



# Republic of Latvia

## Building a New Economic Model through Structural Reforms

October 2019



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# Key Strengths Underpinning Latvia's Credit Profile



1

Flexible, resilient economy, among fastest growing in the Eurozone

2

Broadly-diversified exports, important factor underpinning healthy current account balance

3

Fiscal discipline, deeply embedded, reflected in low, and still declining, government debt

4

New era of reforms launched in 2017, focused on building a new economic model, based on improving productivity and more inclusive growth

5

Well-capitalized and profitable banking sector, supporting moderate expansion of credit, with tighter AML/anti-terrorism funding regime







# 1. Overview

Portrait of an Ascending Sovereign Credit



# Presentation Outline

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# Latvia Belongs to Core Europe

Latvia belongs to core Europe. The country is also deeply integrated in the international community and committed to high standards in terms of the quality of economic policies and governance.

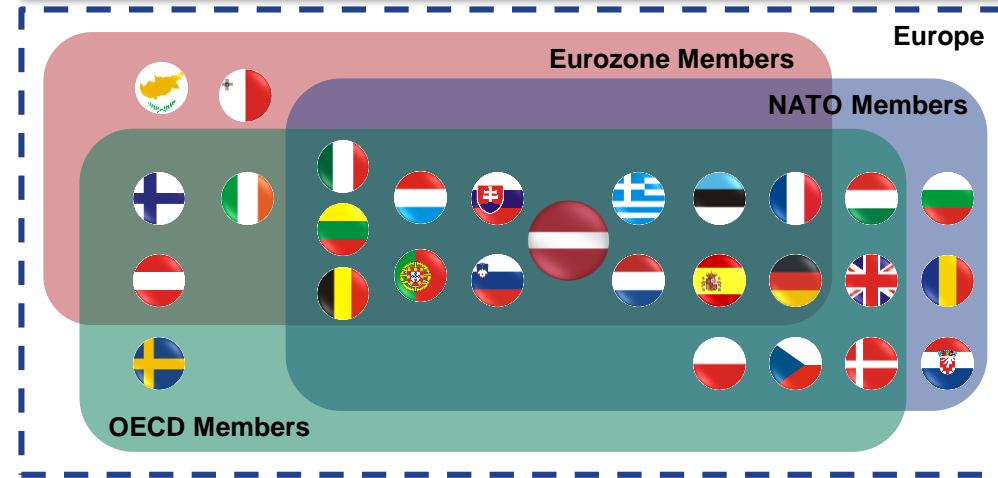
## Key Facts

<b>Territory</b>	64,573 sq. km <sup>1</sup>
<b>Borders</b>	Estonia, Lithuania, Belarus and Russia
<b>Capital</b>	Riga
<b>Population<sub>2018</sub></b>	1.93 million <sup>1</sup>
<b>Currency</b>	Euro
<b>GDP per capita<sub>2018</sub></b>	EUR 15.136 <sup>1</sup>
<b>Nominal GDP<sub>2018</sub></b>	EUR 29.16 billion <sup>1</sup>
<b>Main economic sectors<sub>2018</sub></b>	Services (73% <sup>1</sup> ) and Manufacturing (12% <sup>1</sup> )

Source: <sup>1</sup>Central Statistical Bureau of Latvia



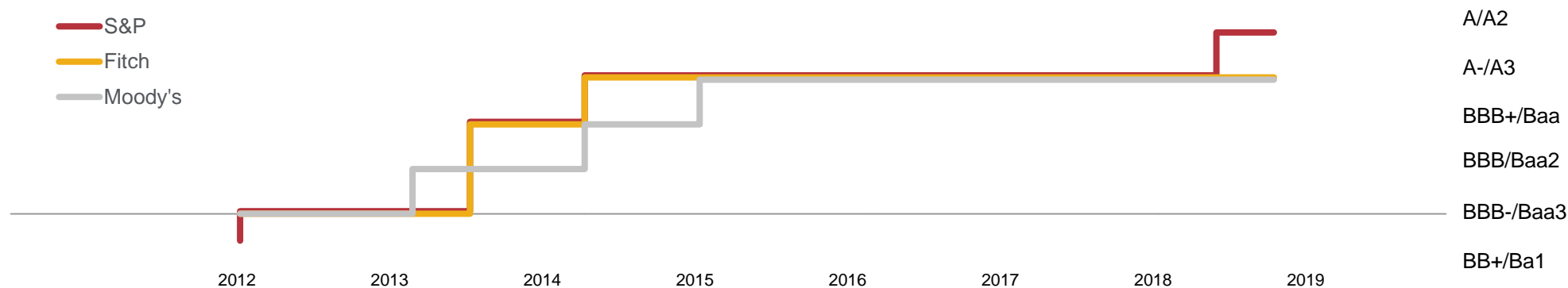
## Latvia is a Member of the Eurozone, NATO and OECD



# Latvia's Credit Ratings are stable in A category

Rating agencies acknowledge Latvia's low general government debt, moderate fiscal deficit and institutional strength as key factors bolstering its creditworthiness.

## Long-term Foreign Currency Rating Development



## Key Strengths of Latvia's Sovereign Credit Profile

- **Sustained strong economic and fiscal performance**
- **Eurozone membership further strengthens Latvia's creditworthiness:**
  - underpins economic policy coherence and credibility
  - improves fiscal and external financing flexibility
  - reduces foreign-currency risks on balance sheets
  - gives Latvian banks access to European Central Bank liquidity facilities
- **Membership in the OECD with its accompanying commitments to structural reforms and economic liberalization**
- **Sound banking sector** – strong Scandinavian banks play central role in sector

## Key Risk Factors Affecting Latvia's Sovereign Credit Profile

- **External financing risks and geo-political tensions with Russia** continue to constrain the ratings
- Latvia is a small and highly open economy, making it **vulnerable to external shocks**
- Latvia's GDP per capita is below the median level of its 'A' category peers
- Reputational risks in financial sector remain



# Key Events in 2019

- 1 In Q2 2019 Latvia's economic growth continued to be robust and balanced.
- 2 In April the Parliament adopted Law on the State Budget for 2019 and the Government approved Latvia's Stability Programme for 2019 – 2022.
- 3 In the first half of the year credit rating agencies S&P Global, Fitch and Moody's Investors Service reaffirmed their long term foreign currency sovereign credit rating on the Republic of Latvia at current levels respectively 'A', 'A-' and 'A3'.
- 4 Latvia has carried out its planned funding activities in the international capital markets in 2019 by raising EUR 1 billion in total.
- 5 On May 29, the Government elected new president of the Republic of Latvia.
- 6 On September 20, S&P Global reaffirmed its long term currency sovereign credit rating on the Republic of Latvia at 'A' but on October 11 Fitch reaffirmed Latvia's long term currency sovereign credit rating at 'A-'.
- 7 On October 11, the Government approved Latvia's Law on State Budget for 2020 and Medium-Term Budgetary Framework for 2020 - 2022.







## 2. The Economy

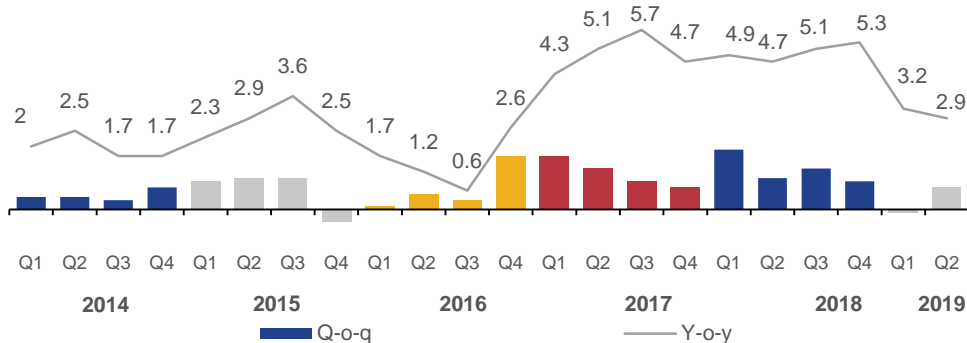
Strong, Sustainable Growth



# Growth Accelerated in 2018 and Remains Elevated Today

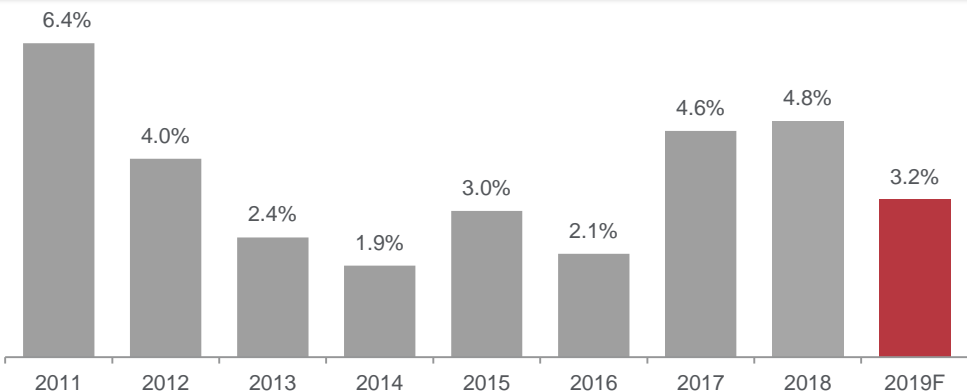
Latvia is among the top 5 fastest growing countries in the EU with a 3.1% average growth in the last 6 years. Robust growth is currently supported by strong domestic demand, private investment inflows, the EU funding cycle and favourable foreign trade conditions.

## Real GDP Growth (%)



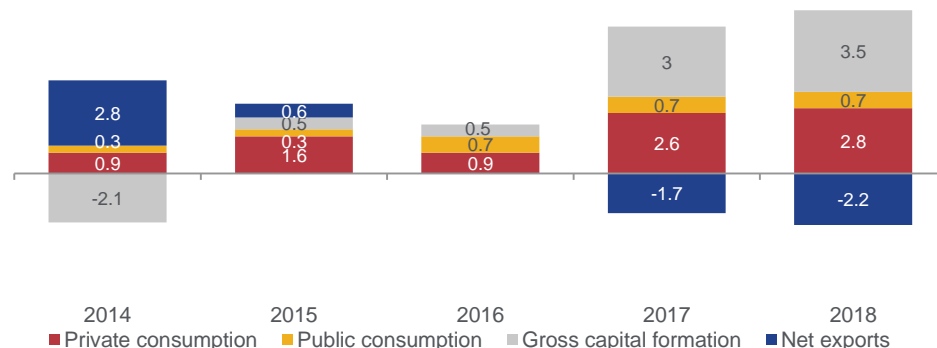
Source: Central Statistical Bureau of Latvia

## Real GDP Growth (%)



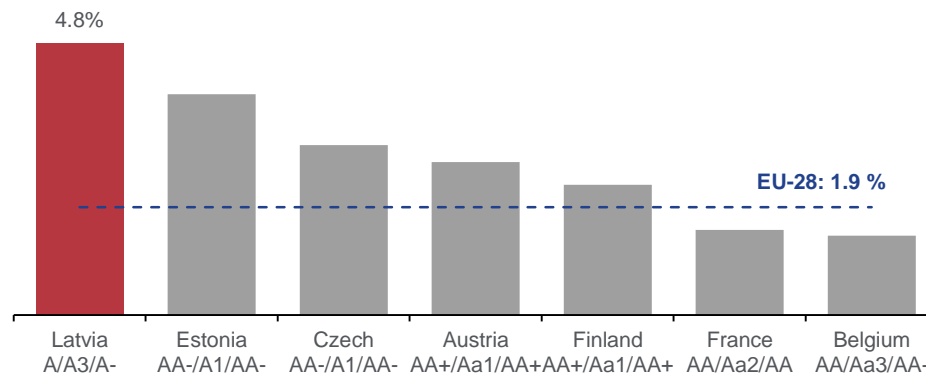
Source: Central Statistical Bureau of Latvia, Ministry of Finance

## GDP Growth Composition (%)



Source: Central Statistical Bureau of Latvia

## GDP Growth (2018, %)



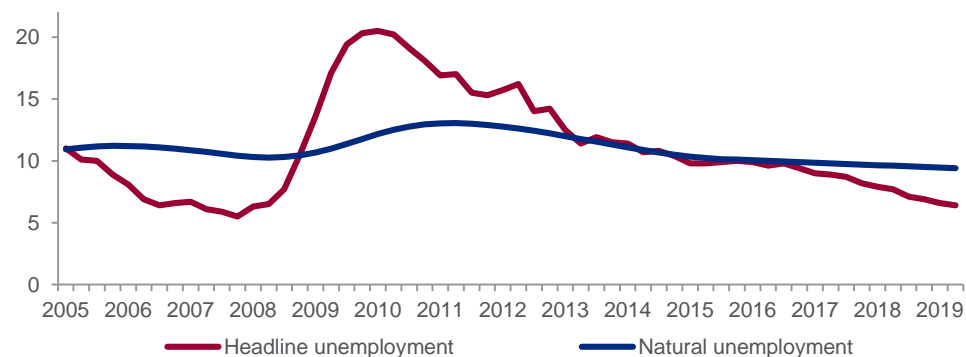
Source: Eurostat



# Wage and Employment Growth Boosts Domestic Demand

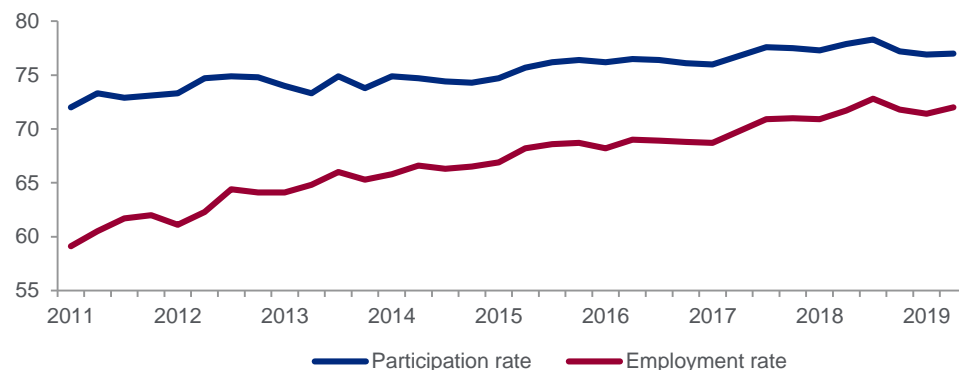
Unemployment is slightly below the natural rate; productivity growth is on the rise.

## Unemployment: Headline and Natural Rates



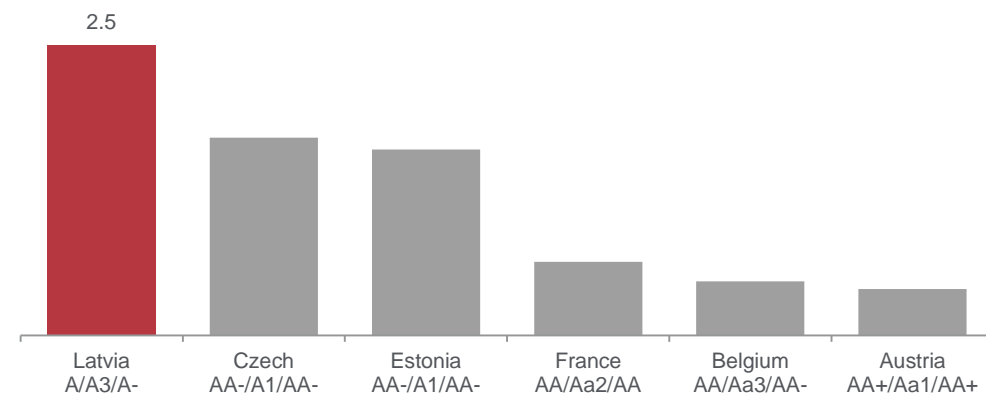
Source: Eurostat, Bank of Latvia

## Participation and Employment Rates (age 15-64, %)



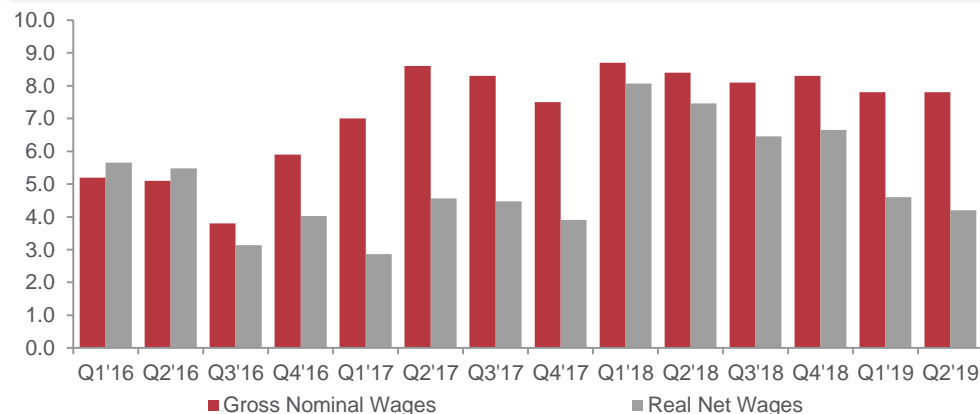
Source: Central Statistical Bureau of Latvia data

## Real Productivity Growth Per Worker (2013-2018 average, %)



Source: Eurostat

## Average Monthly Wage For Full-time Job (Y-o-y, %)



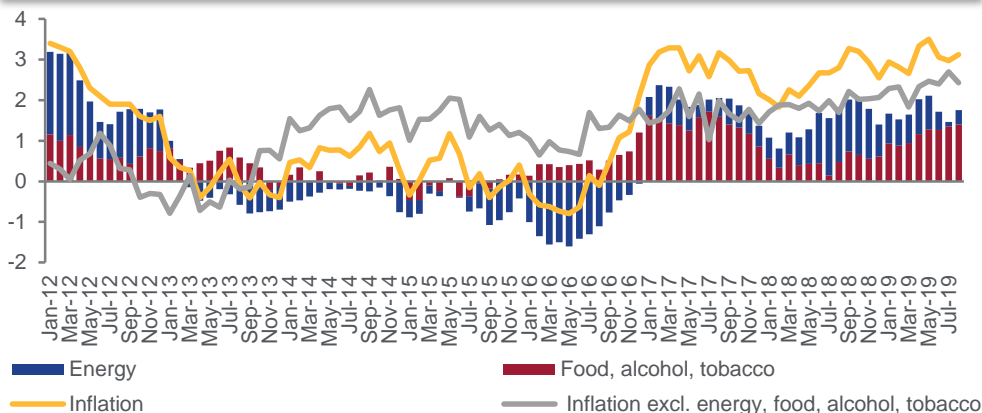
Source: Central Statistical Bureau of Latvia data



# Inflation close to 3% is healthy, reflecting income convergence potential

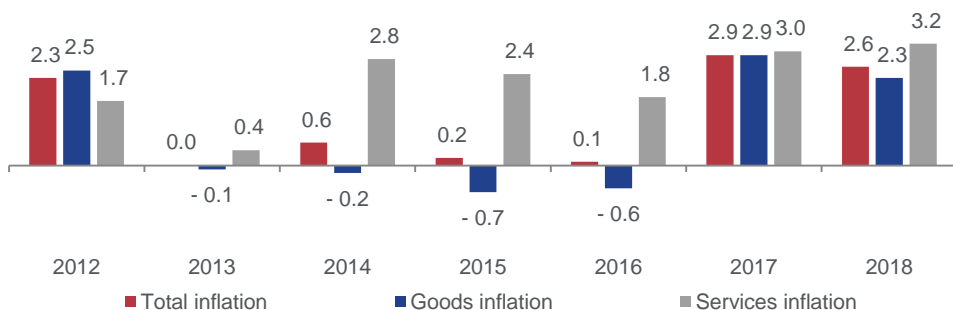
Latvia has maintained moderate and predictable inflation for years. Core inflation is increasing only gradually.

**Inflation (HICP, %)**



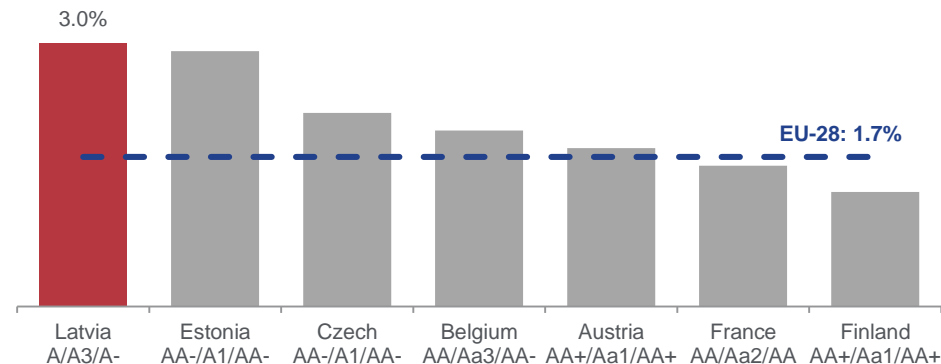
Source: Central Statistical Bureau of Latvia data, Bank of Latvia calculations

**Inflation in Latvia (HICP, %)**



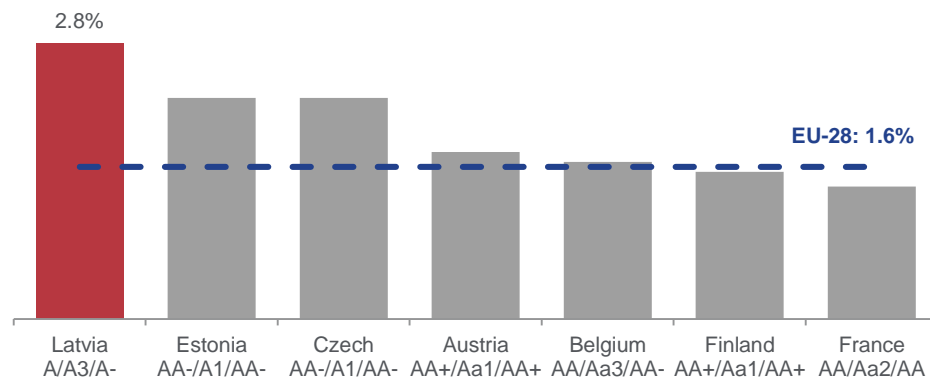
Source: Central Statistical Bureau of Latvia data

**Harmonised Index of Consumer Prices (August 2019, 12 months average %)**



Source: Eurostat

**Harmonised Index of Consumer Prices Projection (2019-2020, %)**



Source: European Commission, Summer 2019

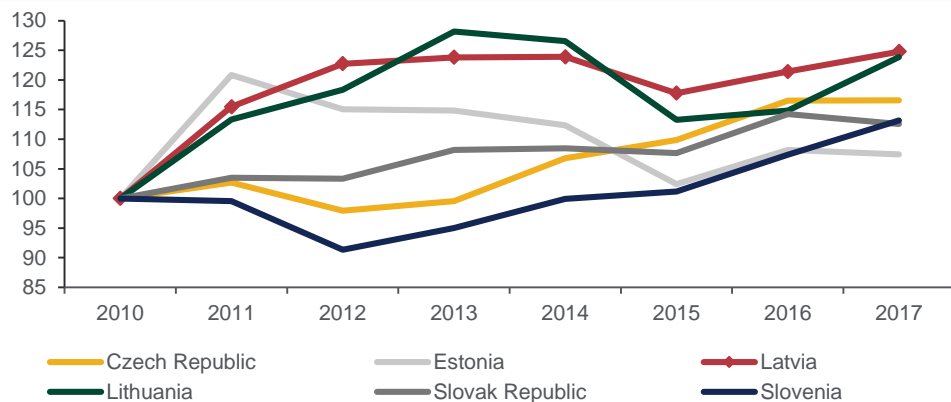




# Improved Competitiveness and Value-Added Products Drive Exports

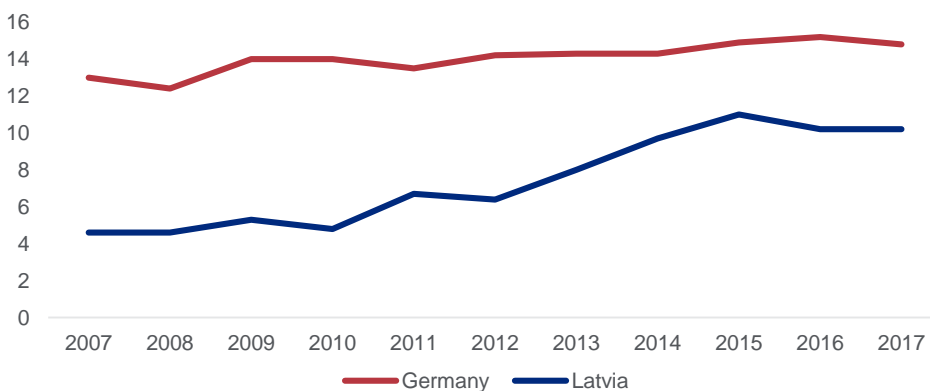
Favourable position in both price and quality competitiveness underpins strong current account position.

## Export of Goods and Services (2010=100)



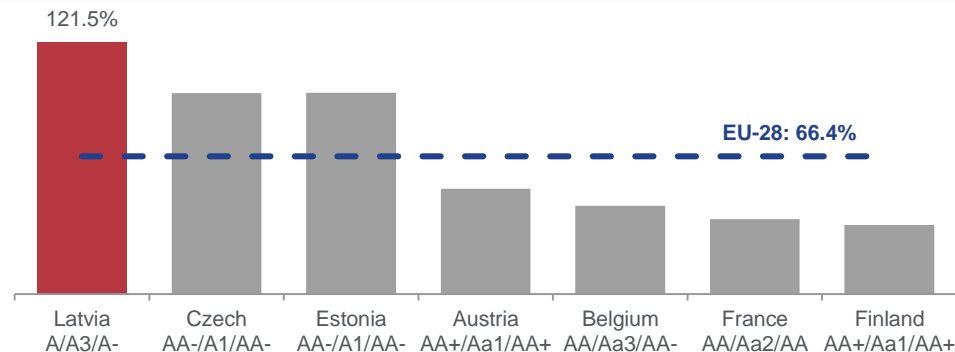
Source: World Trade Organization

## High – Tech Exports (% Of Total Exports)



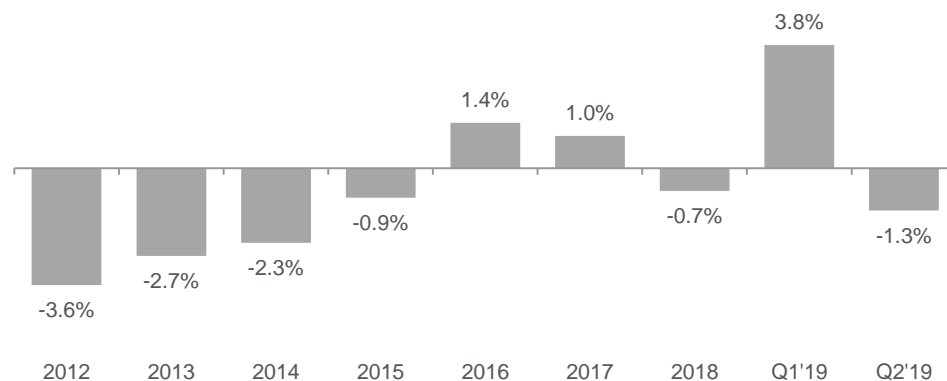
Source: Eurostat

## Goods Exports Growth (% growth between 2009 and 2017)



Source: Eurostat

## Current Account Balance (% GDP)



Source: Bank of Latvia





### 3. Banking Sector

Well-Capitalized, Profitable, and Growing at Moderate Pace

# Well Capitalised and Liquid Banking Sector

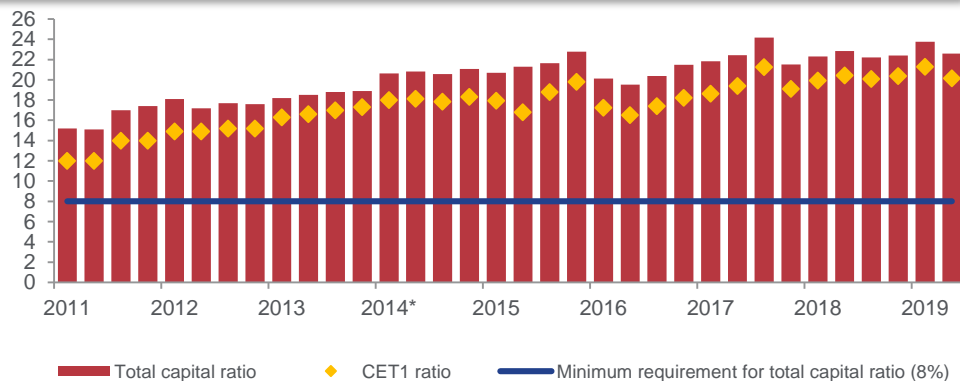
Latvia's banking sector is well capitalized, with a high presence of large Nordic banking groups.

## Key Highlights

- The Latvian banking sector is dominated by subsidiaries and branches of banks from the European Economic Area, mostly from Nordic countries<sup>1</sup>
- Capitalization and liquidity ratios are well above minimum requirements
- As part of the European Banking Union, three banks are under the remit of the ECB direct supervision and of the SRB. On August 15, 2019 one of those banks, PNB Banka (the seventh largest institution in terms of assets) was declared failing-or-likely-to-fail by the ECB and the SRB decided that no measures or actions could prevent the failure of it in the near future, and that no resolution would follow. An insolvency application has been submitted to the Court and approved on September 12, 2019
- The impact from the exit of PNB Banka on the Latvia's economy, the stability of the financial market, and solvency and liquidity of other financial institutions is low.

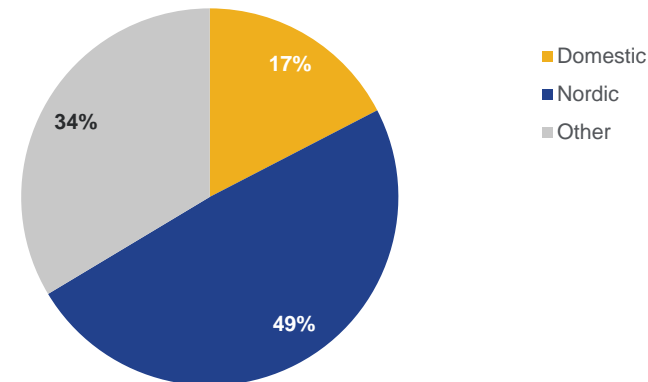
Source: <sup>1</sup>FCMC, <sup>2</sup>EBA risk dashboard, fully loaded ratio

## Capital Adequacy (%)



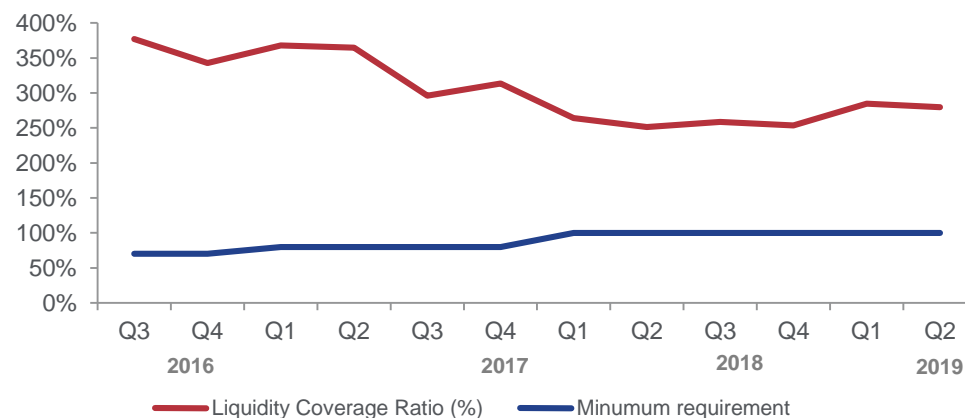
Source: FCMF | Note: As of Q1 2014 capital adequacy is calculated according to the CRDIV/CRR requirements and is not directly comparable with the data until Q1 2014 due to differences in methodology. Tier 1 ratio matches CET 1 ratio. The Pillar 1 minimum Total capital ratio is 8%. Since 28 May 2014 the FCMC also applies a 2.5% capital conservation buffer.

## Capital Ownership of the Banking System (2Q 2019)



Source: Bank of Latvia

## Liquidity Coverage Ratio



Source: FCMC



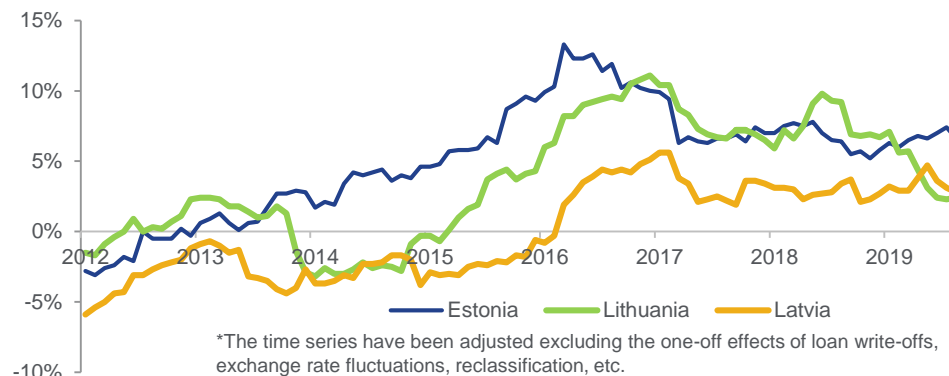
# Bank Lending Recovers and Supports Growth

Domestic lending standards remain prudent and there are favorable preconditions for stronger lending growth.

## Key Highlights

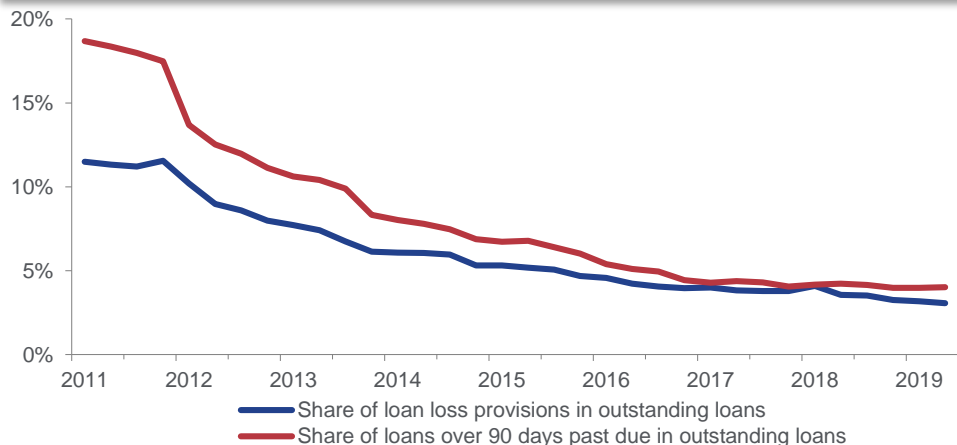
- Domestic lending remains moderate
- Loans to domestic households and NFCs stood at 35% of GDP in March 2019, down from almost 100% at the outset of the crisis
- Domestic loan-to-deposit ratio has fallen substantially, indicating more balanced and sustainable domestic funding for loans
- The quality of the loan portfolio continues to improve gradually, and the coverage ratio of 90 days overdue loans remains high

## Loans to Domestic Clients excluding Government (yoy)



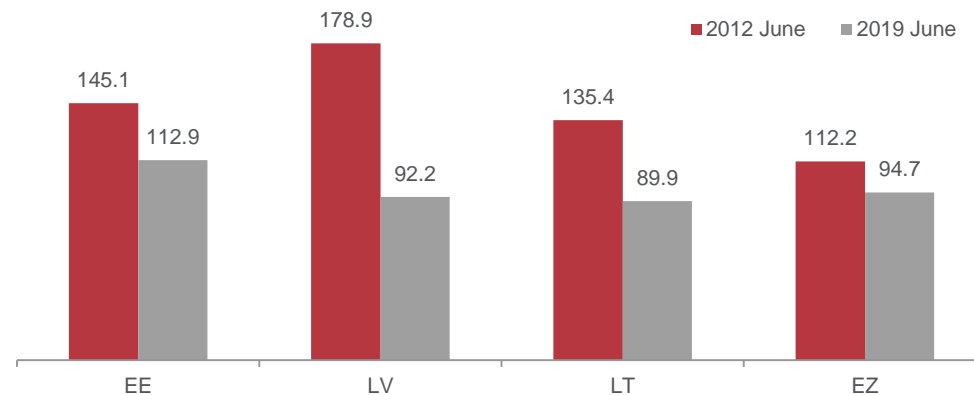
Source: ECB

## Total Loan Portfolio Quality



Source: FCMC, Credit Register

## Domestic Loan-to-Deposit Ratio (%)



Source: ECB





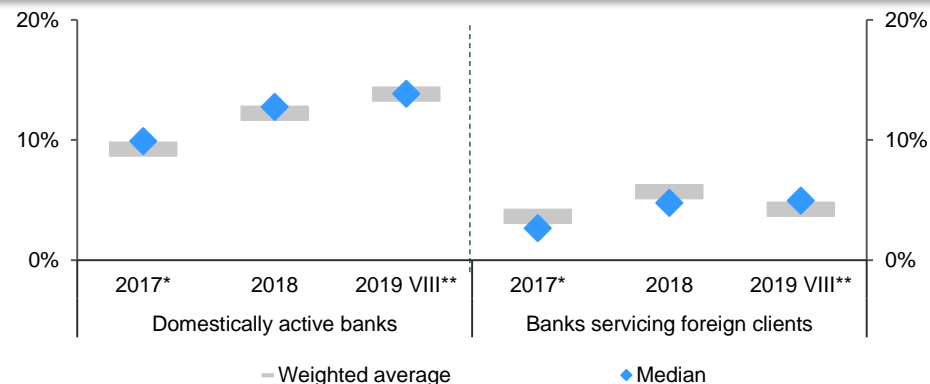
# Banking Sector Profitability Remains Healthy

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

## Key Highlights

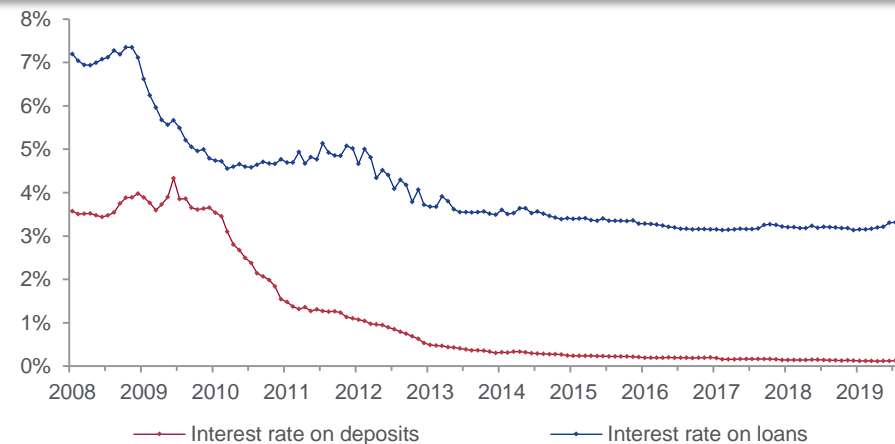
- Profitability of domestically active banks is sound and returns increase gradually due to favorable macrofinancial conditions
- Profitability of banks servicing foreign clients is volatile due to ongoing de-risking that resulted in a decline in their business volume. Although banks servicing foreign clients posted improved profits in 2018, their future profitability will still depend on transformation of their business model
- Average Return on Equity (RoE) of the Latvian credit institutions is relatively high and still exceeds the EU average. In 2018, average RoE was 10.2% (9.1% in 2017); EU average – 6.5% (EBA Risk Dashboard Q4 2018)
- Despite record-low deposit interest rates, the spread on outstanding amounts remains stable at around 3 pp

## ROE



Source: Bank of Latvia | Note: \*One-off adjusted data, \*\*Annualised

## Interest Spread on Outstanding Loan Amounts



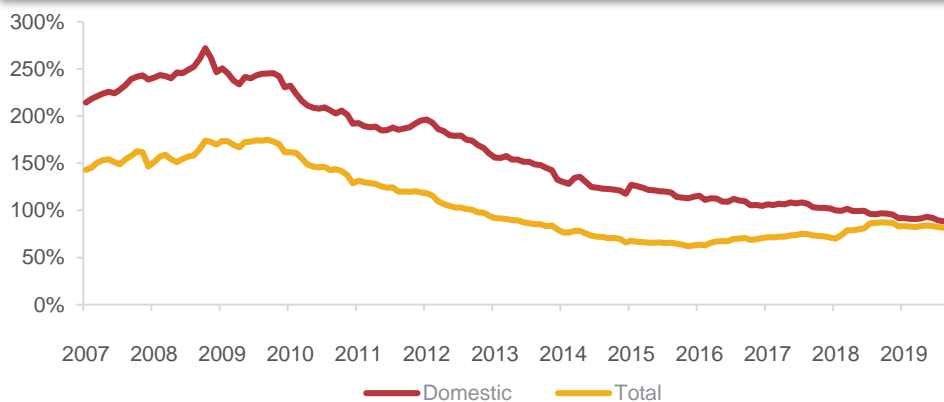
Source: Bank of Latvia



# Domestic deposits remain as the main source of funding

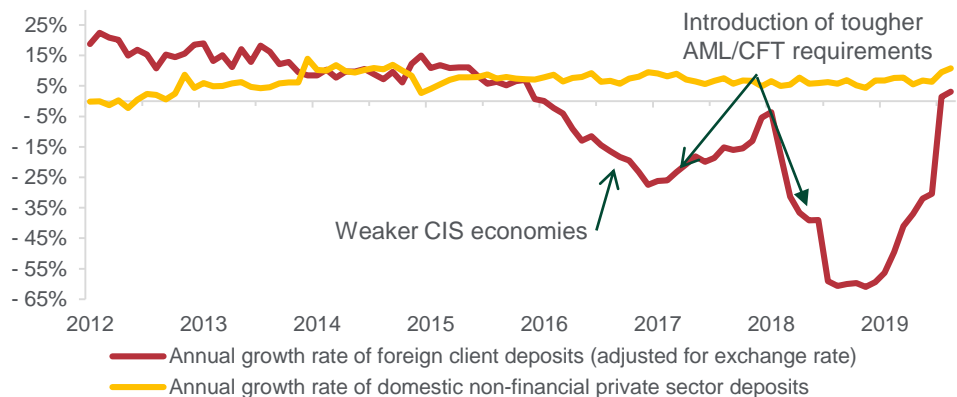
Banks owned by strong Nordic parents, funded through domestic deposits, lending to Latvia-based clients are the core of Latvia's banking system.

## Loan-to-deposit ratio



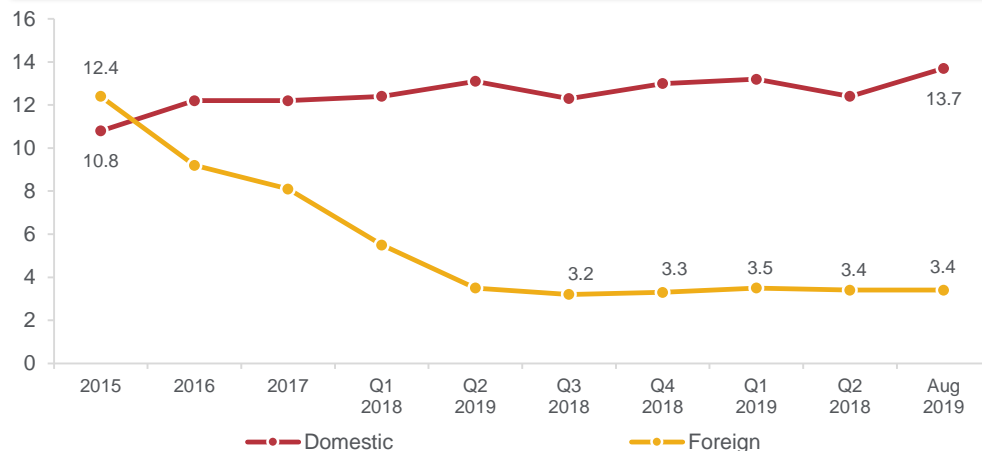
Source: Bank of Latvia

## Growth Rates of Domestic and Foreign Client Deposits



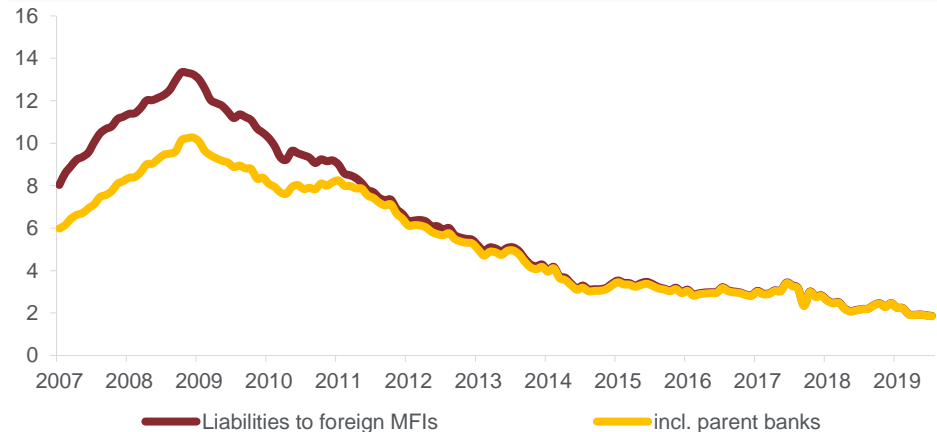
Source: Bank of Latvia

## Deposits (EUR bn)



Source: Bank of Latvia

## Liabilities to foreign MFIs (EUR bn)



Source: Bank of Latvia



# Parent Banks are Financially Sound and Profitable

The parents of Latvia's banks have high credit ratings, good profits and are well-capitalized.

## Key Highlights

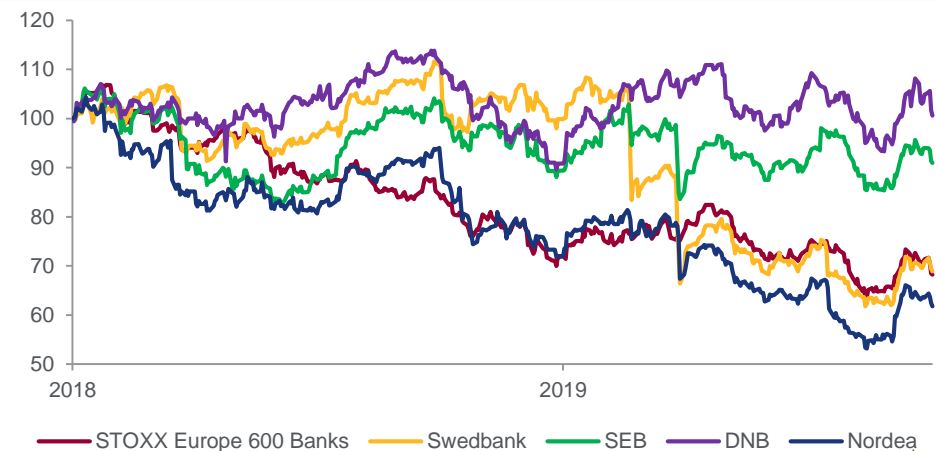
- Financial performance and capitalization level of the parent banks is strong
- Nordic banking groups' profitability is higher than the average in Europe
- Banks continue to invest in IT related projects to increase their operational efficiency and lower administrative expenses
- Since January 2, 2019 Luminor Bank Latvia continue its operations as a branch of Estonia's Luminor Bank
- Recent money laundering allegations put shares of Nordic banks under pressure, though the impact on financing costs is very limited

## Banks Financial Information

	Swedbank	SEB	Luminor Latvia branch*
			DNB Nordea
<b>Assets (EUR mil)*</b>	5,575	3,843	4,296
<b>CAR (%)*</b>	28.7	18.5	-
<b>ROE (%)*</b>	14.9	13.4	-
<b>S&amp;P Global long term rating</b>	AA-	A+	*
<b>Moody's long term rating</b>	Aa2	Aa2	*
<b>Fitch long term rating</b>	AA-	AA-	*

Source: Association of Latvian Commercial Banks – financial reports, 1st quarter 2019 | \* In January 2019 Luminor Bank Latvia became a branch of Estonian Luminor Bank.

## Banking Groups' Equity Prices (01.01.2018 = 100, local currency)





## 4. Fiscal Policy

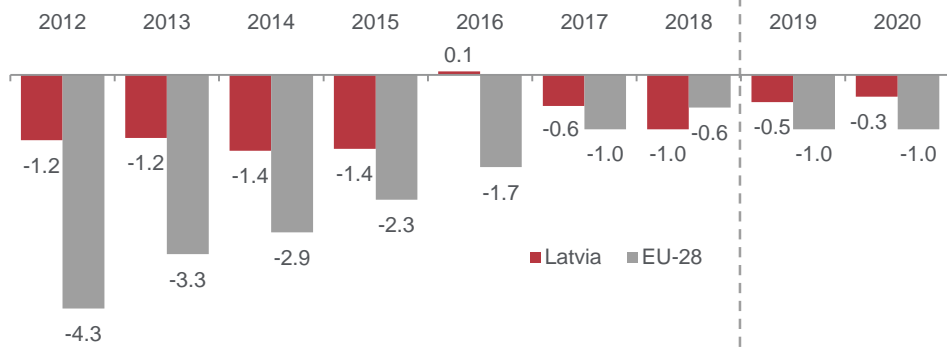
Disciplined Approach Drives Improved Credit Profile



# Fiscal Sustainability Remains Top Priority

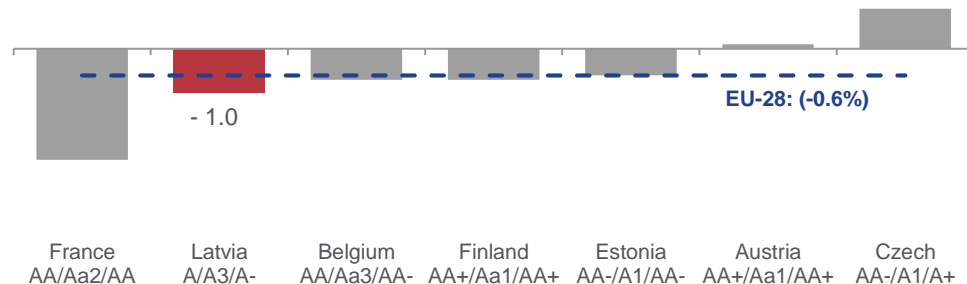
Prudent fiscal management has produced small budget deficits well below the EU-28 average over the past 7 years. Priority is being given to improving the quality of spending and alignment between programs and policy goals.

## General Government Budget Balance (% of GDP)



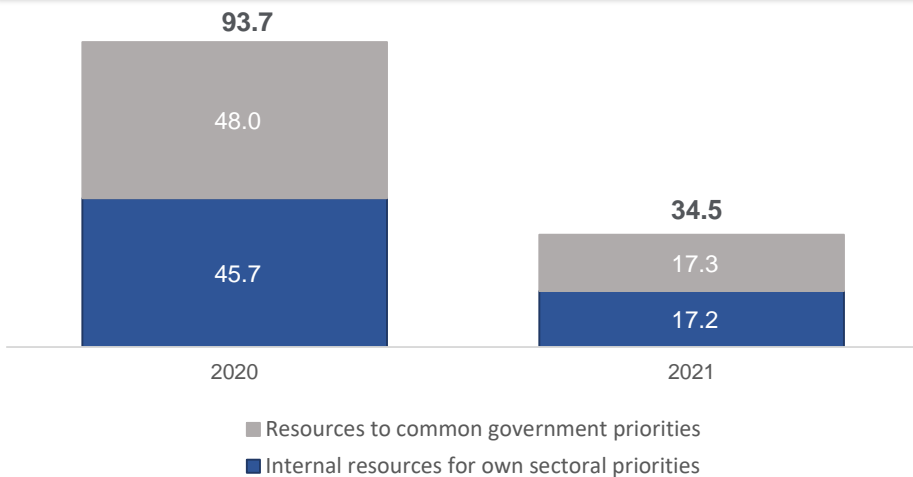
Source: Eurostat, AMECO, Ministry of Finance

## Budget Balance (2018, % GDP)



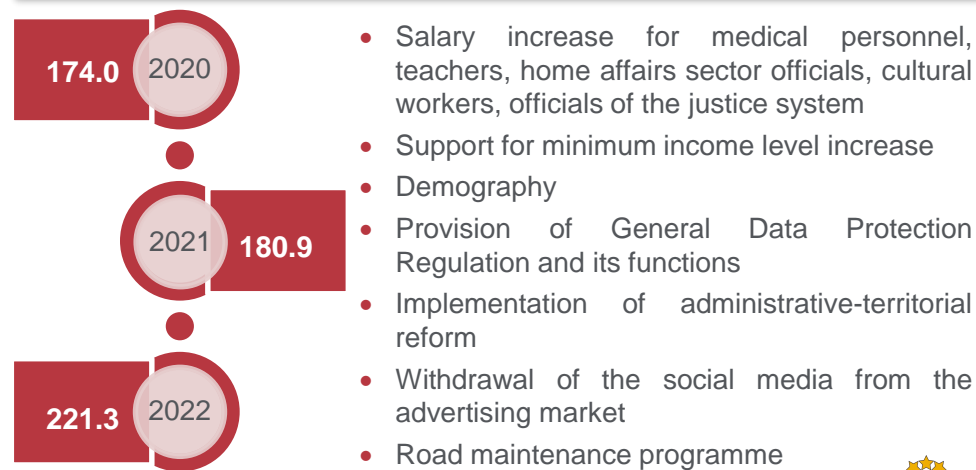
Source: Eurostat

## Spending Review Results (EUR, Million)



Source: Ministry of Finance

## 2020 Budget: Expenditure for priorities (EUR million)



Source: Ministry of Finance



# Pension Reform Underpins Stability of Public Finances

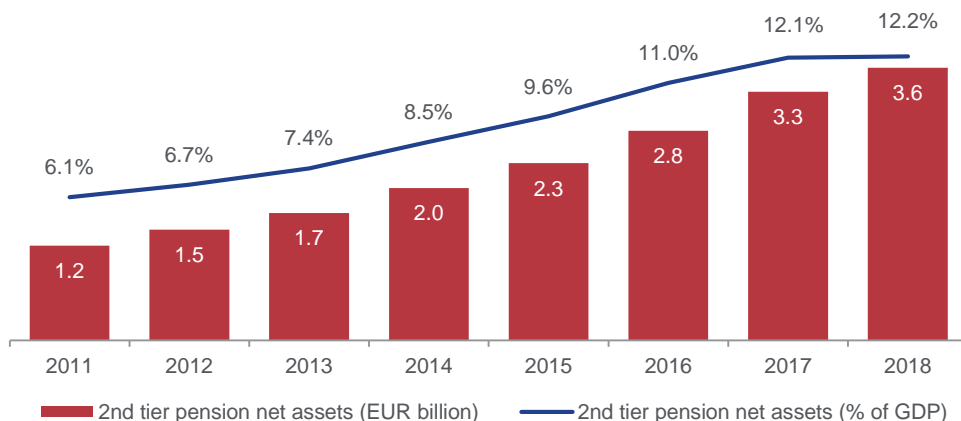
Latvia is well positioned to withstand fiscal challenges arising from an ageing population.

## Latvia's Pension System And Recent Reforms

- Latvia's reformed pension system consists of three tiers:
  - state compulsory unfunded pension scheme (the 1st tier)
  - state funded pension scheme (the 2nd tier)
  - private voluntary pension scheme (the 3rd tier)
- In 2012, measures were introduced to address long-term sustainability:
  - 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

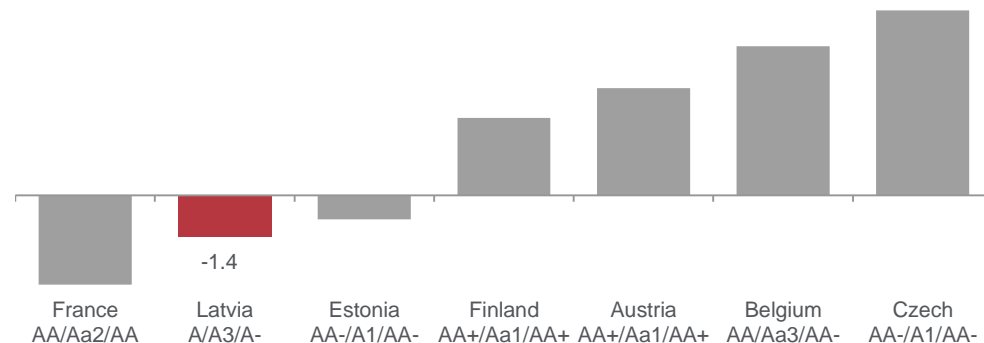
Source: The State Social Insurance Agency

## The 2<sup>nd</sup> Tier Pension Net Assets (EUR billion, % GDP)



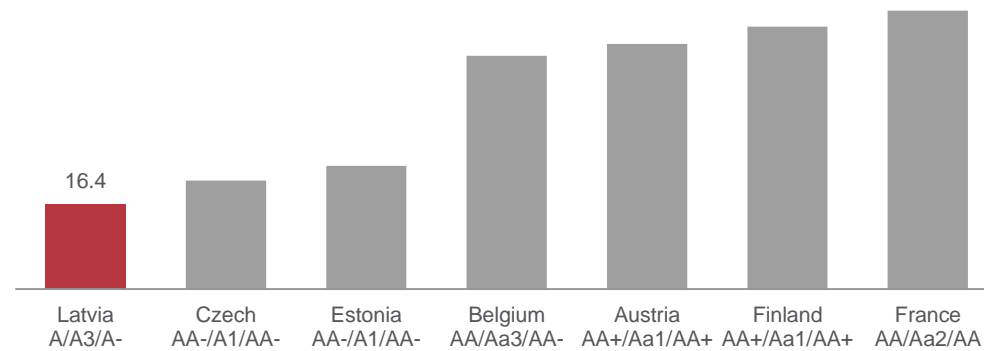
Source: Financial and Capital Markets Commission, Central Statistical Bureau of Latvia

## Age-related Spending, Projected Change (2016-2070, % GDP)



Source: European Commission Ageing Report, May 2018

## Latvia's age-related spending is among the lowest in EU (2016, % GDP)



Source: European Commission Ageing Report, May 2018





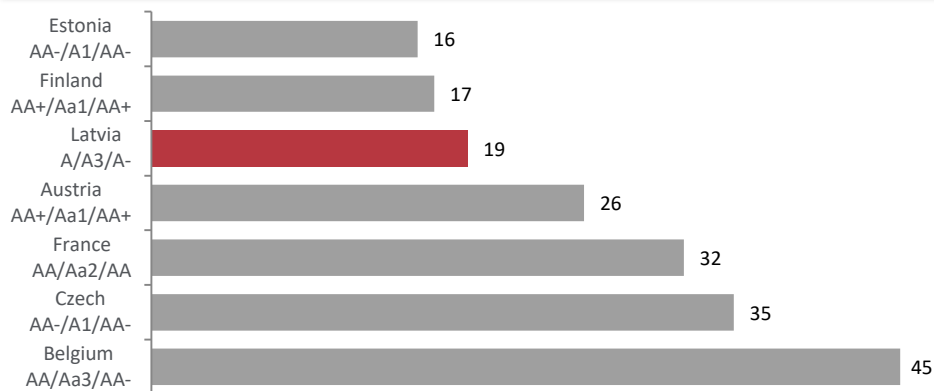
## 5. New Reform Push

Targets Productivity and More Inclusive Growth

# Latvia's Advanced Country Status Reflected in "Soft" Metrics

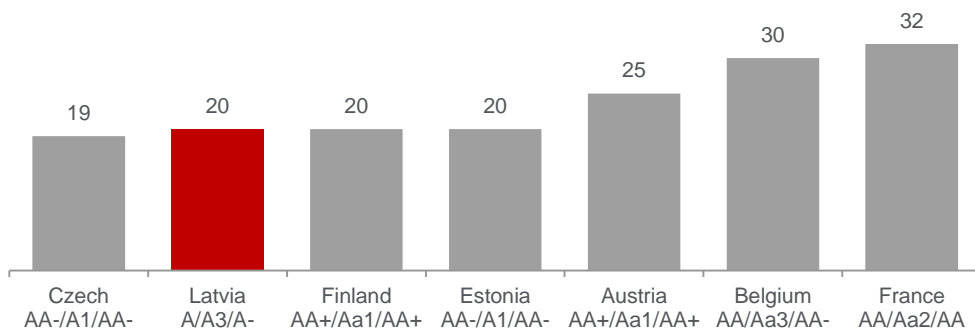
Expanded structural reforms build on existing high institutional strengths and favourable business environment.

## World Bank "Ease of Doing Business" Ranking



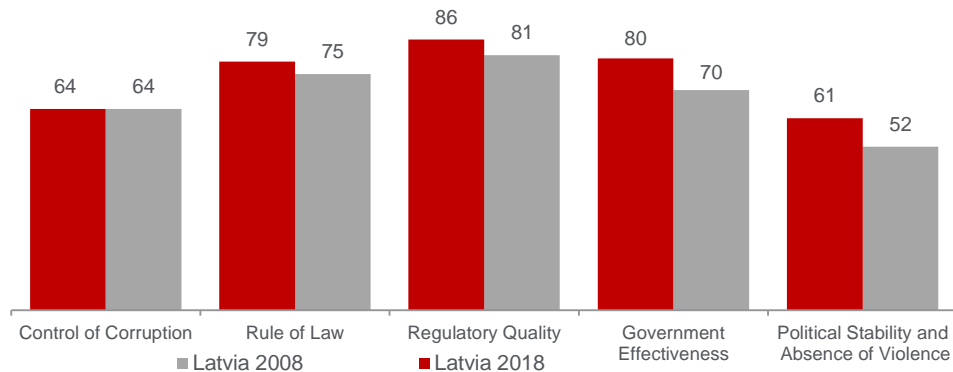
Source: World Bank, Doing Business 2018

## Adjusted Top Statutory Tax Rate on Corporate Income (2019, %)



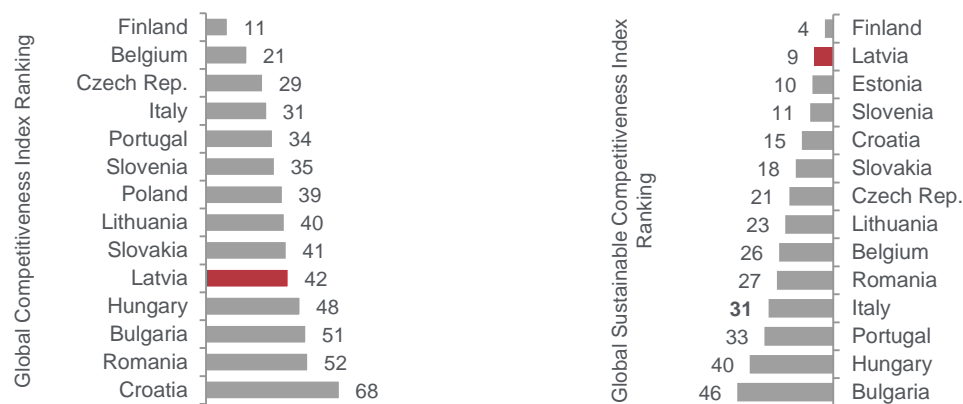
Source: European Commission, Taxation Trends in the European Union 2019

## World Bank Worldwide Governance Rankings



Source: World Bank, 2018 Rankings

## The Global Competitiveness Index Rankings



Source: World Economic Forum, The Global Competitiveness Report 2018, The Global Sustainable Competitiveness Report 2017





# Reform Policies Laying Foundation for New Growth Model

Structural reforms help strengthening Latvia's growth potential.

## 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**

- Decrease of the tax burden on labour, increase of the untaxed minimum, etc.
- Activation of unemployed through active labour market policy measures
- Strengthening vocational education and introduction of the work-based learning principle
- Comprehensive healthcare reform (new healthcare financing model, increase in remuneration of healthcare personnel, etc.)

## Business Environment

**SME access to financing, export oriented programmes, reduction of administrative burden**

- Support programmes of the Latvian Investment and Development Agency and ALTUM are being implemented (business incubators, credit guarantees, loans, etc.)
- Annual Action Plan on Improvement of the Business Environment is being implemented, etc.

## Education, Research and Innovations

**Increasing the quality of education and research, fostering investments in R&D and innovations**

- Smart Specialization Strategy is being implemented
- Support programmes are being implemented (support in introduction of new products, Innovation Motivation Programme, wider involvement of SOEs in research, development and innovation activities is being ensured, support for start-ups, etc.)

## 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**

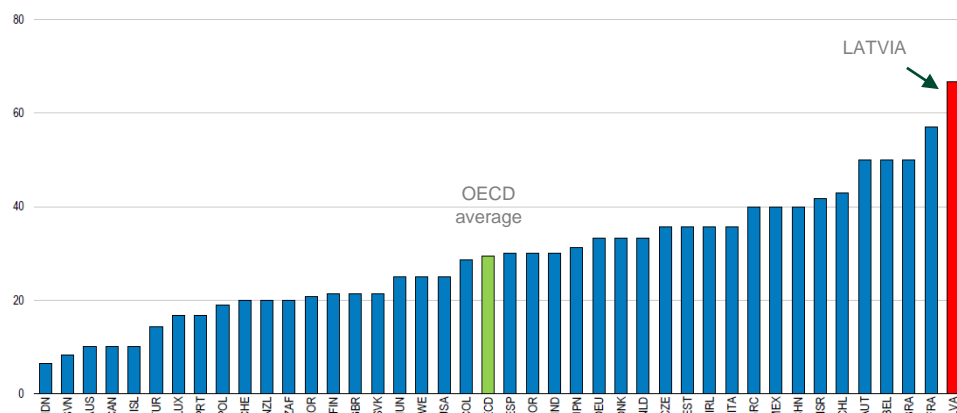
- Public sector reform is being implemented
- Whistleblower protection law in force since 1 May 2019
- Improvement in the insolvency process and tax compliance is being observed

## Administrative Territorial Reform

**Bringing together municipalities in more sustainable and economically stronger units that are able to ensure the performance of autonomous functions of local governments in comparable quality and accessibility**

- The new model is planned to be introduced starting from 2021

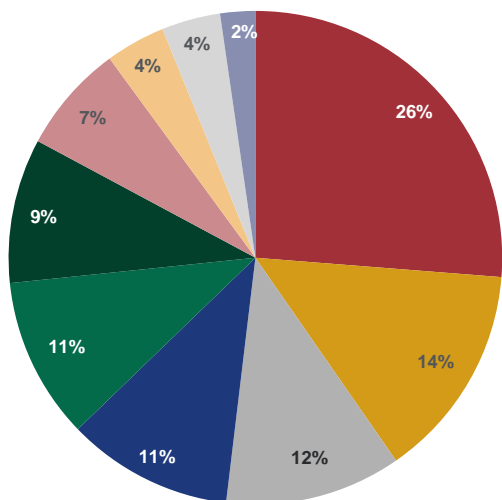
## 2017 OECD Reform Responsiveness Index, %



# EU Playing Key Role in Funding Structural Change in Latvia

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

## Allocation Of EU Funds For 2014-2020 By Priority Axes



- Promoting sustainable transport and removing bottlenecks in key network infrastructures
- Protecting the environment and promoting resource efficiency
- Investing in education, skills and lifelong learning
- Supporting the shift towards a low-carbon economy in all sectors
- Strengthening research, technological development and innovation
- Promoting social inclusion and combating poverty
- Enhancing the competitiveness of small and medium-sized enterprises
- Enhancing access to, and use and quality of, information and communication technologies
- Promoting employment and supporting labour mobility
- Technical assistance

Source: Ministry of Finance

## EU Cohesion Policy Accompanies Structural Reforms

- The Latvian economy and the goals envisaged by the National Development Plan are strongly supported by well targeted and smart EU cohesion policy funds (EU funds like Structural funds and Cohesion Fund) and investments.
- EUR 4.4 billion EU funds are available for targeted and smart investments in Latvia within the 2014 - 2020 programming period across major nine priority areas with the general aim to enhance competitiveness of Latvia's economy and reinforce the country's solid foundation for sustained and smart growth.
- EUR 3.4 billion EU funds are already contracted for investment projects.
- During 2007 - 2013 period Latvia has successfully completed the investment programme supported by EUR 4.5 billion Cohesion Policy EU funds (100% of EU funds «envelope» for Latvia).

Source: Ministry of Finance

## EU Funds After 2020 and Government's Support

- The European Commission has published a proposal for the new multiannual financial framework after 2020 in May 2018.
- The European Commission expects to start negotiations regarding planning documents of the framework in 2019.
- Initial European Commission proposal for Latvia's Cohesion policy allocation is 4.26 billion EUR (in 2018 prices). Allocation will be a subject of negotiations and Latvia will insist on bigger allocation.
- Latvia will remain eligible to receive support from all three Cohesion policy funds (Cohesion Fund, European Regional and Development Fund, European Social Fund).
- EU funds investment progress is transparent and can be followed: [www.esfondi.lv](http://www.esfondi.lv)



# Pro-growth Tax Reform in Line with Balanced Budget Mandate

Key goals: improve competitiveness, promote exports, reduce inequality and raise revenue to one-third of GDP.

## Strategy framework

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

## 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 disposable income of employees and induce 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

## Main changes



### Non-taxable minimum – EUR 250

Differenced depending on income level from EUR 0 / 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 20,004, 23% for EUR 20,004 – 62,800, 31,4% for above EUR 62,800



### Corporate Income Tax

20% on distributed profit; no CIT is payable on undistributed profits





## 6. Government Debt and Funding Strategy

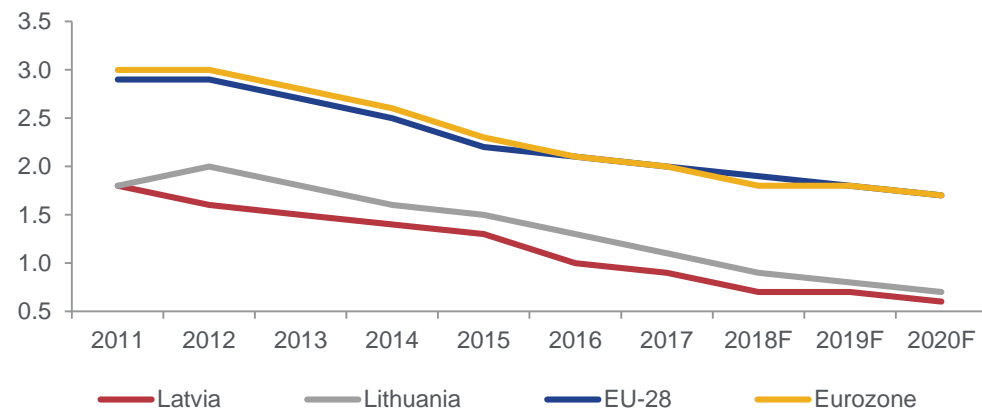
# Public Debt on Declining Trend

Latvia remains committed to keeping government debt at moderate levels.

## Key Characteristics of Latvia's Government Debt

- General government debt is amongst the lowest in the EU at 36 % of GDP at the end of 2018. It is the 4<sup>th</sup> lowest in the Eurozone and the 8<sup>th</sup> lowest in the EU
- 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

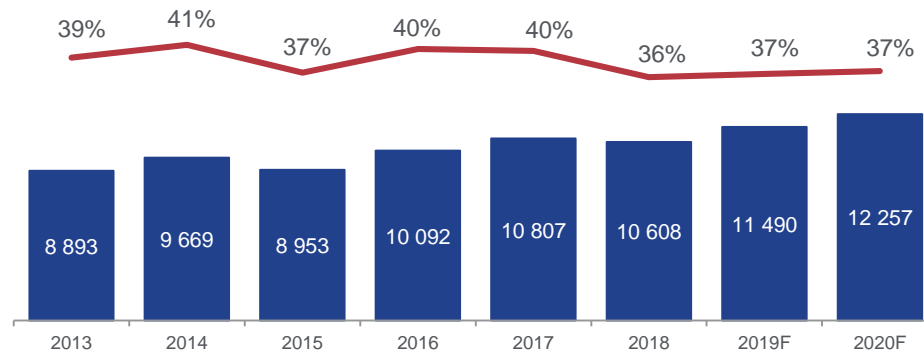
## Debt Servicing Costs (% GDP)



Source: European Economic Forecast, Spring 2019, European Commission

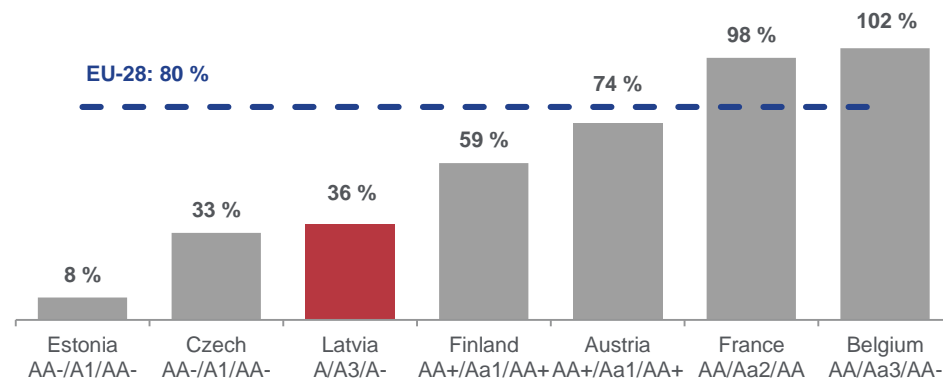
## General Government Debt Year End

(EUR million, % GDP, ESA methodology)



Source: Eurostat, The Treasury

## General Government Debt (2018, % GDP)



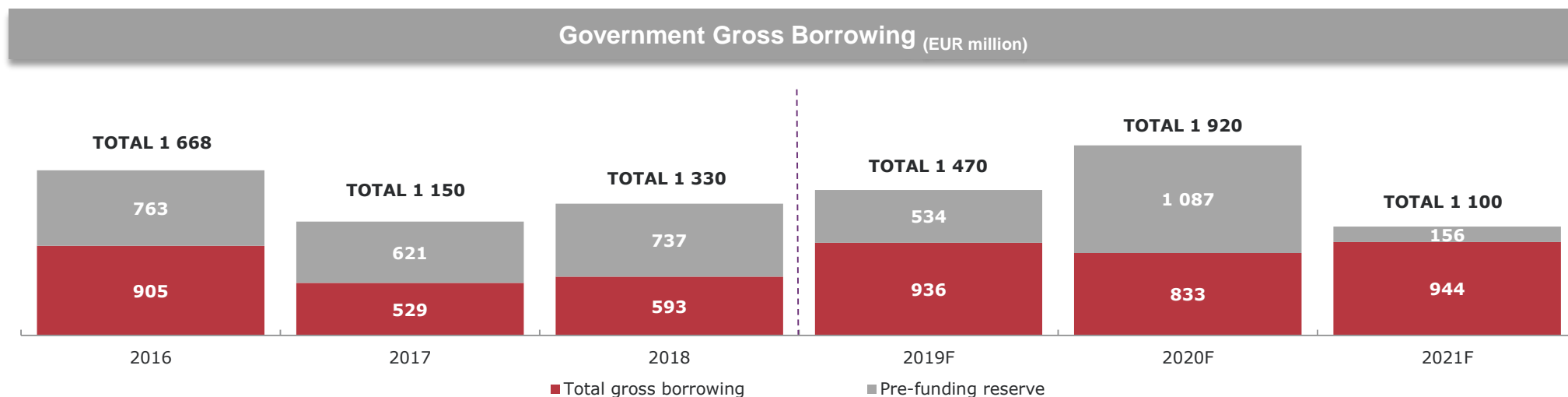
Source: Eurostat





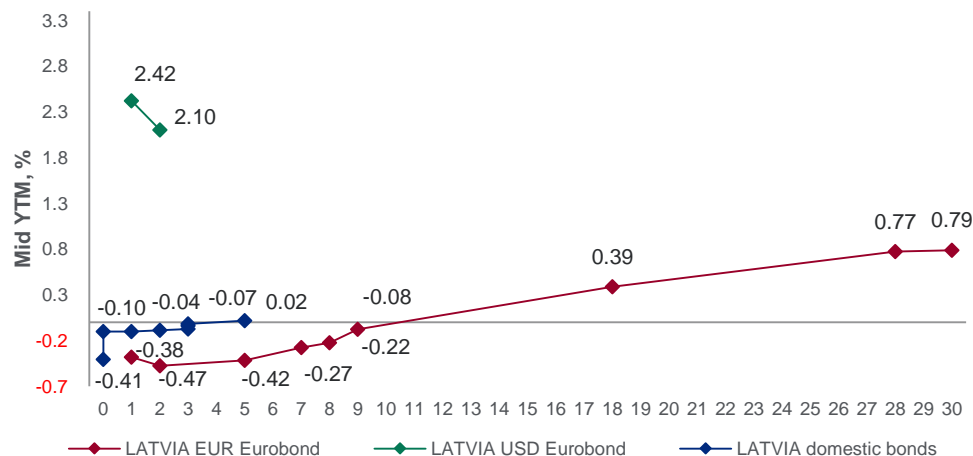
# Conservative Borrowing Based on Pre-funding

Latvia is conducting a prudent and efficient debt management strategy.



Source: The Treasury

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



Source: Data as of 9<sup>th</sup> October 2019, Bloomberg

## Borrowing activities in international capital markets in 2019

- On February 12, Latvia priced the Eurobond in the international capital markets in a total amount of EUR 700 million
  - 30-year Eurobond (maturing 19 February 2049)
  - Yield was set at 1.929%
  - Coupon was set 1.875%
- By this transaction the Treasury has fulfilled largest part of this year's funding requirement in the international capital markets
- On May 20, Latvia re-opened its outstanding 30-year Eurobond by issuing EUR 300 million:
  - Maturing 19 February 2049
  - Yield was set at 1.746% and coupon was set 1.875%
- With this transaction the Treasury successfully completed a funding plan for borrowing in a total amount of EUR 1 billion

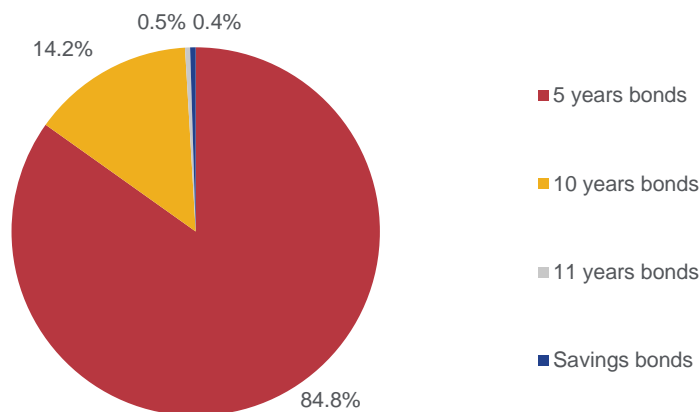


# Domestic Market Continues to Perform Strongly

Demand is steady and average yields remain low.

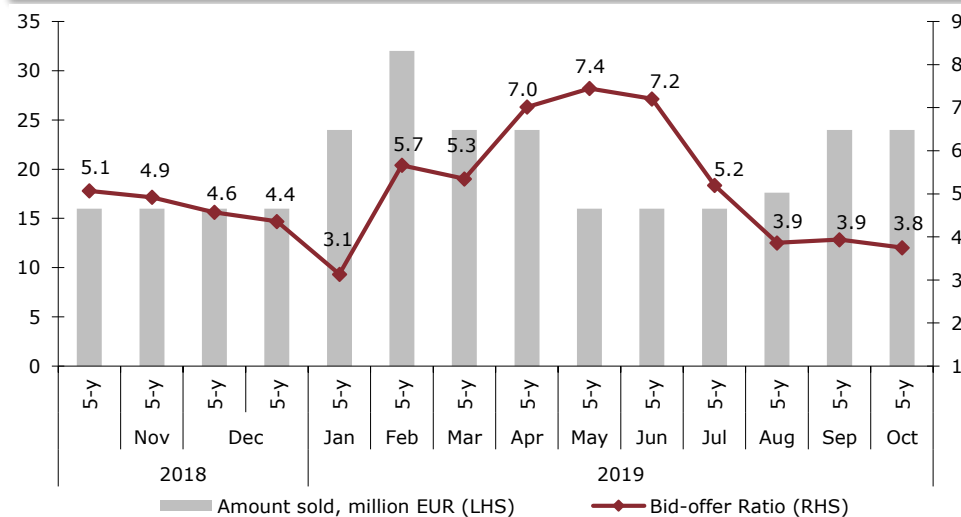
## Domestic Securities Outstanding by Original Maturity

(end of the June 2019, %)



- Primary dealer system operates since 11 February 2013. Domestic debt securities outstanding constituted EUR 1 166 million as of 2<sup>nd</sup> October 2019
- The Treasury maintains regular domestic debt securities auctions offering medium term T-bonds. Long term segment is covered by international issues
- For several years Latvia has concentrated domestic supply mainly in 5-year segment and focuses on increasing the liquidity
- A new 5-long T-bond program was opened at the beginning of July, 2019. Coupon was fixed at the 0.000%. Currently amount outstanding is 110 million EUR. In order to maintain liquidity it is expected to continue regular auctions and gradually increase on-the-run 5-year T-bond program

## Domestic T-Bond Competitive Multi-Price Auctions



T-Bills benchmarks are tap issues of original 12m T-Bills in maturity brackets from 4.5 to 9 months.

## Last 5 year T-Bond auction results

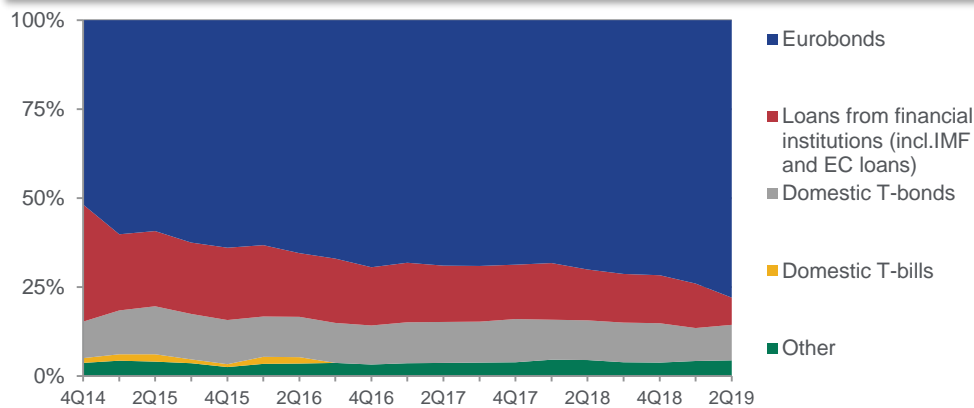
- On 2nd of October, Latvia had its last T-bond auction
- Nominal value of 24 million EUR were sold in a competitive multi-price auction with total demand of 90 million EUR (bid-offer ratio of 3.75)
- In addition, 6 million EUR were sold in non-competitive (fixed price) auction
- The weighted average yield rate was -0.020%



# Central Government Debt Profile

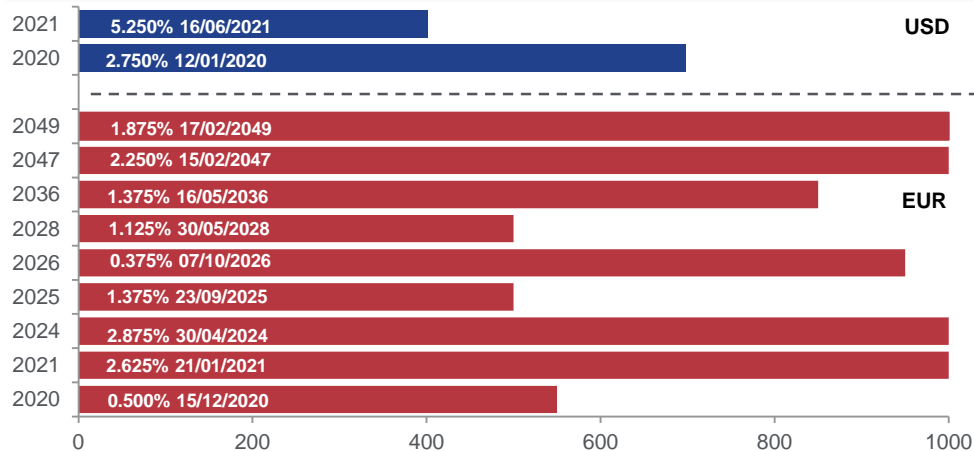
International Loan Programme has been largely refinanced in international capital markets, while government debt redemptions remain moderate.

Debt structure by Instruments (%)



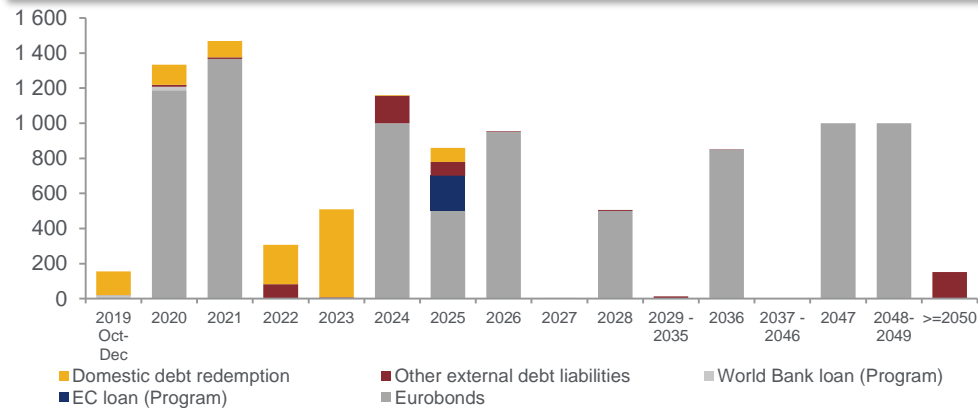
Source: The Treasury

Outstanding Bonds in the International Markets (nominal amount, million)



Source: The Treasury

Debt Redemption Profile (EUR million)



Source: The Treasury

Debt Portfolio Management

Parameters	Strategy	31/03/2019	30/06/2019
Maturity profile (%)			
• up to 1 year	≤ 25%	16.7%	13.1%
• up to 3 year	≤ 50%	38.1%	33.6%
Share of fixed rate <sup>(1)</sup>	≥ 60%	86.6%	90.2%
Macaulay duration (years)	5.00 – 9.00	7.44	8.05
Net debt <sup>(2)</sup> currency composition	100% EUR with a deviation of +/- 5%	100.04%	100.03%

Source: The Treasury | <sup>(1)</sup>Fixed rate central government debt with a maturity over one year; <sup>(2)</sup>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.



# Medium Term Funding Requirement and Borrowing Strategy

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

## Medium Term Borrowing Strategy

### Goal

Ensure timely and full availability of financial resources for covering the financing requirement, by maintaining 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

## General Financing Requirement

Central Government Budget Balance

Net Lending

Other Flows  
at the Treasury's Accounts

Outstanding Central Government Debt  
Redemptions  
(domestic and external)

Pre-funding  
Strategy For  
Refinancing  
Debt

## Borrowing Instruments (BASE scenario)

- Benchmark issuances in global capital markets
- Continuing issuances in domestic market

## Alternative Instruments

- Niche capital market instruments (JPY, CHF, etc.)
- Private placements (reverse enquiries)
- Loans from international financial institutions (EIB, CEB, etc.)

## Central Government financing estimation

(2019-2021, EUR million)

30-September-2019	2019			2020	2021
	Jan-Sep	Oct-Dec	Total		
Central government budget balance, net lending and other flows	413	-937	-524	-475	-490
Outstanding central government debt redemption	-819	-156	-975	-1 325	-1 449
Of which:					
Domestic debt repayment	-241	-135	-376	-114	-91
External debt repayment	-578	-21	-599	-1 211	-1 358
Total	-406	-1 093	-1 499	-1 800	-1 939
Gross borrowing	1 250	220	1 470	1 920	1 100
Of which:					
International issuance	1 000	0	1 000	1 800	1 000

Note: Indicative in the planned period

The borrowing volume could be increased in case of:

Liability management activities

Possible restructuring of the government guaranteed commitments (loans) of several hospitals by refinancing / early repayment





## 7. Conclusion

Building on Past Success, Facing Future Challenges



Latvia has fully recovered from the economic recession and restored its strong fiscal position, returning to its previous standards of fiscal prudence. The economy is on a sustainable, robust growth path, characterized by improved competitiveness, solid domestic demand, and a flexible business sector able to adjust to external shocks.

## Flexible and Resilient Economy

→ Decreasing Unemployment

## Sustainable Debt Levels and Prudent Fiscal Management

→ Investor attractiveness

## Resilient towards external shocks

→ Proven track record in overcoming economic crisis in the past

## Belongs to the Core of Europe

→ EZ membership  
→ Member of all the important international organizations



## Predictable public policies and outstanding track record of successful structural reforms

## Banks Well Capitalised, Profitable and Liquid

→ Predominately foreign owned, resident-serving banking sector  
→ Comprehensive financial sector reforms

## Stable Credit Ratings

Investors confidence boosted by institutional, fiscal and macroeconomic strength

## Diversified Export

→ Strong ICT and business services export growth  
→ continued growth in wood and wood products.

