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BANK OF LATVIA ACT 1992

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LAW

"On the Bank of Latvia"

CHAPTER I
GENERAL REGULATIONS

Article 1

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

The Bank of Latvia is a legal entity. It possesses its own stamp (seal) which reproduces the complete Republic of Latvia State Emblem and bears the bank's name "Bank of Latvia". The Bank of Latvia administration is located in Riga.

Article 2

The Bank of Latvia is established by a resolution of the Saeima.

Article 3

The main objective of the Bank of Latvia is to realize monetary policy, to regulate the amount of money in circulation, in order to maintain price stability within the State.

[2] The Bank of Latvia shall facilitate free competition, effective allotment of assets and their circulation and the stability, coordination and supervision of the financial system.

Article 4

The Bank of Latvia possesses the monopoly rights to issue the national currency, banknotes and coins as the only legal tender in the State. The Bank of Latvia shall determine the official exchange rate of the national monetary unit against foreign currency.

Article 5

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

The Government shall maintain foreign currency (gold) reserves in the Bank of Latvia. The Bank of Latvia, upon receiving concrete authorization from the Government, may act as the Government's financial agent in banking transactions.

Article 6

The Bank of Latvia is a consultant in monetary and banking operation policies to the Saeima and the Cabinet of Ministers.

Article 7

The Bank of Latvia is the representative of the Republic of Latvia to foreign central banks and international monetary institutions. The Bank of Latvia may participate in the activities of other international financial and credit organizations which correspond with its goals and assignments.

Article 8

The Bank of Latvia shall perform foreign currency exchange operations at its own discretion. If agreements are signed with foreign countries on currency exchange, quotas and terms, the Bank of Latvia may regulate account settlements with its foreign correspondents.

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Article 9

The Bank of Latvia shall organize and ensure the operation of account and payment systems in Latvia.

Account settlements between banks within the Republic of Latvia shall be accomplished by using such banks' correspondent accounts in the Bank of Latvia.

The Bank of Latvia shall determine the account settlement and payment forms used within the Republic of Latvia.

Article 10

The Bank of Latvia shall perform the supervision and auditing of credit institutions. The Bank of Latvia shall inspect execution of its issued binding regulations. These audits shall be performed by the Bank's own audit service or, with the Bank's authorization, by the Special Audit Service in accordance with the Credit Institutions Law.

Article 11

The Bank of Latvia issues licenses for the purchase and sale of foreign currency through entrepreneurial activities to credit institutions and other legal entities which are registered with the Enterprise Register of the Republic of Latvia.

The Bank of Latvia shall issue licenses for banking operations and credit operations with precious metals and their articles to banks and other credit institutions.

The Bank of Latvia shall have the right to revoke licenses which have been issued, if the general procedures for purchases and sales or for the fulfillment of operations determined by the Bank of Latvia are violated.

Article 12

In accordance with the tasks included in Article 3-11 of this Law, the Bank of Latvia may

open accounts only for the Government of Latvia, foreign banks, international monetary, financial and credit institutions, Latvia's banks and other credit institutions.

The Bank of Latvia shall keep State Budget and special capital resources in accounts opened for the Government and perform transfers of budget resources without charge.

The Republic of Latvia Ministry of Finance shall have the right to receive information on State Budget resources at any time, as well as to inspect their expenditure.

Article 13

While fulfilling its tasks and accomplishing supervision in accordance with both the Republic of Latvia's "Credit Institutions Law" and this Law, the Bank of Latvia shall not be subject to decisions and regulations adopted by the Government or its institutions.

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

Article 14

The Bank of Latvia may have its own enterprises and organizations which are essential for the execution of its tasks, and the improvement of employee qualifications and for ensuring its activities.

The Bank of Latvia can not participate in entrepreneurial activities.

Article 15

The Bank of Latvia shall issue monthly and annual balance sheets corresponding to those forms used by the world's central banks.

Article 16

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

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Article 17

The Bank of Latvia can be liquidated by a Saeima resolution which regulates the settlement of bank liabilities with the Republic of Latvia and foreign correspondents, as well as regulates the further utilization of Bank of Latvia property.

CHAPTER II BANK OF LATVIA CAPITAL

Article 18

The basic capital of the Bank of Latvia shall be 25 millionis lats.

This basic capital cannot be utilized in Bank of Latvia financial activities.

Article 19

A reserve capital shall be established to cover possible losses by annually deducting 10% from the bank's profit until it reaches one-fourth of the basic capital. If the reserve capital is not sufficient to cover losses, then they are to be covered from the basic capital.

Article 20

Retained earnings shall be generated from the Bank's net profit after the deductions mentioned in this Chapter. The bank shall utilize retained earnings for capital construction and for acquiring fixed assets according to the confirmed estimates of the Bank Council. Net profit should be included in the nominal capital until the amount established in Article 18 of this Law is reached. After this condition is met, the net profit shall be included in the State revenue.

CHAPTER III ADMINISTRATION OF THE BANK OF LATVIA

Article 21

The Bank of Latvia shall be administered by

the Bank Council and the Board. The Bank Council shall consist of 8 persons: the Bank President, his/her Deputy and 6 Council members.

The Bank Council shall be led by the President or his/her Deputy.

Article 22

The President of the Bank of Latvia shall be elected to the position by the Saeima through a secret ballot, upon the recommendation of not less than ten members of the Saeima.

The Bank Vice-President and the Council members shall be affirmed to the position by the Saeima through a secret ballot upon the recommendation of the President of the Bank of Latvia.

The authorized term for the President of the Bank of Latvia, his/her Deputy and Council members is 6 years. If any of the Council members resigns before the term expires, a new Council member shall be affirmed.

The Saeima can dismiss the President of the Bank of Latvia, his/her Deputy (Vice-President) and the Council members before the expiration of the term established in Part 3 of this Article only in the following cases:

1) if a personal application of resignation is received;

2) if a court judgment on sentencing the President of the Bank of Latvia, his/her Deputy (Vice-President) or a Council member for committing an intentional crime has taken legal effect;

3) the President of the Bank of Latvia, his/her Deputy (Vice-President) or the Council member can not execute his/her duties for more than six consecutive months in due to sickness or other reasons.

Article 23

The Bank Council shall establish a permanent

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Board consisting of 6 persons to accomplish the practical work and efficient management of the Bank of Latvia.

The Board Chairperson shall be confirmed by the Bank Council upon the recommendation of the Bank President.

The other Board members shall be confirmed by the Bank Council upon the recommendation of the Board Chairperson.

During the Chairperson's absence, the official duties of the Board Chairperson shall be performed by the Bank President or by any other Board member authorized by the President.

The Board members are the Bank's central staff employees. The Board members can be dismissed from their positions upon a decision of the Bank Council.

Article 24

Bank Council meetings shall be competent, if not less than half of the Council members participate, including the Bank President and his/her Deputy. The Council shall resolve all issues by a majority vote of those present. If the number of votes is equal, the Chairperson's vote is the deciding vote. Council meetings are convened as needed, but not less than once each quarter.

Article 25

The Minister of Finance can participate in sittings of the council of the Bank, without the voting rights of a judge.

Article 26

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

The Bank Council shall review the applications of foreign bank to open branches, affiliations and representatives within the Republic of Latvia, and shall decide whether to issue licenses for the activity of such credit institutions in Latvia.

The Bank Council shall review and approve the annual budget of the Bank, determining that all of the Bank's expenses are covered from its revenue.

Article 27

The Bank of Latvia Board shall perform the management of the Bank's practical activities, implement the directives of the Bank Council concerning monetary circulation and the supervision of credit institutions, prepare issues which are to be discussed at meetings, and prepare draft decisions for the Bank Council.

Board meetings shall be convened as needed, but not less than once a month, and they shall be competent if more than half of the Board members, including the Board Chairperson, participate. The Board shall make decisions by the same procedure as the Bank Council.

Article 28

The President of the Bank of Latvia shall direct the Bank Council and is responsible for the successful organization of its work.

The Bank President shall confirm the Bank of Latvia structure and hire and dismiss Bank of Latvia employees.

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

The President of the Bank of Latvia may participate in Republic of Latvia Government meetings.

During the absence of the President of the

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Bank of Latvia, his/her rights and obligations shall be fulfilled by his/her Deputy or by the person who is appointed by a specific order.

Article 29

The Bank of Latvia Board Chairperson shall organize and direct the Bank of Latvia's work by implementing the execution of adopted Council and Board decisions. The Bank of Latvia Board Chairperson has the right to participate at Republic of Latvia Government meetings with the authority of the Bank President or during his/her absence, and he/she has the right to represent Bank of Latvia interests.

Article 30

The remuneration of the President of the Bank of Latvia, Council and Board members, as well as employees, shall be determined by the Council. The Council shall also confirm the list of employees and their salaries.

Article 31

The Bank President, Council and Board members are prohibited from holding more than one paid position simultaneously.

The Bank's branch managers may hold other paid positions with the Bank President's permission.

Article 32

Bank of Latvia Board members and branch managers are prohibited from engaging, either directly or indirectly, in any forms of entrepreneurial activity.

Article 33

Bank of Latvia officials are responsible, in accordance with the laws of the Republic of Latvia, for violations which have been permitted during the execution of their official duties.

CHAPTER IV MONETARY POLICY INSTRUMENTS

Article 34

The national monetary unit for the Republic of Latvia is the lat, which is comprised of 100 santims. The lat is the only legal tender within Latvia. The description, serial numbering, registration and monetary cover of the banknotes shall be determined by the Bank of Latvia Council.

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

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

Article 35

The Bank of Latvia has the right to operate in the financial markets; to buy and sell foreign currency and precious metals within its institutions, in the stock exchange and abroad; to set up a currency reserve fund; to accept foreign currency and other valuables for deposits; and to perform any kind of banking operations and transactions with foreign countries, their central banks, financial institutions and international organizations.

Article 36

The Bank of Latvia has the right to grant short-term loans against a pledge only to those Latvian banks and other credit institutions, foreign banks, international currency, finance and credit organizations which have an open account in the Bank of Latvia. The Bank of Latvia does not have the right to grant loans to the government and to buy state internal loan securities within the initial market.

Article 37

The Bank of Latvia has the right to make

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transactions with Latvia's State, foreign central bank or international credit institution securities, as well as to accept such securities as a guarantee.

Article 38

All credit institutions must deposit a certain percentage of their total fixed liability resources. Each type of credit institution shall have its own reserve percentage. The same reserve percentage shall exist for all credit institutions of the same type.

The mandatory reserve percentage shall be determined by the Bank of Latvia Council and must be published in the press. Changes in reserve percentages shall take effect three days after their publication in the press.

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

If the minimum reserve balance falls below the required level, the Bank of Latvia has the right to deduct a certain percentage from the unpaid sum. This interest rate is determined by the Bank of Latvia, but it must not be higher than 10 times the short-term credit interest rate of the Bank of Latvia.

CHAPTER V ANALYTICAL TASKS

Article 39

The Bank of Latvia shall affirm the blank forms for statistics reports and the procedure for the submission of mentioned reports.

Article 40

The Bank of Latvia shall collect, register and summarize the financial statistical data and those statistical data necessary for the preparing of the state balance of payments, as well as to publish the summarized statistics information in such a manner which does not provide, directly or indirectly, the means to identify some physical or legal person.

The Bank of Latvia shall follow the economic and financial situation in foreign countries and analyze their influence on the Latvian national economy.

Article 41

Based upon relevant statistical data, the Macroeconomic Analysis Service, in cooperation with the Bank of Latvia Audit Service, shall follow the activities of banks and other credit institutions in order to forecast possible adverse deviations in their operation and to provide the Bank of Latvia Council with current information on the financial and credit conditions within Latvia.

Article 42

The Bank of Latvia Board shall prepare official reference books detailing all banking procedures and ensures the accessibility of such reference books to the employees of all banks and other credit institutions within Latvia.

CHAPTER VI CONTROL AND SUPERVISION OF BANKING OPERATIONS

Article 43

The Saeima shall accomplish the supervision of the Bank of Latvia.

The Audit Commission, its members being confirmed by the State Control, shall accomplish the inspection and audit of documents and the economic activity of the Bank of Latvia. After the audit results are reviewed, the Bank of Latvia Council shall confirm the Bank's annual report, and the report shall be published for public knowledge together with the annual balance sheet.

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