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**Latvia's IMF talks stall over bank deal**

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Talks between Latvia and the International Monetary Fund have run into problems over Parex Bank, the largest independent Baltic institution, whose liquidity crisis last month forced the government to seek international aid.

Latvia is seeking about €5bn ($6bn, £4bn) from the IMF and the European Union to fund next year's budget deficit, as well as Parex's rescue and projects co-financed by the EU.

The timing of the package is important because it should also bolster confidence in the lat, the Latvian currency, whose peg to the euro is under pressure. The central bank has spent €931m, more than a fifth of its reserves, to defend the peg in the past eight weeks.

Parex was taken over by the government on November 8 after clients rushed to withdraw deposits.

The state has agreed to buy a 51 per cent stake from the bank's two founders for a nominal two lats, but this cannot be completed until two syndicates of bank lenders give their permission. The IMF is believed to be unhappy that the two founders, Valery Kargin and Viktor Krasovitsky, have kept legal rights to 34 per cent of Parex and have secured a call option to buy back their 51 per cent stake for the same nominal price, plus costs, if the state fails to sell the bank within a year.

The government would like to reach an understanding that the syndicates will roll over their loans when they fall due next year. Talks with the syndicates will have to be finalised before the IMF deal.

Negotiations have been held up by the diversity of the European and Japanese banks involved and by the deterioration in the perceived risk of Latvian assets since the loans were granted, before the onset of the credit crisis last year.

Even though Latvia's credit rating is several notches above Parex's, Fitch and Standard & Poor's have downgraded the country to just above junk status and have kept it on negative outlook.

So far the government has lent Parex 200m lats ($357m, €285m, £240m) and put 154m lats on deposit to improve its liquidity.

The bank, founded in 1992, had been successful in attracting Russian flight capital.

In its advertising Parex used to boast: "We are closer than Switzerland." In recent years it has told clients it could be "your partner in the EU".

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