

Latvijas Banka Governor Martins Kazaks: “Our economy weathered crises quite well, but risk of inequality may have increased”



Martins Kazaks is the current Governor of Latvijas Banka, Latvia's central bank

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How are the mottle-yet-intertwined adversities impacting Latvia's financial system and the central bank? Has Latvia improved its reputation in the eyes of the US Treasury which has scolded the Baltic State on several occasions? Have Latvians become poorer or richer over the last couple of years? *The Baltic Times Magazine* sat down to speak with Mr. Martins Kazaks, the current Governor of *Latvijas Banka*, the country's central bank.

Amid the war, the energy crises and the latest turmoil in the US banking sector, how do you assess the viability of Latvia's banking system? What makes you confident about it? And are there any concerns you have about it?

The events of 2007-2008 with Lehman Brothers were a bitter lesson for Europe and Latvia as well. Since then, a lot has been done to improve resiliency – the European banking sector is much stronger than 15 years ago, new institutions have been set up, it is better managed, liquidity is ample, and reserves have been established for various emergencies. The so-called Basel requirements operate

in the European Union, serving as a global supervision standard, and are applied to the entire banking sector, not just the largest banks. Accordingly, all banks are subject to closer supervision, and their risk management meets uniform criteria. Of course, ECB has multiple instruments at its disposal and will intervene, e. g., to provide liquidity, if it is necessary and appropriate to do so.

Specifically, regarding Latvia, our bank profitability is good, their liquidity and capital indicators are higher than the European Union average. Our banking system is strong and resilient to weather shocks if and when they come.

Overall, the situation in the euro zone is good and controlled, but of course, attention must not be lost. Uncertainty remains high and one must be vigilant.

As for the Russia's initiated war in Ukraine, it has a very little if any impact on the Latvian financial sector, and the reason is the vast progress made since 2018, reforming the industry, making it transparent and compliant with the highest AML standards.

In general, the impact of the war on Latvia's economy is a topic that my colleagues – the economists of *Latvijas*