

# **Latvia – Markets update and future outlook**

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**Markets**

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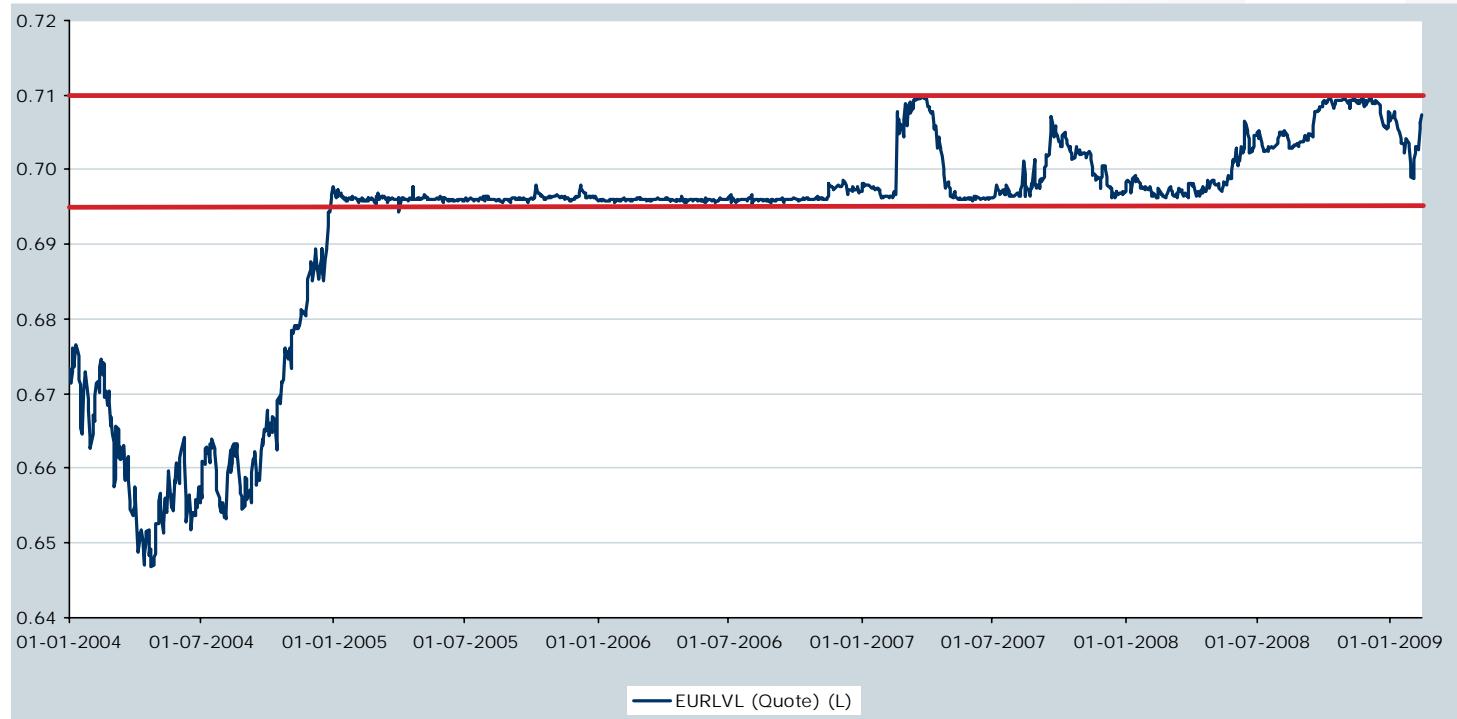
- **Currency board regimes of the Baltic's**
- **FX & MM - Latest developments in the area**
- **Future outlook**
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## CURRENCY BOARD REGIMES OF THE BALTIC'S

- Estonia and Lithuania run pure currency board regime, Latvia runs “quasi currency board regime”
- The Central banks in the Baltic's are committed to exchange local currency to EUR with the fixed peg rate (in Latvia + - 1% around the fixed parity)
- Main tool to regulate banks' lending is the reserve requirement for the commercial banks
  - Estonia: 15% (half can be EUR nominated)
  - Lithuania 4% up to 2Y, 0% above 2Y
  - Latvia 5% up to 2Y, 3% above 2Y

## FX & MM – Latest developments in the area

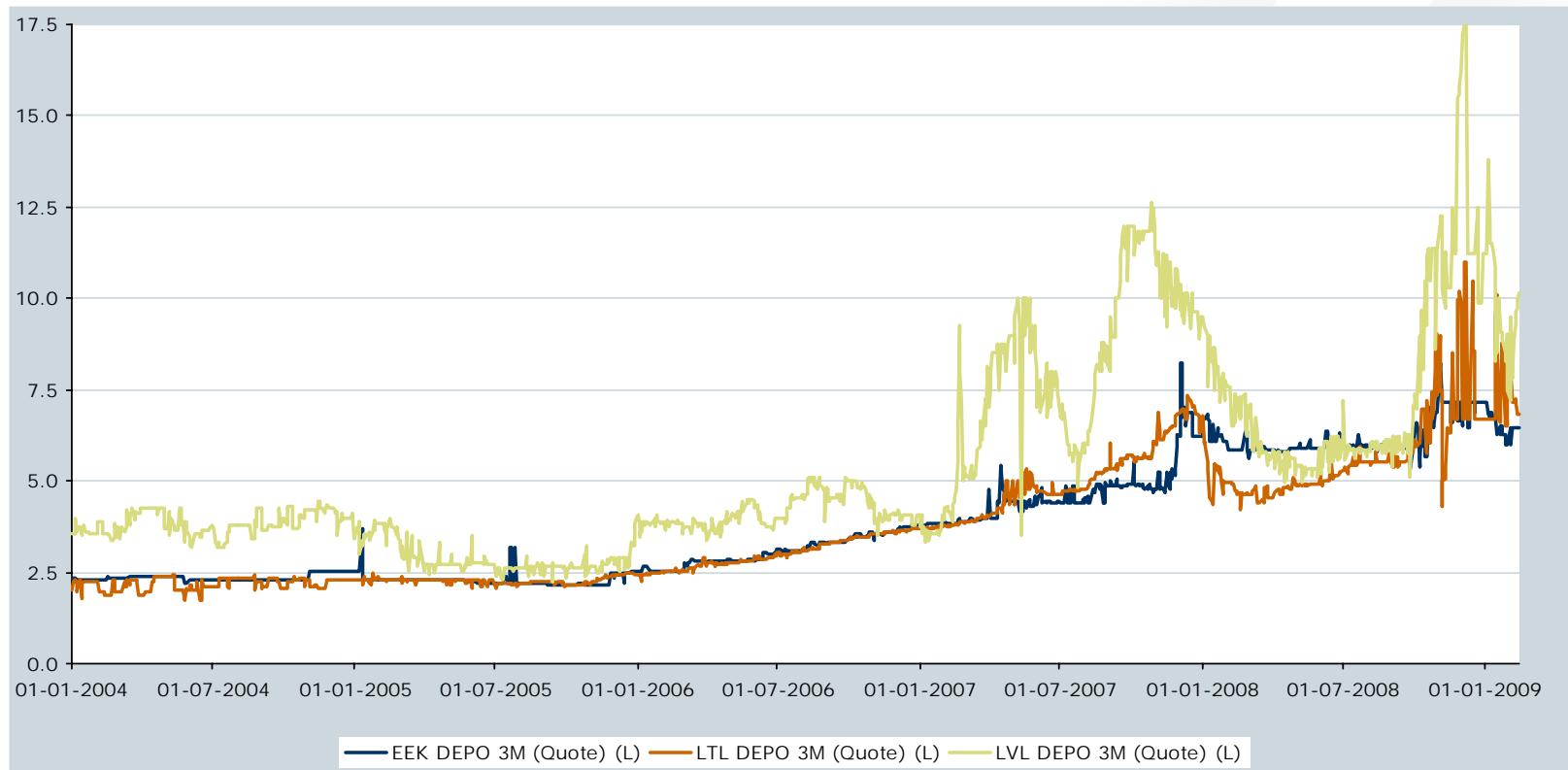
- FX markets
  - Very retail driven flow in all 3 countries
  - State a major player in the FX market





## • Money markets

- Movements derive from the FX market under the currency board
- Official rates vs. the reality

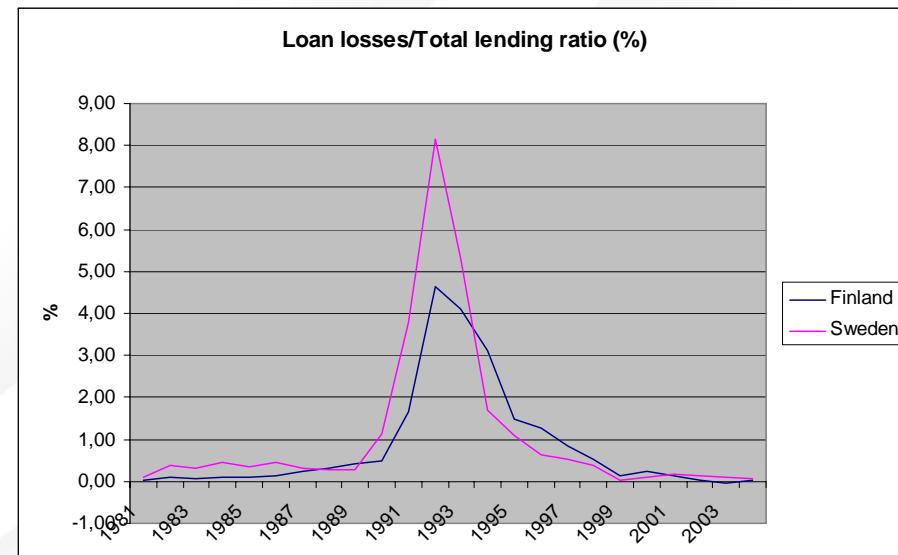
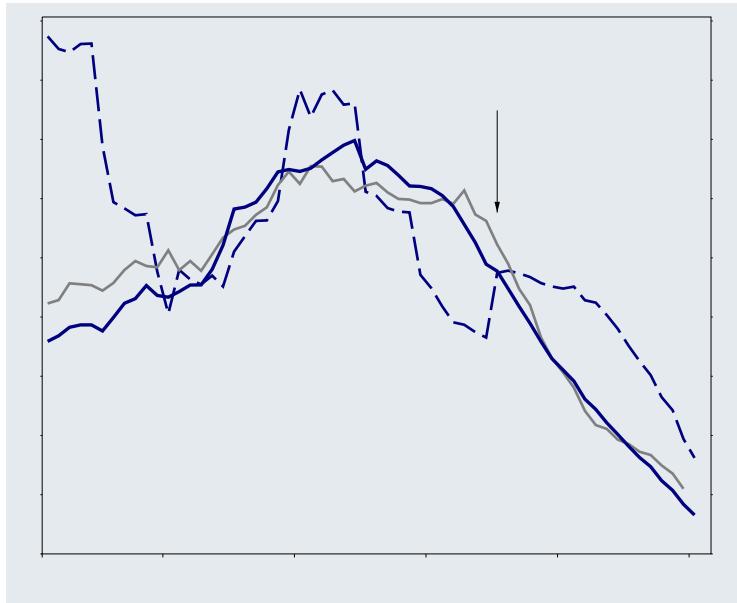
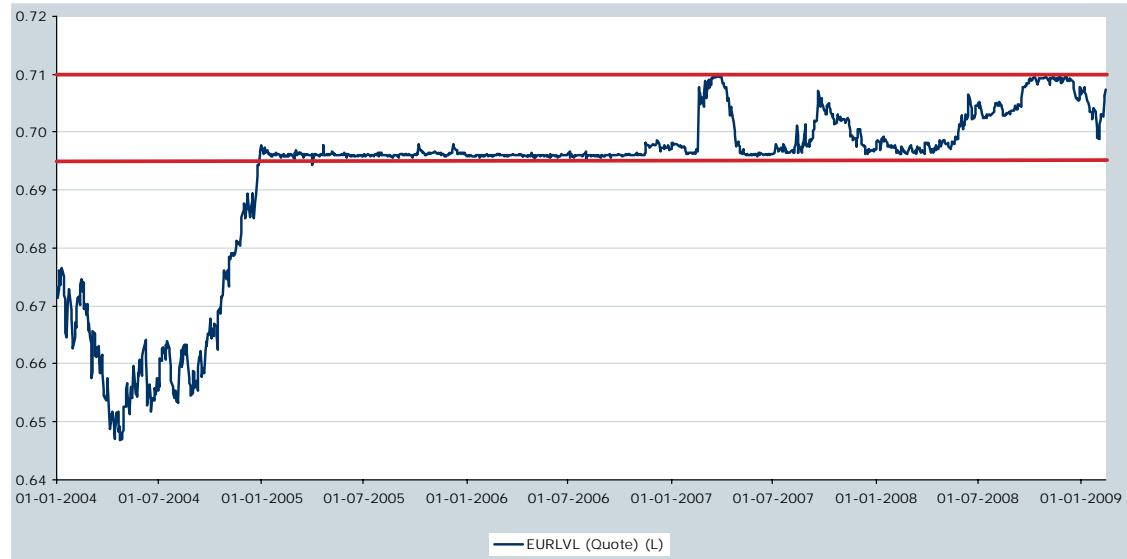


# FUTURE OUTLOOK

## CHALLENGES

- **7.5 bio EUR bailout package for Latvia:**
  - Primary used for the State budget and saving the Parex bank; Is there any money left for boosting the economy?
  - Calculations were based on -5% GDP contraction → further budget cuts needed
  - Lithuania and/or Estonia to follow??

- FX flows are heavily biased to LVL/LTL/EEK selling at the moment



- **Credit ratings of the Baltic countries under pressure**

- Latvia was cut to BB+ at the end of February by S&P, junk bond status, and outlook remains negative
- Lithuania and Estonia are on WatchNeg on S&P's list
- Negative effects: syndicated loans, FDI, etc.

# POSSIBLE EURO INTRODUCTIONS

- **Unofficial targets set around 2011-13**
- **Maastricht criteria = Euro convergence criteria**
  1. Inflation
  2. National budget deficit
  3. National public debt
  4. Long term interest rates
  5. Currency stability (ERM-2)