

Risks of Events in Banking Sector

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Abstract. The purpose of this article has a dual character. First, the author analyses the reasons of the financial crisis in Latvia from the standpoint of risks of actions of the regulators. Such risks are similar to the technological hazards, i.e. the risks emergence of which is directly connected with people's economic activity. In case the state administrative authorities neglect the economic regularities and do not operate them at adoption of strategic decisions, the implementation of such risks inevitably leads to various cataclysms. Secondly, on the basis of the analysis of event development in the banking area the author discloses the true reasons which brought the Latvian economy to the deepest financial crisis among the countries of the European Union. The results of research testify the mistakes of the central bank made at the moment of establishment of national currency rate. The country had a possibility to provide unreasonably high rates of GDP growth due to the overestimated currency especially in the mid 2000s.

Key words: monetary policy, central bank, monetary aggregates, crediting, real estate market, the risk of regulators' actions, monetary instruments, exchange rate, bank assets.

I. INTRODUCTION

The structure and essence of such concept as 'risk' may depend on the subject domain, where such risk has been developed. The most common definition of such concept can include the following interpretation – the possibility of uprising of failure, hazard and damage [1].

The problem of risk management exists in any sector of economy including the industry and finance that explains its constant topicality. All branches of economy are connected with each other due to the financial sphere; this is why this article is devoted to it. Usually, the accounting and tax risks, risk of reputation, legislation changes, risk of actions of regulators and some others refer to risks of an event (event risk).

It should be noted that the last two types of risk (legislation changes and risk of actions of regulators) are quite difficult to be formalized and quantified. This is partly explained by the fact that they are specified in many respects by the so-called 'human factor'.

The decision-making process in the economy at all levels of management occurs under the conditions of uncertainty of internal and external environment, which stipulates the information asymmetry. In economics it is understood as incomplete or inaccurate information owned by the participants of economic activities.

The three main factors are the reasons of asymmetric information: randomness, ignorance and counteraction. Economic problems are reduced to problems of a choice from a number of the alternatives, while the managing subjects do not dispose a full knowledge of the situation to develop an optimum decision.

The timely control over risks in the financial sector makes it possible to prevent the risk-managed events, and such control can promote the mastering of the situation and ensure rather sustainable development upon the occurrence of financial turmoil and involvement of financial systems into the financial crisis.

II. BANKING CRISIS IN 1995

Let us view how the events in the banking sector in Latvia have been developing from a position of risk of actions of the regulatory authorities. After Latvia had regained its independence the central bank began to reform the credit system. Both positive and negative moments of its activity can be noted.

Undoubtedly, one of the reasons of banking crises in 1995 and 1998 was the shortcomings of activity of the Bank of Latvia. The fast price liberalization, cancellation of subsidies, manipulation with funds of the enterprises at exchange of old money to new one also contributed to the creation of certain problems.

At the same time, the essential changes in relation to streamlining of requirements for credit institutions occurred in the field of regulation of the banking system in Latvia.

This has allowed the strengthening of the position of the whole credit system of the country, increasing confidence in the banks and improving their financial performance.

Prior to 1995 the number of failures did not exceed two or three cases per year. As a result of crisis, the number of licenses revoked by the Bank of Latvia reached 15: Tautas banka, Latgales komercbanka, Latīntrādes banka, Depozītu banka, Centra banka, Alejas komercbanka, Polārsvaigzne, Liepājas komercbanka, Kreda banka, Olimpija, OLT bank, Talsu komercbanka, Lettika, Rīgas Starptautiskā banka and Banka Baltija. In 1996, seven banks have lost their licence: Tukuma banka, Daugavas banka, Bauskas banka, AKO banka, Dinastija, Jelgava, Atmoda.

Despite the fact that the number of closed banks was high, the total bank capital resumed quickly. A considerable reduction of banks and the fact that the top ten banks were in this list, including the country's largest bank – Banka Baltija – significantly affected the main indicators of the industry, giving a reason to speak about the banking crisis in Latvia in 1995.

One of the main reasons of the banking crisis of 1995 was the fact that banks did not manage the risks in due manner. Banks were working in markets which were not explored thoroughly enough. The recession, slow rate of reforms and the imperfection of legislation kept the already high degree of risk in banking activity.

Many of them enjoyed the demand for bank loans. They provided loans and attracted deposits at high rates, which had fallen harshly subsequently.

A tough position of the Bank of Latvia in relation to the supervision over commercial banks had a considerable importance for stabilizing the banking system. Only a year after the crisis, the Bank of Latvia issued a dozen of rules, guidelines and regulations.

The most important of them included the toughening of regulatory requirements for commercial banks, providing the Bank of Latvia with information about shareholders, restrictions on attracting by banks of deposits from individuals, which had limitations in financial activities, mandatory annual audits by international audit companies, coordination with the Bank of Latvia of any changes in the capital, in management, etc. Though all these measures complicated the activity of commercial banks, streamlining of their activity was justifiable because of positive efficiency in development of banking system.

Some banks had incompetent managers who failed to forecast the development of financial and currency markets. Notwithstanding to the valid legislation the Bank of Latvia was approving people without economic education, or even without experience of work in the banking system, for the positions of Chairman of the Board and deputies. There was a shortage of qualified specialists in the field of lending, foreign exchange and bank marketing. As a result, the mistakes in lending and evaluating business plans were quite often. The banking regulatory authorities did not carry out a due control.

III. BANKING CRISIS IN 1998

According to the law "On Credit Institutions", which came into force in October, 1995, the Bank of Latvia got new supervising powers in relation to both licensing of banks and essential changes in structure of shareholders [2]. Bank of Latvia considerably strengthened this control, especially with acceptance of new rules of licensing at the beginning of 1996. The Bank of Latvia regularly checked bank records and events connected with the change of shareholders, and if the rules were not observed in full completeness, it applied the financial sanctions.

The Bank of Latvia established a wide set of standards and regulations for credit institutions.

Developing them, it proceeded from principles and the standards valid in banking systems of the developed countries, considering the EU regulations in the banking sphere and principles of Basel Committee on Bank Supervision. Some of them were even stricter, for example, the requirement to the capital sufficiency (10%) to cover the defined risks. Basel Committee set a sufficiency level of the capital at a level of 8%. It is necessary to notice that this standard had no importance at that time since the capital sufficiency of bank industry at that time was more than 17%.

At that time the Bank of Latvia played an important role in the regulation of bank liquidity in order to limit the fluctuations in interest rates. As a matter of fact the value of interest rate is defined by the cash flows and the value of

supply and demand in the financial market. The Bank of Latvia set a refinancing rate, which served as the initial point for the whole banking system. The short-term loans were provided to the commercial banks under this rate.

One of the most popular instruments of the Bank of Latvia was the credit refinancing, use of which began in 1993 by issuing the short-term loans to ensure the liquidity. In the late 1990s there was a tendency in Latvia of lowering of the refinancing rate. The interest rate of refinancing established in 1993 at level of 120% per annum, decreased to 4% by 1997. Such policy made it possible to create more favorable conditions for bank lending, making it possible to carry out a policy of credit expansion. The commercial banks lowered the interest rates, making their loans more available for economy development. The increased demand for loans thus caused the increase in investments.

Initially, the loans were given to each bank within specific maximum limits which depended on the fulfillment of regulatory requirements stipulated by the Bank of Latvia. Such order was necessary because the loans were given without any collateral. The amounts of the refinancing were relatively limited, as most of them were used for foreign currency converting. Though the loans were small, nevertheless they allowed banks keeping the liquidity in cases when those could not get them in the interbank market which was poorly developed at that time.

The development of securities market reduced the necessity to cover the domestic debt by the loans of the Bank of Latvia. As a result, there appeared a possibility to limit the additional emission and to reduce inflation. The internal state bonds were the main source of the budget deficit financing. In 1996, the demand was much higher than supply.

The amount of reserve requirement established by the Bank of Latvia on July 15, 1993 was 8% of the balances involved in all types and terms of money. This meant that each bank having a license was obliged to reserve the average daily funds appropriate to the amount mentioned in the requirements in the period from 16th day of previous month until the 15th day of the reporting month. Therefore, the amount of funds in different days could differ considerably. At the same time, 50% of the required reserves could be the average cash balances, while the rest part should be reserved on the correspondent account with the Bank of Latvia.

As of December 1998, the volume of bank reserves amounted to 129.9 million LVL, including 34.3 million in cash balances. Cash balances in foreign currency were not taken into account in meeting the reserve requirements.

Assessment of standards of execution of reserve requirements under average value gave the banks a chance to handle their funds more freely and to provide liquidity in settlements.

In order to consider the reserve requirements as a monetary instrument to control the money supply, on April 1, 1997 the Bank of Latvia gave the banks the right not to include the obligations related to the transactions with foreign central banks, local and foreign credit institutions into the calculation of reserve requirements.

As a result, banks got an opportunity to increase the money supply in the framework of this conservative monetary policy instrument. After a year since the introduction of these changes, the volume of liabilities to foreign central banks and credit institutions increased by more than three times. This gave a chance to attract additional loan resources for a longer period of time. At the end of April 1997 they amounted to 57.1 million and increased to 183.5 million to the end of April 1998.

In 1997, the lowering of credit rates promoted the lowering of discount rates for liabilities. At the beginning of 1997, they were 8 – 10.5%, and decreased up to 3.5 – 5.5% by the end of the year. The total amount of the state securities in 1998 fell to 18.4%, and amounted to 127.0 million at the end of the year.

Respectively, the share of all term liabilities available in circulation decreased in comparison with the previous year, i.e. 12 month liabilities – 36.5%, 6 month – 8.0%, 3 month – 1.7%, 1 month – 0.2%, and the share of 2 year bonds was 53.6% [3].

However, the sustainability of financial market at that time was achieved mainly due to foreign currency interventions. It was possible to reduce loans interest rates owing to the operations of buying and selling of foreign currency that favorably affected the formation of the business environment. A tough position in establishment of the rate of Latvian Lat allowed limiting the inflation, increasing the fiscal discipline, creating the conditions for sustainability of business and the confidence of foreign investors.

It is worth regretting poor coordination between the government and the Bank of Latvia. Should the national currency be supported timely by reasonable tax policy stimulating, it could be possible to cause a domestic investment demand, which would enable a more efficient structural change in the economy. In the process of its development the monetary market and securities market would have a stimulating effect on production development, creating the conditions for linkage in a trade turnover of considerable monetary funds.

Since July 1, 1997 the “Terms and conditions of trade (currency swap transactions) on the purchase with subsequent sale and sale with subsequent Latvian Lat repurchase” came into force. The Bank of Latvia developed them with the aim to introduce a new financial instrument. The terms of such transactions did not exceed three months. Since May 12, 1998 the Bank of Latvia began organizing auctions of currency reverse transactions quarterly. The volume of currency ‘swap’ transactions in December 1998 amounted to 23.1 million LVL, including 7.5 million LVL with 7 day period (average interest rate – 6.8%), 6.9 million LVL with 28 day period (average interest rate – 7.5%), 8.7 million LVL with 91 day maturity (average interest rate – 8.6%).

Regarding the involved deposits, the demand deposits dominated in the banking structure. In April 1998, their share in total deposits was 73.4% [4].

It should be noted that the currency market traditionally has been one of the most developed and liquid sector of financial market in Latvia. Its average turnover per day amounted to

279.9 million LVL as of April 1998. In contrast, the average daily turnover of interbank market was almost four times less (76.3 million LVL) during this period.

Prior to 1994 it was impossible to carry out open-market operations, as government securities were not available. After their issuance the volume of state bonds grew relatively slowly, and their liquidity was not high enough, because the secondary market of liabilities was inactive and poorly developed. Such operations gained their significance after 1997. The volume of state securities in the secondary market amounted to 704.5 million LVL in 1998. The share of transactions with residents has increased from 46.4% (in 1997) to 78.0% (in 1998), and non-residents transactions decreased from 18.0% to 2.3%.

By carrying out the operations in the open market the regulation of the reserves had been made in providing the fixed level of interest rate, defined by a tactical task in spite of the eventual changes of interest rates specified by impact of market processes.

The Bank of Latvia carried out the open-market purchases of securities as a stabilizing measure, thereby extending bank reserves and increasing the money supply to the extent that was sufficient to keep interest rates at the same level. This increase in money demand put pressure on the interest rate.

As the interest rate exceeded the target level, the Bank of Latvia started buying the securities from commercial banks. The process of using the excessive loan resources increased the money supply in circulation. Open-market purchases continued until the moment when sufficient amount of new money has been formed ensuring the compliance with the demand and supply at a fixed interest rate. Thus, the Latvian market was achieving a certain balance.

When the Bank of Latvia was selling the securities to the banks, sterilizing the money supply, the interest rates were increasing. The volume of transactions on purchase and sale of securities amounted to 109.5 million LVL in 1998 (in a previous year – 89.7 million LVL). The most volume of transactions was in August (purchase – 30.2 million LVL) and in September (sale – 11.5 million LVL). The Bank of Latvia was buying mainly the government bonds, increasing its securities portfolio and replenishing the amount of active money by such operations. The securities portfolio of the Bank of Latvia was 40.6 million LVL (at par) in 1998.

Since October, 1995 the Bank of Latvia began actively using ‘repo’ auctions. The interest rates on ‘repo’ auctions fixed by the Bank of Latvia were differentiated on terms and could be both above and below the level of a rate of refinancing.

The Bank of Latvia carried out ‘repo’ auctions daily, offering the credits for term of 7, 28 and 91 days. The interest rate at auctions exceeded a refinancing rate a bit. In 1997, the volume of the credits of the ‘repo’ auctions with validity period of 7 days amounted to 55.7 million LVL, for 28 days – 33.1 million LVL, for 91 days – 5.7 million LVL. In 1997, the Bank of Latvia credited the commercial banks in amount of 112.6 million LVL that was increased by 3.5% than in 1996.

Their structure looked as follows: repo auctions – 83.9 %, auto pawn – 14.8%, a pawn on demand – 1.3% [3].

The volumes of lending increased every year. For example, in 1998, the loans to commercial banks reached 458.0 million LVL, which was 4.1 times more than in 1997. From them: 58.8% was issued in repo auctions, 33.1% of pawn demand, 4.2% – auto pawn and 3.9% – loans in emergency situations. In 1998, repo loans for 194.4 million LVL were issued on 7 day term, 40.6 million LVL – 28 day term and 34.5 million LVL – on 91 day maturity. Therefore, the commercial banks could solve the problem of short-term liquidity, and the Bank of Latvia knowing the maturity of loans, could make short-term forecasts of amendments in the liquidity of the banking sector.

At that time and today, one of the problems slowing down the development of a national economy of Latvia, is a deficit of balance of payments. Foreign trade still remained a weakest point of national economy. In 1997, there was a growth of both in export and import. And the gap between them increased by high rates, creating a considerable deficit in the country's trade balance. The volume of foreign trade in 1997 amounted to 2554.1 million LVL that increased by 23.2% than in a previous year. The deficit reached 610.7 million LVL at export amounting to 971.7 million LVL in 1997. The payment of the international services already could not compensate the missing foreign currency to pay the imported goods. The missing currency could be received generally by the means of loans. Therefore, the trade surplus of the balance of payments at that time depended on capital flow more and more. It was clear that since the producers of the goods did not find the new markets and new buyers, the country would import on credit, living by means of converting the foreign loans. The only one solution of successful development of economy was to search ways of increase the inflow of foreign investments into manufacture and infrastructure.

The current account deficit of balance of payments could be financed either by foreign funds coming to the country or by using of foreign exchange reserves. The balance of payments summarizes the flows of goods, services, capital and related income – interest payments, dividends of Latvian residents and foreign countries. Considering the limitation of the state budgetary funds and caution of commercial banks at crediting of the long-term projects, only the foreign investments could be the main source of long-term capital.

However, the inefficient economic management, when the ministers of economic departments were changed several times a year, volatile fiscal policy, the absence of free land market, the disorder in legislation and other factors prevented the attraction of foreign investments. Since 1996, the government tried to limit the growth of external debt. The main reason lied in the inefficient use of earlier received credits.

In relation to state debt and the budget deficit, Latvia focused on the implementation of the Maastricht requirements. The external debt included loans from international financial organizations and the private sector. The number of loans was provided to Latvia for a considerable period and under very

favorable terms, i.e. the loan of the International Bank for Reconstruction and Development – for 17 years (under 7.6% per annum), Exim Bank of Japan – for 16.5 years (4.7%), the European Bank for Reconstruction and Development – for 15 years, the credit of the American “Commodity Credit Corporation” – 30 years (terms of initial payments were extended to 5 years).

The balance of state debt at the end of 1998 amounted to 231.5 million LVL (6.1% of GDP), and the government issued guarantees in amount of 42.9 million LVL to enable enterprises to get the foreign loans. In 1998, the government has spent 37.0 million LVL to administrate the external debt. The amount spent for servicing the external government debt equaled 3.5% of annual export amount.

The domestic debt included the Government borrowings in the local market. It grew every year. For example, it increased by 5.4% and amounted to 8.3 million LVL during 1997 [4].

Contrary to the previous crisis, the bank crisis of 1998 was caused not only by internal shortcomings of activity of the Latvian banks, but also by many external factors. The financial crisis in Russia, burst out in August 1998, was the main reason.

Respectively, the Russian crisis negatively affected the development of the banking sector of Latvia in the second half of 1998, as the majority of banks formed the considerable part of their assets by investments to CIS countries.

The main aspect was that considerable monetary resources left Latvia in the form of investments into foreign securities because the Latvian banks had actively operated on securities markets of other countries.

It is known that the commercial banks' way out from a crisis situation in 1995 was reached at the cost of increase in the operations with investments and converting currencies in Russia and CIS countries. The Bank of Latvia did not see it. In November, 1996, the investment into foreign securities reached 121.5 million LVL and amounted to 171 million LVL in August 1998.

Such migration of capital was stipulated by high interest rates on the Russian government securities and securities of the entities, thus creating a possibility to receive profit by the Latvian banks. The interest rates nearly three times lagged behind their counterparts in the CIS at that time in Latvia. Unfortunately, the Bank of Latvia did not take the timely actions to protect a national banking system from possible financial crashes in the monetary markets of CIS countries.

The financial crisis of 1998 brought serious changes to the development of banking sphere of Latvia. It negatively affected the activity of all banks. The total losses of credit institutions according to financial reports of auditors for 1998 amounted to 56.6 million LVL (only 8 banks got profit in amount of 3.5 million LVL). Two banks got bankrupt (Latvijas Kapitālbanka и Komerbanka Viktorija), and Rīgas Komerbanka was in a state of insolvency with losses amounting to 9 million LVL at the beginning of 1999. Parekss banka had the greatest profit – 1.21 million LVL (the total declared profit before audit – 5.6 million LVL). The losses of Latvijas Unibanka were 15.1 million LVL [4].

In spite of the fact that the Bank of Latvia revoked licenses of two banks during 1998: Latvijas Zemes banka (in connection with the merger with Hansabank-Latvija) and Doma banka (due to insufficiency of the equity), we can state that the whole banking system has successfully overcome the negative consequences of crisis. The positive changes in key indicators of the banking industry were the evidence as well as the fact that 19 banks from 24 finished the year of 1999 with a profit.

The process of enhancement of the legislation continued. In 1998, two new laws came into force: "On the Prevention of Laundering of Proceeds Derived from Criminal Activity" and "On guarantees of Deposits of Individuals". The adoption of the Law "On the Financial and Capital Market Commission"

was an important event in the process of improving the legislation base [5].

IV. INTRODUCTION OF NEW METHODS OF SUPERVISION

The introduction of unified supervision on the market of finance and capital in Latvia became a significant event. As a result, Agency on Supervision of Credit Institutions of the Bank of Latvia, State Inspection for Supervision of the Insurance Market and the Commission of the Securities Market were united into the Financial and Capital Market Commission.

TABLE I
BANKS AND BRANCHES IN LATVIA FROM 2001 TO 2011 [6]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total number of the banks	23	23	23	23	23	24	25	27	29	31	31
Branches of foreign banks	1	1	1	1	1	3	4	6	8	10	9
Number of branches	193	199	206	202	215	224	235	247	231	223	-
Average number of employees	7943	8240	8895	9664	10520	11611	13334	14381	12628	11616	-
Customer current accounts, in thousands	1651	2041	2207	2403	2912	3316	4341	4545	4462	4525	4539
Customer accounts available via the Internet, in thousands	-	-	-	-	-	-	2538	2859	3015	3163	3230
Payment cards, in thousands	893	1022	1176	1365	1711	2107	2389	2518	2478	2424	2325
Number of ATMs	791	842	868	875	878	957	1143	1274	1320	1359	1207
POS terminals accepting payment cards	6908	8326	10268	15170	18495	17571	20367	23350	24381	24366	25430

This table shows that the number of banks in Latvia considerably reduced in the period from 1992 to 2004. Thus, if there were 61 commercial banks in 1993, in 2004 the number of commercial banks reduced to 23 banks. The licenses of commercial banks were issued by the Bank of Latvia which carried out the supervision over bank activities. Since 2001, the Bank of Latvia handed over these responsibilities to the Financial and Capital Market Commission.

The volume of loans increased up to 1086.7 million LVL at the end of 2000, 3.8 times more than in 1996. The year of 2001 was the most successful for the banking sector of Latvia. The best indicator of the annual profit in amount of 46.7 million LVL was achieved this year. The indicators of all banking industry had been growing rapidly, i.e. the assets grew by 28.2%, deposits – by 24.6% and shareholders' equity – 35.4%, and the volume of loans increased by 50.5% [4].

By this time, the main role in the development of a banking system was played by three largest Latvian banks. Parekss banka was the leader of banking system at the beginning of 2000. It was the largest bank in Latvia by size of total assets, equity and the attracted funds of the clients. From the

beginning of 2000 to 2003 the assets of Parekss banka increased by 74% and reached 954 million LVL. Speaking about the dynamics of development among the largest banks, the leader was Hansabanka, the assets of which doubled for a similar period. Latvijas Unibanka, the second-top assets bank of Latvia showed less aggressive dynamics at that period. Its assets increased only by 57%.

At the same time, Latvijas Unibanka had the greatest amount of the loans among the largest banks of Latvia – 543 million LVL. It was the largest lender among the largest Latvian banks, the share of its credit portfolio in assets composed 74.5%. This indicator clearly reflected the credit specialization of Latvijas Unibanka. It should be noted that credit-oriented Latvijas Unibanka had 135% ratio as regards the issued loans and clients funds. It means that the bank allocated not only all client funds for loans, but also 35% of other involved funds and own resources. Taking into account the supervision by the Scandinavian Bank Group (SEB), most likely the loans were financed from the parent bank as well.

Hansabanka had the second rank by amount of the issued loans amounted to 497 million LVL. Hansabanka had

essentially increased the credit portfolio for the last two years and bypassed Parekss banka under this indicator. Hansabanka's share of the issued loans in assets was also high – 70.5 %.

Parekss banka had relatively small credit portfolio among three largest banks of Latvia (381 million LVL), and its dynamics lagged behind the growth of credit portfolios of other banks in that triplet. In whole, the structure of assets of Parekss was oriented on the investments into securities and interbank operations.

After all, the credit portfolio even in structure of assets of Parekss Banka composed approximately 40%.

Thus, the triplet of system banks approached today's crisis with such indicators. Regarding the prospects of development of the largest commercial banks of Latvia it was possible to notice the following aspect: the affiliated structures of foreign banks (Latvijas Unibanka and Hansabanka) still continued the dynamic development, using the resources of parent structures and favorable position on the market. These two banks were targeted to the increase in amounts of loans.

Parekss banka was managed by major shareholders and constantly was in process of search for the strategic investor.

The Parex financial group enlarged; as a result, it fostered attraction of the additional capital. With time, it was extended to Parex Bankas (Lithuania); insurance companies Parekss apdrošināšanas kompanija (Latvia) and Baltic Polis (Lithuania); leasing companies Parekss Lizings (Latvia) and Parex Lizingas (Lithuania). The activities of broker company Parekss Brokeru Sistēma and the pension fund Parekss Atklatais Pensiju Fonds effectively supported the activity of Parex business group.

The predicted trend was implemented into the actual figures. Despite the fact that in 2005 the Bank of Latvia had been repeatedly raising the reserve rate and brought it to 8%, the banks continued to increase the lending capacities. According to the information of the Financial and Capital Market Commission, the loan portfolio of Latvian commercial banks amounted to 4380.6 million LVL on December 31, 2004, and at the end of 2006 – 10872.9 million LVL; the most significant increase in the volume of loans amounting to 14916.2 million LVL was in 2007 (see Table 2).

TABLE 2
STRUCTURE OF ASSETS OF LATVIAN COMMERCIAL BANKS FROM 2008 TO 2011. [6]
(THE END OF THE YEAR, IN MILLION LVL)

	2008	2009	2010	2011	Share of items in total assets		Changes in interest points	Changes in 2011 compared to 2008	
					2008	2011		mln.	%
Cash and balances with the Bank of Latvia	1325.2	1306.0	1903.8	1436.3	5.7	6.9	1.2	111.1	8.38%
Due from other financial institutions	2496.9	2686.3	3227.4	3561.0	10.7	17.0	6.3	1064.1	42.62%
Loans	16588.9	15429.2	14334.2	13171.0	71.4	62.9	-8.5	-3417.9	-20.6%
Bonds and other securities with fixed income	2015.7	1243.6	1380.2	1502.4	8.7	7.2	-1.5	-513.3	-25.5%
Shares and other securities with non-fixed income	51.9	56.7	72.0	136.1	0.2	0.7	0.5	84.2	162.2%
Equities in capital of enterprises	130.7	236.7	281.6	308.6	0.6	1.5	0.9	177.9	136.1%
Fixed assets and intangible assets	234.8	183.0	145.5	121.2	1.0	0.6	-0.7	-113.6	-48.4%
Other assets	275.9	395.8	461.7	530.6	1.2	2.5	1.3	254.7	92.3%
Prepaid expenses and accrued income	123.5	140.8	160.8	159.3	0.5	0.7	0.2	35.8	28.99%
Total assets	23243.3	21678.3	21967.2	20926.4	100	100	-	-2316.9	-9.97%

The growth of credit portfolio of the commercial banks was especially high when the financial crisis began. It increased by 1672.8 million LVL, or 11.2%, and its share in total assets was 71.4% at the end of 2008.

As the table shows, in comparison with 2008 the assets of banks decreased by 2316.9 million LVL or 9.97% in 2011. Thus, the share of credit portfolio in general assets of commercial banks in comparison with 2008 decreased by 8.5 percent points and made 62.9%. Other assets and deferred

expenses increased (42.62%) for the same period. The amount of means in other credit institutes increased by 1064 million LVL.

Analyzing the changes in total liabilities of commercial banks for a similar period, we can conclude that the balance of deposit accounts had a reverse tendency compared to the amounts of credit debt.

Thus, in 2011 the deposits amounted to 11071.5 million LVL and increased by 1308 million LVL or by 13.4 %, in

comparison with 2008, and their share in general liabilities of commercial banks reached 52.9% [4]. The Latvian banks slowed the lending down and tried to reduce the credit risks, what had a negatively effect on national economy. The banks tried to increase the liquidity by transferring the bad credits to the structures specially established for this purpose.

V. CATAclysms in the Real Estate Market

The volumes of mortgage loans have formed a significant part of all loans issued in Latvia. Within 2007, the total amount of mortgage loans increased by 40.6% and their share in total loans was 52.9% that was 1.1% more than at the end of the previous year. In comparison with the end of 2006, the total loans to businesses for increase in current assets grew by 24.4%, and its share in total loan portfolio of commercial banks amounted to 20.3%.

The aggregate loan portfolio of commercial banks at the end of 2007 was divided between residents and non-residents of Latvia as follows: residents – 87.9%, non-residents – 12.1%. Similarly, the loan portfolio of borrowers – residents was divided as follows: private non-financial companies – 49.8%, households – 41.2%, financial institutions – 6.7% [3].

At the end of 2006, the Latvian banks issued 916.5 thousand loans. In 2007, the number of the issued loans increased by 211.4 thousand (30%). The number of the loans issued to private residents for real estate acquisition, housing reconstruction or repair increased by 28.5 thousand (27.6 %) and reached 131.7 thousand loans; the consumer loans increased by 43.5 thousand (38.3%) and reached 157 thousand loans. The number of the loans on individuals' payments cards and accounts reached 583.9 thousand and increased by 131.9 thousand (29.2%) in comparison with a previous year [4].

The real estate in Latvia was one of the basic instruments of savings. Throughout more than ten last years it has been bringing high profits not only to businesses but also to individuals. A rare company did not invest their money into real estate transactions. These years were marked by price explosion for all types of apartments throughout Latvia. For example, there was 100% growth of prices in Riga and its vicinity only in 2006. We can assume that the main reasons for such price increase were the insufficient amount of new housing, the increase in solvent demand of people and growth of speculative transactions.

As a result of housing crediting, the number of real estate transactions in the mortgage market increased considerably. If in 2000 there were registered 22689 transactions of real estate sale and purchase, by the beginning of 2007 their number was doubled, and 65% of them were financed by the bank loans [7].

The basic reasons of crediting growth were: first, availability of bank loan upon housing purchase, secondly, the rise in prices for real estate.

The commercial banks themselves played a considerable role in real estate price rise while demanding a security at crediting. Therefore, even the inexpensive apartments were accepted as a security by the prices which seemed unrealistic to the appraising firms even a year before.

As well, the decrease in interest rates for long-term loans played its role on the Latvian real estate market. At the end of 2004 the price explosion was observed on the market, the price grew even several times on specific segments. The greatest growth was observed on a segment of apartment houses, i.e. in Riga they increased more than 7 times in average in comparison with 2000.

Such growth had forced the Bank of Latvia to undertake the urgent measures on restriction of amounts of crediting, including increase in interest rates for long-term loans. As a result, if in 2004 the average interest rate in Latvia decreased by 2.5 percent points compared to 2001, for the next 4 years it increased again by 6.9 percent points, and made 14.6 % per annum in 2007 [4].

It is necessary to notice that the consumer loans have been issued not only by banks, but also by other companies having no relation to bank activity and not supervised by the Financial and Capital Market Commission. According to the research of DnB NORD banka, the Latvian real estate market was saturated by 1.8 billion LVL of free money along with the bank mortgage loans since the beginning of 2007, i.e. about 150 million LVL per month (8).

The calculations were made on the basis of data of the real estate companies stating that a half of transactions on housing acquisitions for the last year were financed by such loans.

In April 2007, the government developed the program to fight against inflation. The most efficient of this 30-point program for chilling the market were the following points: the developer had to bring to bank his/her own funds in amount of 10% of a project cost prior to the beginning of construction as well as had to submit the reference about the amount of the received income.

As a result, the performance indicators of Latvian real estate market changed extremely negatively. The volumes of mortgage lending began to fall quickly even before the global financial crisis. The prices for new housing gradually decreased as well as on the secondary housing market. Thus, according to the real-estate companies, the prices for serial housing in Riga decreased by 8 – 10 % in a year. The real estate agents were not able to find buyers for three thousand apartments in newly built houses.

The number of real estate transactions fell considerably, the income of realtors and developers respectively fell. Increasingly, they started offering discounts on real estate aiming to attract new customers.

The construction boom went on recession. The bankruptcies of construction campaigns began. The developers and other builders could hardly obtain mortgage loans in banks. The first auctions on sale of real estate passed, which was mortgaged earlier in banks.

The developers and real estate companies were not in a hurry to reduce the prices hoping that the situation in the market would change and demand for real estate will go up again. The potential buyers, in their turn, did not hurry to conclude the real estate transaction, assuming that the property prices would become even lower.

Such a situation coincided with the global financial crisis, which much more aggravated a situation in the Latvian market. The hopes of developers, realtors and buyers of real estate could not come true, and the fast development of a crisis situation equalized all sides regarding the responsibility for the situation occurred in the market.

VI. MISCALCULATIONS IN MONETARY POLICY

The Bank of Latvia should be regarded as a state administrative body which carries out the main responsibility for development of events of the monetary sphere. Its priority direction was always the external stabilization of the national currency, strengthening of which shall promote the internal sustainability as well.

Over the past 18 years, the Latvian currency had a fixed exchange rate. Since June 1993 the Latvian Lat had a floating rate, and in February 1994, the Bank of Latvia pegged the Latvian Lat exchange rate to the SDR basket (1 SDR = 0.7997 LVL). On January 1, 2005 it was pegged to the EURO (1 EUR = 0.702804 LVL). The fluctuations are admitted within + / - 1% of the pegged rate.

On May 1, 2004, when Latvia joined the EU, the Bank of Latvia became a member of the European System of Central Banks and began the preparations on Euro adoption that was planned to take place in early 2008 according to the plans at those times. No big changes in the activities of the Bank of Latvia happened. Bank continued to perform the former economic functions, including monetary policy to ensure the operation of the payment system, the circulation of cash, preparation of financial statistics and balance of state payments and perform the macroeconomic analysis and research including the identification of trends in economic development on a scale of the European Union. The administrative functions including licensing and control over the banks were handed over to the Financial and Capital Market Commission in 2001.

Since May 1, 2004, the Bank of Latvia became the holder of the shares of the capital of the European Central Bank (ECB). The total share in the registered capital of the European Central Bank was established at 0.2978%, or 16,571.6 thousand EUR. The share of the Bank of Latvia in the ECB's capital was calculated on the basis of volume of the country's economy and population. The Bank of Latvia brought 750 thousand LVL and 1763 thousand LVL into the fixed capitals of the European Central Bank and Bank respectively for International Payments. The Bank of Latvia used the available foreign currency for the corresponding installments.

The Bank of Latvia aspired to direct the currency rate policy on achievement of low inflation and convergence of the prices for the goods and services and level of inflation similar to the countries, whose national currencies are included into SDR basket. Latvia enjoys one of the most liberal currency regimes in the world. Both the citizens and foreigners can open accounts in the Latvian Lats and in other currencies without restrictions and freely sell and buy the Latvian Lats by other currencies.

The commercial banks credited in foreign currency not only the entities, but also the individuals. As a result, the real estate transactions were carried out not in foreign currency rather than in national one. The same picture could be observed in the automobile market. The Bank of Latvia had been buying and selling the basket of SDR currencies on requests of commercial banks without restrictions.

The primary long-term goal of approximately 65% of the world's central banks is the price stabilization; the second most common goal is the sustainability of national currency. The small countries with open economies (like Latvia) usually stick to the second long-term goal. It is impossible to achieve both goals at once because the central bank can control just one direction: either inflation or exchange rate.

Initially, the activity of the Bank of Latvia under the conditions of high inflation was directed towards the fight against inflation by the means of strict monetary policy. In the period 1992 – 1994, the monetary base M0 was the main indicator of the Bank of Latvia because it was easier to supervise the monetary base, rather than other monetary aggregates under the conditions of high inflation (58.7% in 1992, 34.9% in 1993).

The situation analysis after inflation decrease showed that the fiscal policy and monopolists' price regulation, including power industry, transport etc., became the determining factors. The internal assets of the Bank of Latvia became the target parameter; and the minimum limit of net external assets of the Bank of Latvia was set to maintain the stability of Latvian Lat, which was connected with the unofficial pegging of Latvian Lat to SDR.

The Baltic States started their programs of sustainability of national currency in 1992. The economists had faced a problem when choosing the exchange rate mode: to accept the floating exchange rate or to operate the fixed rate. Though the programs of sustainability of the Baltic States differed from each other, however, all of them came nearly to the same result, i.e. Estonia stuck the national currency to the fixed rate of DM, Lithuania stuck to US dollar and Latvia stuck to SDR.

The main criteria were: to prevent the national economy from external shocks in the best possible way and to ensure the financial and economic sustainability of the restructuring of the economy.

In 1992, Estonia exchanged the Soviet rubles at the market rate of 10:1 and equated Krone at a rate of DM/EEK 8. Lithuania replaced the intermediate currency in the form of coupon by Lit in June, 1993, and pegged it to US dollar at a rate of USD/LTL 4 in April 1994. It is interesting that in 1936 the rates of Estonian Krone, Lithuanian Lit and Latvian Lat against US dollar were following: USD 1/EEK 6.95/LTL 4.38/LVL 5.04. In 1999, the rates of three Baltic currencies to US dollar were respectively: USD 1/EEK 11.2/LTL 4/LVL 0.59.

The high rate of Latvian Lat stimulated a wide import of consumer goods displacing the Latvian producers from domestic market that brought to the decrease in internal accumulation. In 1936, the gold content of Latvian Lat was 0.29032254 grams of gold, and its parity to dollar equaled

USD/LVL 3.03. The rate of Latvian Lat at the Riga Exchange quoted at the same level. However, after adoption of law "On Currency Reform" on September 28, 1936, which provided the devaluation of Latvian Lat by 40 %, its rate at the Riga Exchange decreased to USD/LVL 5.04 [9].

The Latvian exporters returned what they lost due to the growth of Lat rate before the currency reform, i.e. the same 40%. Considering the indicators of national economy of Latvia after Latvian Lat devaluation in 1936, we see that it promoted the improving of economic situation. In 1937, in comparison with 1935 the amount of bank deposits increased by 67%, employment grew by 18%, the number of the unemployed people was reduced by 50%.

There is a question how the current rate of Latvian Lat against US dollar could be established almost nine times higher in comparison with 1936. On September 28, 1936 one British pound cost 25.11 LVL [9]. Presently, the Latvian Lat is the main competitor for the pound. The Latvian Lat was heavier than pound, i.e. its rate was GBP/LVL 0.7910 as of March 1, 2010 [10]. So, the purchasing power of Latvian Lat was approximately set at the same level as in 1936.

Let us view the chronology of events related to the establishment of the new national currency rate in the 1990s. It is known that Latvia lost independence on July 17, 1940. The Latvian Lat was in circulation as a legal payment instrument till November 25, 1940 when the Soviet ruble had been introduced in parallel at a rate of 1 Lat = 1 ruble. Since March 25, 1941 all Lat cash and deposits over 1000 Lats (rubles) had been cancelled without any warning. Such monetary confiscation had been carried out in three Baltic Republics.

Two currencies functioned in Latvia from 1941 to 1945. There were the German occupational money Reichsmark (RM), and also the Soviet rubles at a rate 10 rubles = 1 Reichsmark. After the Second World War till 1992 only Soviet rubles were in circulation.

Only after Latvia had regained its independence and the law "On the Bank of Latvia" had been adopted on May 12, 1992, there was an opportunity to carry out the monetary reforms targeted at establishing of a national currency circulation. To do this, the Bank of Latvia specially established the Committee for Monetary Reform (Latvijas Republikas Augstākās padomes Naudas reformas komiteja) that decided to introduce a temporary currency – the Latvian ruble on May 2, 1992.

The first stage of reform began on May 7, 1992, when the Bank of Latvia issued temporary money – the Latvian rubles, which were in circulation along with the Soviet rubles at a rate 1 Latvian ruble = 1 Soviet ruble. Since July 20, 1992 the parallel circulation was stopped, and the Latvian ruble became the sole legal payment instrument.

Finally, the first five-banknotes came into circulation on March 5, 1993, which were used in parallel with the Latvian rubles at a rate of 1 Lat = 200 Latvian rubles. The Latvian

ruble was in parallel circulation with the Lat till October 18, 1993.

Within 1992 there was a sharp shortage of cash in circulation in the state that was threatening to cause a serious social crisis. Thus, if in February, 1992 the amount of cash exported from Latvia exceeded the quantity of Soviet rubles imported to Latvia by 122 million banknotes (5.9%), in April of the same year this amount equaled 686 million banknotes (29.2%) [11]. Moreover, at the beginning of 1993 the Latvian parliament discussed a case connected with unauthorized export of cash in amount of 665 million Soviet rubles in a railway car to Russia.

At the same time in January, 1993 the Bank of Latvia stopped purchasing and converting the Soviet rubles. This decision became really fatal for the Latvian industry and agriculture. The manufacturers tried somehow to find a way out using the barter transactions. In Latvia, 629 collective and state farms were disbanded; in general 15 thousand various agricultural objects were privatized including farms, mechanical workshops, boiler rooms etc. [12].

The Commodity Exchange carried out its operations in the building of the Ministry of Agriculture. Commodity brokers have been changing the meat to paper, shoes to cereal, etc. The employees were paid often by the enterprise products. In November 1993, there were 66 registered banks. The annual interest rate for deposits was as follows: Banka Baltija – 90%, Latvijas Depozitu banka – 45%, Latvijas Industriāla banka – 60%.

Now it is difficult to apprehend, but the liter of milk cost 14 santimes at the end of 1992, and the US dollar buying rate fixed by the Bank of Latvia was 0.8350 LVL and 0.5919 LVL already at the end of 1993 [13]. For January 1, 1995 the official rate of US dollar was fixed by the Bank of Latvia at a level 0.5480 LVL [10].

As we can see, the Bank of Latvia took as a basis the rate of Soviet ruble while establishing a rate of Lat. Therefore, at the moment of national currency introduction, its rate initially was artificially overestimated. The high rate of Lat allowed supporting one of the highest rates of economic growth among the countries of Eastern and Central Europe (see Table 3). The nominal GDP had been growing by more than 20% a year in pre-crisis years. For example, its growth was 23.3% in 2006, and 32.3% in 2007.

It was profitable to Western importers and foreign banks as well. They got an access to a free perspective market. The high rate of Latvian Lat in Latvia allowed selling of the goods and services at a high profit. Scandinavian banks captivated the Latvian market by offering the cheap credit resources formed in the economies of developed countries. Therefore, any objections of the Swedish banks against devaluation of Latvian Lat are regarded as quite unreasonable since the eventual losses are non-comparable with the profit they have received for previous years.

TABLE 3
MAIN MONETARY INDICATORS IN LATVIA FROM 2003 TO 2010 [2] (MLN. LVL)

	2003	2004	2005	2006	2007	2008	2009	2010
Nominal GDP	6392.8	7434.5	9059.1	11171.6	14779.8	16243.2	13070.6	12738.7
GDP growth (in current prices, %)	111.0	116.3	121.0	123.3	132.3	109.9	80.5	97.5
M0	806.8	957.2	1350.7	2248.8	2471.2	2111.5	1645.8	1755.2
M2X	2220.3	2816.5	3905.8	5479.9	6171.3	5931.4	5796.2	6390.0
Growth M2X (%)	119.0	127.0	138.7	140.3	112.6	96.1	97.7	110.2
M2X / M0 (%)	275.2	294.2	289.2	243.6	249.7	280.9	352.2	364.1
GDP/ M2X	2.9	2.7	2.3	2.0	2.3	2.7	2.3	2.0

VII. PROBLEMS OF DEVALUATION OF LAT

The U.S. scientists carried out a study which stated that the fixed rate would bring Latvian economy to such a decline, which is incomparable with the U.S. recession during the Great Depression years of 1929 – 1933 [14]. Therefore, it is not casual that the rating agency Moody's and British analytical center Capital Economics point out the risk of devaluation of the Latvian Lat. The news agency Bloomberg referring to the experts of the U.S. bank Brown Brothers Harriman & Co. reported that the Latvian currency may be devalued against the EURO by 50% [15].

Many Western economists spoke about the necessity of devaluation of national Latvian currency. Kenneth Rogoff, the Professor of the Harvard University and the former chief economist of the International Monetary Fund [16], considers that Latvia should devalue the Lat to avoid the toughening of economic crisis. It should be noted that the IMF has no univalent position concerning devaluation of Lat. According to Prime Minister Valdis Dombrovskis at discussions about financial aid to Latvia, the IMF would not object the devaluation of national currency but without insisting on it [17].

Ilmars Rimshevich, the President of the Bank of Latvia expressed an opinion that Lat devaluation would pull down the economy of Latvia for one night [17]. It is necessary to agree with him as it is necessary to treat devaluation of Lat extremely carefully. The situation is similar to the tense spring. The devaluation must be based on exact calculations and should be carried out without any damage to the population. The thorough economic calculations are required in order to search for an optimal rate which would correspond to the parity of purchasing power of Lat to foreign currency more precisely than today.

The price reform will demand many efforts because the standard of price expressed in a new rate of Lat will change that should affect the size of salaries, pensions and other social payments, the state budget and its external balance of payments. The volume of export of the Latvian industrial and agricultural output will increase. Accordingly, the taxes and also the sums required for repayment of received earlier foreign loans will increase. All these points should be considered while starting such a painful operation as devaluation of national currency.

In spite of the fact that devaluation of Latvian Lat is matured, Euro adoption is more important nowadays.

Therefore, referring to the world's experience, we should not abandon the possibility of joining the Eurozone de facto, although the process of co-ordination with the European Central Bank may not be less complex than the joining of Eurozone.

In Latvia, a market has been undergoing a process of Euroization for a long time [18]. Euro has been pressing Lat for a long time in the conclusion of credit and trading agreements. In order to find the correct options it is possible to make use of experience of the European and other countries which use Euro as national currency, but do not enter the Eurozone: Montenegro, Kosovo, Andorra, Monaco, San Marino, Mayotta, etc.

An effective banking system is one of the most important conditions of economic development of Latvia. It is assumed that Latvian economy will be able to implement positively the experience of monetary and credit regulation accumulated in the world's practice.

For the past years the modern two-level banking system was established and developed in the country. Gradually, the competitive credit and financial infrastructure was formed, basic elements of which were the commercial banks. Some of them have already received a high international rating. The Association of the Latvian Banks turned into the National Bank Association.

At the same time, there is the unpredictability of actions of the Latvian administrative bodies. A main goal of the Bank of Latvia and the Financial and Capital Market Commission is the ensuring of the general sustainability in the monetary and credit markets. Thus, exercising all rights defined by the law, the Bank of Latvia should provide stability of the prices, and the Financial and Capital Market Commission should treat everyone who forms the instability in finances and capital market in whole or in its separate sectors by their activity or non-activity.

It seems that it will be possible to take the control over the risk of actions of administrative bodies in future. In many respects it depends on qualification of executives of the Bank of Latvia and the Financial and Capital Market Commission. In order to solve these problems it is necessary to boost the access of Latvia into the Eurozone since the adaption of Euro will help the Bank of Latvia not to carry out a number of aforementioned actions.

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Valērijs Roldugins. Notikumu riski banku sfērā

Komerčbanku darbība lielā mērā ir atkarīga no tā, cik veiksmīgi izīrītāju banku institūcijas regulē nacionālo kredītsistēmu. Viens no 1995. gada banku krīzes cēloņiem bija trūkumi pašas Latvijas Bankas darbībā. Nākošo banku krīzi atšķirībā no iepriekšējās izraisīja ne tik daudz iekšējie trūkumi Latvijas banku darbā, cik ārējie faktori. Galvenais iemesls tam bija finanšu krīze Krievijā, kas izraisījās 1998. gada augustā. Attiecīgi 1998. gada otrajā pusgadā Krievijas krīze negatīvi atsaucās arī uz banku sektora attīstību Latvijā, jo vairumam banku ievērojami aktīvu daļu veidoja noguldījumi NVS valstīs. Tā bija saistīta ar to, ka ievērojami naudas resursi aizplūda no Latvijas kā investīcijas ārvalstu vērtspapīros, jo Latvijas bankas aktīvi darbojās citu valstu vērtspapīru tirgū. Latvijas Banka nevarēja to neredzēt. Šajā laikā procentu likmes Latvijā gandrīz trīskārt atpalika no saviem analogiem NVS valstīs. Diemžēl Latvijas Banka nesāka savlaicīgi rīkoties, lai norobežotu nacionālo banku sistēmu no iespējama finanšu sabrukuma NVS valstu naudas tirgū. Bet galveno kļūdu Latvijas Banka izdarīja uzstādot nacionālās valūtas kursu. Šajā ziņā svarīgi ir atskatīties uz 1936. gada 28. septembrī Latvijā īstenotās reformas rezultātiem. Interesanti, ka 1937. gadā triju Baltijas valūtu kurss pret ASV dolāru bija šāds: USD 1/ EEM 6,95 / LTL 4,38 / LVL 5,04. 1999. gadā igauņu kronas, Lita un Lata kurss pret ASV dolāru svārstās robežās: USD 1/ EEK 11,2/ LTL 4 / LVL 0,59. Nosacītie ASV dolāra un lata patēriņa grozi 1937. un 1999. gada cenās maz atšķiras viens no otra. Tāpēc lata pirktspēja ir apmēram tāda pati kā 1937. gadā. Tāpēc rodas jautājums – kā lata pašreizējais kurss pret ASV dolāru varēja būt tik paaugstināts. Tai pašā laikā Igaunijas un Lietuvas valūtas šo valstu centrālās bankas ir fiksējušas apmēram tajā pašā līmenī, kāds tām bija 1937. gadā. Augsts lata kurss stimulē plašu patēriņa preču importu, izspiežot Latvijas ražotājus no iekšējā tirgus, bet tas rada iekšējā uzkrājuma samazināšanos. Bez tam, pārvērtētās valūtas rezultātā valstij bija iespēja, īpaši 2000. gadu vidū, nodrošināt neattaisnojami augstus IKP tempus.

Валерий Ролдугин. Риски событий в банковской сфере

Деятельность коммерческих банков во многом зависит от того, как распорядительные банковские органы управляют банковской системой. Одной из причин банковского кризиса 1995 года были недостатки в работе Банка Латвии. Несмотря на то, что основной причиной банковского кризиса 1998 года послужил российский кризис, Банк Латвии допустил ряд просчетов в области контроля над банками. Это было связано с тем, что значительные денежные ресурсы денег перетекали из Латвии в Россию в виде инвестиций в ценные бумаги иностранных государств. Банк Латвии не мог этого не увидеть. В этот во время в Латвии процентные ставки почти трижды отставали от своих аналогов в странах СНГ. Банк Латвии не предпринял своевременных действий, чтобы снизить инвестиционные риски латвийских банков. Но главную ошибку Банк Латвии допустил в процессе установления курса национальной валюты. С этой целью целесообразно сделать экскурс в историю, сравнить курс лата с курсом, который был установлен в результате реформы от 28 сентября 1936 года. В 1937 году курс валют трех стран Балтии к доллару США составлял: USD 1/ EEM 6,95 / LTL 4,38 / LVL 5,04. А в 1999 году курсы кроны, лита и лата к доллару США были зафиксированы центральными банками в пределах: USD 1/ EEK 11,2/ LTL 4 / LVL 0,59. Условные потребительские корзины доллара США и лата в 1937 и 1999 годах мало отличаются. Поэтому покупательная способность лата примерно такая же, как 1937 в году. Поэтому возникает вопрос – как курс лата к доллару США мог быть настолько завышен, если центральные банки Эстонии и Литвы зафиксировали свои валюты примерно на уровне 1937 года. Высокий курс лата стимулирует импорт потребительских товаров, оказывая отрицательное влияние на латвийских производителей. Кроме того, в результате переоцененной валюты Латвия имела возможность, особенно в середине 2000-х годов, обеспечивать неоправданно высокие темпы роста ВВП.