



Republic of Latvia

January 2021



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Key Strengths Underpinning Latvia's Credit Profile



Flexible and resilient economy with strong and coordinated response to economic challenges to recover from the shocks faster

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

Fiscal discipline, deeply embedded, mitigates the level of drop and keeps Latvia within the line of the Maastricht criteria

Restrictions to control the spread of the Covid-19. The Covid-19 pandemic has effect on economic growth but it is expected to rebound in 2021.

Well-capitalized and liquid banking sector, with tighter AML/CFT regime



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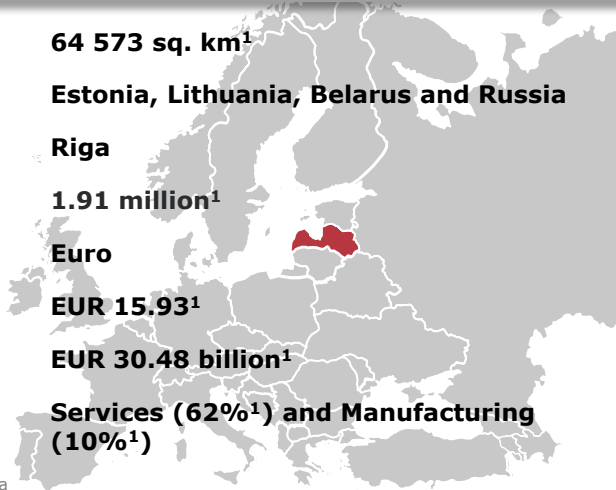


Latvia Belongs to Core Europe

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.

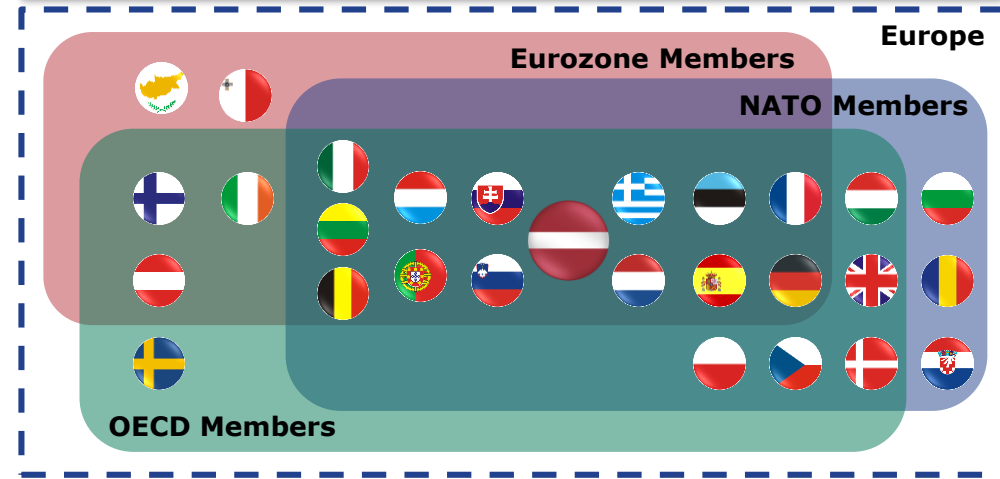
Key Facts

Territory	64 573 sq. km ¹
Borders	Estonia, Lithuania, Belarus and Russia
Capital	Riga
Population₂₀₂₀	1.91 million ¹
Currency	Euro
GDP per capita₂₀₁₉	EUR 15.93 ¹
Nominal GDP₂₀₁₉	EUR 30.48 billion ¹
Main economic sectors 3Q/2020	Services (62% ¹) and Manufacturing (10% ¹)



Source: ¹Central Statistical Bureau of Latvia

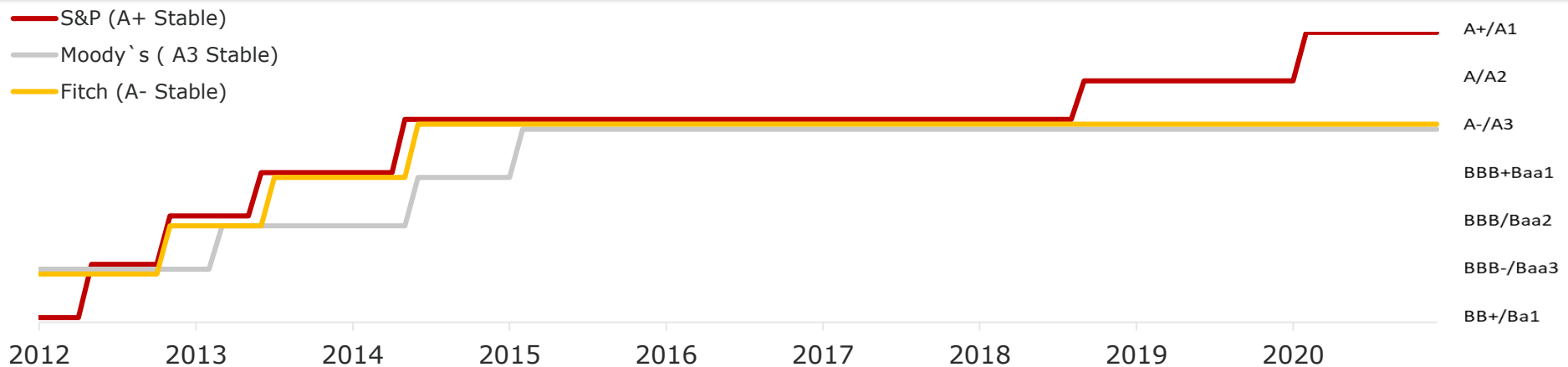
Latvia is a Member of the Eurozone, NATO and OECD



Latvia's Credit Ratings are stable in A category

Rating agencies acknowledge Latvia's dynamisms and flexibility of economy, strong banking sector and institutional strength as key factors bolstering its creditworthiness.

Long-term Foreign Currency Rating Development



Key Strengths of Latvia's Sovereign Credit Profile

- **Prudent fiscal policy** and **contained vulnerabilities of financial system**
- The **Flexibility and dynamisms of the economy**
- A **low level of government debt** relative to **GDP**
- Record of **fiscal consolidation** and **implementation of structural reforms**
- **Membership of large international organisations and unions** (EU, NATO, OECD, etc.)
- **Strong banking sector**, with **markable accomplishments in field of fighting money laundering and financing terrorism**

Key Risk Factors of Latvia's Sovereign Credit Profile

- **External financing risks and persistent possibility of geo-political tensions with Russia** continue to constrain the ratings
- Latvia is a small and highly open economy, making it **vulnerable to external shocks**
- **Increase in general government debt and deterioration in external finances**
- **Challenges in demographic outlook and labor market**
- **Reputational risks in financial sector** remain

Source: S&P, Fitch and Moody's



Key Events in 2020/2021

1

On February 21, the Financial Action Task Force (FATF) concluded Latvia has successfully established a new financial crime prevention system and will not be subject to 'enhanced surveillance' or inclusion in the so-called 'gray list'

2

On March 12, 2020 the Prime Minister publishes the Declaration of Emergency Situation due to the spread of the Covid-19

3

From March 19, 2020 number of measurements to limit the spread of Covid-19 and to mitigate consequences have been adopted by the Government

4

On April 30, 2020 the Cabinet of Ministers approved the Latvia's Stability Programme for 2020 - 2023.

5

On August 21, 2020 S&P affirms foreign currency issuer rating to the level A+ with outlook: Stable

6

On October 9, Fitch affirmed long-term foreign currency sovereign credit ratings at the 'A-' level, revising outlook to stable

7

On November 9, 2020 the Prime Minister repeatedly publishes the Declaration of Emergency Situation due to the spread of the Covid-19

8






On December 2, the Saeima adopted the Law on the State Budget for 2021, the Law on Medium-Term Budget Framework for 2021, 2022 and 2023.

9

On January 25, 2021 R&I affirms foreign currency issuer rating to the level A with outlook: Stable .



Strong and coordinated response to economic challenge

Approved support measures for the Covid-19 crisis			
Total amount of support	EUR, billion	% of GDP	Share of the total package
	3.8	13.6	
Support to the field of taxation			
Extensions of tax payment periods, cancellation of PIT advance payments, refund of overpaid VAT within 30 days, extension of real estate payment terms	0.3	1.2	
Aid in the field of benefits			
Benefit for families (person) in a crisis situation, supplement to a crisis allowance of EUR 50 for a dependent child, payment of sickness benefit from the state budget from the 2nd day, compensation for idle workers, workers bonus to "Compensation for idle workers" for children, entitlement to unemployment status for patent and micro-enterprise taxpayers, the deadline for receiving parental benefits has been extended, unemployment benefit, downtime allowance, childcare allowance and supplement, guardian's allowance for child support, supplement to the state family benefit for a disabled child, downtime benefits, Subsidized jobs, including support for the tourism sector	0.4	1.3	
Aid in the field of loans and guarantees			
Working capital loans, credit guarantees, portfolio guarantees, increasing the local governments borrowing limit, Investment fund, financial Instrument for the support of large enterprises	1.1	4.0	
Sectoral support			
Support to the air transport industry, health care support, support for distance learning, support for media and public information, exemption from or reduction of rent, to alleviate financial difficulties in the agricultural, forestry, fisheries and food production sectors, allowances for interior sector employees for work in conditions of increased risk and workload, for construction of state roads and repairs of bridges, funding for the establishment of a national research program to combat the consequences of COVID-19, for education and science, support for religious organizations, Latvian Council of Sworn Notaries for the purchase of a server, allowances for prison administration staff, building insulation, human capital, support for passenger and freight carriers, support for the sports sector, demography, Institutions and officials subordinate to the Ministry of the Interior, support for the cultural sector	1.2	4.4	
Support related to EU fund			
Short - term loans to farmers, redistribution of EU funds, support for the fisheries sector, over - commitments of EU funds, over - commitments for agricultural funds	0.8	2.7	



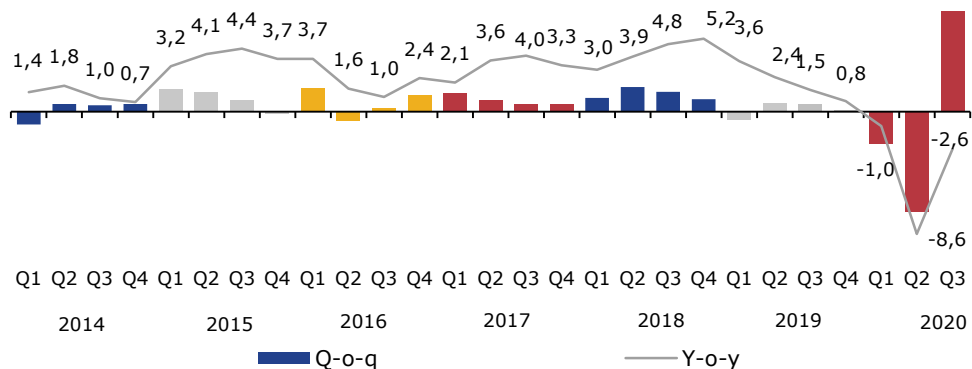
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The Covid-19 pandemic has negative effect on economic growth in 2020 but it is expected to rebound in 2021

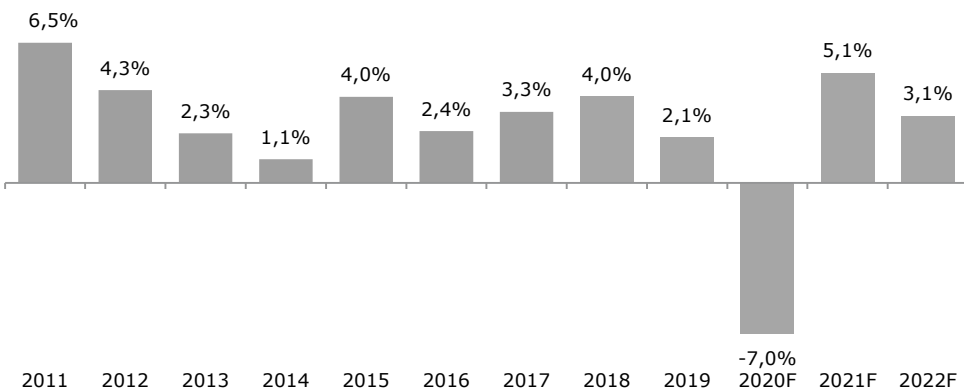
Private consumption has the largest negative impact in the three quarters of 2020. In accordance with credit rating agencies GDP will grow already in 2021.

Real GDP Growth (seasonally adjusted data, %)



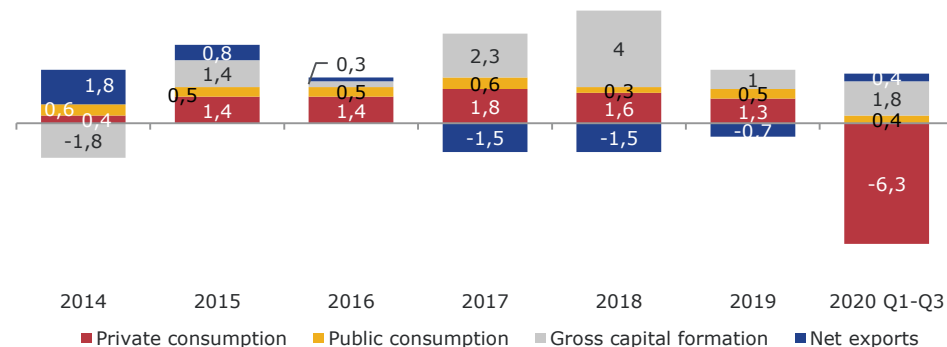
Source: Central Statistical Bureau of Latvia (10.12.2020.)

Real GDP Growth (%)



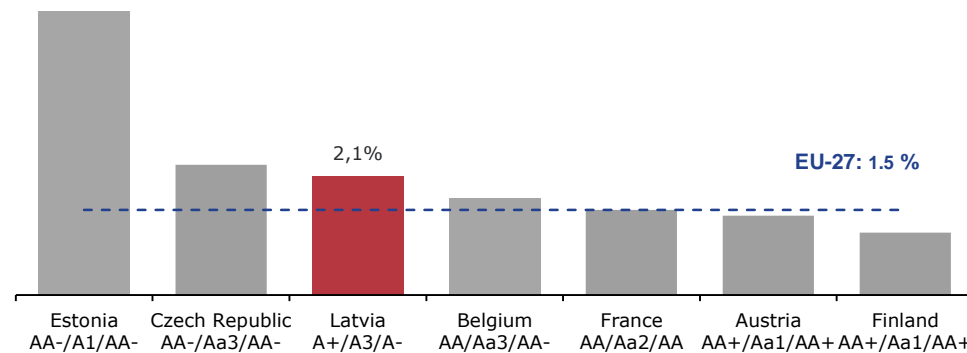
Source: Central Statistical Bureau of Latvia (30.09.2020), MoF forecasts (June 2020)

GDP Growth Composition (%)



Source: Central Statistical Bureau of Latvia (10.12.2020.)

GDP Growth (2019, %)



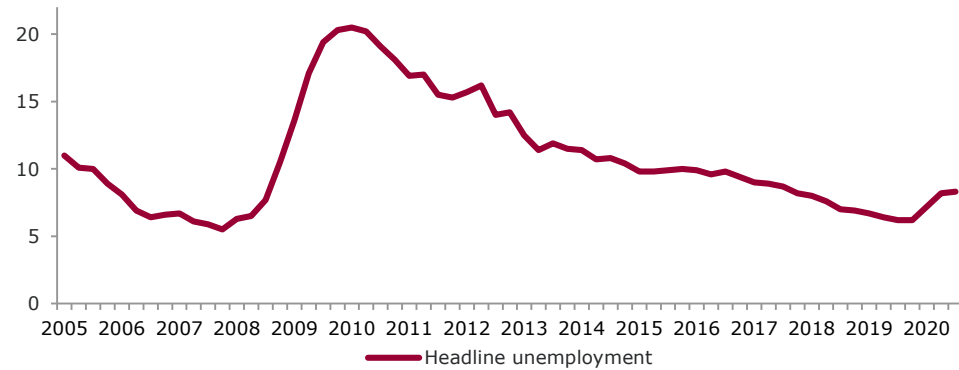
Source: Eurostat (30.11.2020.)



The labour market has negatively affected by the Covid-19, is expected to return to growth in the second half of the year

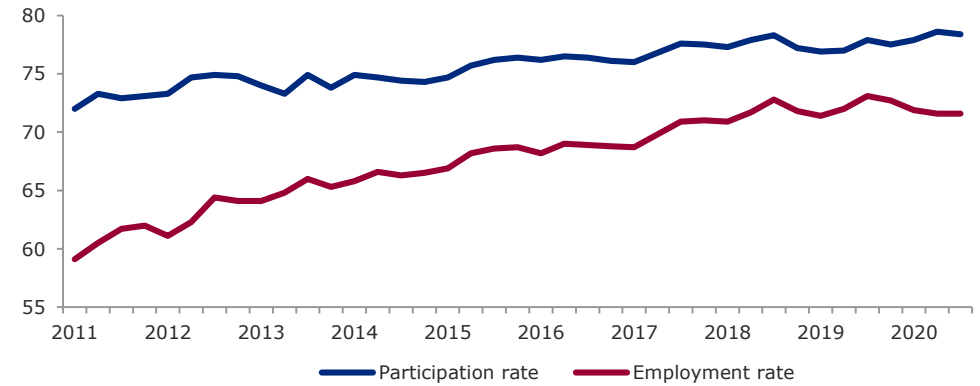
The government took swift actions to mitigate the unemployment growth during Covid-19 crisis; productivity growth is on the rise.

Unemployment: Headline Rates



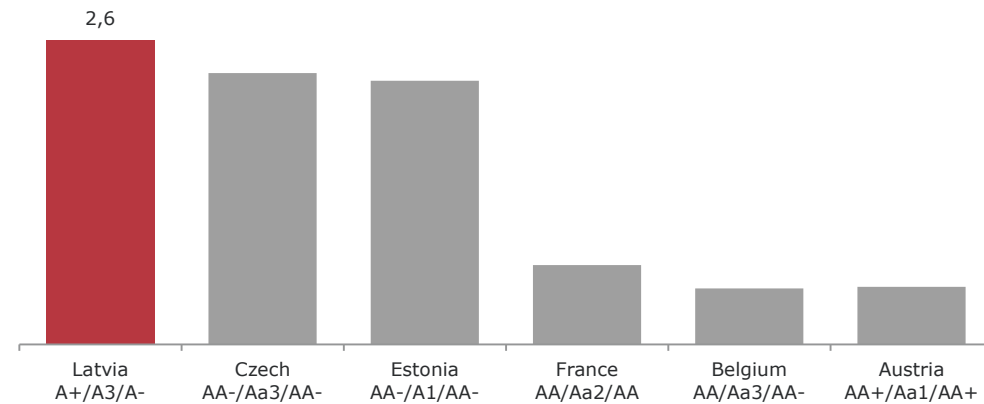
Source: Eurostat (30.11.2020.)

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



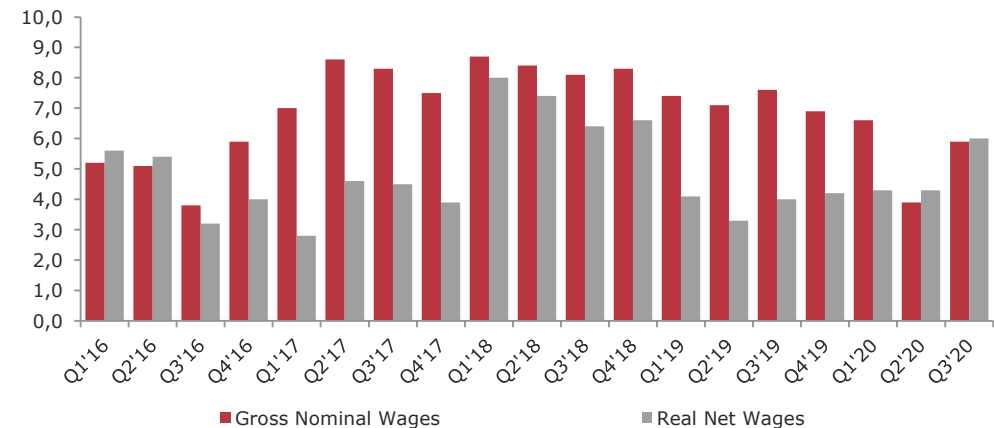
Source: Central Statistical Bureau of Latvia data (30.11.2020.)

Real Productivity Growth Per Worker (2014-2019 average, %)



Source: Eurostat (30.11.2020.)

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



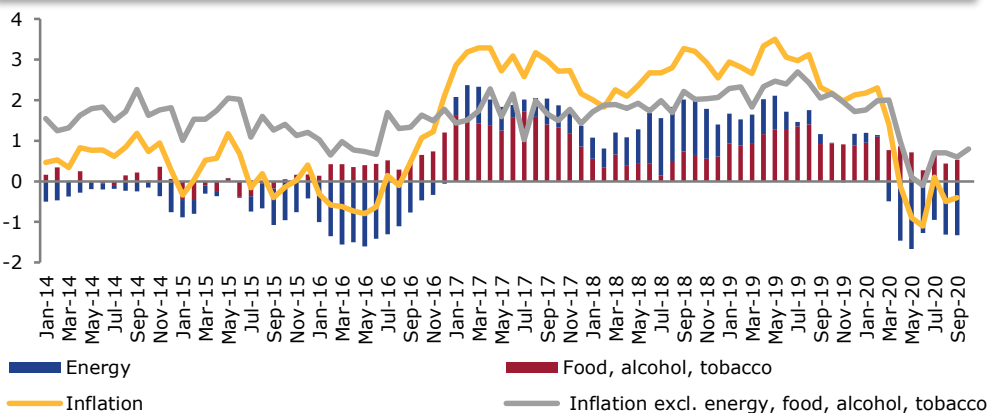
Source: Central Statistical Bureau of Latvia data (15.12.2020.)



Due to economic challenges inflation has dropped below 1%

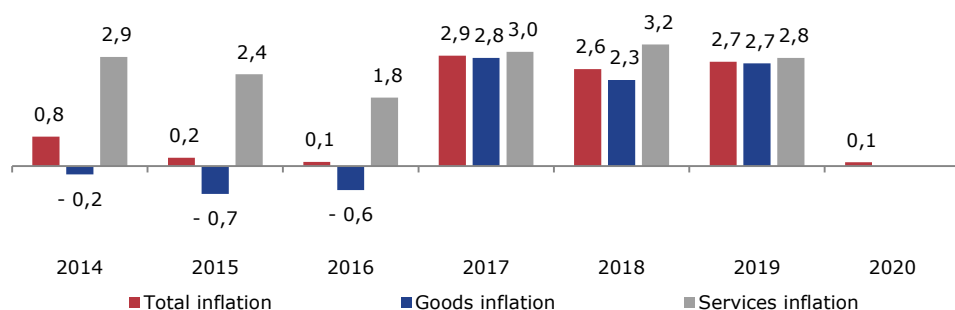
Inflation is mainly affected to the declining demand due to the measures introduced to curb the spread of Covid-19.

Inflation (HICP, %)



Source: Eurostat (30.11.2020.)

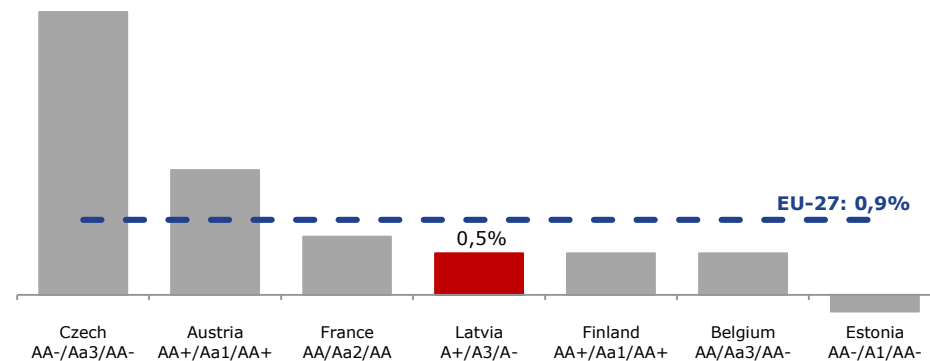
Inflation In Latvia (HICP, %)



Source: Eurostat

Harmonised Index of Consumer Prices

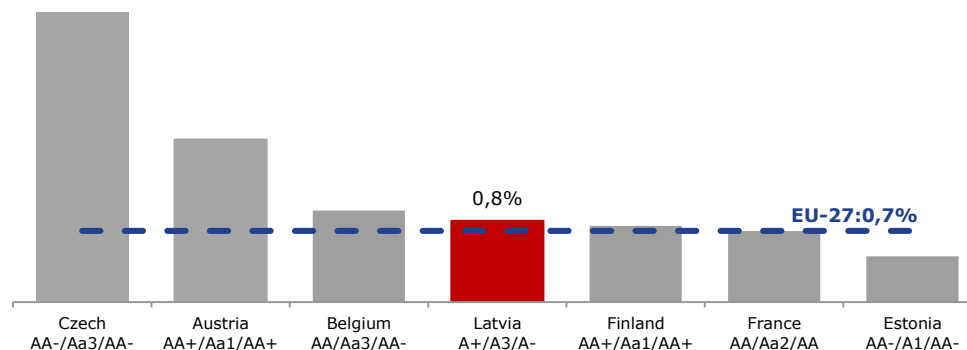
(August 2020, 12 months average %)



Source: Eurostat (30.11.2020.)

Harmonised Index of Consumer Prices Projection

(2020-2021, %)



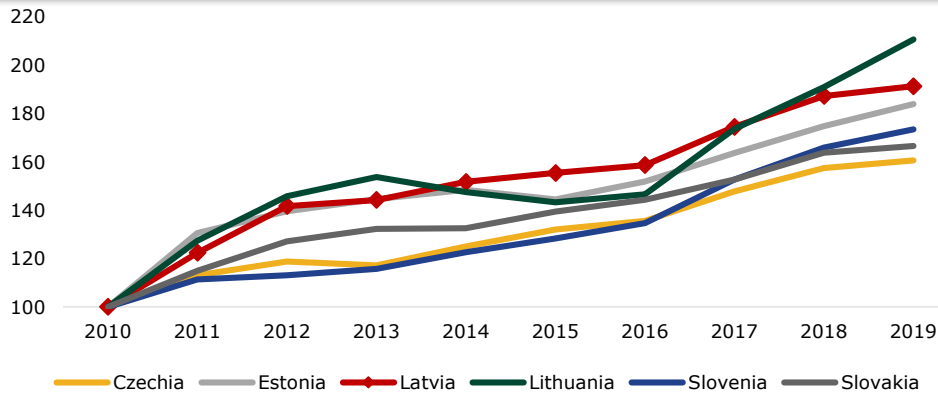
Source: European Commission, Autumn 2020 (30.11.2020.)



Exports of goods in 2020 Q1-Q3 continue to grow

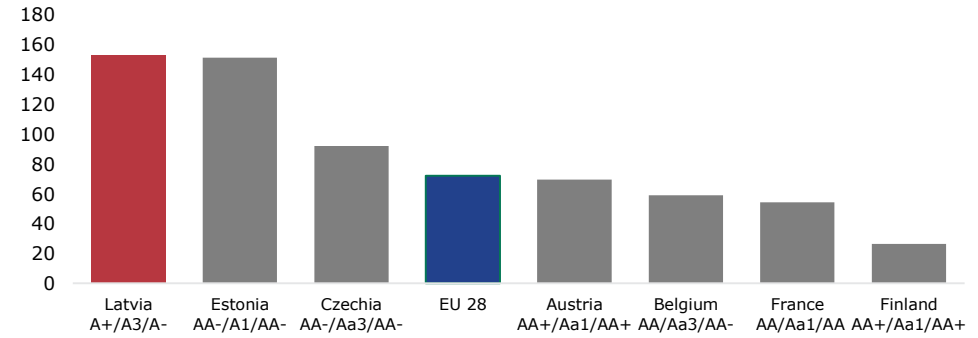
Exports continue to grow despite the delays in raw material supply chains impacted by Covid-19.

Export of Goods and Services (2010=100)



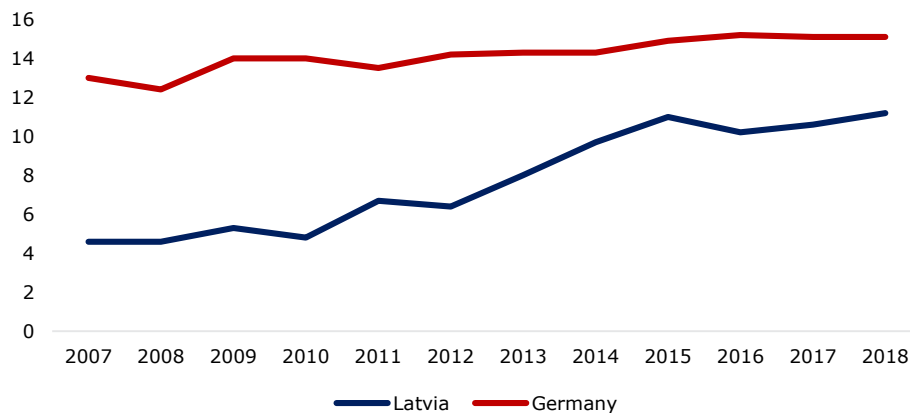
Source: Eurostat

Goods Exports Growth (% growth between 2009 and 2019)



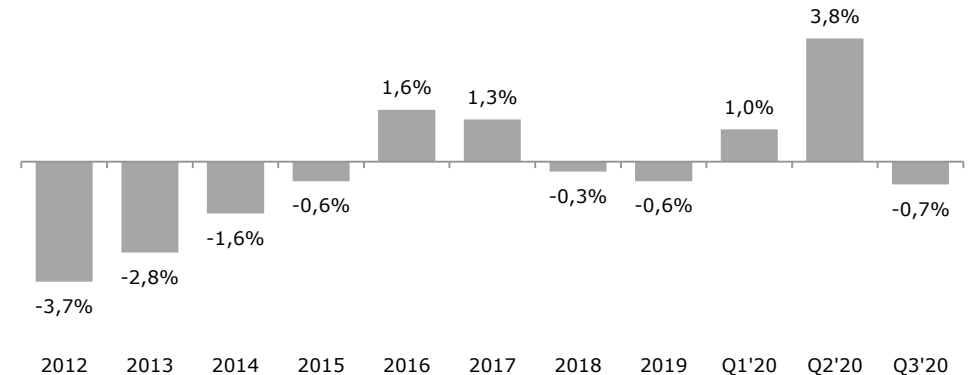
Source: Eurostat

High – Tech Exports (% Of Total Exports)



Source: Eurostat (30.11.2020.)

Current Account Balance (% GDP)



Source: Bank of Latvia (09.12.2020.)



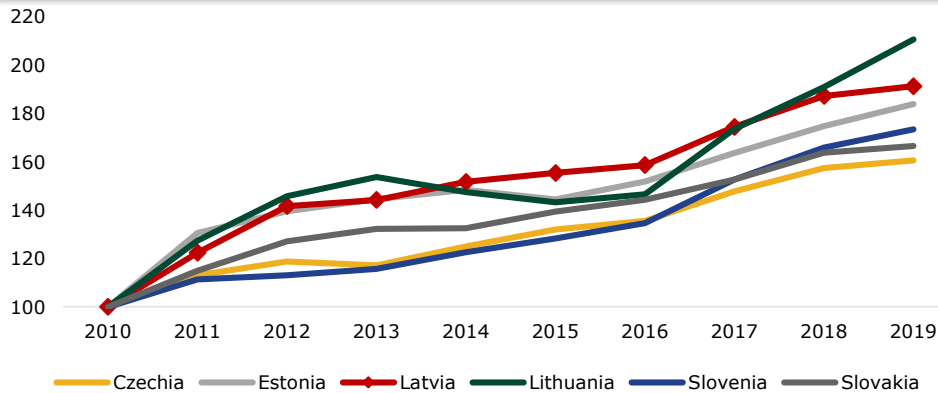
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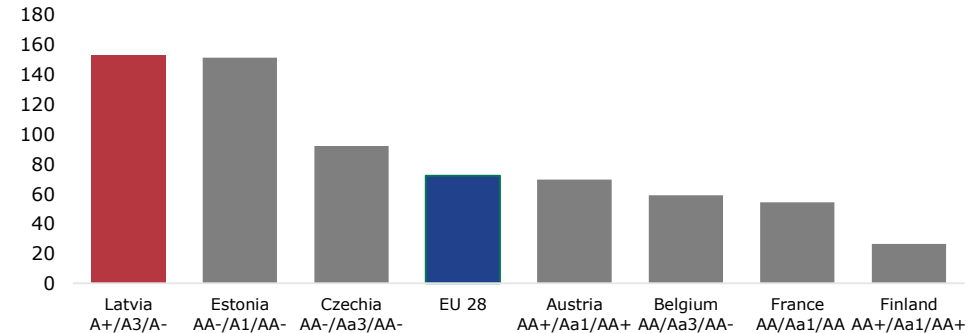
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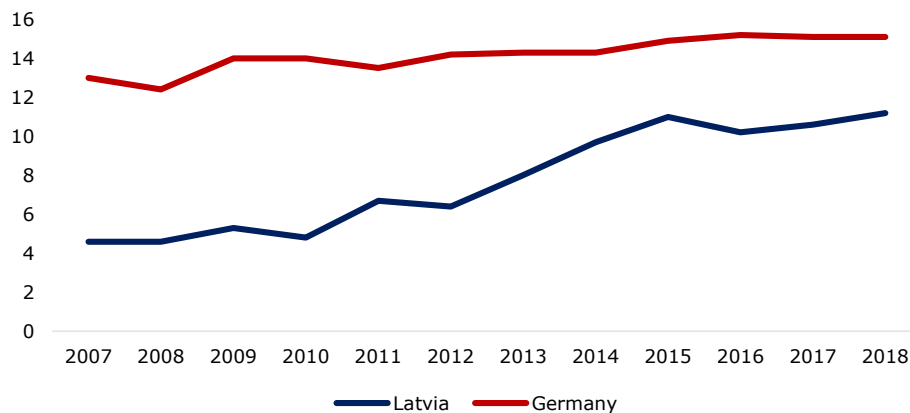
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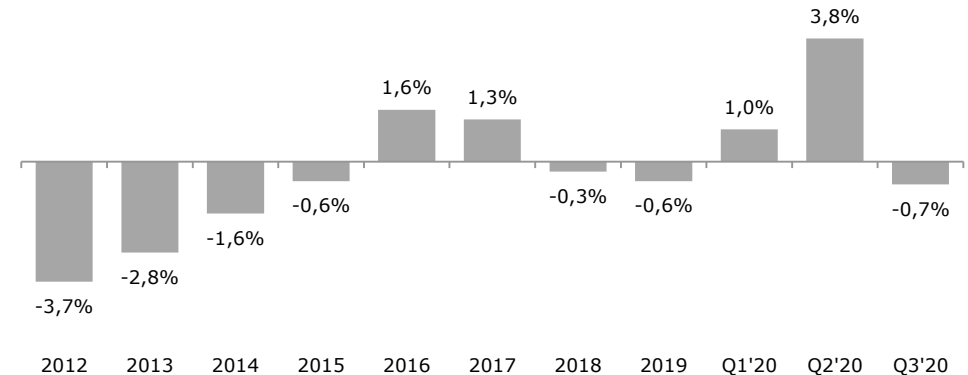
Source: Eurostat

High – Tech Exports (% Of Total Exports)



Source: Eurostat (30.11.2020.)

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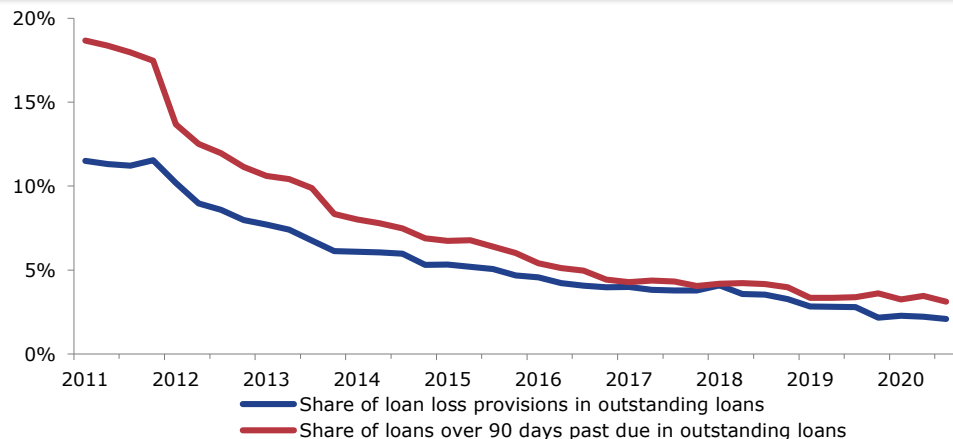
Lending remains subdued

The recovery in growth of loan portfolio is to be delayed due to Covid-19 outbreak and decline in the economic activity

Key Highlights

- Loans to domestic households and NFCs stood at 34% of GDP in September 2020, down from almost 100% at the outset of the global financial crisis
- Lending had been subdued before Covid-19 outbreak and is expected to remain in negative territory
- The impact of Covid-19 on the economy has not been reflected in the overall quality of bank loan portfolio yet; the coverage ratio of 90 days overdue loans remained high. Government support measures and the private loan moratorium have been limiting growth in credit risk in the short term
- To facilitate continuation of prudent consumer and mortgage lending practice by banks in the longer term, the overall LTV restrictions of 90% (95% for participants of guarantee program) are supplemented with a DTI x6, DSTI 40%, maturity cap for mortgage 30Y and for other loans 7Y, LTV 70% for buy-to-let mortgages (effective from July 2020)

Total Loan Portfolio Quality



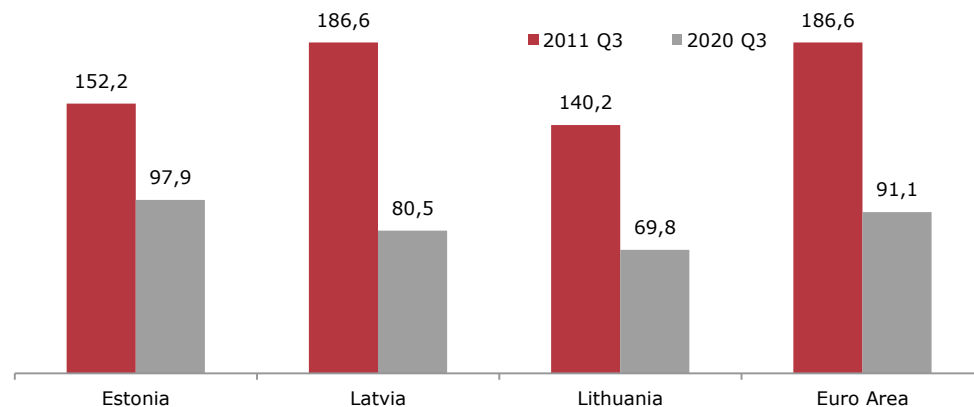
Source: FCMC, Credit Register

Loans to Domestic Clients (yoy)



Source: ECB

Domestic Loan-to-Deposit Ratio (%)



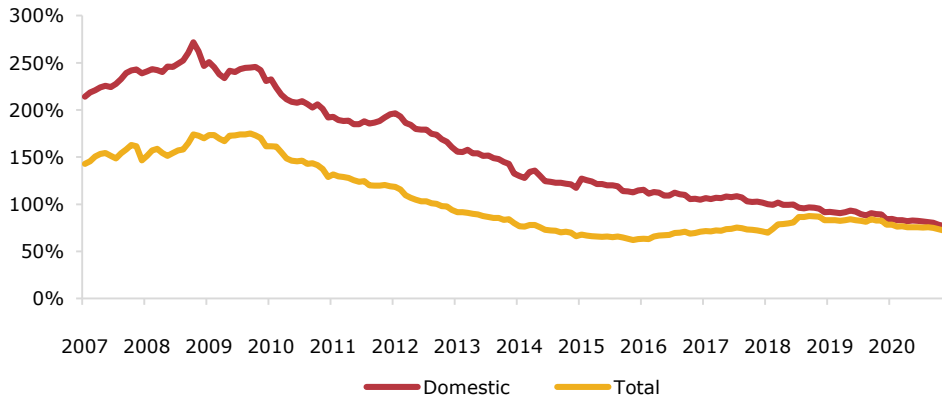
Source: ECB



Domestic loans are mainly funded by domestic deposits

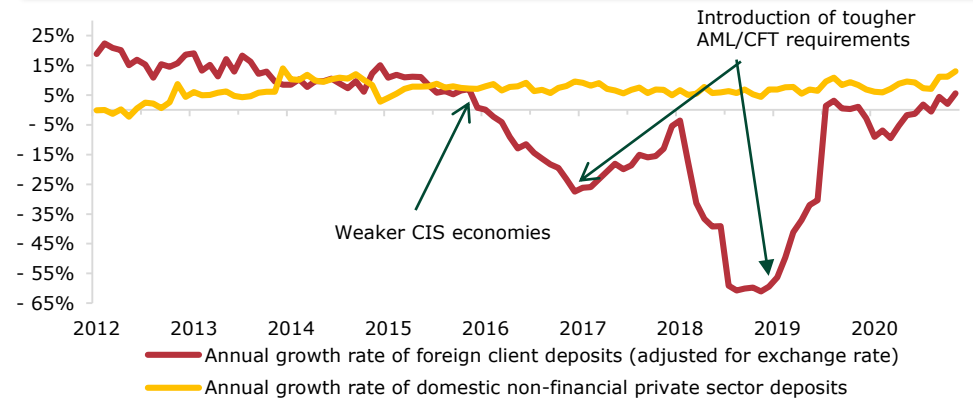
Lending is the core banking product in the domestic market. Parent bank funding has been replaced with domestic deposits

Loan-to-deposit ratio



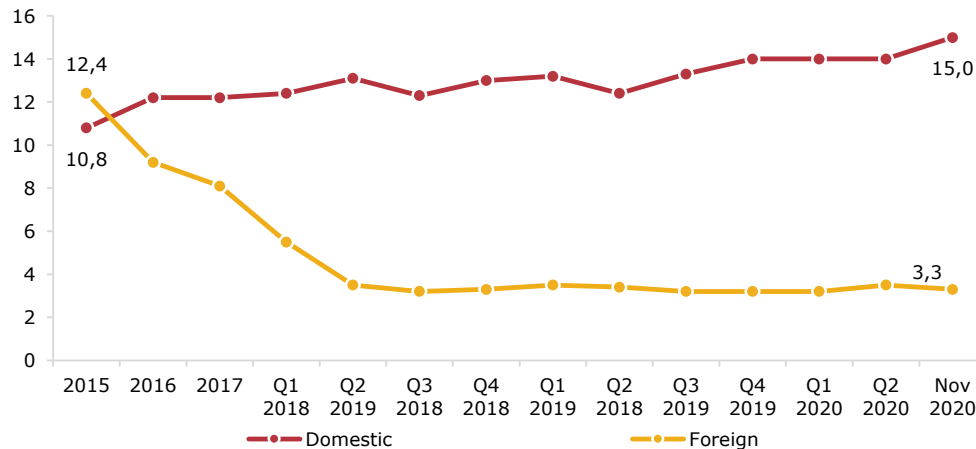
Source: Bank of Latvia

Growth Rates of Domestic and Foreign Client Deposits



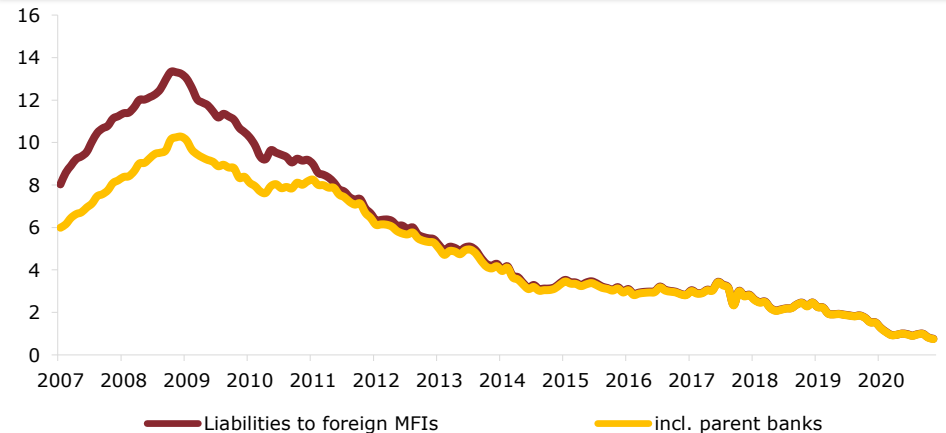
Source: Bank of Latvia

Deposits (EUR bn)



Source: Bank of Latvia

Liabilities to foreign MFIs (EUR bn)



Source: Bank of Latvia



Banking sector profitability challenged by the pandemic

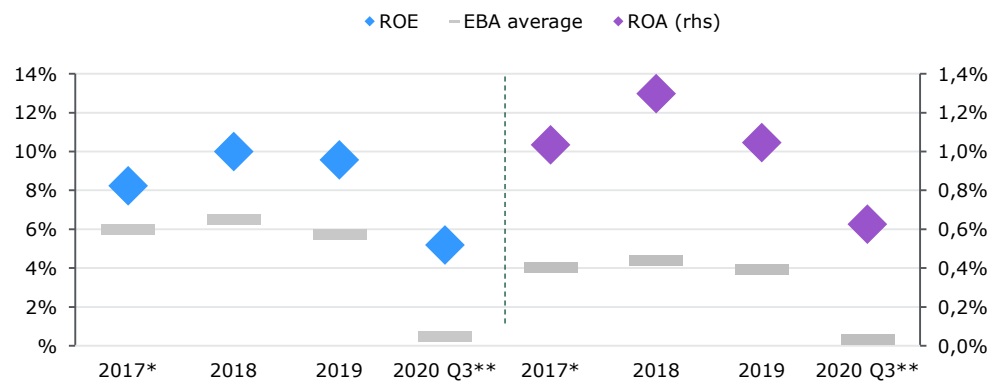
Ability to generate profits in the short-term subdued due to effects of COVID-19. According to preliminary data, in the first three quarters of 2020 banks' total profit decreased mostly due to COVID-19 related provisions and hedging

Key Highlights

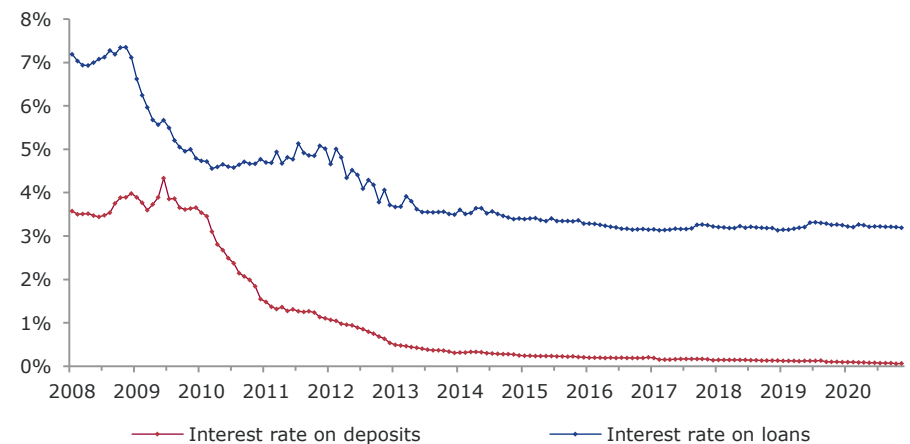
- Largest lenders entered the COVID-19 crisis with sound profitability
- Before the pandemic, the average Return on Equity (ROE) of the Latvian credit institutions was relatively high and exceeded the EU average. In 2019, the average ROE was 9.6% and in 2020 Q3 ROE slumped to 5.2% (EU average was 5.7% in 2019 and 0.5% in 2020 Q2)
- However, as the ongoing pandemic impairs the financial situation of borrowers, banks are starting to face an impact on their profitability. Decrease in banks' net interest income and net commission fee income has been moderate in the first three quarters of 2020, while the largest part of impact on banks' profitability resulted from COVID-19 related expenses on provisions and hedging against revaluation of securities portfolios

ROE

ROA



Interest Spread on Outstanding Loan Amounts



Source: FKTK (FINREP, consolidated), EBA | Note: Excluding the insolvent PNB Banka AS

*One-off adjusted data

** For EBA average 2020 Q2 data are used

Source: Bank of Latvia



Parent Banks are financially sound and profitable

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

Key Highlights

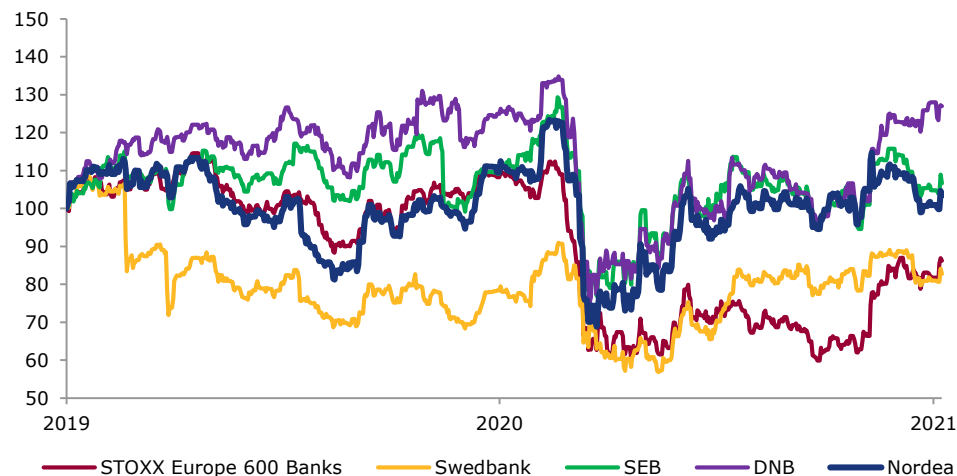
- Financial performance and capitalization level of the parent banks is strong
- Nordic banking groups' profitability is higher than the EU average
- The ability and proven willingness to support subsidiaries in Baltics by the largest parent banks in Nordic countries enhance risk absorption capacity of the Latvian banking sector
- Since January 2019 Luminor Bank Latvia continues its operations as a branch of Estonia's Luminor Bank

Banks Financial Information

	Swedbank	SEB	Luminor Latvia branch*
			DNB Nordea
Assets (EUR mil)*	7,327	4,175	3,552
CAR (%)*	30.6	20.7	-
ROE (%)*	9.0	9.8	-
S&P Global long-term rating	A+	A+	*
Moody's long-term rating	Aa3	Aa2	Baa2
Fitch long-term rating	A+	AA-	*

Source: Association of Latvian Commercial Banks – financial reports, 3rd quarter 2020
 Banks' investor relations (ratings at group level)
 In January 2019 Luminor Bank Latvia became a branch of Estonian Luminor Bank. Bank ratings (at Group level)

Banking Groups' Equity Prices (01.01.2019 = 100, local currency)



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Pension Reform Underpins Stability of Public Finances

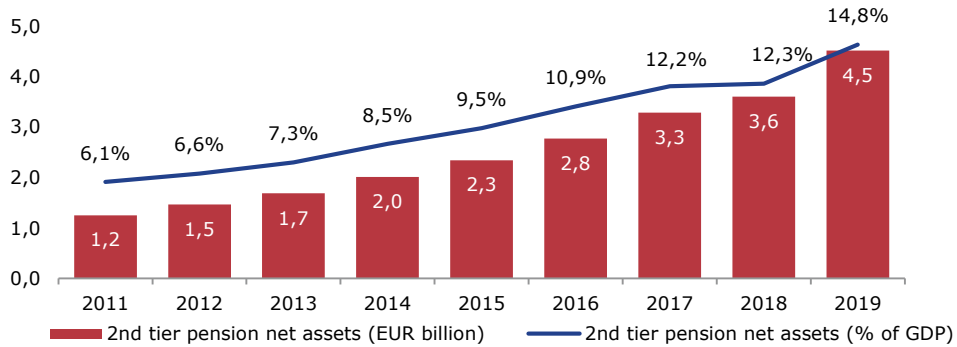
Latvia is well positioned to withstand fiscal challenges arising from an ageing population.

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)
- On October 1st, 2020, the State Social Insurance Agency (SSIA) is indexing the amount of pensions or parts thereof that do not exceed 454 euros per month. Indexes vary depending on CPI, years of service and working conditions.
- From 1 January 2014, the retirement age is gradually increased by three months every year - until 1 January 2025, it will be 65 years. In period from 1st January 2020 till 1st January 2021 retirement age is 63 years and 9 months.
- From 1st January 2020, a person has the right to choose to whom to transfer the capital accumulated in the 2nd tier, in case he or she dies before the granting of the old-age pension, i.e .:
 - transfer the state pension to the special budget (then the capital will be taken into account when calculating the survivor's pension);
 - add accumulated capital to another person's 2nd tier pension;
 - leave for inheritance in accordance with the procedures specified in the Civil Law.

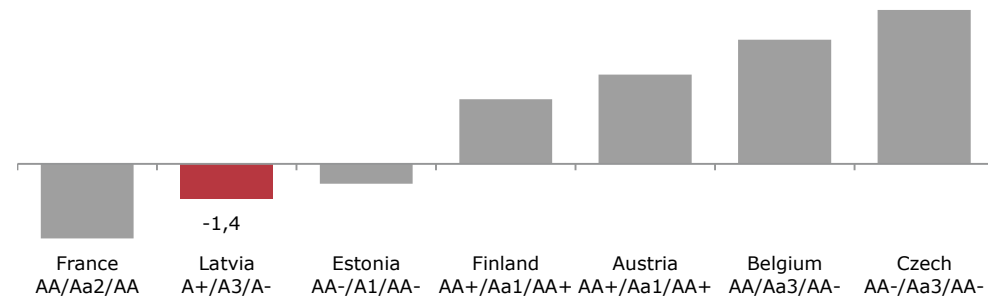
Source: The State Social Insurance Agency

The 2nd Tier Pension Net Assets (EUR billion, % GDP)



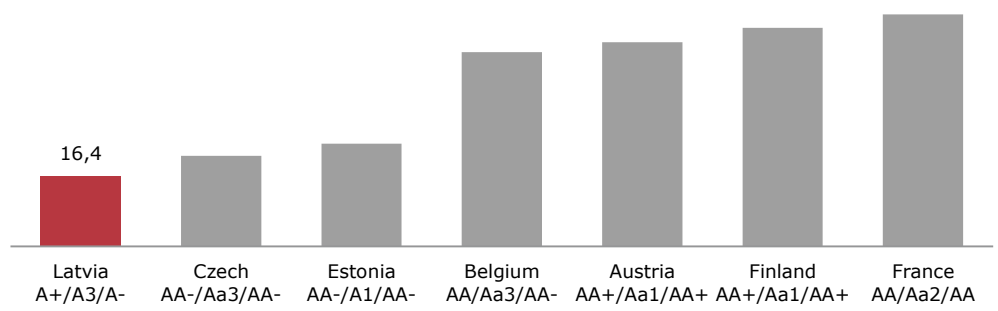
Source: Financial and Capital Markets Commission, Central Statistical Bureau of Latvia

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)



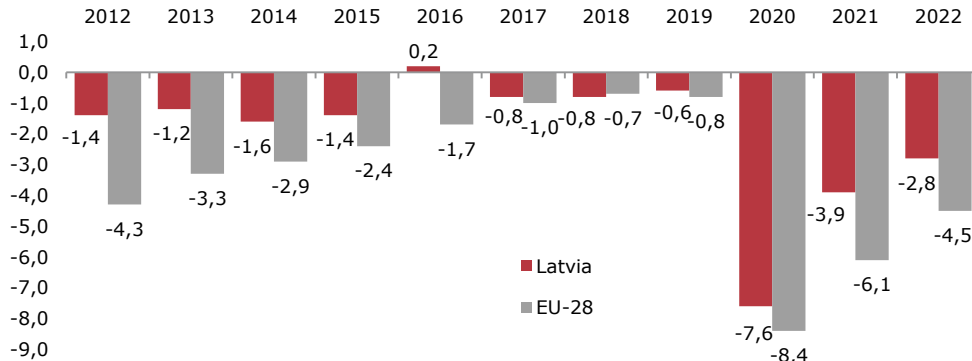
Source: European Commission Ageing Report, May 2018



Fiscal Sustainability Remains Top Priority

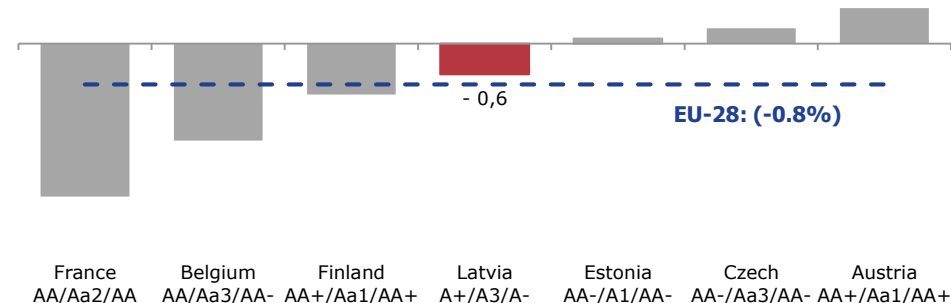
Prudent fiscal management has produced small budget deficits well below the EU-28 average over the past 8 years. The spread of Covid-19 and the restrictions for mitigating the consequences thereof are expected to significantly impact the economy and fiscal indicators of Latvia.

General Government Budget Balance (% of GDP)



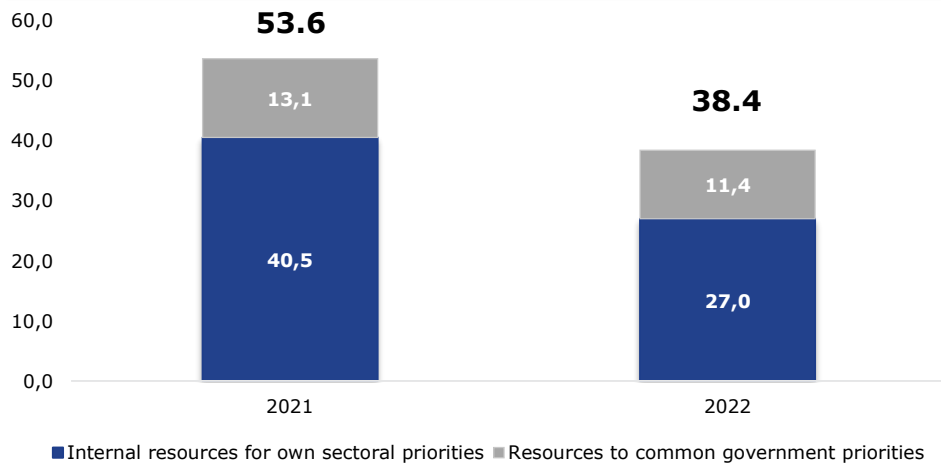
Source: Eurostat, AMECO Autumn forecast 2020, The Law on the State Budget for 2021

Budget Balance (2019, % GDP)



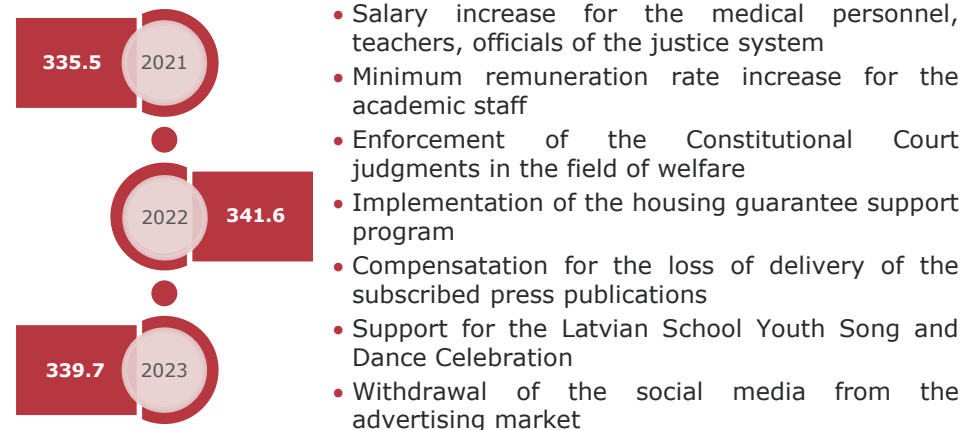
Source: Eurostat

Spending Review Results (EUR, Million)



■ Internal resources for own sectoral priorities ■ Resources to common government priorities

2021 Budget: Expenditure for priorities (EUR, million)



Source: Ministry of Finance



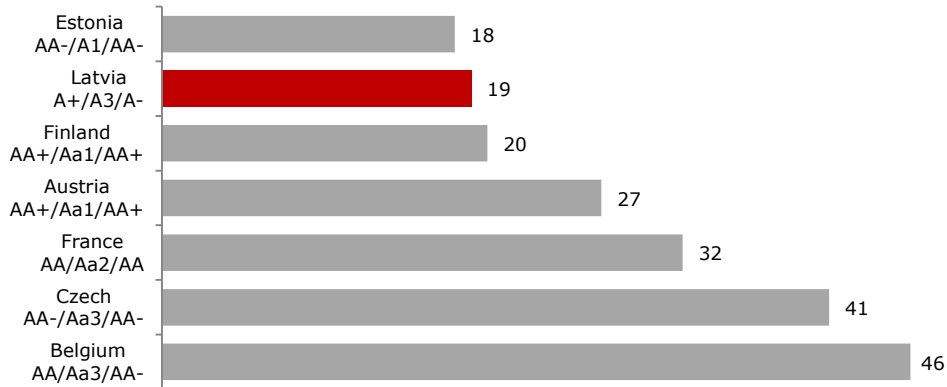
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Latvia's Advanced Country Status Reflected in "Soft" Metrics

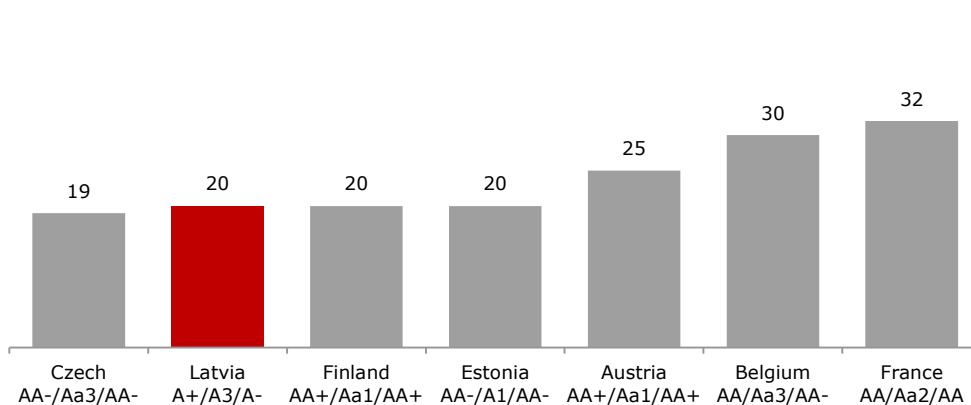
Expanded structural reforms build on existing high institutional strengths and favourable business environment.

World Bank "Ease of Doing Business" Ranking



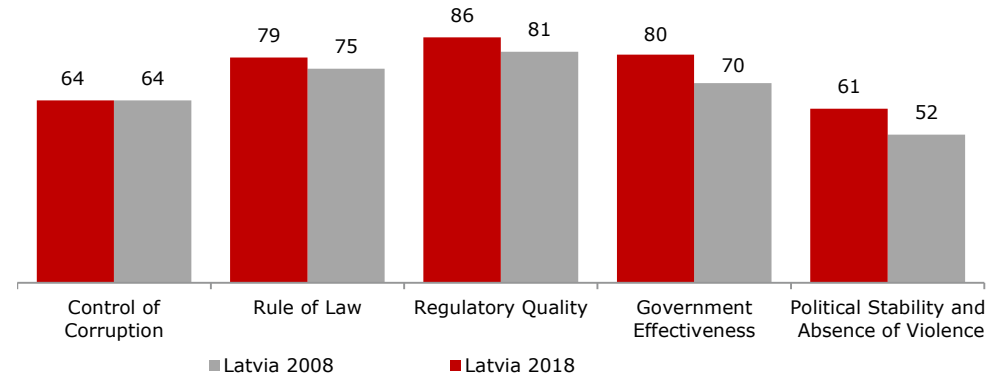
Source: World Bank, Doing Business 2020

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



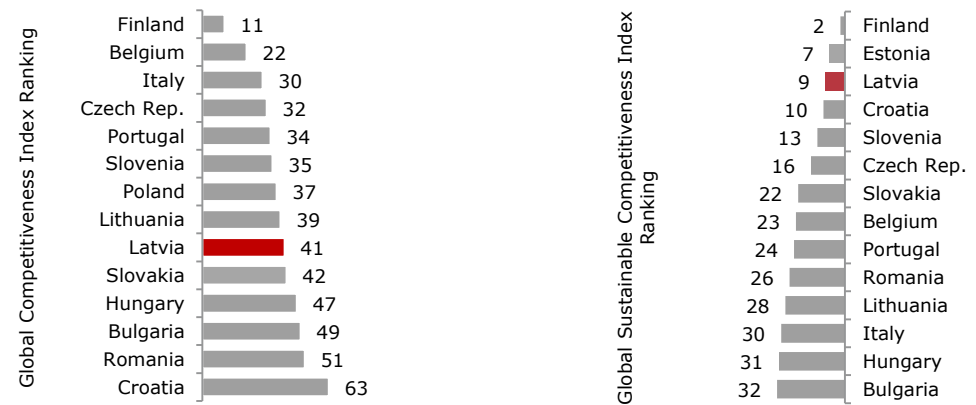
Source: European Commission, Taxation Trends in the European Union 2019

World Bank Worldwide Governance Rankings



Source: World Bank, 2018 Rankings

The Global Competitiveness Index Rankings



Source: World Economic Forum, The Global Competitiveness Report 2019, The Global Sustainable Competitiveness Report 2019



Reform Policies Laying Foundation for New Growth Model

Structural reforms help strengthening Latvia's growth potential.

Labour Market, Social Policy and Healthcare

Addressing labor market issues through education and employment policies; decreasing tax burden on labor; activating social benefit recipients; improving accessibility, quality and efficiency of healthcare

- Decrease of the tax burden on labor, increase of the untaxed minimum, etc.
- Activation of unemployed through active labor 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

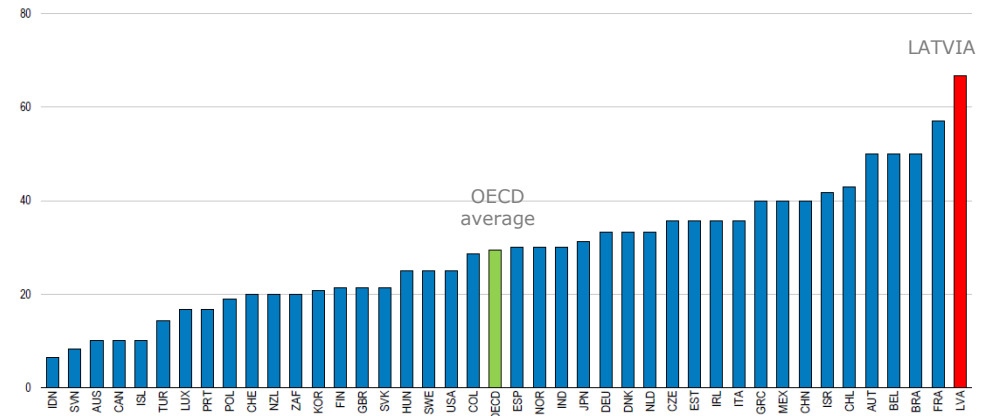
- Public sector reform is being implemented
- Whistleblower protection law in force since 1 May 2019
- Improvement in the insolvency process and tax compliance is being observed

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

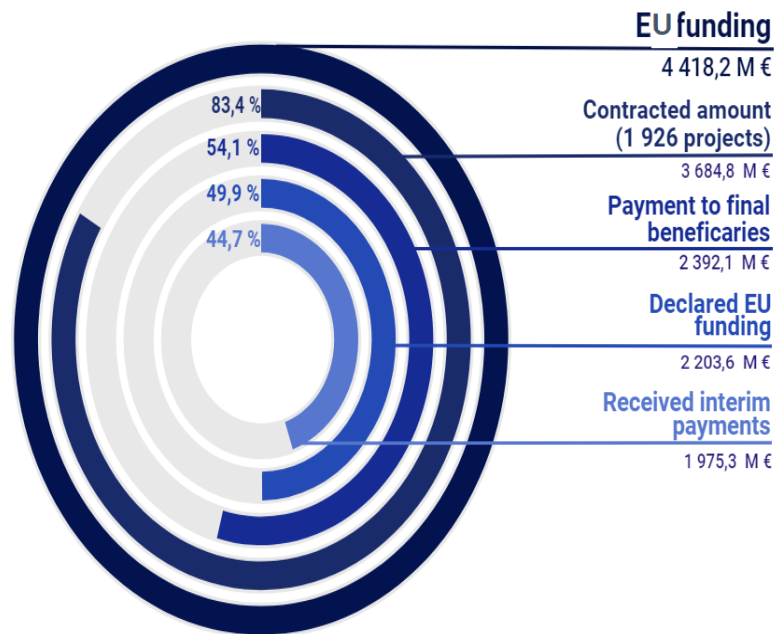
2017 OECD Reform Responsiveness Index, %



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.

Progress Of EU Funds Investments by sectors for 2014-2020



Source: Ministry of Finance; Data on 19.12.2020

EU funds investment progress is transparent and can be followed:
www.esfondi.lv

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.

Source: Ministry of Finance

EU Funds After 2020

- On 21 July 2020, the European Council adopted conclusions **on the recovery plan and multiannual financial framework for 2021-2027**. Further the **consent of the European Parliament** is required to conclude the decision-making process.
- The Latvia's Cohesion policy allocation **together with grant allocations from new instruments (Recovery and Resilience Facility, REACT EU, Just Transition Fund of NextGen package)** is ~ **6,4 billion** EUR (in 2018 prices). Indicatively 2,3 billion EUR will be available in loans **from Recovery and Resilience Facility**.
- **As regards to Cohesion policy, Latvia will remain** eligible to receive support from all three Cohesion policy funds (Cohesion Fund, European Regional and Development Fund, European Social Fund).

Measures to mitigate effects of the COVID-19 crisis

- As a result of CRII and CRII plus regulation flexibility, on 19 May 2020, the government approved the proposals for reallocating nearly €500 million of EU funds to mitigate the consequences of the Covid-19 crisis.
- REACT-EU envisages allocation of a top-up of € 272 million of EU funds to Latvia as part of European Commission's proposal for Recovery Plan for Europe.
- Proposal for Recovery and Resilience Facility indicates additional € **2,01 billion (in current prices) funding in form of grants for recovery and strengthening of the economy**.



New tax changes have been approved by the parliament

Key goals: promotion of the country's social sustainability and economic competitiveness

Main tax changes from 2021*

- ✓ **Increase of the income threshold up to which the differentiated non-taxable minimum is applied**
(from EUR 1200 per month to EUR **1800** per month)
- ✓ **The rate of mandatory state social insurance contributions is reduced**
(from 35.09% (employer's rate -24.09%, employee's rate - 11%) to **34.09%** (employer's rate -23.59%, employee's rate - 10.5%))
- ✓ **A minimum social contribution object for employees whose monthly income does not reach the amount of the minimum wage is introduced**
- ✓ **Reorganization of the micro-enterprise tax regime**
(the tax rate is increased to 25% up to turnover of EUR 25'000 and 40% for the excess amount)
- ✓ **Gradually increase of excise duty on tobacco products and changes in vehicle taxes, etc.**
- ✓ **Increase of the minimum salary**
from EUR 430 to EUR 500 in 2021

* In accordance with the informative report *"On the Development Directions of Tax Policy, Promotion of the State's Social Sustainability and Economic Competitiveness"* submitted to the Cabinet of Ministers on September 2, 2020



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General government debt will increase but remain below 60% in medium term

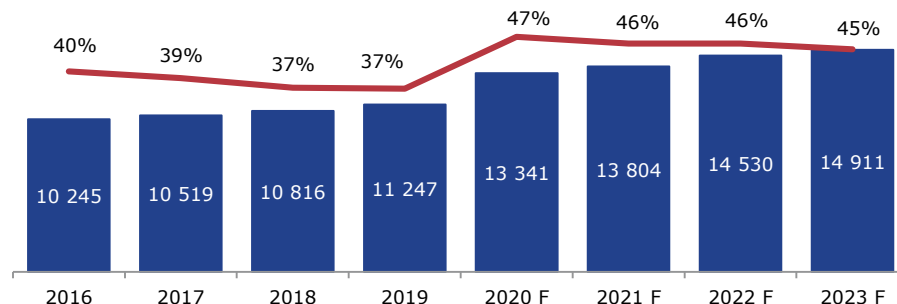
Despite the projected debt increase in the medium term it is expected to be in line with Maastricht criteria

Key Characteristics of Latvia's Government Debt

- General government debt is amongst the lowest in the EU at 36.9 % of GDP at the end of 2019. It is the 4th lowest in the Eurozone and the 9th 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

General Government Debt Year End

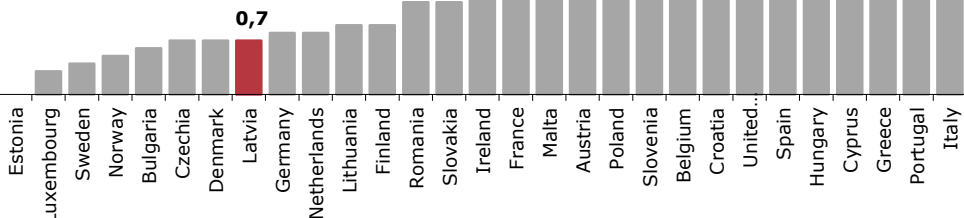
(EUR million, % GDP, ESA methodology)



Source: Eurostat (actual data 2016-2019), Medium Term Budget Framework (baseline scenario, 2020-2023)

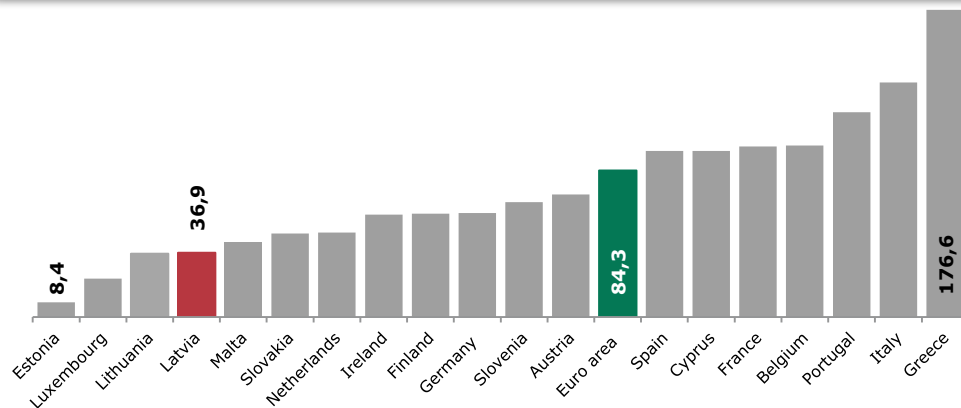
Interest payments 2019, % GDP

EU-28: 1.6%



Source: Eurostat

General Government Debt (Eurozone countries) 2019, % GDP



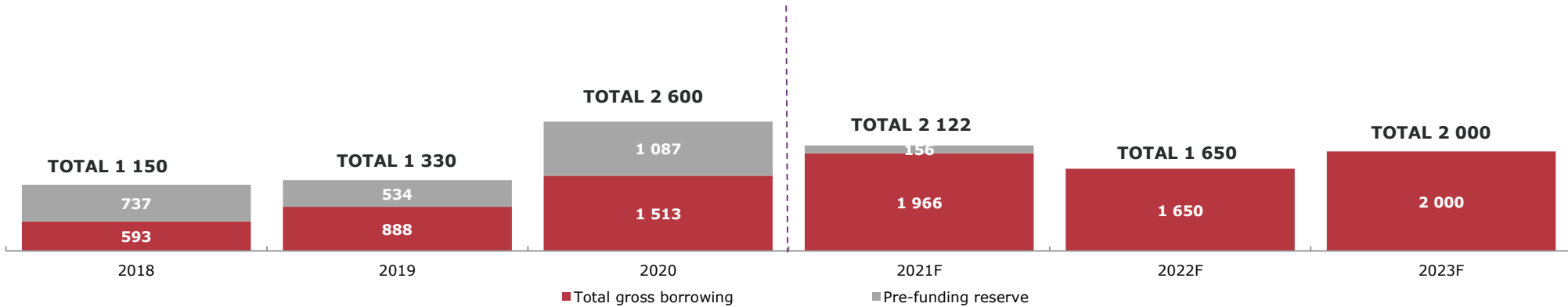
Source: Eurostat (24.08.2020.)



Borrowing Strategy focused on prefunding and refinancing

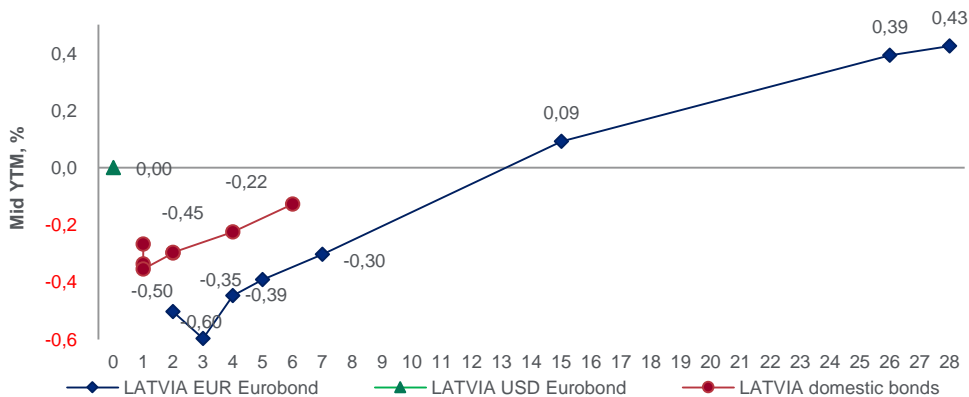
Budget deficit and debt repayments make the most part of borrowing requirement in medium term.

Government Gross Borrowing (EUR million)



Source: The Treasury

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



Source: Data as of 18 January 2020, Bloomberg

Borrowing activities in international capital markets in 2020

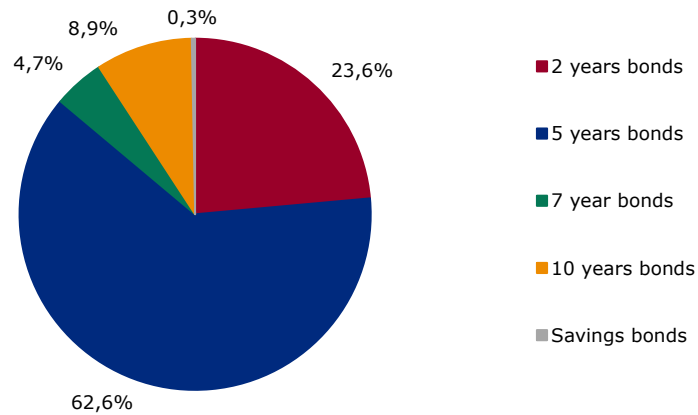
- On March 26, Latvia re-opened its outstanding Eurobond maturing 7 October 2026 by issuing EUR 550 million:
 - Yield was set at 0.406% and total amount outstanding EUR 1,5 billion
- On April 6, Latvia priced a new 3 year benchmark Eurobond in the international capital markets in a total amount of EUR 1 billion
 - Eurobond maturity 14 April 2023
 - Yield was set at 0.209%
 - Coupon was set 0.125%
- Both transactions partly covered planned necessary funding for 2020 including support measures to overcome Covid-19 crisis.



Domestic Market Continues to Perform Strongly and is reliable

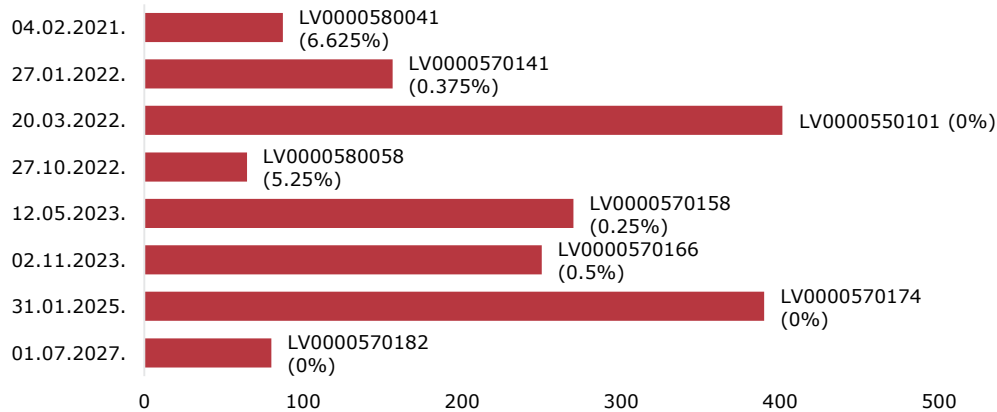
Demand in domestic market is very supportive through challenging times and grew during Covid-19 crisis.

Domestic Securities Outstanding by Original Maturity (as on December 31, 2020, %)



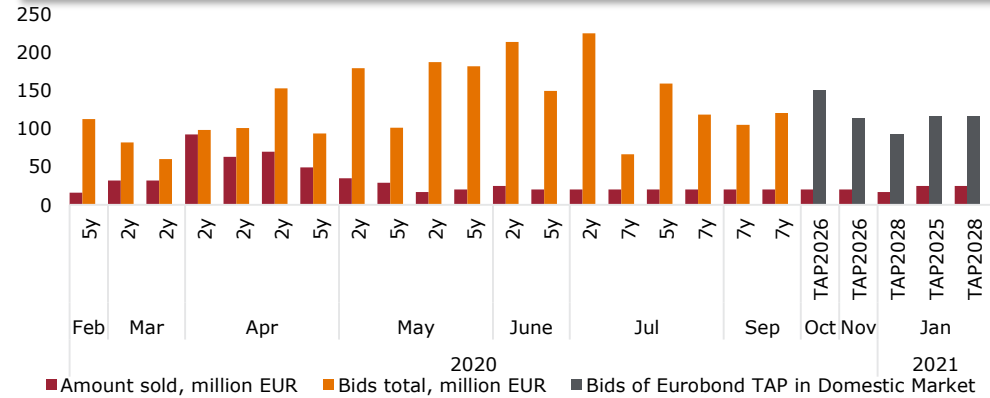
Source: The Treasury

Government domestic securities outstanding by maturity (as on September 30, 2020, million EUR)



Source: The Treasury

Government Securities Competitive Multi-Price Auctions



Source: The Treasury | Note: Bid-to-Cover ratio: Bid Amount to State Treasury offered amount, * Since 2015 6m T-Bills benchmarks are tap issues of original 12m T-Bills in maturity brackets from 4.5 to 9 months.

Securities in the domestic market

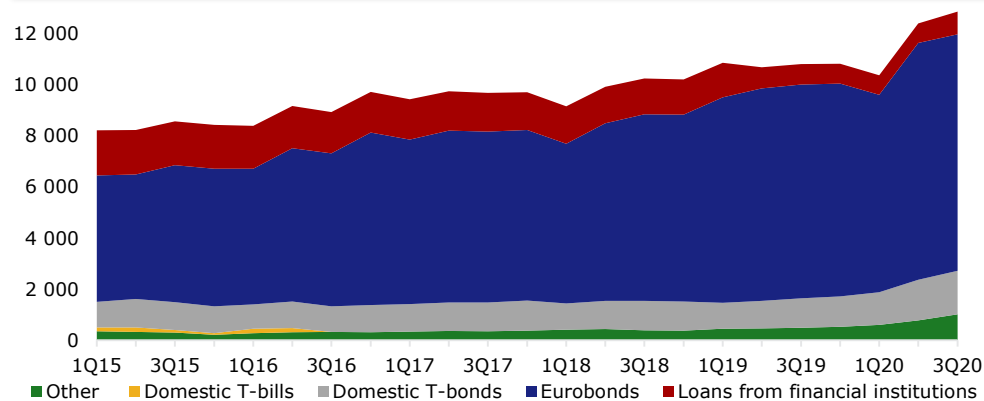
- Primary dealer system operates since 11 February 2013. Domestic debt securities outstanding constituted EUR 1 699,3 million as of 30 September, 2020.
- The Treasury maintains regular domestic debt securities auctions in 2020 offering medium and long term T-bonds. Long term segment overall is covered by international issues.
- For several years Latvia has concentrated domestic supply mainly in 5-year segment and focuses on increasing the liquidity.
- A new 7 year T-bond program was opened in the July 1, 2020. Coupon was fixed at the 0.000%.
- 2 year T-Bond programme was taped on regular basis, with rising demand. Currently 2 year T-Bond Programme is one of the most liquid programmes.
- On 14 October 2020, for the first time GMTN programme Eurobonds (with maturity on 7 October 2026) were offered in auction in domestic market only. The weighted average yield rate was fixed at negative level (-0.326%).



Central Government Debt Profile

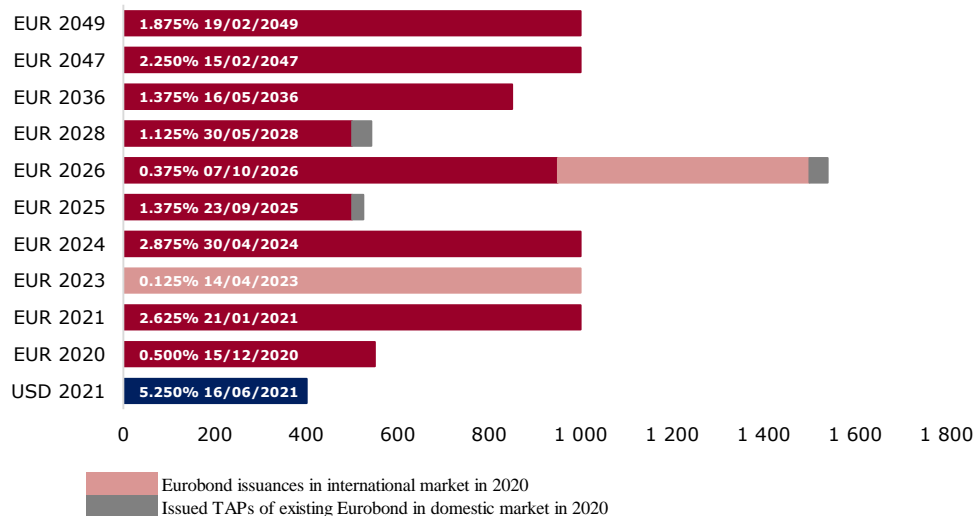
Government debt redemptions remain moderate

Debt structure by Instruments (million EUR)



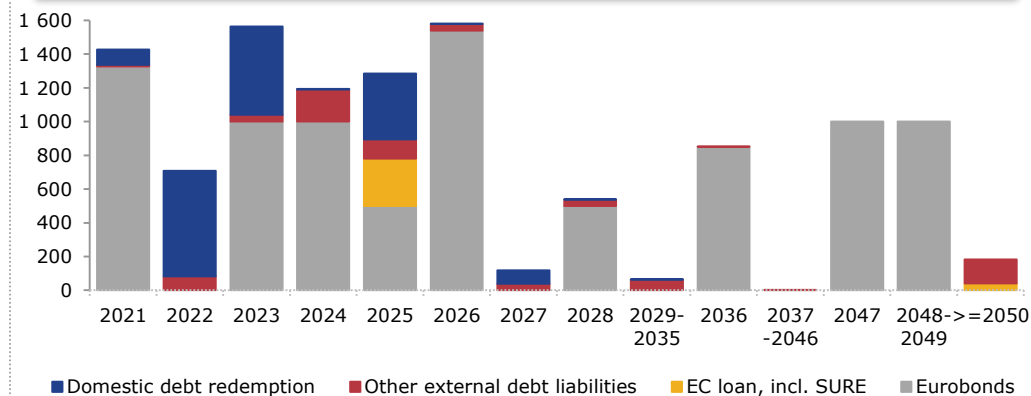
Source: The Treasury, September 2020

Outstanding International Bonds (nominal amount, million)



Source: The Treasury

Debt Redemption Profile (EUR million)



Source: The Treasury, at the end of December 2020

Debt Portfolio Management

Parameters	Strategy	30/09/2020	31/12/2020
Maturity profile (%)			
• up to 1 year	≤ 25%	23.5%	18.8 %
• up to 3 year	≤ 50%	39.1%	37.2 %
Share of fixed rate ⁽¹⁾	≥ 60%	78.4%	82.10 %
Macaulay duration (years)	5.00 – 9.00	6.50	6.62
Net debt ⁽²⁾ currency composition	100% EUR with a deviation of +/- 5%	100.53%	100.10%

Source: The Treasury | ⁽¹⁾Fixed rate central government debt with a maturity over 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.



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
- Loans from international financial institutions (NIB, EC SURE)

Alternative Instruments

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

Central Government financing estimation

(2021-2023, EUR million)

31-December-2020	2021	2022	2023
Central government budget balance, net lending and other flows	-1 670	-989	-448
Outstanding central government debt redemption	-1 410	-707	-1 560
<i>Of which:</i>			
Domestic debt repayment	-92	-624	-520
External debt repayment	-1 318	-83	-1 041
Total	-3 080	-1 696	-2 008
Gross borrowing	2 122	1 650	2 000
<i>Of which:</i>			
International issuance	1 200	1 000	1 400

Note: Indicative in the planned period

The borrowing volume could be increased in case of:

Budget execution

Necessity to cover additional expenses in relation to the Covid – 19 impact



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Investment Highlights

The strong banking sector, flexible and resilient economy, the Governments ability to the swift reaction in emergency situations leads to the ability to react and overcome external shocks. Latvia previously has showed a strong ability to recover from the crisis and the Governments swift actions and decisions taken during the Covid-19 crisis will, as experts have expressed, lead to recovery in 2021.

Flexible and Resilient Economy

→ government swift actions to stabilise the economy

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 in 2019
→ continued growth in wood and wood products in 2019.

