

The President of Latvia on weak lending in Latvia: time for action!

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President of Latvia Egils Levits today met with the Governor of the Bank of Latvia Mārtiņš Kazāks at the Riga Castle to discuss the low lending activity of commercial banks and its negative impact on the Latvian economy.

"We have discussed the issue of weak lending and high interest rates in Latvia many times. It is time for action! All stakeholders need to analyse pragmatically what are the factors that are holding commercial banks back from more active participation in lending. We need to identify them and address them one by one. One thing is clear, Latvian commercial banks, with their existing profits, are better able to manage and take risks. This would benefit not only the Latvian economy and business, but also the commercial banks themselves and the financial sector as a whole," said the President of Latvia. According to E Levits, if the situation does not improve in the near future, the government should consider introducing a super-profits tax.

The Governor of the Bank of Latvia reminded that the volume of credit to the economy in our economy had significantly decreased. Since 2009, the ratio of domestic credit to GDP has shrunk almost threefold, to 36% in September 2022. This indicator is currently the second lowest among all euro area countries.

It was noted at the meeting that there is significant potential for credit growth. In addition, the state has in recent years significantly supported both businesses and citizens in overcoming the obstacles posed by the pandemics and energy crises, thereby also ensuring the solvency of commercial bank customers. Therefore, commercial banks are expected to play a more active role in financing the Latvian economy, including more active lending in the regions. Latvian commercial banks' profits should be reflected in healthy financing of economic growth, said M. Kazāks.

During the meeting, the President of Latvia and the Governor of the Bank of Latvia also addressed the issue of the European Union Recovery and Resilience Mechanism investments and obstacles to their inflow into the Latvian economy. The Bank of Latvia

draws attention to the fact that Latvia may lose about 300 million euros that would not be invested due to lack of capacity in certain sectors. If the problem is identified today, it is still possible to change it, emphasised the President of Latvia and M. Kazāks.

At the end of the meeting the current situation on the global financial markets and in the euro area countries in connection with the events in the US and Swiss commercial banks was also discussed. The Governor of the Bank of Latvia presented the assessment of the European Central Bank that the banking sector in Europe was generally stable and well capitalised, and therefore prepared for challenges. At the same time, it is necessary to remain vigilant and follow developments, said M. Kazaks.



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