

# On providing liquidity and stability of the lats in view of the situation in the world financial markets

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*The Bank of Latvia has involved itself in stabilizing the financial market and that has raised questions as to whether such an action has been necessary and as to its possible consequences. We are hereby explaining the reasoning behind our decision to act.*

A normally functioning interbank market provides banks with the daily opportunity to manage their resources in a way that allows them to discharge their liabilities to their customers, or, using the financial terminology, to manage liquidity while meeting the mandatory reserve requirement, i.e. keeping a certain amount of funds in an account with the central bank.

At present, the situation in the world and Latvian financial markets is characterised by a lack of trust and the interbank market is in fact not functioning. As a result, the central banks take on the significant role of normalizing the situation. It is a known fact that the leading central banks of the world have extended joint loans, in amounts that can be measured in billions of euro and dollars, to the banking systems to provide them with liquidity; some resources are allotted also to particular ailing banks to allow them to continue functioning.

It is also a known fact that, helping to stabilize the financial system as a whole, the Latvian government has taken over the second largest Latvian bank, AS Parex banka, which has been affected by the global financial situation. The Bank of Latvia in this situation is discharging its functions by providing the bank with the necessary liquidity, i.e., extending it a short term loan against collateral.

We would like to emphasize that the Bank of Latvia **is not engaging now and will not engage in any actions that could jeopardize the stability of the lats.** The lats is fully covered by **foreign currency and gold reserves.** Providing liquidity de

mean, using the popular parlance, "printing more money" - the printing machine was junked when the national currency was restored in Latvia in the early 1990s.

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