



Latvia restricts withdrawals from bank, government may up stake

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The **Latvian** government may raise its stake in **Parex**, the nation's second-largest bank which is already being taken into state hands, a top official said Tuesday, as authorities slapped restrictions on cash withdrawals.

Martins Bicevskis, secretary of state at the **Latvian** finance ministry, said the government may increase its newly-acquired stake from 51 percent to 85 percent by taking over the remaining stocks of the bank's former majority owners and founders, Valery Kargin and Viktor Krasovitsky.

The Baltic state's cabinet was expected to make a decision on Wednesday, Bicevskis told **Latvian** public television.

"At this point, we're doing everything to ensure the further successful work of this bank," Bicevskis said.

Earlier Tuesday, **Latvia's** Financial and Capital Market Commission and the government -- which is currently in talks with the International Monetary Fund (IMF) to shore up the struggling economy -- had announced restrictions on **Parex's** clients, saying the goal was to prevent a new run on the bank.

With immediate effect, individual clients can only withdraw up to 35,000 lats (50,000 euros, 63,400 dollars) a month.

Companies, meanwhile, are permitted to take money out for business purposes. Their limit is 35,000 lats for firms with 10 or fewer employees and 350,000 lats for those with between 11 and 250 employees.

No withdrawal limits have been applied for firms with more than 250 employees, nor on payments to the state budget or to state institutions.

"The point is to try prevent a run on deposits," Janis Placis, an official at the Financial and Capital Market Commission, told AFP.

Placis would not say how many clients would be affected by the restrictions, which have been set for six months but could be lifted earlier if the market stabilises.

The **Latvian** government announced on November 8 that it was taking over **Parex**, paying the nominal sum of two lats for 51 percent of the shares, after customers withdrew 240 million lats from deposits in six weeks.

Krasovitsky, who founded **Parex** along with Kargin in 1992, blamed the exodus on customers attracted by Swedish state guarantees for Nordic rivals Swedbank and SEB, which are respectively the first- and third-ranked banks in the **Latvian** market.

The **Parex** takeover required EU approval. Brussels gave the green light last week.

But the bank is not yet formally in government hands because creditors have still to agree to the deal. **Parex** is due to pay back or refinance 775 million euros worth of loans next year, and talks with creditors are ongoing.

Latvia, a country of 2.3 million people which broke free from the crumbling Soviet bloc in 1991, has been seen as a economic "tiger" in recent years, notably since joining the European Union in 2004.

But after years of double-digit growth, it is confronting the sharpest recession in the 27-nation EU as once-robust domestic demand slumps in the face of high inflation, tighter domestic credit rules and the global economic crisis.

According to official forecasts, the economy may contract 1.5-1.7 percent this year and 3.5-5.0 percent in 2009.

Last month Riga formally turned to the EU and the IMF for a rescue package, joining the ranks of other ex-communist states such as Hungary.

Talks with lenders are underway.

Latvian finance ministry experts have said the government may seek up to five billion euros to shore up the floundering economy -- a figure underscored Tuesday by international ratings agency Fitch, which like its counterparts has been slashing **Latvia's** credit-worthiness.

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