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Latvia: Another one bites the dust

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The international financial crisis has claimed another victim following the Latvian government's nationalisation on November 8th of the country's second-biggest lender, the domestically owned Parex bank. The move is unlikely to have major repercussions elsewhere, as most other significant financial institutions in the three Baltic states are already controlled by large Scandinavian banks. However, if the government does not succeed in finding a strategic investor to take over the bank and if global financial markets remain closed to emerging market borrowers, the state may be forced to seek financial support from the IMF, the EU or its Nordic neighbours.

On November 8th the Latvian government announced that it was buying a controlling 51% stake in Parex bank from its previous owners, Viktors Krasovickis and Valerijs Kargins, for the symbolic sum of 2 lats (US$3.65). The bank had recently been suffering from a high level of withdrawals of deposits, reportedly losing over LVL100m (US$180m) of its total LVL1.3bn of deposits in the last few days. According to Mr Krasovickis, depositors had become concerned that their funds would be less secure in a domestically-owned bank like Parex than in Swedish-owned banks such as Swedbank, which were able to take advantage of recent moves by the Swedish government to support their capital and liquidity positions. It is also reported that the bank was finding it difficult to roll over €775m of syndicated credits that were due to mature in 2009.

In order to avoid a catastrophic run on one of the country's main banks (which could also pose a serious threat to the stability of the lat's fixed link to the euro), the Latvian government had to act quickly to restore confidence. The nationalised Parex bank has become a subsidiary of the Latvian Mortgage and Land Bank, the only remaining state-owned bank. Parex will receive immediate liquidity support of some LVL200m from the Bank of Latvia (BoL, the central bank) and the government has indicated that more funding will be provided if necessary.

—EIU ViewsWire Eastern Europe

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