	662.9	650.2	621.6	633.1	657.1	Domestic money supply M2D[2]
662.0	601.6	487.5	439.9	427.9	416.4	Net foreign assets
334.1	352.0	433.6	442.0	460.5	506.7	Net domestic assets
530.1	545.7	566.9	564.2	578.1	569.1	Credits
4.0	4.0	4.0	4.0	4.0	4.0	Bank of Latvia refinancing rate (at end of month; %)
						Weighted average interest rates (%)
2.7	2.8	3.7	6.3	8.3	7.0	In the interbank market
						In the non-bank sector
15.1	14.2	15.4	15.6	16.5	16.4	Short-term credits granted in lats
4.6	4.7	5.1	4.8	6.9	6.5	Time deposits in lats
0.599	0.601	0.583	0.568	0.579	0.569	LVL vs USD (at end of month)

Appendix 2

THE BANK OF LATVIA'S MONTH-END BALANCE SHEETS FOR 1998

(in thousands of lats)

	I	II	III	IV	V	VI
ASSETS						
FOREIGN ASSETS	567 374	574 550	590 507	616 605	638 376	647 202
Gold[1]	43 725	43 725	43 725	43 725	43 753	43 753
Special Drawing Rights	864	1 038	3 612	715	2 589	73
Convertible currencies	446 189	452 938	466 587	496 383	515 147	526 386
International Monetary Fund	72 929	72 929	72 929	72 929	72 929	72 929
Shares in the Bank for International Settlements[2]	1 024	1 024	1 024	1 024	1 024	1 024
Non-convertible currencies	1 354	1 357	1 352	1 341	1 338	1 338
Other foreign assets	1 289	1 539	1 278	488	1 596	1 699
DOMESTIC CREDITS	102 852	100 418	100 524	109 670	111 138	118 705
To credit institutions	16 301	12 239	10 263	12 893	12 273	12 961
Transit credits	59 528	59 039	59 191	59 993	60 224	60 677
Government securities	27 023	29 140	31 070	36 784	38 641	45 067
OTHER ASSETS	487	431	493	482	533	618
FIXED ASSETS	6 337	6 305	6 533	6 906	7 242	7 314
TOTAL ASSETS	677 050	681 704	698 057	733 663	757 289	773 839
LIABILITIES, CAPITAL AND RESERVES						
FOREIGN LIABILITIES	121 704	121 688	120 658	118 014	118 121	115 566
International Monetary Fund	121 237	121 237	120 247	117 350	117 269	114 754
Foreign bank deposits in lats	232	215	176	176	362	323
Non-convertible currencies	229	230	229	227	226	226
Other foreign liabilities	6	6	6	261	264	263
LATS IN CIRCULATION	349 916	357 775	357 158	357 393	364 546	380 498
DOMESTIC DEPOSITS	157 752	152 050	168 798	209 196	222 528	223 561
From credit institutions	66 074	52 212	75 220	74 088	79 863	88 594
From the Government	90 747	98 893	92 104	133 870	141 322	133 591
Other deposits	931	945	1 474	1 238	1 343	1 376
OTHER LIABILITIES	4 328	5 147	6 322	6 532	7 571	8 849
CAPITAL AND RESERVES	43 350	45 044	45 121	42 528	44 523	45 365
Nominal capital	4 455	4 455	4 455	4 455	4 455	4 455
Reserve capital	1 407	1 407	1 407	1 407	1 407	1 407
Other reserves	18 577	18 577	18 577	18 577	18 577	18 577
Valuation account	18 472	20 165	20 242	17 649	19 644	20 486
EU grant	439	440	440	440	440	440
TOTAL LIABILITIES, CAPITAL AND RESERVES	677 050	681 704	698 057	733 663	757 289	773 839

[1] In 1998, gold reserves were valued at LVL 175.50 per troy ounce. In the financial statements for 1998, gold reserves were valued at market rate in accordance with the revised gold valuation policy.

[2] In 1998, the value of the shares was valued at a gold equivalent of LVL 175.50 per troy ounce. In the financial statements for 1998, the value of the shares was stated at the market rate of gold in accordance with the revised gold valuation policy.

Appendix 2

(cont.) (in thousands of lats)

VII	VIII	IX	X	XI	XII	
						ASSETS
651 343	654 677	595 729	562 322	577 519	575 311	FOREIGN ASSETS
43 753	43 753	43 753	43 784	43 760	40 651	Gold[1]
679	185	234	678	250	165	Special Drawing Rights
529 858	533 624	475 181	442 410	458 057	455 729	Convertible currencies
72 929	72 929	72 929	72 929	72 929	72 929	International Monetary Fund
1 024	1 024	1 024	1 024	1 024	951	Shares in the Bank for International Settlements[2]
1 321	1 163	524	503	482	346	Non-convertible currencies
1 779	1 999	2 084	994	1 017	4 540	Other foreign assets
127 819	161 629	151 306	149 718	159 812	155 800	DOMESTIC CREDITS
11 178	24 039	33 368	37 476	44 976	52 040	To credit institutions
59 854	57 808	55 775	54 299	55 319	54 344	Transit credits
56 787	79 782	62 163	57 943	59 517	49 416	Government securities
624	642	810	1 334	603	862	OTHER ASSETS
7 519	7 596	7 540	7 874	8 011	9 243	FIXED ASSETS
787 305	824 544	755 385	721 248	745 945	741 216	TOTAL ASSETS
						LIABILITIES, CAPITAL AND RESERVES
113 640	115 604	112 464	111 544	111 531	109 890	FOREIGN LIABILITIES
112 848	112 848	111 857	110 943	110 943	109 418	International Monetary Fund
303	293	263	263	256	250	Foreign bank deposits in lats
223	196	71	68	65	53	Non-convertible currencies
266	2 267	273	270	267	169	Other foreign liabilities
384 813	398 905	373 985	358 270	365 515	374 448	LATS IN CIRCULATION
235 046	252 910	210 788	194 848	203 750	198 644	DOMESTIC DEPOSITS
74 784	110 032	80 282	65 856	73 290	95 669	From credit institutions
159 267	141 725	127 371	127 637	128 964	101 639	From the Government
995	1 153	3 135	1 355	1 496	1 336	Other deposits
10 089	10 615	12 094	12 597	13 277	3 750	OTHER LIABILITIES
43 717	46 510	46 054	43 989	51 872	54 484	CAPITAL AND RESERVES
4 455	4 455	4 455	4 455	4 455	4 750	Nominal capital
1 407	1 407	1 407	1 407	1 407	2 181	Reserve capital
18 577	18 577	18 577	18 577	18 577	25 243	Other reserves
18 835	21 628	21 170	19 105	26 987	21 864	Valuation account
443	443	445	445	446	446	EU grant
787 305	824 544	755 385	721 248	745 945	741 216	TOTAL LIABILITIES, CAPITAL AND RESERVES

Appendix 3

THE BANK OF LATVIA'S YEAR-END BALANCE SHEETS FOR THE YEARS 1994–1998

(in thousands of lats)

	1994	1995	1996	1997	1998
ASSETS					
FOREIGN ASSETS	427 793	407 528	518 240	569 645	575 311
Gold[1]	52 322[2]	51 753[2]	51 176[2]	43 147[2]	40 651
Special Drawing Rights	174	1 195	1 251	1 201	165
Convertible currencies	298 919	279 579[3,4]	389 826[4]	447 318[4]	455 729
International Monetary Fund	72 929	72 929	72 929	72 929	72 929
Shares in the Bank for International Settlements[5]	1 225[6]	1 211[6]	1 198[6]	1 010[6]	951
Non-convertible currencies	1 256	807	1 386	1 364	346
Correspondent accounts	10	–	–	–	–
Other foreign assets	958	54[7]	474[7]	2 676[7,8]	4 540
DOMESTIC CREDITS	67 979	100 818	74 309	107 943	155 800
To credit institutions	54 468	24 579	9 950	7 551	52 040
Transit credits	13 126	51 585[9]	30 575	59 394	54 344
Government securities	385	5 774	14 077	40 998	49 416
Other credits	–	18 880	19 707	–	–
OTHER ASSETS	5 926[10]	5 905[10]	1 888	857	862
FIXED ASSETS	3 172	4 453	6 086	6 274	9 243
TOTAL ASSETS	504 870	518 704	600 523	684 719	741 216

[1] In the financial statements for 1994–1996, gold reserves were valued at USD 300 per troy ounce. In the financial statements for 1997, gold reserves were valued at LVL 175.50 per troy ounce. In the financial statements for 1998, gold reserves were valued at market rate in accordance with the revised gold valuation policy.
[2] Gold reserves were valued at market rate by applying the revised gold valuation policy retrospectively.
[3] In the financial statements for 1995, foreign assets in foreign convertible currencies were recorded at their historic cost.
[4] Restated to include accrued interest income on foreign securities and funds held on behalf of the Government, which were reported in the financial statements for 1995–1997 under the captions "Other Assets" and "Other Foreign Assets".
[5] In the financial statements for 1994–1996, the value of the shares was stated at gold equivalent (USD 300 per troy ounce). In the financial statements for 1997, the value of the shares was stated at gold equivalent (LVL 175.50 per troy ounce). In the financial statements for 1998, the value of shares was stated at the market rate of gold in accordance with the revised gold valuation policy.
[6] The shares were valued at the market rate of gold by applying the revised gold valuation policy retrospectively.
[7] Restated to include accrued interest income on deposits with foreign banks and other financial institutions, which was reported in the financial statements for 1995–1997 under the caption "Other Assets".
[8] Restated to include the surplus arising from unsettled forward contracts and swap arrangements with non-residents in accordance with the revised accounting policy for the respective financial instruments.
[9] Including the Bank of Latvia's credit to the Government (15 750 thousand lats).
[10] In the financial statements for 1994 and 1995, fixed assets were included in the caption "Other Assets".

Appendix 3

(cont.) (in thousands of lats)

	1994	1995	1996	1997	1998
LIABILITIES, CAPITAL AND RESERVES					
FOREIGN LIABILITIES	161 913	159 622	145 805	124 622	109 890
International Monetary Fund	161 289	159 163	145 497	124 134	109 418
Foreign bank deposits in lats	219	198	67	251	250
Non-convertible currencies	399	255	235	231	53
Other foreign liabilities	6	6	6	6	169
LATS IN CIRCULATION	232 100	225 871	282 602	359 353	374 448
DOMESTIC DEPOSITS	88 706	92 416	131 653	152 077	198 644
From credit institutions	37 326	46 908	52 780	80 531	95 669
From the Government[1]	51 380	44 668	73 578	69 689	101 639
Other deposits	–	840	5 295	1 857	1 336
OTHER LIABILITIES	2 515	7 790	5 350	3 076[2]	3 750
CAPITAL AND RESERVES	19 636	33 005	35 113	45 591	54 484
Nominal capital	2 500	2 500	2 500	4 455	4 750
Reserve capital	625	625	625	1 407	2 181
Other reserves	4 160	9 093	13 494	18 577	25 243
Valuation account	11 620[3]	20 360[3,4]	18 067[3]	20 713[3,5]	21 864
EU grant	731	427	427	439	446
TOTAL LIABILITIES, CAPITAL AND RESERVES	504 870	518 704	600 523	684 719	741 216

[1] In the financial statements for 1994–1997, the Government's foreign borrowings and humanitarian aid deposits were stated separately.
[2] Restated to include the deficit arising from unsettled foreign currency swap arrangements with residents.
[3] Restated to account for the change in the value of gold reserves and the shares in the Bank for International Settlements as a result of retrospectively valuing gold at market rate in accordance with the revised gold valuation policy.
[4] Restated to account for the increase in the value of investments in accordance with the revised accounting policies.
[5] Restated to include the net surplus arising from unsettled forward contracts and swap arrangements in accordance with the revised accounting policy for the respective financial instruments.

Appendix 4

THE BANK OF LATVIA'S PROFIT AND LOSS STATEMENTS FOR THE YEARS 1994–1998

(in thousands of lats)

	1994	1995	1996	1997	1998
INTEREST INCOME					
Foreign operations					
Interest on deposits with banks and other financial institutions	5 706	1 306	2 207	2 613	2 245
Income from securities	4 639	19 907	16 941	20 567	23 418
Dividends on shares in the Bank for International Settlements	99	111	115	184	119
Other income	1 540	268	59	30	52
GROSS foreign interest income	11 984	21 592	19 322	23 394	25 834
Domestic operations					
Interest on loans to credit institutions	1 748	561	575	204	1 024
Interest on credits to the Government	1 542	6 244	2 632	1 924	1 778
Interest on government securities	88	845	1 538	1 398	2 750
Other income	1 168	2 403	197	32	36
GROSS domestic interest income	4 546	10 053	4 942	3 558	5 588
INTEREST EXPENSE					
Foreign operations					
Interest on deposits	2 909	2 700	1 978	1 198	363
Other expense	73	260	294	331	361
GROSS foreign interest expense	2 982	2 960	2 272	1 529	724
Domestic operations					
Interest on credit institutions' deposits	–	21	17	24	59
Interest on government deposits	1 348	3 138	2 971	2 726	5 054
Other expense	407	–	–	–	–
GROSS domestic interest expense	1 755	3 159	2 988	2 750	5 113
NET INTEREST INCOME	11 793	25 526	19 004	22 673	25 585

Appendix 4

(cont.) (in thousands of lats)

	1994	1995	1996	1997	1998
SPECIFIC PROVISIONS	–	7 825	1 142	2 658	3 000
OPERATING INCOME	2 379	604	611	622	482
OPERATING EXPENSE					
Salaries, wages and other personnel costs	2 429	3 438	4 541	5 473	6 578
Social security	890	1 258	1 543	1 500	1 395
Banknote production and coinage costs	599	23	294	109	310
Depreciation charge	311	837	1 478	1 656	1 470
Other operating expense	5 783[1]	6 316[1]	3 694	4 079	5 579
TOTAL operating expense	10 012	11 872	11 550	12 817	15 332
PROFIT BEFORE APPROPRIATION	4 160	6 433	6 923	7 820	7 735
APPROPRIATION OF PROFIT					
Nominal capital	–	–	–	1 955	295
Reserve capital	–	–	–	782	774
Other reserves	4 160	4 933	4 400	5 083	6 666
Cash transferred to the Deposit Guarantee Fund	–	–	500	–	–
Remaining profit appropriated to the State budget	–	1 500	2 023	–	–

[1] In the financial statements for 1994 and 1995, the net loss arising from foreign currency exchange was stated separately.

Appendix 5

THE BANK OF LATVIA'S EXCHANGE RATES FOR GERMAN MARK, BRITISH POUND, FRENCH FRANC, US DOLLAR, JAPANESE YEN AND EUROPEAN CURRENCY UNIT

(in lats)

	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum
1998	DEM			GBP			FRF		
I	0.3330	0.3286	0.3250	0.9900	0.9757	0.9670	0.0995	0.0981	0.0969
II	0.3300	0.3265	0.3240	0.9760	0.9711	0.9610	0.0983	0.0974	0.0968
III	0.3270	0.3259	0.3250	1.0010	0.9860	0.9730	0.0978	0.0972	0.0969
IV	0.3320	0.3277	0.3240	1.0040	0.9970	0.9880	0.0989	0.0978	0.0966
V	0.3380	0.3350	0.3310	0.9920	0.9770	0.9680	0.1010	0.0999	0.0987
VI	0.3380	0.3349	0.3320	1.0050	0.9883	0.9740	0.1008	0.0999	0.0992
VII	0.3380	0.3337	0.3300	1.0020	0.9889	0.9830	0.1010	0.0995	0.0985
VIII	0.3400	0.3370	0.3340	0.9950	0.9844	0.9780	0.1012	0.1005	0.0996
IX	0.3480	0.3438	0.3380	0.9970	0.9847	0.9750	0.1038	0.1025	0.1009
X	0.3540	0.3473	0.3430	0.9940	0.9672	0.9520	0.1056	0.1036	0.1024
XI	0.3440	0.3419	0.3390	0.9600	0.9546	0.9420	0.1025	0.1020	0.1010
XII	0.3440	0.3419	0.3390	0.9600	0.9536	0.9460	0.1030	0.1019	0.1010
1998	USD			100 JPY			XEU		
I	0.6000	0.5949	0.5860	0.4720	0.4589	0.4500	0.6520	0.6469	0.6420
II	0.5960	0.5922	0.5890	0.4800	0.4714	0.4620	0.6510	0.6445	0.6400
III	0.5960	0.5944	0.5900	0.4720	0.4627	0.4560	0.6490	0.6463	0.6430
IV	0.6020	0.5959	0.5920	0.4570	0.4508	0.4450	0.6560	0.6498	0.6440
V	0.5970	0.5948	0.5920	0.4490	0.4424	0.4330	0.6660	0.6603	0.6550
VI	0.6050	0.5995	0.5960	0.4370	0.4281	0.4160	0.6660	0.6616	0.6590
VII	0.6050	0.6010	0.5980	0.4340	0.4279	0.4210	0.6670	0.6595	0.6550
VIII	0.6060	0.6027	0.5990	0.4250	0.4169	0.4110	0.6690	0.6651	0.6600
IX	0.5960	0.5867	0.5810	0.4450	0.4345	0.4210	0.6850	0.6764	0.6640
X	0.5830	0.5703	0.5620	0.4920	0.4674	0.4270	0.6970	0.6845	0.6760
XI	0.5790	0.5740	0.5670	0.4920	0.4781	0.4690	0.6770	0.6724	0.6670
XII	0.5810	0.5707	0.5660	0.4940	0.4857	0.4690	0.6760	0.6712	0.6660

Appendix 6

LIST OF CREDIT INSTITUTIONS AT THE END OF 1998

BANKS

1. JSC *Aizkraukles banka*
2. JSC Baltijas Starptautiska banka
3. Joint-Stock Commercial *Bank Baltijas Tranzitu banka*
4. JSC *Hansabank – Latvija*
5. JSC Bank *Land*
6. JSC *Latvijas Biznesa banka*
7. JSC *Latvijas Ekonomiska komercbanka*
8. State JSC *Latvijas Hipoteku un zemes banka*
9. JSC *Latvijas Industriala banka*[1]
10. JSC *Latvijas investiciju banka*
11. JSC *Latvijas Krajbanka*
12. JSC *Latvijas Kreditbanka*
13. JSC *Latvijas tirdzniecibas banka*
14. JSC *Latvijas Unibanka*
15. JSC *Maras banka*
16. JSC *Multibanka*
17. JSC *Ogres komercbanka*
18. JSC *Parekss-banka*
19. JSC *Bank Paritate*
20. JSC *Rietumu Banka*
21. JSC *Rigas Komercbanka*[2]
22. JSC *Rigas Naftas un kimijas banka*
23. JSC *Saules banka*
24. JSC *Trasta komercbanka*
25. JSC *VEF banka*
26. JSC Commercial Bank *Ventspils Apvienota Baltijas Banka*
27. JSC *Vereinsbank Riga*

CREDIT UNIONS

1. *Dzelzcelnieks KS*
2. *Ligatnes Druva*
3. *Rucavas krajaizdevu sabiedriba*
4. *Skolu krajaizdevu sabiedriba*
5. *Rujienas Kooperativa krajaizdevu sabiedriba*
6. *Taurenes Kooperativa krajaizdevu sabiedriba*
7. *Veselavas Kooperativa krajaizdevu sabiedriba*

[1] On February 11, 1999, the Riga Regional Court declared the bank insolvent as of January 25, 1999. On March 18, 1999, the Executive Board of the Bank of Latvia approved the rehabilitation plan of the insolvent JSC Latvijas Industriala banka (the period of rehabilitation is 3 months).
[2] On March 23, 1999, the Riga Regional Court declared the bank insolvent as of March 9, 1999.

Appendix 6

(cont.)

BRANCH OF FOREIGN BANK

Riga Branch of *Societe Generale* (France)

Appendix 7

THE BANK OF LATVIA'S ORGANIZATIONAL UNITS AT THE END OF 1998

1. ACCOUNTING AND SETTLEMENTS DEPARTMENT
(Head of Department, Chief Accountant – Antonija Sileniece; Deputy Chief Accountants – Maris Kalis, Maija Kurpniece)
1.1. Internal Banking Operations Division (Head of Division – Anita Jakane)
1.2. Central Accounting Division
1.3. Settlements Division (Head of Division – Natalija Popova)

2. CASHIER'S AND MONEY OPERATIONS DEPARTMENT
(Head of Department – Uldis M. Klauss; Deputy Head of Department – Oskars Zaltans)
2.1. Cash Operations Division (Head of Division – Veneranda Kausa)
2.2. Money Operations Division (Head of Division – Alite Grobina)
2.3. Coin Division (Head of Division – Maruta Brukle)

3. CONSTRUCTION DEPARTMENT
(Head of Department – Normunds Eglitis; Deputy Head of Department – Janis Komisars)

4. CREDIT INSTITUTIONS SUPERVISION DEPARTMENT
(Head of Department – Armands Steinbergs; Deputy Head of Department (Legal Issues and Licensing) – Janis Brazovskis; Deputy Head of Department (Credit Institutions Supervision and Methodology) – Janis Placis)
4.1. Supervision Division (Head of Division – Jelena Lebedeva)
4.2. Banking Regulations and Analysis Division (Head of Division – Ludmila Vojevoda)
4.4. Licensing and Legal Division (Head of Division – Valda Bidina)

5. FOREIGN EXCHANGE DEPARTMENT
(Head of Department – Roberts L. Grava)
5.1. Payments and Settlements Division (Head of Division – Una Ruka)
5.2. Trading and Investment Division (Head of Division, Deputy Head of Department – Arvids Sipols)
5.3. External Debt Management Division (Head of Division – Agita Birka)
5.4. Analysis Division (Head of Division, Deputy Head of Department – Aigars Egle)
5.5. Risk Control Division (Head of Division – Daira Brunere)

6. FOREIGN RELATIONS DEPARTMENT
(Head of Department – Guntis Valujevs; Deputy Head of Department – Juris Kravalis)

7. GENERAL OFFICE
(Head of Department – Elvira Kulberga)
7.1. Division for Guest Reception and Translation Services (Head of Division – Leons Brunavs)
7.2. Clerical Office (Head of Clerical Office – Dace Murniece)
7.3. Library (Manager of Library, Deputy Head of Department – Dace Gasina)

Appendix 7

(cont.)

8. GENERAL SERVICE DEPARTMENT
(Head of Department – Einars Ciss)
8.1. Communications and Service Division (Head of Division, Deputy Head of Department – Juris Liepa)
8.2. Building Exploitation Division (Head of Division – Arnis Berzins)
8.3. Transport Division (Head of Division – Imants Vacietis)

9. INFORMATION SYSTEMS DEPARTMENT
(Head of Department – Harijs Ozols; Deputy Head of Department – Egons Gailitis)
9.1. System Design and Programming Division (Head of Division – Gunars Dislers)
9.2. System Maintenance Division (Head of Division – Edvins Maurins)
9.3. System Security and Quality Assurance Division (Head of Division – Ilona Etmane)
9.4. Payment System Division (Head of Division – Anda Zalmane)

10. INTERNAL AUDITING DEPARTMENT
(Head of Department – Modris Briedis; Deputy Head of Division – Anita Haznere)
10.1. Information Systems Audit Division (Head of Division – Andris Brieze)

11. LEGAL DEPARTMENT
(Head of Department – Reinis Jakovlevs; Deputy Head of Department – Bruno Macs)

12. MONETARY POLICY DEPARTMENT
(Head of Department – Helmuts Ancans; Deputy Heads of Department – Zoja Medvedevskiha, Laila Ruse)
12.1. Macroeconomic Analysis Division (Head of Division – Vilnis Purvins)
12.2. Open Market Operations Division (Head of Division – Uldis Pauksens)
12.3. Financial Market Analysis Division (Head of Division – Jelena Zubkova)
12.4. Monetary Research and Forecasting Division (Head of Division – Eriks Abolins)

13. PERSONNEL DEPARTMENT
(Head of Department – Inta Lovnika; Deputy Head of Department – Elita Osmucniece)

14. PUBLIC RELATIONS DEPARTMENT
(Head of Department, Press Secretary – Edzus Vejins; Deputy Head of Department – Kristaps Otersons)

15. PUBLICATIONS DEPARTMENT
(Head of Department – Aina Ranke; Deputy Head of Department – Aija Grinfelde)

16. SECURITY DEPARTMENT
(Head of Department – Armands Steinbergs; Deputy Head of Department – Aldis Lieknins; Head of Security Headquarters – Laimonis Veinsteins)
16.1. Daugavpils Division (Head of Division – Ilmars Suhockis)
16.2. Liepaja Division (Head of Division – Gints Liepins)
16.3. Rezekne Division (Head of Division – Arnis Stirna)
16.4. Valmiera Division (Head of Division – Aldis Zemmers)

Appendix 7

(cont.)

17. STATISTICS DEPARTMENT
(Head of Department – Agris Caune; Deputy Head of Department – Ilmars Skarbnieks)
17.1. Statistics Division (Head of Division – Zigrida Austa)
17.2. Statistics Analysis Division (Head of Division – Inta Gaile)
17.3. External Payment Statistics Division (Head of Division – Anna Petska)

18. RIGA BRANCH
(Branch Manager – Janis Strelnieks)

19. DAUGAVPILS BRANCH
(Branch Manager – Jolanda Matesa)

20. LIEPAJA BRANCH
(Branch Manager – Gundars Lazdans)

21. REZEKNE BRANCH
(Branch Manager – Vilhelmine Landsberga)

22. VALMIERA BRANCH
(Branch Manager – Sarmite Kleimane)

23. STUDY AND RECREATION CENTRE
(Director – Igors Strokins)

THE BANK OF LATVIA'S STRUCTURE AT THE END OF 1998

BOARD OF GOVERNORS
Chairman of the Board of Governors
Governor
Einars Repše
Deputy Governor
Ilmārs Rimšēvičs

Internal Auditing Department
Modris Briedis

EXECUTIVE BOARD
Chairman of the Executive Board
Ilmārs Rimšēvičs
Deputy Chairperson of the Executive Board
Māra Raubiško

Information Systems Department Harijs Ozols	Monetary Policy Department Helmūts Ancāns	Public Relations Department Edžus Vējiņš Press Secretary
Statistics Department Agris Caune	Credit Institutions Supervision Department Armands Šteinbergs	Legal Department Reinis Jakovļevs
Publications Department Aina Raņķe	Foreign Exchange Department Roberts L. Grava	Foreign Relations Department Guntis Valujevs
General Office Elvīra Kulberga	Accounting and Settlements Department Antonija Sileniece	Security Department Armands Šteinbergs
General Service Department Einārs Cīšs	Construction Department Juris Kozlovskis	Personnel Department Inta Lovnika
Study and Recreation Centre Igors Strokins	Cashier's and Money Operations Department Uldis M. Klauss	
Valmiera Branch Sarmīte Kleimane		Daugavpils Branch Jolanda Mateša
Rēzekne Branch Vilhelmīne Landsberga	Riga Branch Jānis Strēlnieks	Liepāja Branch Gundars Lazdāns

Bank of Latvia. Annual Report 1998

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