Republic of Latvia

December 2017

Resilient, flexible and well diversified economy
Disclaimer

This presentation and its contents are confidential and may not be reproduced, redistributed, published or passed on to any other person, directly or indirectly, in whole or in part, for any purpose and should not be treated as offering material of any sort. If this presentation has been received in error it must be returned immediately to the Ministry of Finance of the Republic of Latvia ("Latvia"). This presentation is not directed at, or intended for distribution to or use by, any person or entity that is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution or use would be contrary to law or regulation or which would require any registration, licensing or other action to be taken within such jurisdiction.

THIS PRESENTATION IS NOT FOR PUBLICATION, RELEASE OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, INTO THE UNITED STATES, AUSTRALIA, CANADA OR JAPAN OR ANY OTHER JURISDICTION IN WHICH SUCH PUBLICATION, RELEASE OR DISTRIBUTION WOULD BE UNLAWFUL. This presentation and the information contained herein are not an offer of securities for sale in the United States or any other jurisdiction. No action has been or will be taken by Latvia in any country or jurisdiction that would, or is intended to, permit a public offering of securities in any country or jurisdiction where action for that purpose is required. In particular, no securities have been or will be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and securities may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws and may only be sold outside of the United States in reliance on Regulation S under the Securities Act and otherwise in compliance with all applicable laws and regulations in each country or jurisdiction in which any such offer, sale or delivery of securities is made. Latvia does not intend to register or to conduct a public offering of any securities in the United States or any other jurisdiction. This presentation and its contents may not be viewed by persons within the United States (within the meaning of Regulation S under the Securities Act).

This presentation is directed solely at (i) persons who are outside the United Kingdom, (ii) persons in the United Kingdom who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "Order"), (iii) high net worth entities, and other persons in the United Kingdom to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order and (iv) persons in the United Kingdom to whom an invitation or inducement to engage in investment activity within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities of Latvia may otherwise lawfully be communicated or caused to be communicated (all such persons in (i)-(iv) above being referred to as "relevant persons"). In the United Kingdom, this presentation is directed only at relevant persons and persons who are not relevant persons should not in any way act or rely on this presentation. Any investment activity to which this presentation relates will only be available to and will only be engaged with relevant persons.

This presentation does not constitute or form part of, and should not be construed as, an offer or invitation to sell securities of Latvia, or the solicitation of an offer to subscribe for or purchase securities of Latvia, and nothing contained herein shall form the basis of or be relied on in connection with any contract or commitment whatsoever. Any decision to purchase any securities of Latvia should be made solely on the basis of the conditions of the securities and the information contained in the offering circular, information statement or equivalent disclosure document prepared in connection with the offering of such securities. Prospective investors are required to make their own independent investigations and appraisals of the business and financial condition of Latvia and the nature of any securities before taking any investment decision with respect to securities of Latvia.

By accessing this presentation the recipient will be deemed to represent that they possess, either individually or through their advisers, sufficient investment expertise to understand the risks involved in any purchase or sale of any financial instrument or any other information contained herein. The information in this presentation has not been independently verified. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the presentation and the information contained herein and no reliance should be placed on such information. None of Latvia, their advisers, connected persons or any other person accepts any liability for any loss howsoever arising, directly or indirectly, from this presentation or its contents. This presentation should not be construed as legal, tax, investment or other advice and any recipient is strongly advised to seek their own independent advice in respect of any related investment, financial, legal, tax, accounting or regulatory considerations. There is no obligation to update, modify or amend this presentation or to otherwise notify any recipient if any information, opinion, projection, forecast or estimate set forth herein changes or subsequently becomes inaccurate or in light of any new information or future events.

This presentation contains forward-looking statements, which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or including the words "anticipates," "estimates," "expects," "believes," "intends," "plans," "aims," "seeks," "may," "will," "should" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond Latvia's control that could cause Latvia's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements speak only as at the date of this presentation. Latvia expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or any new information or change in events, conditions or circumstances on which any of such statements are based.
## Presentation Outline

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Overview</td>
<td>4</td>
</tr>
<tr>
<td>2. Fiscal Policy</td>
<td>8</td>
</tr>
<tr>
<td>3. Latvia’s Economy: Flexibility and Resilience</td>
<td>16</td>
</tr>
<tr>
<td>4. A Highly Profitable, Stable and Well Capitalised Banking Sector</td>
<td>28</td>
</tr>
<tr>
<td>5. Government Debt and Funding Strategy</td>
<td>34</td>
</tr>
<tr>
<td>6. Conclusion</td>
<td>40</td>
</tr>
</tbody>
</table>
Latvia: Key Facts and Milestones

→ High income(1), advanced economy(2), part of Northern Europe (3)

Key Facts about Latvia

- Territory: 64,573 (4) sq. km
- Capital: Riga (population 0.64 million(4))
- Population (1/1/2017): 1.95 million(4)
- GDP per capita (2016): EUR 12,691 (4)
- Nominal GDP (2016): EUR 24.87 billion(4)
- Currency: Euro
- Borders: Estonia, Russia, Belarus, Lithuania
- Main economic sectors:
  - Services (71%(4) GDP in 2016): logistics, IT, financial services, trade
  - Manufacturing (13%(4) of GDP in 2016): wood, metal, electronics, pharma, food

Latvia: Milestones on the Road to Political Stability and Performance

Source: (1) - World Bank classification; (2) - IMF classification; (3) UN classification; (4) - Central Statistical Bureau of Latvia

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>Latvia Regains Independence</td>
</tr>
<tr>
<td>Sep 1991</td>
<td>Becomes a Member of the UN</td>
</tr>
<tr>
<td>Mar 2004</td>
<td>Entry into EU</td>
</tr>
<tr>
<td>May 2004</td>
<td>Approval of Loan Programme with IMF, EC and Bilateral Lenders</td>
</tr>
<tr>
<td>Dec 2008</td>
<td>International Loan Programme with IMF/EC Closed Successfully</td>
</tr>
<tr>
<td>Dec 2011/Jan 2012</td>
<td>Latvia joins Eurozone/EMU</td>
</tr>
<tr>
<td>Jan 2014</td>
<td>Latvia’s Presidency of EU Council</td>
</tr>
<tr>
<td>Jan-Jun 2015</td>
<td>OECD membership</td>
</tr>
<tr>
<td>July 2016</td>
<td></td>
</tr>
</tbody>
</table>
Latvia Belongs to the Core of Europe

**EU Members**

- Latvia
- France
- Estonia
- Germany
- Luxembourg
- Spain
- Slovakia
- Slovenia
- Lithuania

**Eurozone Members**

- Austria
- Belgium
- Cyprus
- Estonia
- Finland
- France
- Greece
- Ireland
- Italy
- Latvia
- Lithuania
- Malta
- Netherlands
- Portugal
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom
- Malta
- Luxembourg

**OECD Members**

- Austria
- Belgium
- Cyprus
- Finland
- France
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Luxembourg
- Malta
- Netherlands
- Poland
- Portugal
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom

**NATO Members**

- Austria
- Belgium
- Bulgaria
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Poland
- Portugal
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom
- Malta
- Netherlands
- Luxembourg

6
Latvia`s credit rating has stable position

→ Rating agencies acknowledged Latvia’s low general government debt, fiscal deficit and institutional strength

<table>
<thead>
<tr>
<th>Sovereign</th>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Aa3</td>
<td>AA</td>
<td>AA-</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>A1</td>
<td>AA-</td>
<td>A+</td>
</tr>
<tr>
<td>Estonia</td>
<td>A1</td>
<td>AA-</td>
<td>A+</td>
</tr>
<tr>
<td>Slovakia</td>
<td>A2</td>
<td>A+</td>
<td>A+</td>
</tr>
<tr>
<td>Poland</td>
<td>A2</td>
<td>BBB+</td>
<td>A-</td>
</tr>
<tr>
<td>Latvia</td>
<td>A3 (stable)</td>
<td>A- (positive)</td>
<td>A- (stable)</td>
</tr>
<tr>
<td>Lithuania</td>
<td>A3</td>
<td>A-</td>
<td>A-</td>
</tr>
<tr>
<td>Ireland</td>
<td>A2</td>
<td>A+</td>
<td>A+</td>
</tr>
<tr>
<td>Italy</td>
<td>Baa2</td>
<td>BBB</td>
<td>BBB</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Baa1</td>
<td>A+</td>
<td>A-</td>
</tr>
<tr>
<td>Spain</td>
<td>Baa2</td>
<td>BBB+</td>
<td>BBB+</td>
</tr>
</tbody>
</table>

Source: S&P, Fitch, Moody’s

Key strengths of the Latvian sovereign credit rating

- Latvia’s economic growth unexpectedly outperformed our base case and continued at a faster pace than currently anticipated, without raising worries about overheating.
- Eurozone membership enhances Latvia’s creditworthiness by underpinning economic policy coherence and credibility, improving fiscal and external financing flexibility, reducing foreign-currency risks on balance sheets and giving Latvian banks access to European Central Bank liquidity facilities.
- Being member of the OECD
- Stable and improving banking sector

Credit rating challenges

- The country’s weaker external finances, lower per capita income, and smaller, more open economy than the 'A' median constrain the ratings
- Social expenditures and defence spending could be higher than anticipated
- External financing risks and geo-political tensions with Russia continue to constrain the ratings

Source: S&P Global (22 September 2017), Fitch (28 April 2017). Note: (1) Selected quotes. Full report can be obtained from respective rating agency.
Fiscal Policy
Latvia is Determined to Ensure Fiscal Sustainability

→ Conduct policies in a fiscally responsible way equally renewing quality and amount of public services and addressing potential risks

### General Government nominal balance (% of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-3.3</td>
<td>-1.0</td>
<td>-1.0</td>
<td>-1.6</td>
<td>-1.3</td>
<td>0.0</td>
<td>-0.9</td>
<td>-1.0</td>
<td>-0.9</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

** - target, incl. potential impact of new tax reform

** - EU-28 -1.7%

### Budget Balance – 2016 (% of GDP)

**Prudent fiscal management with balanced budget**

### EXPENDITURE REVIEW RESULTS (EUR, million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>28.6</td>
<td>25.4</td>
<td>40.8</td>
</tr>
<tr>
<td>GDP</td>
<td>52.5</td>
<td>47.6</td>
<td>100.8</td>
</tr>
</tbody>
</table>

- Reallocating resources to common government priorities
- Internal resources for own sectoral priorities

Source: Ministry of Finance

---

**2018 BUDGET: EXPENDITURE MEASURES (EUR, million)**

- Healthcare services
- Strengthening national security
- Demographic measures, support to foster families and guardians, strengthening social programs
- Road maintenance and construction
- Remuneration of higher education teachers, additional funding for fundamental and applied research
- Eastern border and strengthening internal security
- Support to cultural projects and media, implementation of integration measures
- Combating shadow economy, modernizing tax information services

Source: Ministry of Finance
→ Recent measures taken by Latvia address sustainability of the age-related expenditure in the long term

Latvia’s Pension System and recent reforms

- Since 2001 Latvia maintains a reformed pension system consisting of three tiers, whereby state compulsory unfunded pension scheme (the 1st tier) is complemented with a state funded pension scheme (the 2nd tier) and private voluntary pension scheme (the 3rd tier)
- In 2012 a number of progressive measures were introduced to address long term sustainability of the pension system:
  - starting with 2014 retirement age is gradually increased by 3 months each year until it reaches 65 years in 2025;
  - minimum contribution period to secure full pension was increased from 10 to 15 years starting from 2014 and up to 20 years starting from 2025;
  - contributions to the funded, e.g. 2nd tier, pension scheme increased from 2% to 4% in 2013, to 5% in 2015, and to 6% in 2016.

Source: The State Social Insurance Agency

Age-related spending, projected change (in percentage points of GDP, 2013-2060)

Latvia is well positioned to withstand fiscal challenges arising from the aging population


The 2nd Tier Pension Net Assets under Management

2nd tier pension scheme will gradually take over part of the pension obligations from the public, e.g. 1st tier, pension scheme

Source: Financial and Capital Markets Commission, Central Statistical Bureau of Latvia

Age-related spending (in % of GDP, 2013)

Latvia’s age-related spending is one of the lowest in the EU

Government Policy Measures: Building Foundation for Sustained Growth

→ Structural reforms in education, employment and judicial environment help improving labour market and business conditions

| Education, Research and Innovations | • Increasing the quality of education and research, fostering investments in R&D and innovations |
| Labour Market, Social Policy and Healthcare | • Addressing labour market issues through education and employment policies; decreasing tax burden on labour; activating social benefit recipients; improving accessibility, quality and efficiency of healthcare |
| Business Environment | • SME access to financing, export oriented programmes, reduction of administrative burden |
| Public Administration and Judiciary | • Increasing efficiency of public administration, strengthening the conflict of interest prevention regime, improving tax compliance; improving the insolvency regime and accountability of insolvency administrators |


Healthcare reform

• Aimed to improve governance, clearer principles of resource allocation and more efficient use of funds;
• Implementation of Public Health Guidelines 2014 - 2020 to encourage the health care system availability, quality and cost-effectiveness;
• Healthcare long term funding reform.

Stability and Growth Pact deficit derogation for 2017 was granted to the following measures in healthcare:
• Reducing waiting line;
• Detection of cancer and improving access to treatment;
• Reform of reimbursable drugs for patients of the Chronic hepatitis C.

Education reform – more effective distribution of expenditure (in % of GDP, 2015)

Expenditure for the education exceeds the EU average.

• Funding for education is adequate, but the network of education system and number of pupils per teacher are not optimal.
• Teacher remuneration reform starting from September, 2016: (i) fixed minimum salary for teacher; (ii) school network rearrangement; (iii) increase in funding for teachers’ salaries.

Source: Eurostat
Government Policy Measures: Building Foundation for Sustained Growth

→ Efficient and well targeted absorption and use of EU funds will promote competitiveness and stimulate economic growth as well as support necessary structural reforms

<table>
<thead>
<tr>
<th>Allocation of EU funds for 2014-2020 by priority axes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Ministry of Finance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EU cohesion policy accompanies structural reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Ministry of Finance</td>
</tr>
</tbody>
</table>

- Latvian economy and the goals envisaged by the National Development Plan are strongly supported by implementation of EU cohesion policy and effective utilization of EU structural funds and Cohesion Fund.
- EUR 4.4 billion EU funds are available for targeted and smart investments in Latvia within 2014 - 2020 programming period. During 2007 - 2013 period Latvia has successfully and fully used EUR 4.5 billion of Cohesion Policy EU funds.
- The funds were allocated and will be utilised across major nine priority areas with an aim to enhance competitiveness of Latvia’s economy, and to build foundation for the sustained growth

<table>
<thead>
<tr>
<th>EU funds after 2020 and government’s support</th>
</tr>
</thead>
</table>

- According to the recent statistical data, the GDP per capita in Latvia is approximately 64% from the EU average, and Latvia could qualify for the similar amount of EU funds as in current Multiannual financial framework also for the next programming period.
- But at the same time due to recent developments in the EU the amount of Cohesion policy funds compared to the current MFF could be reduced by the following aspects:
  - Brexit;
  - New challenges and unforeseen events that push for rearrangement of the EU priorities (more funds for migration, external and internal security, climate change);
  - Changes in statistical data (population, unemployment) in Latvia and other EU member states;
  - Possible changes in the EU budget structure and its own resources system.
- Even if Latvia’s contribution to the EU budget would rise because of certain of these aspects, we expect that Latvia would continue to be a net receiver from the EU funds also after 2020.
- Government is providing support (via intermediary - JSC Development Finance Institution Altum) and offers financing – such as loans, guarantees, equity capital or grants – mainly to SMEs, start-ups, mid-caps and micro-enterprises, but also to individuals and companies active in the agricultural sector.
New tax reform approved by the parliament

➔ Increase in competitiveness and exportability, reduce of inequality and ensure revenue 1/3 of GDP

### Strategy framework

- Tax structures and rates review
- Improving tax administration
- The fight against the shadow economy

### Main changes

- **Non-taxable minimum – EUR 250**
  (differenced depending on income level from EUR 0 per month to EUR 250 per month (2020))

- **Allowance for dependents – EUR 250 per month (2020)**

- **Minimum salary** from EUR 380 to EUR 430

- **Social contribution** increase by 1% directed to health care

- **Reform of Solidarity tax**

- **PIT rate smoothing**

- **Progressive Personal Income Tax**
  (decrease from 23% to 20% for year’s salary up to EUR 20 000; 23% - year’s salary EUR 20 000 – 55 000; 31.4% - year’s salary above EUR 55 000)

- **Corporate Income Tax:**
  0% for reinvested profit; 20% - distributed profit

### Principles

- Predictability and a long-term vision
- Regional competitiveness, at least in the Baltic region
- Tax motivation for improvement
- A similar tax burden on similar types of revenue
- Lending and capitalization improvement
- Reducing the cost of tax administration

### Positive impact on economy

- Raise of disposable income of employees inducing private consumption;
- More competitive entrepreneurs on regional and global scene as well as stimulation of own investment;
- Better capitalized businesses, more opportunities to raise additional funds for development;
- Increased prospects to raise production capacity of goods and services, more effective and efficient production process;
- More equality between different income groups and types of income;
- Higher tax revenue resulting from increased economic activity and less tax avoidance.

Source: Ministry of Finance
Structural Reforms and High Institutional Strength Facilitate Favorable Business Environment and Encourage Investments

<table>
<thead>
<tr>
<th>World Bank ‘Ease of Doing Business’ Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia is consistently ranked as a top 3 CEE country</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>World Bank Worldwide Governance Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Governance supports the Economy and Business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Global Competitiveness Index Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia has one of the lowest corporate income tax rates in the EU</td>
</tr>
</tbody>
</table>

Source: World Bank, Doing Business 2017


The Key Strengths of Latvia in 4 Charts

A top growth performer in the EU with strong catching-up potential and resilient, well capitalized banking sector

A strong and long-lasting commitment to fiscal discipline, making it one of the most virtuous EU countries

Real GDP per Capita Growth Rate (2001-2016 on average, %)

Latvia has been one of the fastest growing EU economies

Budget Balance (2016, % of GDP)

Prudent fiscal management with balanced budget

Capital Adequacy (%)

General Government Debt (2016, % GDP)

Conservative debt position

Source: Eurostat

Source: Financial and Capital Markets Commission

* As of Q1 2014 capital adequacy is calculated according to the CRDIV/CRR requirements and is not directly comparable with the data until Q1 2014 due to differences in methodology. Tier 1 ratio matches CET1 ratio. The regulatory minimum capital adequacy requirement is 8%. Since 28 May 2014 the FCMC also applies a 2.5% capital conservation buffer.
Latvia’s Economy: Flexibility and Resilience
The Latvian Economy is Growing Sustainably

- Latvia is in the top 5 fastest growing countries in the EU with a 3.3% average in the last 6 years
- Robust growth coupled with low inflation and balanced external accounts
- Low net external debt enhances resilience to external risks

Source: Central Statistical Bureau of Latvia

Source: Bank of Latvia

Source: Central Statistical Bureau of Latvia
Diversified Economic Structure and Business Friendly Environment Among Main Driving Forces of Balanced Growth

- Light taxation of capital provides stimulus to business investments
- Diversification reduces vulnerability to external demand shocks

### Composition of Gross Value Added by Sectors (2016, %)

- Manufacturing: 22.4%
- Real estate activities: 12.5%
- Wholesale and retail trade, repair of motor vehicles and motorcycles: 15.9%
- Transportation and storage: 13.0%
- Information and communication: 13.9%
- Construction: 5.2%
- Public administration, defence, compulsory social security; Education; Human health and social work activities: 4.8%
- Agriculture, Forestry and Fishing: 9.1%
- Other sectors: 0%

Source: Eurostat

### Implicit Tax Rate on Capital (2016, %)

- Bulgaria: 9.0%
- Cyprus: 13.1%
- Lithuania: 13.6%
- Ireland: 14.3%
- Latvia: 14.3%
- Romania: 14.3%
- Slovenia: 14.3%
- Estonia: 15.5%
- Croatia: 15.7%
- Czech Rep.: 15.7%
- Poland: 16.7%
- Finland: 16.7%
- Hungary: 18.9%
- Sweden: 19.3%
- Slovak: 19.4%
- Denmark: 19.6%
- U.K.: 20.0%
- Netherlands: 21.5%
- Austria: 23.1%
- Italy: 23.6%
- Portugal: 25.5%
- Germany: 25.5%
- Belgium: 26.2%
- Spain: 26.3%
- Malta: 27.6%
- France: 30.3%
- Others: 32.2%
- Latvia: 38.4%

Source: ZEW (2016)

### Structure of Merchandise Exports (%)

#### 2000 vs 2016

- Others
- USA
- Turkey
- France
- Finland
- Norway
- Netherlands
- Denmark
- Poland
- UK
- Sweden
- Russia
- Germany
- Estonia
- Lithuania

Source: Central Statistical Bureau of Latvia

### Structure of Merchandise Exports (%)

#### 2000 vs 2016

- Others
- Optical, medical, musical inst.
- Transport vehicles
- Machinery, electrical
- Base metals
- Building materials
- Textiles
- Paper
- Wood
- Plastics
- Chemical
- Mineral products
- Food and drinks
- Agricultural

Source: Central Statistical Bureau of Latvia
Highly Flexible and Resilient Labour Market Supports Competitiveness and Domestic Demand

→ Latvia has strong labour market fundamentals
→ Robust growth of participation and real productivity
Improved Competitiveness and Climbing up the Value Added Ladder are Major Export Growth Drivers

→ Favourable position in both price and non-price competitiveness

**Export Market Shares (2002=100)**

**Real Effective Exchange Rate (REER) index (2005 = 100)** and profit margin (%)

**High – Tech Exports (% of total exports)**

**Goods Exports Growth (2016 over 2009,%)**

Source: World Trade Organization

Source: Eurostat; Data: 4Q/2016

Source: Eurostat
Growth Expected to Strengthen over Medium Term

→ External sector benefiting from global recovery
→ Improving consumer sentiment leading to more robust domestic demand
Conjunctural Indicators Confirm Growth Momentum Is Picking Up

→ Acceleration of economic activity broadly based across sectors
Both Goods and Services Exports Starting 2017 On a Strong Growth Path

→ Diversified and flexible structure of the economy allows benefiting early from the global cyclical upswing

### Annual growth of merchandise export (y-o-y, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export unit price</th>
<th>Real exports</th>
<th>Nominal exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2.3</td>
<td>1.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 months 2017</td>
<td></td>
<td></td>
<td>9.6</td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau of Latvia

### Annual growth of nominal merchandise export (y-o-y, %)

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>10 months 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>-25</td>
<td>-15</td>
<td>-5</td>
<td>5</td>
</tr>
<tr>
<td>Baltic countries (28.7%)</td>
<td>-2</td>
<td>-1</td>
<td>-0.5</td>
<td>1</td>
</tr>
<tr>
<td>Other EU (43.2%)</td>
<td>-4</td>
<td>-3.4</td>
<td>-3.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Russia (8.9%)</td>
<td>-23.8</td>
<td>-5.2</td>
<td>0.5</td>
<td>36.6</td>
</tr>
<tr>
<td>Others (19.2%)</td>
<td>-2.2</td>
<td>10.6</td>
<td>17.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau of Latvia

### Group's contributions to the annual growth of merchandise export (pp)

- Others
- Machinery and transport
- Manufactured goods
- Chemical
- Mineral fuels
- Crude materials, exc. fuels
- Food, beverages
- Total export growth (y/y %)

Source: Eurostat

### Export of services (y-o-y growth in nominal terms, %) and contributions of services groups (pp)

- Other services
- Other business services
- Telecommunications, computer and information services
- Financial services
- Construction
- Travel
- Transport services
- TOTAL

Source: Bank of Latvia
Lending recovery is firming, especially to NFCs

→ Extraordinary loose monetary policy starting to work through the economy
Favourable Labour Market Developments Contribute to Strenghtening of Domestic Demand

→ Unemployment close to natural rate since 2013
→ Wage growth supports domestic demand

Registered and headline unemployment rate (% of econ.act. population)

Unemployment: headline and natural rates (seasonally adjusted; % of econ.act. population)

Registered unemployment rate
Job seekers rate
Headline unemployment
Natural unemployment

Participation and employment rates (age 15-64; %)

Average Net Monthly Wage for Full-time Job (y-o-y; %)

Source: Central Statistical Bureau of Latvia data; Bank of Latvia staff calculations

Source: Central Statistical Bureau of Latvia data
Inflation is Just Below 3%

→ Both headline and core inflation moderate and stable during the recent months
Impact of Russian Sanctions and Exposure to Brexit Risks is Manageable

→ Several sectors affected, but adverse impact is marginal
→ Latvia’s export position to UK remains favourable

Merchandise Exports to Russia and Ukraine (% of total exports)

Impact of Russia’s Sanctions and Weaker Rouble Contained

- Total exports to Russia that are affected by sanctions do not exceed 0.2% of GDP.
- The drop in exports to the CIS, in particularly to Russia, compensated by growth in exports to the EU countries and other markets.
- However, some indirect impact from increased uncertainty and a drag on consumer confidence has materialized in somewhat slower economic growth.

Brexit: The Direct Exposure of Latvia via Trade Links

<table>
<thead>
<tr>
<th>Year</th>
<th>EUR million</th>
<th>% of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods exports</td>
<td>579.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Services exports (according to payment country)</td>
<td>351.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Overall</td>
<td>931.2</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Exports and export market share to UK (2011=100)

Source: Central Statistical Bureau of Latvia
A Highly Profitable, Stable and Well Capitalised Banking Sector
Foreign banks have shown commitment to their local subsidiaries and branches in Latvia, reducing contingent liability risk to the Government.

Key Highlights

- The Latvian banking sector is dominated by subsidiaries and branches of banks from the European Economic Area, mostly Nordic countries (54% of the banking sector capital, 51% of assets, 81% of domestic loans and 80% of domestic deposits).
- Capitalisation and liquidity ratios are well above minimum requirements. The banking sector’s capital is mostly made of CET1 capital (in 3Q 2017 CET1 ratio was 21.3% (EU average 1Q 2017 – 14.1% (2)), in 3Q 2017 FCMC liquidity ratio amounted to 59% and LCR was 260%).
- As of November 2014 the three largest banks are directly supervised by the ECB. Since January 2016 four banks fall under the remit of the Single Resolution Mechanism.

Capital Ownership of the Banking System (3Q 2017, %)

- Foreign owned banks 81%
- Nordic Banks 54%
- Other foreign owned banks 27%
- Domestically owned banks 19%

Source: Financial and Capital Market Commission

Selected Key Indicators

- In 3Q 2017 CET1 ratio was 21.3% (EU average 1Q 2017 – 14.1% (2)).
- In 3Q 2017 FCMC liquidity ratio amounted to 59%.
- FCMC liquidity ratio (all liquid assets/all short-term liabilities) has been consistently above the minimum requirement.

Source: Financial and Capital Market Commission

Note: Data on 3Q2017

*As of Q1 2014 capital adequacy is calculated according to the CRDIV/CRR requirements and is not directly comparable with the data until Q1 2014 due to differences in methodology.

Tier 1 ratio matches CET 1 ratio.

The regulatory minimum capital adequacy requirement is 8%. Since 28 May 2014 the FCMC also applies a 2.5% capital conservation buffer.
Bank Lending Recovers and Supports Growth

→ Domestic lending recovers, loan portfolio quality is above EU average and continues to improve

<table>
<thead>
<tr>
<th>Key Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>• After prolonged period of deleveraging lending growth turned positive in April 2016.</td>
</tr>
<tr>
<td>• Loans to domestic households and NFCs stand at 46% of GDP, down from almost 100% at the outset of the crisis.</td>
</tr>
<tr>
<td>• Loan-to-deposit ratio has fallen substantially leading to more balanced and sustainable domestic funding for loans.</td>
</tr>
<tr>
<td>• The quality of loan portfolio is above EU average and continues improving further. The coverage ratio of overdue loans remains high.</td>
</tr>
<tr>
<td>• The ECB bank lending survey indicates gradual increase in demand for loans in Latvia.</td>
</tr>
<tr>
<td>• Expansionary monetary policy of the ECB is a supportive factor for lending.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans to Domestic clients Excluding Government (y-o-y, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
</tr>
<tr>
<td>Lending growth in Latvia</td>
</tr>
<tr>
<td>Excluding structural one-off*</td>
</tr>
<tr>
<td>Lending growth in Eurozone combined</td>
</tr>
</tbody>
</table>

*One-off effect due to structural changes in the banking sector is excluded.

Source: European Central Bank, Note: Data on October 2017

<table>
<thead>
<tr>
<th>Total Loan Portfolio Quality (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of loan loss provisions in outstanding loans</td>
</tr>
<tr>
<td>Share of loans over 90 days past due in outstanding loans</td>
</tr>
</tbody>
</table>

Source: FCMC

<table>
<thead>
<tr>
<th>Domestic Loan-to-Deposit Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
</tr>
<tr>
<td>2011 September</td>
</tr>
</tbody>
</table>

Source: European Central Bank
Banks servicing Foreign Clients Have a Negligible Role in the Domestic Financial Market and the Economy

→ The FCMC requires banks mainly servicing foreign clients to hold an additional capital buffer up to 9.5% of risk-weighted assets and up to twice the minimum liquidity

Key Highlights

- Servicing foreign clients has been part of Latvia’s banking sector since the early 1990s. However, the banks actively engaged in FC (foreign client) business have little domestic operations.
- FC deposit growth was relatively stable until end-2015, but then reversed in 2016 with continuously deteriorating CIS economies and enhanced enforcement of tougher AML/CFT requirements.
- Additional liquidity and capital requirements for banks servicing FCs hold significant liquidity and capital buffers to counter potential liquidity outflows and to withstand potential shocks.

Banking Assets including Foreign Branches
(end of November 2017, %)

- Total domestic lending
  - 12%
  - 38%
  - 62%

- Total domestic deposits
  - 9%

FCMC Liquidity Ratio (%)

- Banks servicing FCs**
- Domestically active banks*
- Minimum requirement for liquidity ratio (all liquid assets/all short-term liabilities)

Growth Rates of Domestic and Foreign Client Deposits (%)

- Anual growth rate of foreign client deposits (adjusted for exchange rate)
- Anual growth rate of domestic non-financial private sector deposits

Source: Bank of Latvia; Note: * Credit institutions which grant more than 50% of loans domestically and receive more than 50% of deposits from domestic clients ** Other banks
Banking Sector Profitability Remains Healthy

→ Banking sector profitability is supported by stable interest spread and economic growth

Key Highlights

- In the first eleven months of 2017 profit of domestically active banks was in line with the previous year; whereas, the profit of banks servicing FCs levelled off due to decline in business and increased administrative expenses, which were largely caused by implementing enhanced AML/CFT requirements.
- ROE and ROA of the Latvian credit institutions are relatively high, and still exceeds the EU average. In the first eleven months of 2017 ROE was 8.3% (EU average – 7.0%) and ROA – 1.1%.
- Domestically active banks' returns are more stable and less dispersed than returns of banks servicing FCs.
- With record-low loan and deposit rates, interest rate spread on outstanding amounts remains stable at around 3 pp.

![Graph of ROE Dispersion (%)](image)

![Graph of Interest Spread on Outstanding Loan Amounts (%)](image)

* One-off adjusted data

Source: Bank of Latvia, Note: MFI interest rates on outstanding loans to domestic households and NFCs, and outstanding deposits from domestic households and NFCs.
Parent Banks are Stable, Financially Sound and Profitable

→ Parent and related banks have high credit ratings, good profits, and on average they outperform their European peers on stock exchanges (compared to Eurostoxx Bank index)

<table>
<thead>
<tr>
<th>Nordic Banking Groups’ Consolidated Financial Information</th>
<th>Swedbank</th>
<th>SEB</th>
<th>Nordea</th>
<th>DNB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets (EUR bn)</td>
<td>254.9</td>
<td>304.0</td>
<td>615.3</td>
<td>294.0</td>
</tr>
<tr>
<td>CET1 ratio (%)</td>
<td>23.9</td>
<td>19.2</td>
<td>19.2</td>
<td>16.3</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>15.0</td>
<td>12.1</td>
<td>10.5</td>
<td>11.2</td>
</tr>
<tr>
<td>S&amp;P Global long term rating</td>
<td>AA-</td>
<td>A+</td>
<td>AA-</td>
<td>A+</td>
</tr>
<tr>
<td>Moody’s long term rating</td>
<td>Aa3</td>
<td>Aa3</td>
<td>Aa3</td>
<td>Aa2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Banking Groups’ Equity Prices (01.01.2016 = 100, local currency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
</tr>
<tr>
<td>Nordea</td>
</tr>
</tbody>
</table>

Source: Nordic banking groups' public quarterly financial reports, Note: data on September 2017

Key Highlights

• Financial performance and capitalization level of the parent banks is strong.
• Nordic banking groups’ profitability is higher than the average in Europe.
• Banks continue to invest in IT related projects to increase their operational efficiency and lower administrative expenses.
• Nordea group has started reorganization process of transforming its subsidiaries in Norway, Denmark and Finland into branches to increase operational efficiency and to simplify its group structure.
• In October 2017 Nordea group and DNB group merged Nordea and DNB entities in the Baltics into one financial institution Luminor that will be incorporated in Estonia with branches in Latvia and Lithuania.
Government Debt and Funding Strategy
Public Debt Remains at Moderate Levels

Latvia remains committed to keeping government debt at moderate levels

Key Characteristics of Latvia’s Government Debt

- Fiscal consolidation and reduction of the deficit along with economic growth has helped stabilise levels of government debt
- General government debt is amongst the lowest in the EU at 40% of GDP at the end of 2016
- Latvia enjoys one of the lowest debt servicing costs across the region, significantly lower than the EU and Eurozone averages
- Since March 2014 Latvia participates in the European Stability Mechanism, which provides additional financial stability to its members

General Government Debt Year End (EUR million and % of GDP, ESA methodology)

<table>
<thead>
<tr>
<th>Year</th>
<th>EUR million</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>8,708</td>
<td>43%</td>
</tr>
<tr>
<td>2012</td>
<td>9,086</td>
<td>42%</td>
</tr>
<tr>
<td>2013</td>
<td>8,933</td>
<td>39%</td>
</tr>
<tr>
<td>2014</td>
<td>9,660</td>
<td>41%</td>
</tr>
<tr>
<td>2015</td>
<td>8,899</td>
<td>37%</td>
</tr>
<tr>
<td>2016</td>
<td>10,038</td>
<td>40%</td>
</tr>
<tr>
<td>2017</td>
<td>10,327</td>
<td>39%</td>
</tr>
<tr>
<td>2018</td>
<td>10,591</td>
<td>37%</td>
</tr>
</tbody>
</table>

Source: Eurostat, The Treasury; Forecasts: 2017 – 2018 General Government Debt as % of GDP are the Treasury forecasts

Interest Costs (% of GDP)

Source: European Economic Forecast, Autumn 2017, European Commission

General Government Debt (2016, % of GDP)

Conservative debt position

Source: Eurostat

NB: General government debt includes that of central government, local government and social security funds. The debt ratio is calculated in accordance with European System of Accounts (ESA) standards, a methodology which differs from that used to calculate the cash flow based budget deficit numbers.
Conservative Borrowing Based on Pre-funding

→ Latvia is conducting a prudent and efficient debt management strategy

### Borrowing Instruments

**International:**
- Regular benchmark bond issuances in international markets
- Loan agreement signed with European Investment bank
- Liability management option

**Domestic:**
- Regular government debt securities auctions
- Retail instruments (Savings Bonds and other)

### Secondary Market (mid yield to maturity, %)

*In 2017 Latvia extended EUR curve up to 30 years*

<table>
<thead>
<tr>
<th>Year</th>
<th>YTM (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.58</td>
</tr>
<tr>
<td>2012</td>
<td>2.29</td>
</tr>
<tr>
<td>2013</td>
<td>2.36</td>
</tr>
<tr>
<td>2014</td>
<td>0.20</td>
</tr>
<tr>
<td>2015</td>
<td>0.46</td>
</tr>
<tr>
<td>2016</td>
<td>0.59</td>
</tr>
<tr>
<td>2017</td>
<td>1.44</td>
</tr>
<tr>
<td>2018</td>
<td>1.75</td>
</tr>
</tbody>
</table>

Source: Data as of 11th January 2018, Bloomberg

### Government Debt Securities Issues (EUR million)

*In 2014 first international bond issuance after joining the Eurozone*

<table>
<thead>
<tr>
<th>Year</th>
<th>External borrowing</th>
<th>Domestic borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>400</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>600</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>800</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td>1000</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>1200</td>
<td>0</td>
</tr>
<tr>
<td>2017 Q3</td>
<td>1400</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: The Treasury
An exchange rate of USD/EUR 0.847 on 29 September 2017

### Debt Portfolio Management

**Parameters**

- **Strategy**
- **30 June 2017**
- **30 September 2017**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Strategy</th>
<th>30 June 2017</th>
<th>30 September 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity profile (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>up to 1 year</td>
<td>≤ 25%</td>
<td>11.4%</td>
<td>11.6%</td>
</tr>
<tr>
<td>up to 3 years</td>
<td>≤ 50%</td>
<td>31.2%</td>
<td>30.9%</td>
</tr>
<tr>
<td>Share of fixed rate (1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>≥ 60%</td>
<td></td>
<td>92.0%</td>
<td>91.8%</td>
</tr>
<tr>
<td>Macaulay duration (years) (3)</td>
<td></td>
<td>4.70 – 6.25</td>
<td>6.31</td>
</tr>
<tr>
<td>Net debt(2) currency composition</td>
<td></td>
<td>100% EUR with a deviation of +/- 5%</td>
<td>100.20%</td>
</tr>
</tbody>
</table>

Source: The Treasury; (1) - Fixed rate debt with a maturity in excess of one year; (2) - Central government debt at the end of the period less the amount of loans and receivables, where impairment loss of guarantees are not taken in account (including Treasury’s cash accounts, investments in deposits and fixed income securities, loans, receivables (including receivables of derivative financial instruments which are not classified as risky from credit risk perspective)), and increased by provisions of guarantees as well as liabilities of derivative financial instruments which are not classified as risky from credit risk perspective. (3) – In line with Central Government Debt Strategy point 2.3.2 deviation from the limits of the Macaulay Duration is permissible if the deviation does not cause additional financial risks.
Domestic Market Continues to Perform Strongly

→ Demand is steady and average yields remain low

Achievements in the Domestic Market

• Primary dealer system in Latvia is operating since 11 February 2013
• The outstanding amount of domestic debt securities constituted EUR 1.121 billion as of September 2017
• The Treasury maintains regular domestic debt securities auctions mainly by medium term T-bonds. Long term segment to be covered by international bond issues.
  — On 28th January 2016, the Treasury introduced a new short-term borrowing instrument by issuing T-bills with maturity of 21-day.
  — Historically for the first time Latvia achieved negative yields:
    ➢ for T-bills in April 2015 (-0.012%, 6m benchmark)
    ➢ for T-bonds in September 2016 (-0.04%, 3y benchmark)
  — Net issuance in 2016 is negative (EUR -55.48 million)
• In 2014 Savings Bonds were introduced to target retail investors
  — EUR 5 million were outstanding as of the end of September 2017

Source: The Treasury

Domestic Securities Outstanding by Original Maturity (September 2017, %)

<table>
<thead>
<tr>
<th>Original Maturity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings bonds</td>
<td>2%</td>
</tr>
<tr>
<td>3 years bonds</td>
<td>14%</td>
</tr>
<tr>
<td>5 years bonds</td>
<td>41%</td>
</tr>
<tr>
<td>10 years bonds</td>
<td>43%</td>
</tr>
<tr>
<td>11 years bonds</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: The Treasury

Domestic T-Bill and T-Bond Competitive Multi-Price Auctions

<table>
<thead>
<tr>
<th>Amount sold, million EUR (LHS)</th>
<th>Bid-offer Ratio (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Aug 21days*</td>
<td>0,362</td>
</tr>
<tr>
<td>Sep 3months*</td>
<td>0,045</td>
</tr>
<tr>
<td>Oct 3months*</td>
<td>0,055</td>
</tr>
<tr>
<td>Nov 5months*</td>
<td>0,121</td>
</tr>
<tr>
<td>Dec 6months*</td>
<td>0,025</td>
</tr>
<tr>
<td>Jan 12months</td>
<td>0,302</td>
</tr>
<tr>
<td>Feb 3years</td>
<td>0,045</td>
</tr>
<tr>
<td>Mar 5years</td>
<td>0,055</td>
</tr>
<tr>
<td>Apr 5years</td>
<td>0,121</td>
</tr>
<tr>
<td>May 6years</td>
<td>0,025</td>
</tr>
<tr>
<td>Jun 12months</td>
<td>0,302</td>
</tr>
<tr>
<td>Jul 3years</td>
<td>0,045</td>
</tr>
<tr>
<td>Aug 5years</td>
<td>0,055</td>
</tr>
<tr>
<td>Sep 6years</td>
<td>0,121</td>
</tr>
<tr>
<td>Oct 12months</td>
<td>0,302</td>
</tr>
<tr>
<td>Nov 3years</td>
<td>0,045</td>
</tr>
<tr>
<td>Dec 5years</td>
<td>0,055</td>
</tr>
<tr>
<td>Jan 6years</td>
<td>0,121</td>
</tr>
</tbody>
</table>

Source: The Treasury; Note: * Since 2015 6m T-Bills benchmarks are tap issues of original 12m T-Bills in maturity brackets from 4.5 to 9 months.

Low yields reflect continued investor confidence

Source: The Treasury; Note: * Since 2015 6m T-Bills benchmarks are tap issues of original 12m T-Bills in maturity brackets from 4.5 to 9 months. ** Since 2016 3m T-Bills benchmarks are tap issues of original 12m T-Bills in maturity brackets from 2 to 4.5 months.
Central Government Debt Profile

- International Loan Programme has been largely refinanced in international capital markets, while government debt redemptions remain moderate.

**Debt structure by Instruments (%)**

- Eurobonds
- Loans from financial institutions (incl. IMF and EC loans)
- Domestic T-bonds
- Domestic T-bills
- Other

**Debt Redemption Profile (EUR million)**

- Domestic debt redemption
- Other external debt liabilities
- World Bank loan (Program)
- Eurobonds

**Distribution of Investors of Latvia’s Eurobonds by Geography**

- Asia and other countries
- Latvia
- BeNeLux
- Germany, Austria
- Other Europe
- Scandinavia
- UK, Ireland

**Distribution of Investors of Latvia’s Eurobonds by Type**

- Other
- Fund Managers / Pension & Insurance Funds
- International Institutions
- Banks/Central Banks
- Hedge Fund Managers

---

Source: The Treasury; Note: *In the primary market
Medium Term Funding Requirement and Borrowing Strategy 2017-2020

→ External borrowing instruments will represent the most significant share of the overall borrowing volume

Medium Term Borrowing Strategy

- **Goal:**
  - To ensure continuous borrowing opportunities in the international and domestic financial markets on optimal terms and conditions

- **Principles:**
  - Flexibility (towards timing, maturities and currencies)
  - Achieve balance between risks and costs
  - Consistency and transparency to markets

Borrowing Instruments Available

- Benchmark issuances in global capital markets
- Continuing issuances in domestic market
- Niche capital market instruments (JPY, CHF, etc.)
- Private placements (reverse enquiries)
- Loans from international financial institutions (EIB, CEB, etc.)

### Central Government financing estimation (2018-2020, EUR million)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>TOTAL (Jan 2018-Dec 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>as on 31-December-2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Central government budget financial balance, net lending and other flows at the Treasury's accounts</strong></td>
<td>-676</td>
<td>-510</td>
<td>-461</td>
<td>-1 647</td>
</tr>
<tr>
<td><strong>Outstanding central government debt redemption</strong> (as on 31 December-2017)</td>
<td>-875</td>
<td>-983</td>
<td>-1 270</td>
<td>-3 127</td>
</tr>
<tr>
<td>of which domestic debt repayment</td>
<td>-365</td>
<td>-383</td>
<td>-114</td>
<td>-862</td>
</tr>
<tr>
<td>external debt repayment</td>
<td>-510</td>
<td>-600</td>
<td>-1 156</td>
<td>-2 265</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>-1 551</td>
<td>-1 493</td>
<td>-1 731</td>
<td>-4 774</td>
</tr>
<tr>
<td><strong>Gross borrowing in corresponding period</strong></td>
<td>870</td>
<td>1 890</td>
<td>2 120</td>
<td>4 880</td>
</tr>
<tr>
<td>of which syndicated international issuance (nominal value, indicative)</td>
<td>500</td>
<td>1 500</td>
<td>2 000</td>
<td></td>
</tr>
</tbody>
</table>
Conclusion
Latvia Investment Highlights

Latvia recovered from the economic recession and managed to build-up an outstanding fiscal position, together with a sustained growth, based on an increased competitiveness, a robust domestic demand, and a flexible business sector able to adjust to external shocks.

Flexible and Resilient Economy
→ Decreasing Unemployment

Well Capitalised Banking Sector
→ Credit Growth is being restored
→ Economic Development promoted

Belongs to the Core of Europe
→ EZ membership
→ The member of all the important international organizations

Sustainable Debt Levels and Prudent Fiscal Management
→ Investor attractiveness

Resilient towards external shocks
→ Proven track record in overcoming economic crisis in the past

Predictable public policies and outstanding track record of successful structural reforms
→ Long term growth reinforced

Credit rating gains
→ Investors confidence boosted due to reforms and sound macroeconomic fundamentals

Solid Export Growth
→ Balance of Payments improvement
→ Sustainable Current Account Balance

Latvia recovered from the economic recession and managed to build-up an outstanding fiscal position, together with a sustained growth, based on an increased competitiveness, a robust domestic demand, and a flexible business sector able to adjust to external shocks.
Thank You