

## **LAW "ON THE BANK OF LATVIA", AMENDED AS OF JUNE 20, 2002**

Adopted on May 19, 1992.

In effect as of May 19, 1992.

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

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

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

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

With amendments passed by the Saeima of the Republic of Latvia on October 25, 2001 (in effect as of January 1, 2002);

With amendments passed by the Saeima of the Republic of Latvia on June 20, 2002 (in effect as of July 12, 2002).

### **Section I - General Provisions**

#### **Article 1**

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

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

The Bank of Latvia administration shall be located in Riga.

#### **Article 2**

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

#### **Article 3**

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

#### **Article 4**

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

#### **Article 5**

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

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

#### **Article 6**

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

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

#### **Article 7**

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

#### **Article 8**

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

#### **Article 9**

The Bank of Latvia shall promote the smooth operation of the payment systems in the Republic of Latvia. The Bank of Latvia is entitled to approve regulatory requirements and regulations to ensure efficient and sound functioning of the clearing and payment systems.

The Bank of Latvia shall organize and ensure the operation of the interbank payment system in the Republic of Latvia.

#### **Article 10**

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

#### **Article 11**

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

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

#### **Article 12**

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

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

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

#### **Article 13**

In fulfilling its tasks and performing supervision in accordance with the Republic of Latvia Law "On Credit Institutions" and this Law, the Bank of Latvia shall neither seek nor take instructions from the Government or any other institution and shall not be subject to the decisions and regulations adopted by the Government or any other institution.

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

#### **Article 14**

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

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

#### **Article 15**

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

#### **Article 16**

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

#### **Article 17**

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

## **Section II, Capital of the Bank of Latvia and Appropriation of Profit**

### **Article 18**

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

### **Article 18<sup>1</sup>**

Within 15 days following the approval of the annual report by the Board of Governors of the Bank of Latvia, the Bank of Latvia shall transfer to a state general budget account indicated by the State Treasury:

- 1) a part of its profit earned during the reporting year, which shall be calculated by applying the tax rate established for residents by the Law "On Corporate Income Tax";
- 2) payments for the usage of state capital in the amount of 15 percent of the profit earned during the reporting year.

### **Article 19**

The profit remaining after making the deductions stipulated in Article 181 shall be transferred to the reserve capital. The reserve capital shall be formed to cover possible losses. Where the reserve capital is not sufficient to cover all losses, the remaining amount of losses shall be covered from the nominal capital.

### **Article 20**

(Deleted)

## **Section III, Administration of the Bank of Latvia**

### **Article 21**

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

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

### **Article 22**

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

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

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

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

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

### **Article 23**

To execute the practical work and ensure the efficient management of the Bank of Latvia, the Board of Governors shall establish a permanent Executive Board consisting of six persons.

The Chairperson of the Executive Board shall be confirmed in office by the Board of Governors of the Bank upon the recommendation of the Governor of the Bank.

Other members of the Executive Board shall be confirmed in office by the Board of Governors of the Bank upon the recommendation of the Chairperson of the Executive Board.

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

### **Article 24**

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

### **Article 25**

(Deleted)

### **Article 26**

The Board of Governors of the Bank of Latvia shall make decisions on behalf of the Bank of Latvia. The Board of Governors shall determine the general monetary policy, set interest rates for Bank of Latvia asset and liability operations, and make all decisions that

are necessary to ensure the implementation of monetary policy in accordance with this Law.

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

#### **Article 27**

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

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

#### **Article 28**

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

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

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

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

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

#### **Article 29**

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

#### **Article 30**

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

#### **Article 31**

Restrictions on holding more than one position by the Bank of Latvia's Governor, Deputy Governor, members of the Board of Governors and the Executive Board and their responsibilities regarding the prevention of the conflict of interest shall be as laid down by the Law "On the Prevention of the Conflict of Interest in Activities of Public Officials".

#### **Article 32**

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

#### **Article 33**

The Bank of Latvia's Governor, Deputy Governor, members of the Board of Governors and the Executive Board, and employees shall have no right to disclose confidential information that has become known to them as a consequence of their service or function to any person not qualified to have knowledge thereof. This confidentiality obligation shall be in effect also after the expiry of the term of office or the termination of employment relationship.

### **Section IV, Monetary Policy Instruments**

#### **Article 34**

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

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

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

#### **Article 35**

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

#### **Article 36**

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

#### **Article 37**

The Bank of Latvia shall be entitled to operate in the securities market, to buy and sell securities and to accept securities as collateral.

#### **Article 38**

All credit institutions shall deposit with the Bank of Latvia a certain percentage of their liabilities. Each credit institution shall have a reserve requirement that is equivalent to that set for all credit institutions of the same type.

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

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

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

### **Section V, Analytical Tasks**

#### **Article 39**

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

#### **Article 40**

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

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

#### **Article 41**

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



#### **Article 42**

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

### **Section VI, Control and Supervision of the Bank of Latvia**

#### **Article 43**

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

The audit commission, whose members are approved by the State Auditors' Office of the Republic of Latvia, shall audit the economic activity and documents of the Bank of Latvia. After the audit results have been reviewed, the Board of Governors of the Bank of Latvia shall approve the Bank's annual report, and the report, together with the annual balance sheet, shall be published for the public knowledge.

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