



Republic of Latvia

April 2021



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Key Strengths Underpinning Latvia's Credit Profile

Flexible and resilient economy with strong and coordinated response to economic challenges

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

**In 2020, the contraction of economic has been less harsh on Latvia than initially forecasted.
The economic recovery is expected to start in mid-2021**

Prudent fiscal management in previous years has reduced the debt level and provided the fiscal space to absorb the Covid-19 negative impact on the economic

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



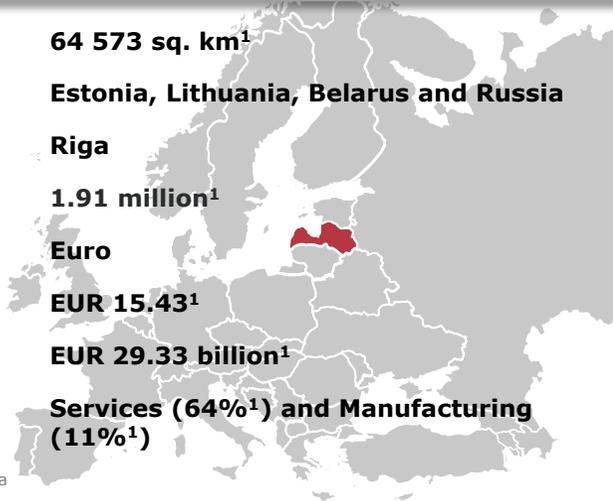
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Latvia Belongs to Core Europe

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.

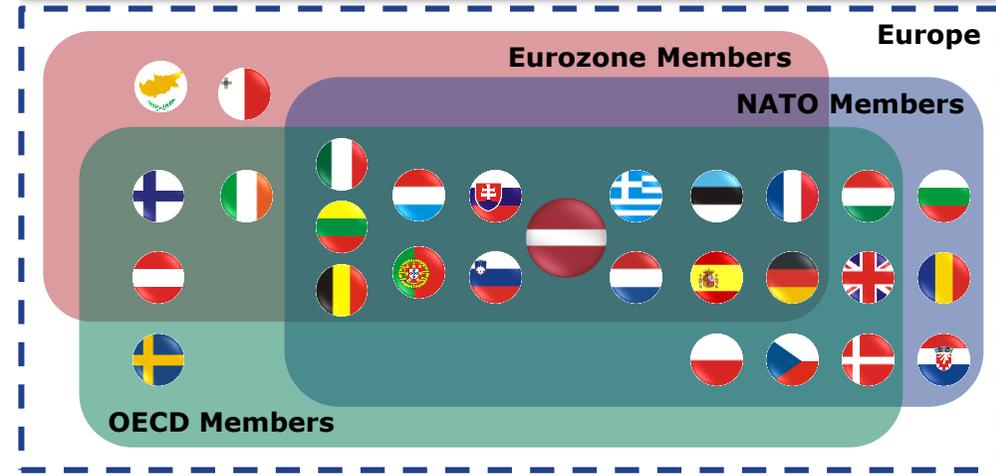
Key Facts

Territory	64 573 sq. km ¹
Borders	Estonia, Lithuania, Belarus and Russia
Capital	Riga
Population₂₀₂₀	1.91 million ¹
Currency	Euro
GDP per capita₂₀₂₀	EUR 15.43 ¹
Nominal GDP₂₀₂₀	EUR 29.33 billion ¹
Main economic sectors 2020	Services (64% ¹) and Manufacturing (11% ¹)



Source: ¹Central Statistical Bureau of Latvia

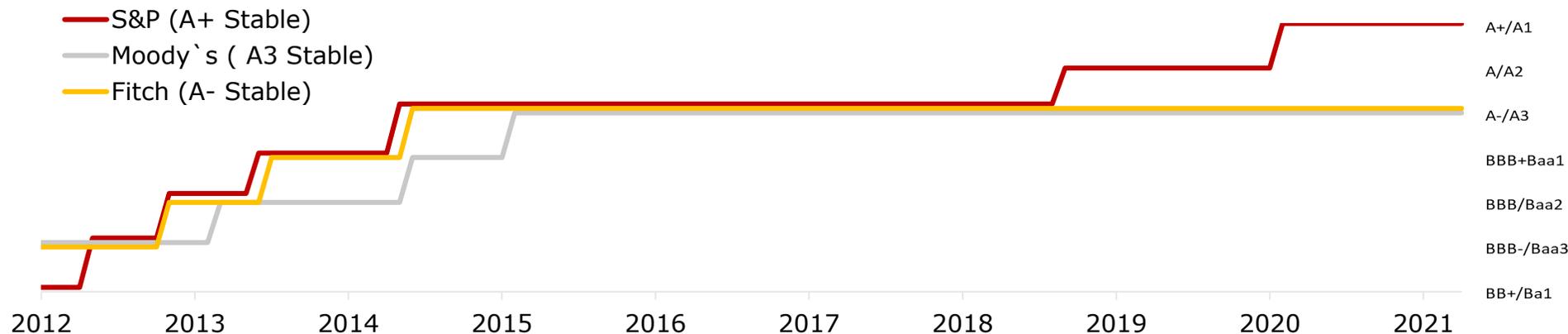
Latvia is a Member of the Eurozone, NATO and OECD



Latvia's Credit Ratings are stable in A category

Rating agencies acknowledge flexibility of Latvia's economy, moderate level of government debt and prudent fiscal management as key factors bolstering its creditworthiness.

Long-term Foreign Currency Rating Development



Key Strengths of Latvia's Sovereign Credit Profile

- Prudent fiscal management and contained vulnerabilities of financial system
- The flexibility and dynamisms of the economy and economy's sound external profile
- Latvia's moderate government debt to GDP level
- Record of fiscal consolidation and implementation of structural reforms, effective policymaking
- In previous years created fiscal space to mitigate the impact from various shocks to the economy
- Membership of large international organizations and unions (EU, NATO, OECD, etc.)

Key Risk Factors of Latvia's Sovereign Credit Profile

- External financing risks and persistent possibility of geo-political tensions continue to constrain the rating
- Latvia is a small and open economy, making it vulnerable to external shocks
- Latvia's inability to reduce government debt to GDP level
- Challenges in demographic outlook and labour market, and comparably low income level
- Reputational risks in financial sector remain
- Risk of structural shocks to the key sectors or weakening of international competitiveness

Source: S&P, Fitch and Moody's

Key Events in 2020/2021

1

From March 19, 2020 number of measures to limit the spread of Covid-19 and to mitigate consequences to economy have been adopted by the Government. Total Covid-19 related support provided in 2020 and approved measures as of today for 2021 is 3.9 billion EUR

2

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

3

On December 28, 2020 the vaccination against Covid-19 was launched in Latvia. The first vaccines got the healthcare professionals and to the Emergency Medical Service professionals

4

On February 5, 2021 the website «manavakcina.lv» became operational, where every inhabitant of Latvia can apply for a vaccine against Covid-19

5

On February 9, 2021 the Cabinet of Ministers approves the strategy for Latvia's long-term coexistence with Covid-19

6

On February 12, 2021 S&P affirms foreign currency issuer rating to the level A+ with outlook: Stable

7

On March 19, Fitch affirmed long-term foreign currency sovereign credit ratings at the 'A-' level with Stable outlook

8

On April 13, 2021 the Cabinet of Ministers approved the Latvia's Stability Programme for 2021 - 2024

Strong and coordinated response to economic challenge

Approved support measures for the Covid-19 crisis (on May 7, 2021)		
	2020	2021
	Actual	Plan
Total amount of support	4.4% of GDP	11.1% of GDP
	EUR, billion	
	1.29	3.40
<i>Support to the field of taxation</i>		
Extensions of tax payment periods, cancellation of PIT advance payments, refund of overpaid VAT within 30 days, extension of real estate payment terms	0.26	0.11
<i>Aid in the field of benefits</i>		
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, support for families with children EUR 500 for each child in foster care, one-time support in the amount of 200 euros for each pensioner and person with a disability	0.13	0.56
<i>Aid in the field of loans and guarantees</i>		
Working capital loans, credit guarantees, portfolio guarantees, increasing the local governments borrowing limit, Investment fund, financial Instrument for the support of large enterprises	0.24	0.98
<i>Sectoral support</i>		
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, for the Latvian Board of Sworn Notaries to purchase a server to ensure the continued operation of the e-apostille register, allaminating the difficulties caused by the spread of Covid-19 in the notarial, allowances for prison administration staff, building insulation, human capital – campaign for lifelong learning, funding for the monitoring of university graduates, support for passenger and freight carriers, support for the sports sector, funding for demographic improvement, Institutions and officials subordinate to the Ministry of the Interior, support for the cultural sector	0.63	1.67
<i>Support related to EU funds</i>		
Short - term loans to farmers, redistribution of EU funds, support for the fisheries sector, over - commitments of EU funds, over - commitments for agricultural funds	0.027	0.09

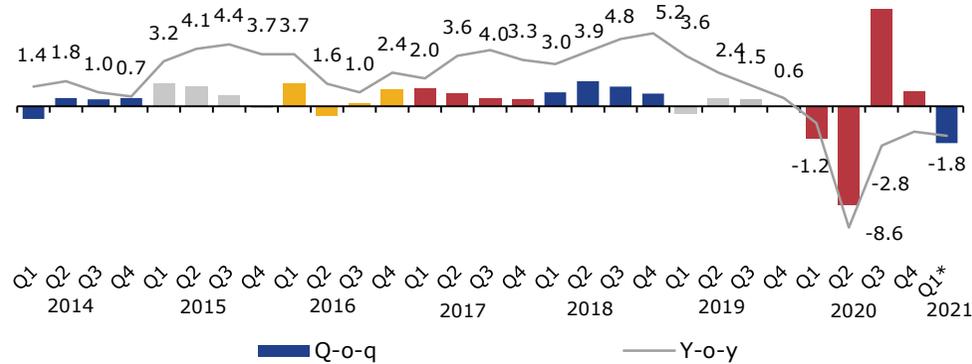


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The Covid-19 pandemic has negative effect on economic growth in 2020

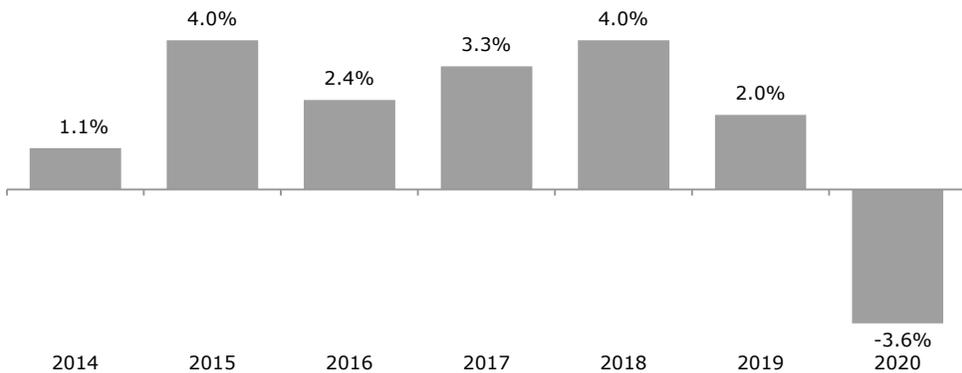
Private consumption has the largest negative impact in 2020. In accordance with credit rating agencies GDP will start to recover in the second half of 2021.

Real GDP Growth (seasonally adjusted data, %)



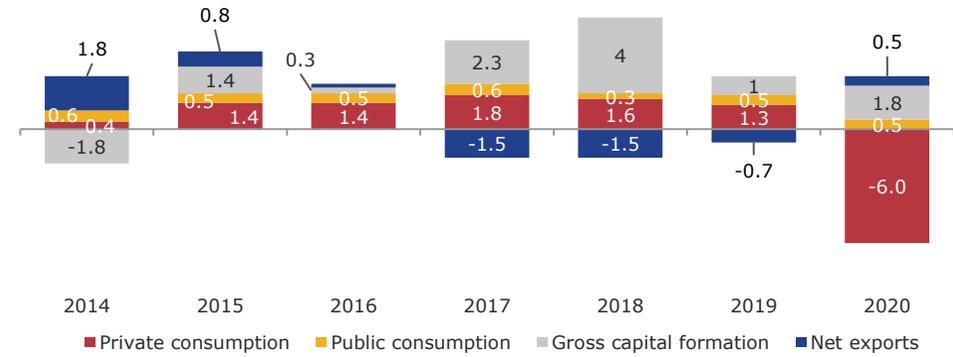
Source: Central Statistical Bureau of Latvia (07.05.2021.) * CSB Flash estimations for Q1 2021

Real GDP Growth (%)



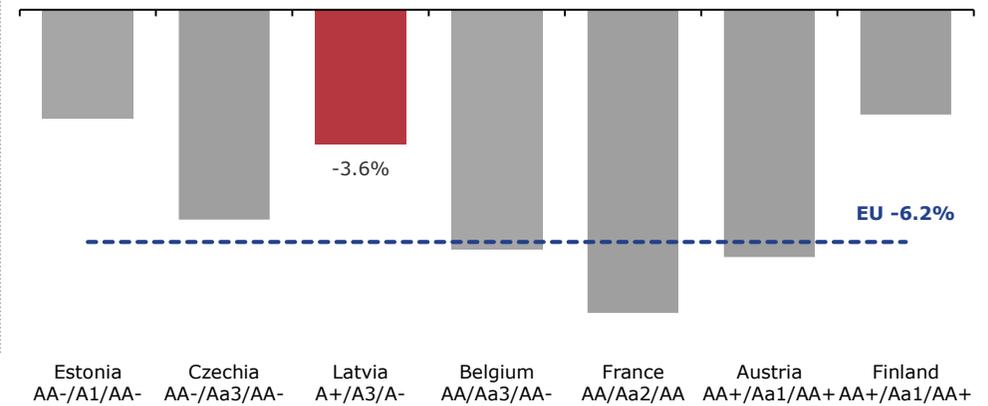
Source: Central Statistical Bureau of Latvia (09.04.2021)

GDP Growth Composition (%)



Source: Central Statistical Bureau of Latvia (09.04.2021.)

GDP Growth (2020, %)

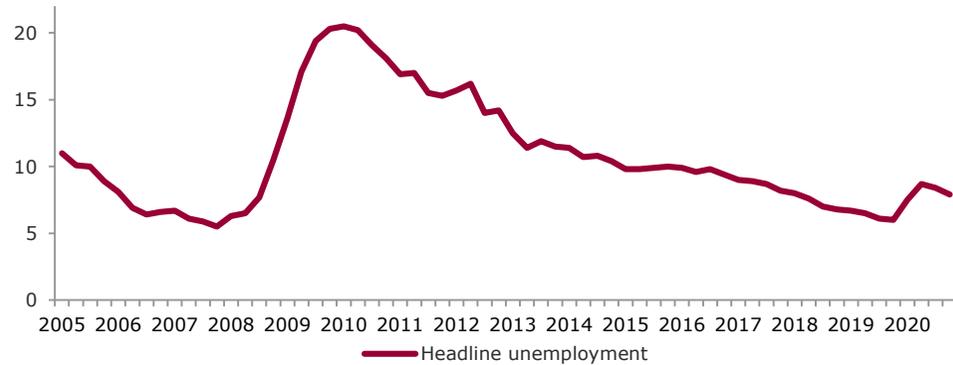


Source: Eurostat (09.04.2021.)

The labour market has been negatively affected by the Covid-19, is expected to return to growth in the second half of 2021

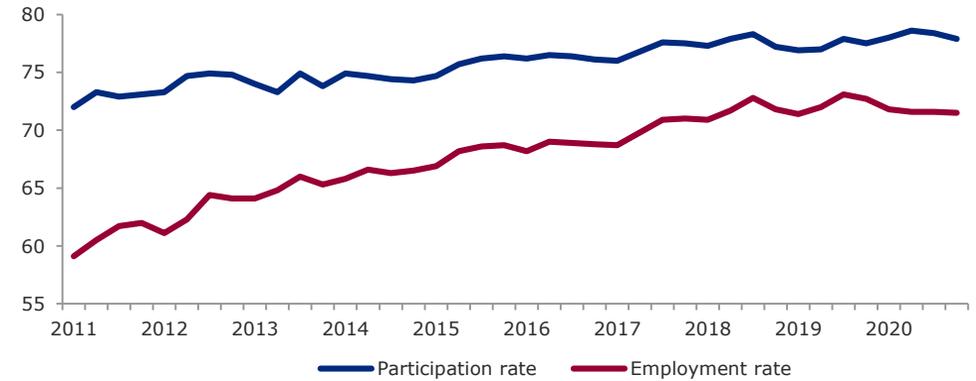
The government took swift actions to mitigate the unemployment growth during Covid-19 crisis; productivity growth is on the rise.

Unemployment: Headline Rate



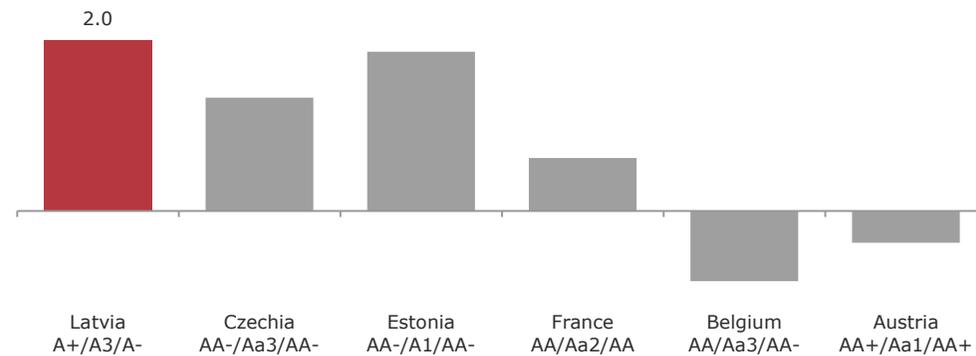
Source: Eurostat (05.05.2021.)

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



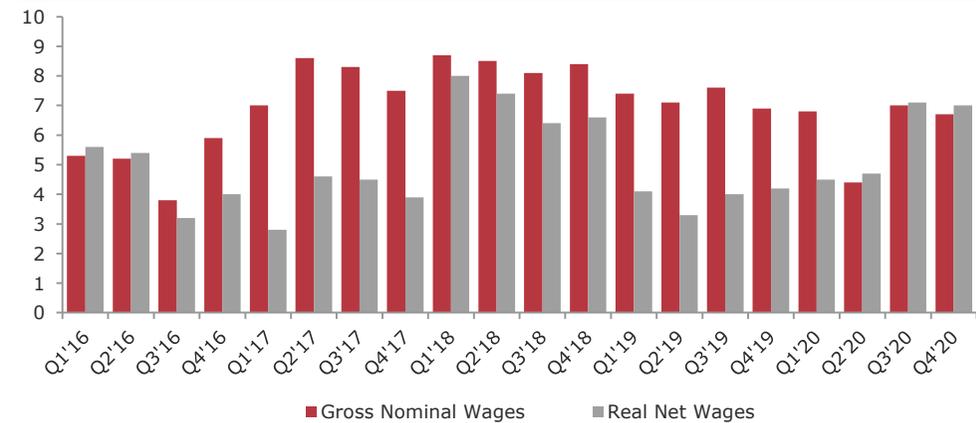
Source: Central Statistical Bureau of Latvia data (02.03.2021.)

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



Source: Eurostat (09.04.2021.)

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

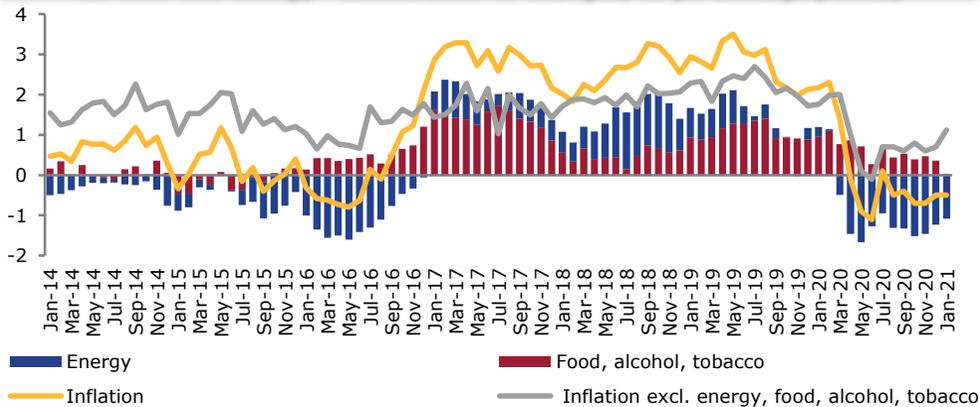


Source: Central Statistical Bureau of Latvia data (09.04.2021.)

Due to economic challenges inflation has dropped below 1%

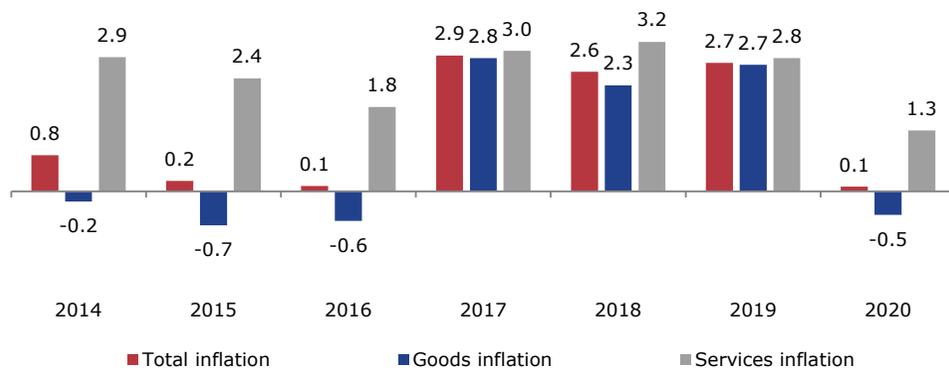
Inflation is mainly affected to the declining demand due to the measures introduced to curb the spread of Covid-19.

Inflation (HICP, annual rate of change %, for food and energy - contribution to changes, as percentage points)



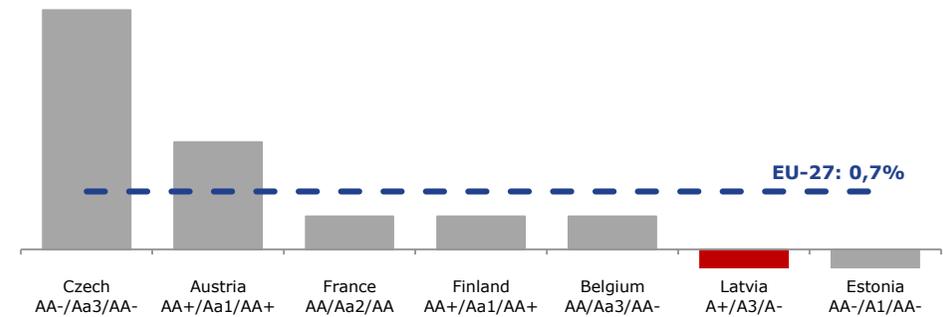
Source: Eurostat (20.04.2021.)

Inflation In Latvia (HICP, %)



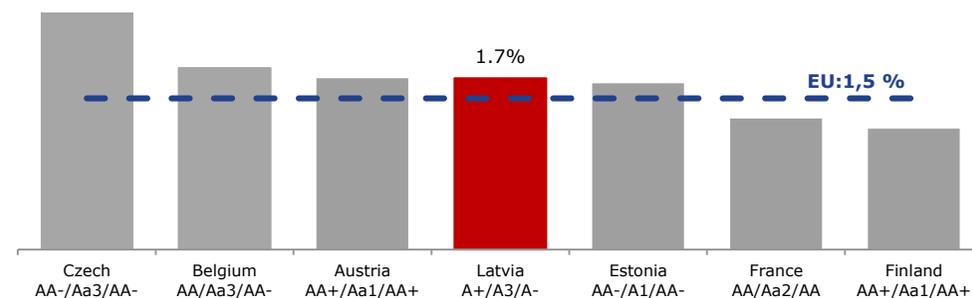
Source: Eurostat (10.02.2021.)

Harmonised Index of Consumer Prices (March 2021, 12 months average %)



Source: Eurostat (16.04.2021.)

Harmonised Index of Consumer Prices Projection (2021-2022, %)

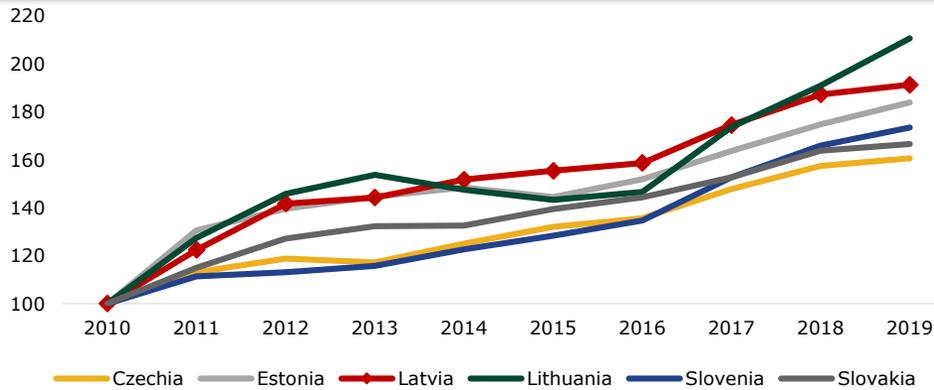


Source: European Commission, Winter 2021 (18.02.2021.)

Exports of goods in 2020 continue to grow

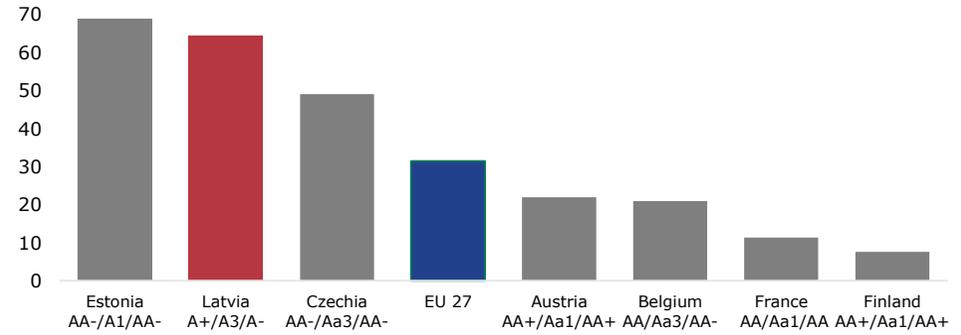
Exports continue to grow despite the delays in raw material supply chains impacted by Covid-19.

Export of Goods and Services (2010=100)



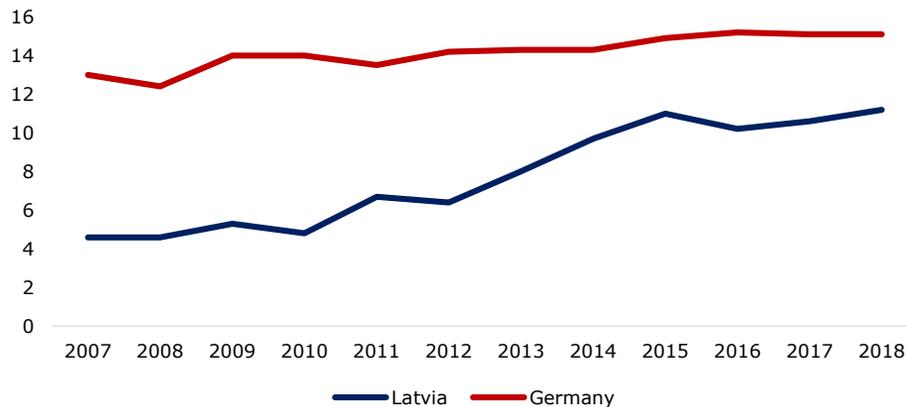
Source: Eurostat

Goods Export Growth (% growth between 2010 and 2020)



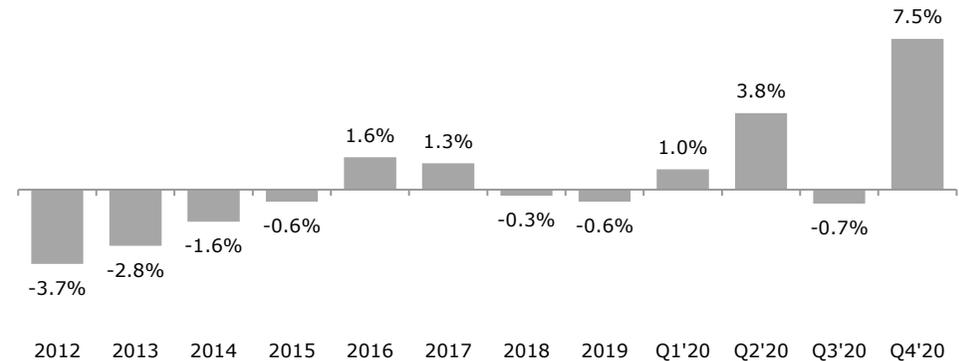
Source: Eurostat (16.04.2021.)

High – Tech Exports (% Of Total Exports)



Source: Eurostat (18.02.2021.)

Current Account Balance (% GDP)



Source: Bank of Latvia (05.03.2021.)



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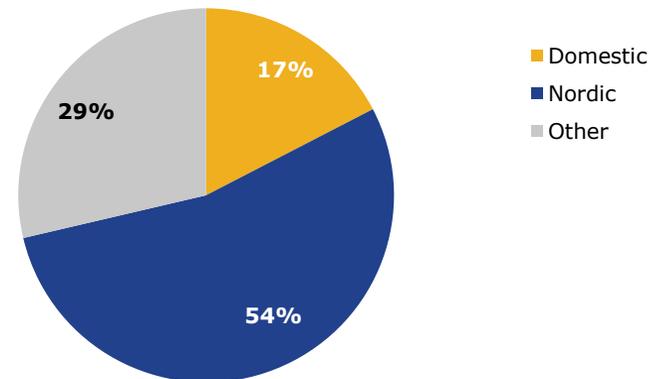
Well capitalised and liquid banking sector

The Latvian banking sector entered Covid-19 crisis as well capitalized, liquid and profitable, with a high presence of large Nordic and Baltic banking groups

Key Highlights

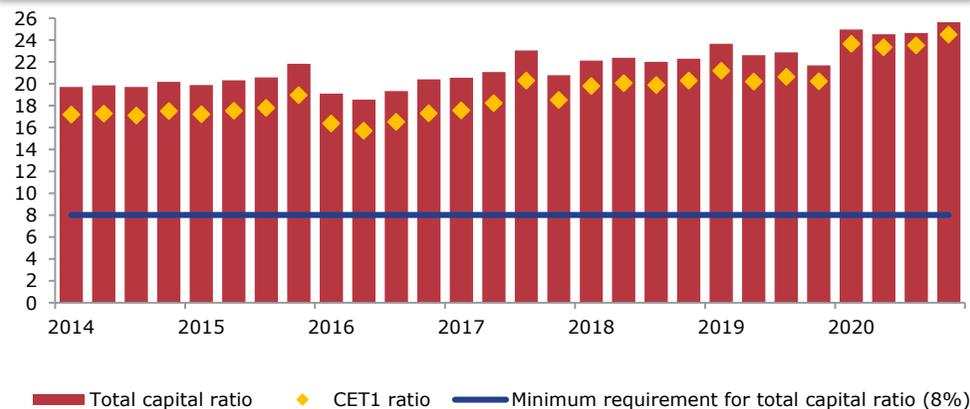
- The Latvian banking sector is dominated by subsidiaries and branches of banks from the European Economic Area, mostly from Nordic countries
- Capitalization and liquidity ratios are well above minimum requirements
- Since Latvia is a part of the European Banking Union, three largest banks are directly supervised by the ECB and are under the remit of the SRB
- In the short term negative effects of Covid-19 outbreak on the financial stability have been mitigated by the government support package for businesses (incl. loan guarantees and subsidized loans) and households, private moratoria, ultra-accommodative monetary policy and greater regulatory flexibility
- The ECB and the FCMC have recommended that all banks should consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions, until 30 September 2021.

Capital Ownership of the Banking System (4Q 2020)



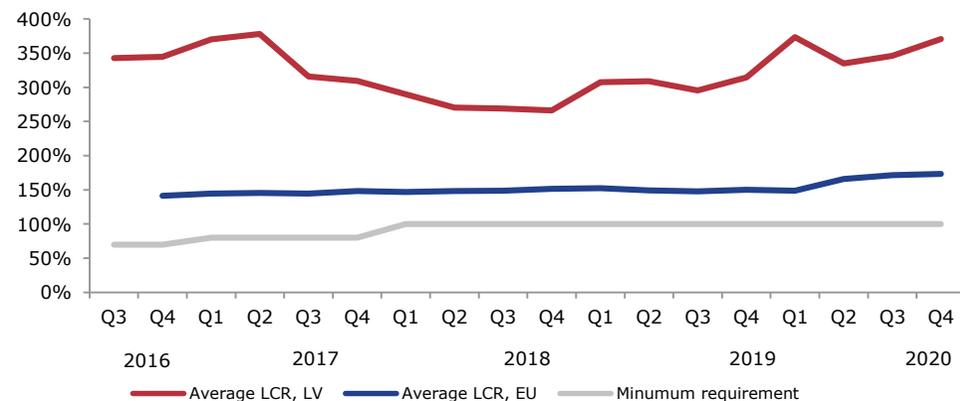
Source: Bank of Latvia

Capital Adequacy (%)



Source: FCMC | Note: 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.

Liquidity Coverage Ratio



Source: FCMC, EBA

Lending remains subdued

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

Key Highlights

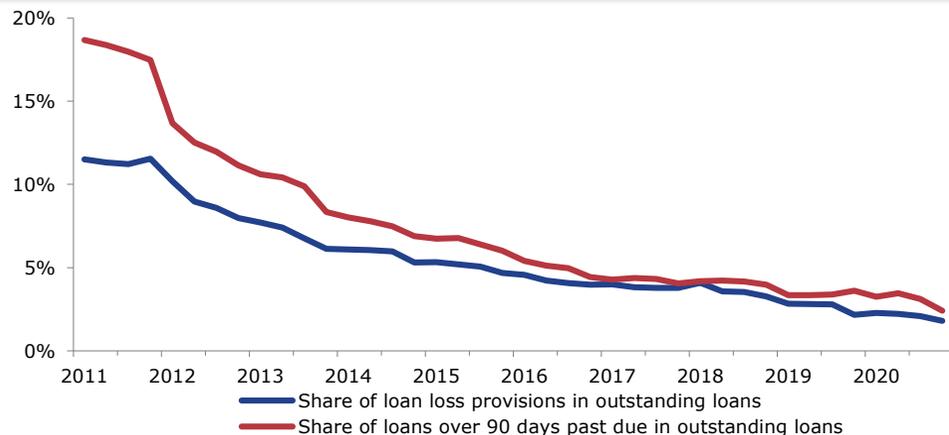
- Loans to domestic households and NFCs stood at 34% of GDP in December 2020, down from almost 100% at the outset of the global financial crisis
- Lending had been subdued before Covid-19 outbreak and is expected to remain in negative territory
- The impact of Covid-19 on the economy has not been reflected 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

Loans to Domestic Clients (yoy)



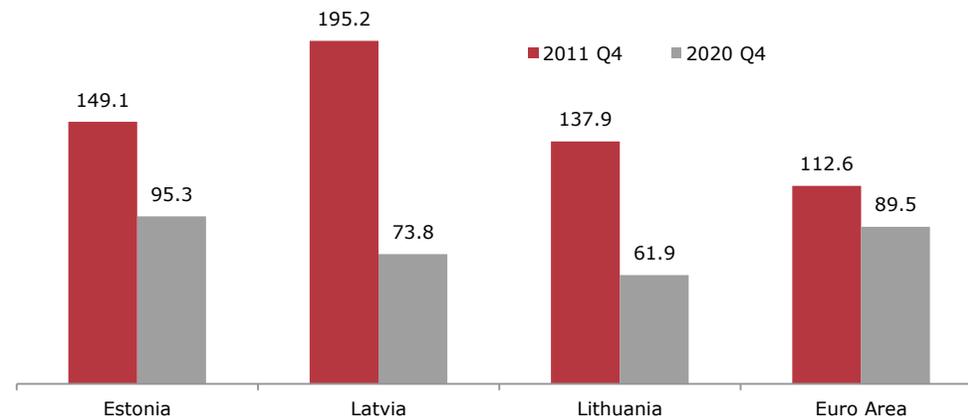
Source: ECB

Total Loan Portfolio Quality



Source: FCMC, Credit Register

Domestic Loan-to-Deposit Ratio (%)

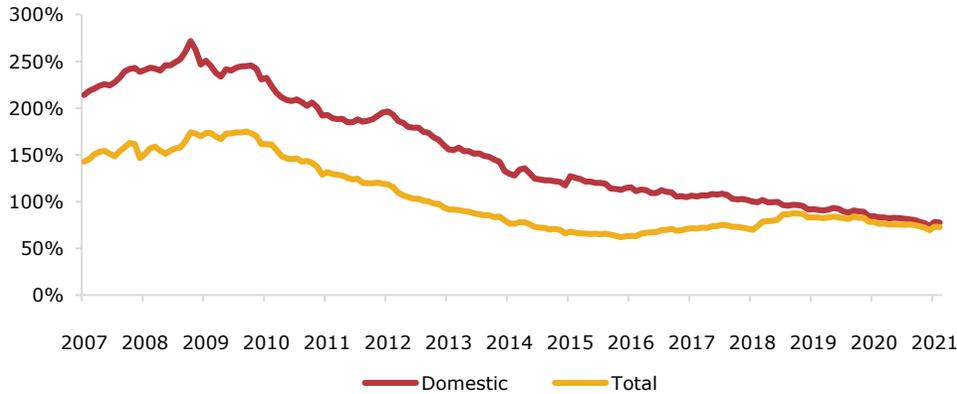


Source: ECB

Domestic loans are mainly funded by domestic deposits

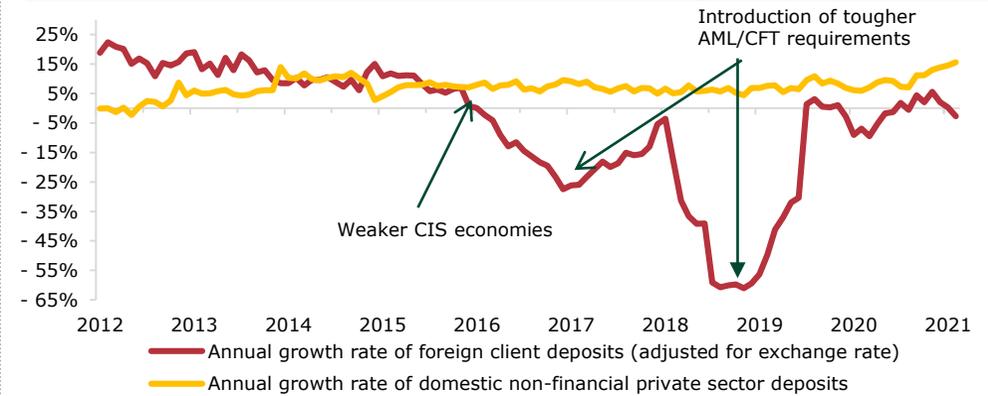
Lending is the core banking product in the domestic market. Parent bank funding has been replaced with domestic deposits

Loan-to-deposit ratio



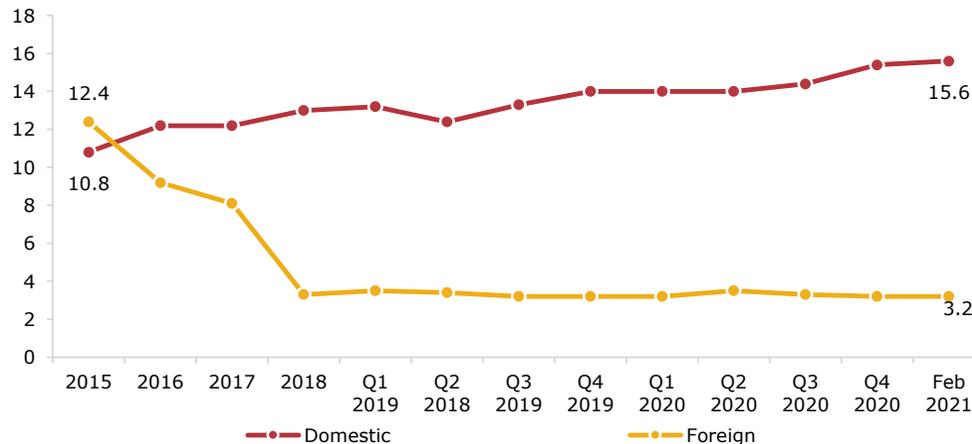
Source: Bank of Latvia

Growth Rates of Domestic and Foreign Client Deposits



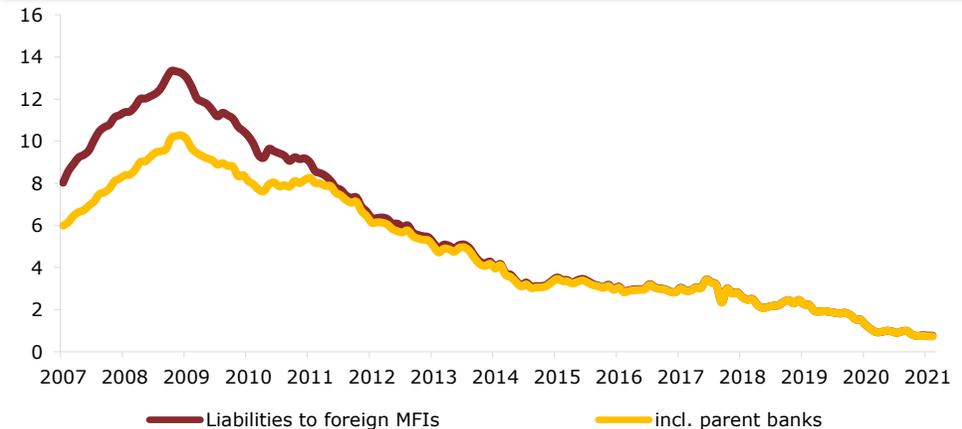
Source: Bank of Latvia

Deposits (EUR bn)



Source: Bank of Latvia

Liabilities to foreign MFIs (EUR bn)



Source: Bank of Latvia

Banking sector profitability still challenged by the pandemic

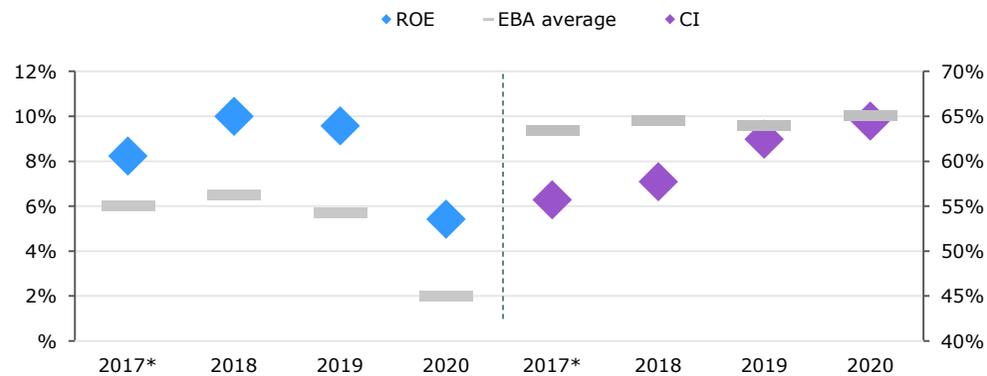
Ability to generate profits in the short-term subdued due to effects of COVID-19. In 2020, banks' total profit decreased mostly due to COVID-19 related provisions and hedging

Key Highlights

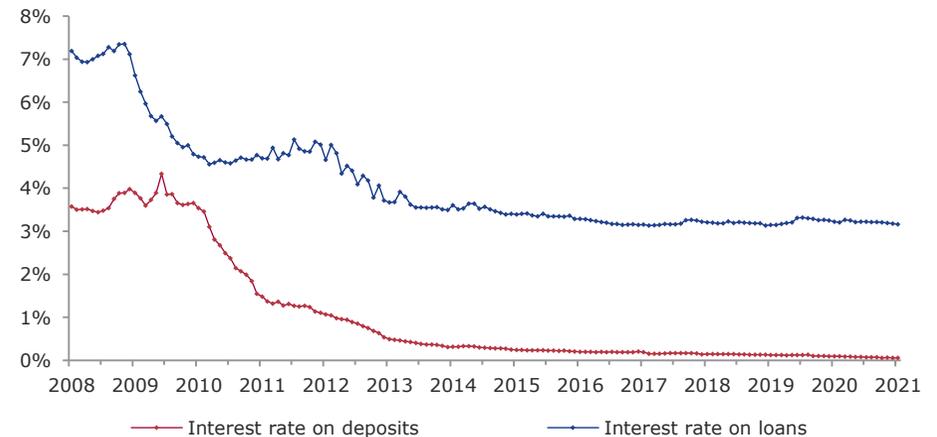
- Largest lenders entered the COVID-19 crisis with sound profitability
- Before the pandemic, the average Return on Equity (ROE) of the Latvian credit institutions was relatively high and exceeded the EU average. In 2019, the average ROE was 9.6% and in 2020 ROE decreased to 5.4% (EU average was 5.7% in 2019 and 2.0% in 2020)
- Credit institutions increased their provisions as the pandemic unraveled, as a result net expenses on provisions increased by 21% in 2020. However, the largest negative impact came from drop in net trading income (by 48%) due to revaluation of securities and hedging. As a result, profit before tax decreased by 32%.
- However, net interest income and net commission and fee income decreased moderately as a result of loan moratoria and public support measures.
- Risks to credit institutions' profitability remain elevated due to still heightened uncertainty regarding ability to return to growth after the pandemic.

ROE

CI



Interest Spread on Outstanding Loan Amounts



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

*One-off adjusted data

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

Banks Financial Information

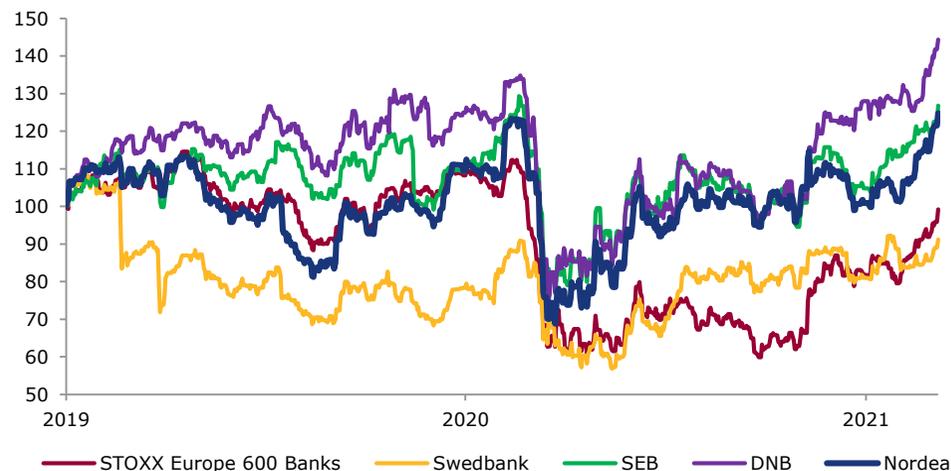
	Swedbank	SEB	Luminor Latvia branch*
			DNB Nordea
Assets (EUR mil)*	7,764	4,288	3,618
CAR (%)*	31.2	20.7	-
ROE (%)*	8.4	9.2	-
S&P Global long-term rating	A+	A+	*
Moody's long-term rating	Aa3	Aa2	Baa2
Fitch long-term rating	A+	AA-	*

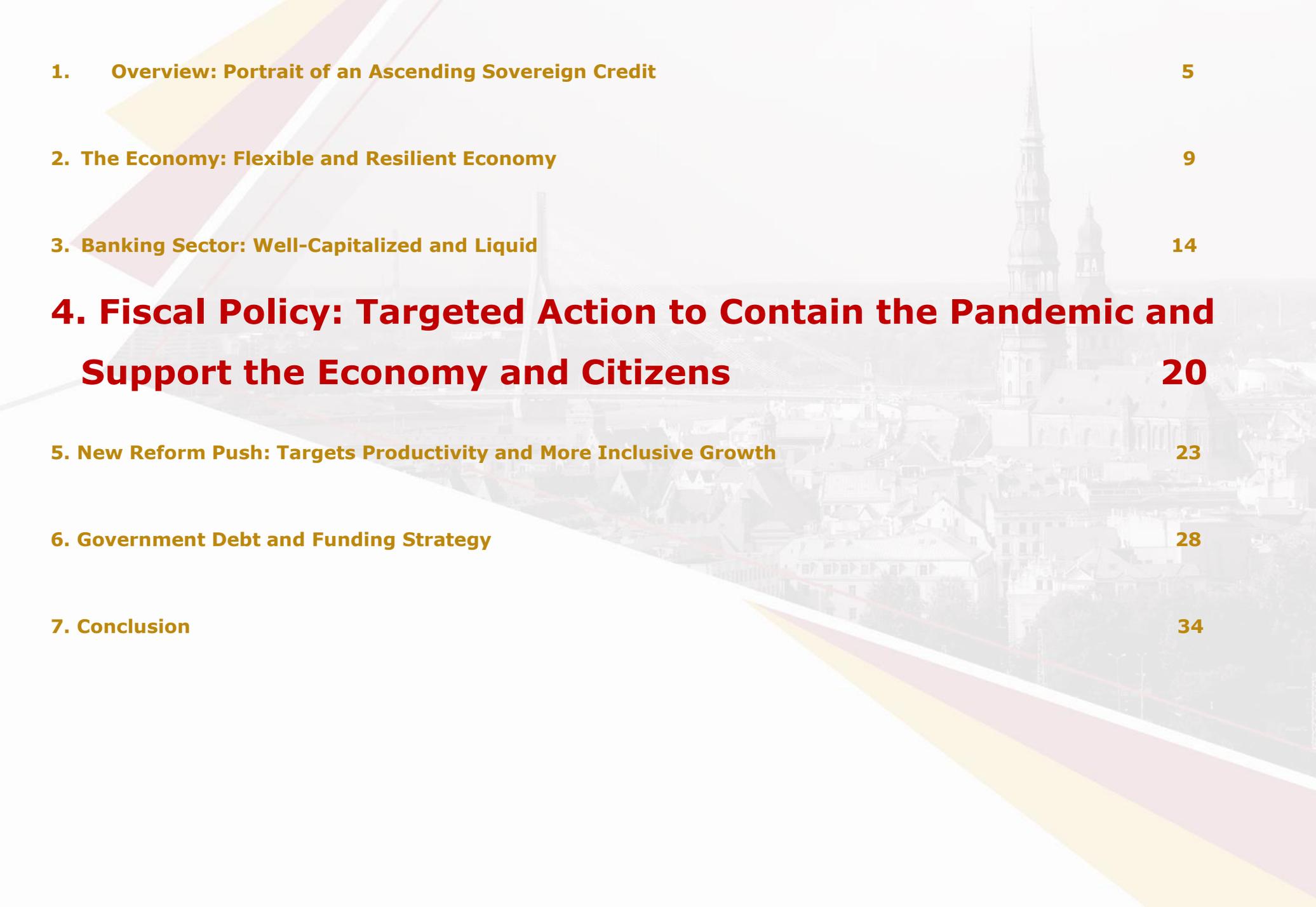
Source: Finance Latvia Association – financial reports, 4th quarter 2020

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)



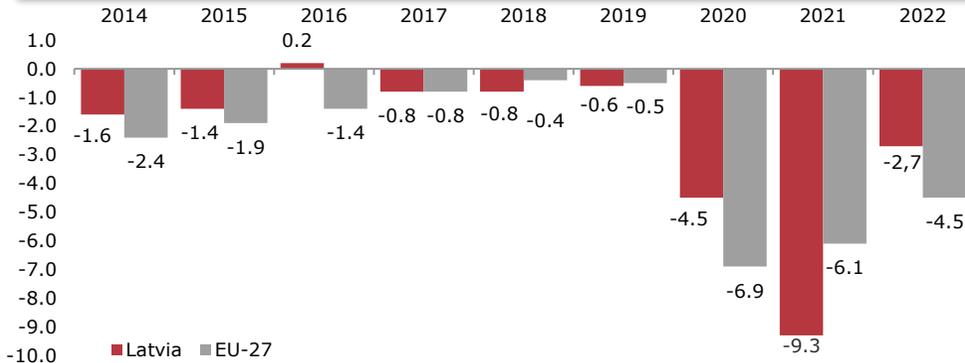


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Fiscal Sustainability Remains Top Priority

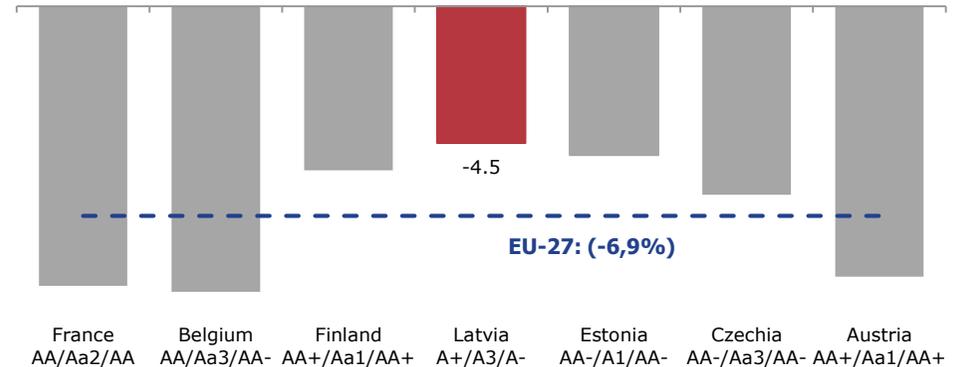
Prudent fiscal policy has produced low budget deficits well below the EU-27 average over the past 8 years. The spread of Covid-19 and support measures for mitigating the consequences thereof are expected to significantly impact fiscal indicators of Latvia in short term.

General Government Budget Balance (% of GDP)



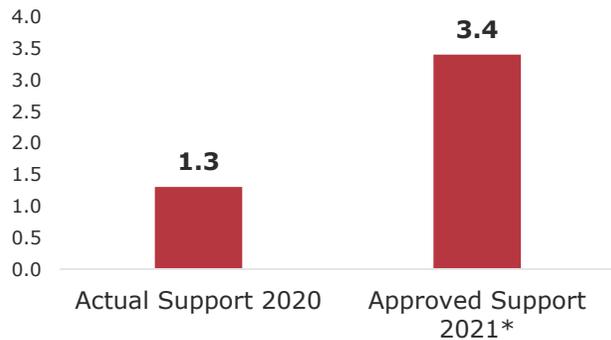
Source: Eurostat, Stability Programme for 2021 - 2024, AMECO Autumn forecast 2020

Budget Balance (2020, % GDP)



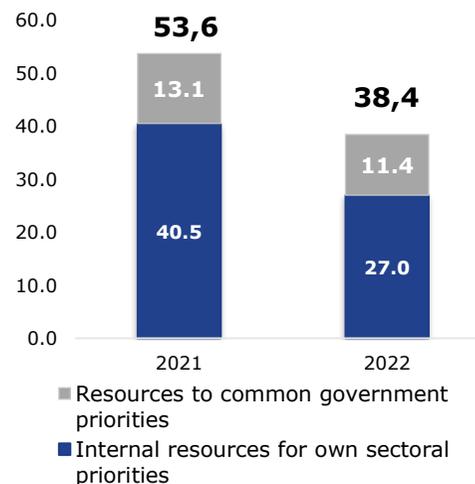
Source: Eurostat

Support measures to mitigate Covid-19 crisis (as of May 7, 2021) (EUR, Billion)

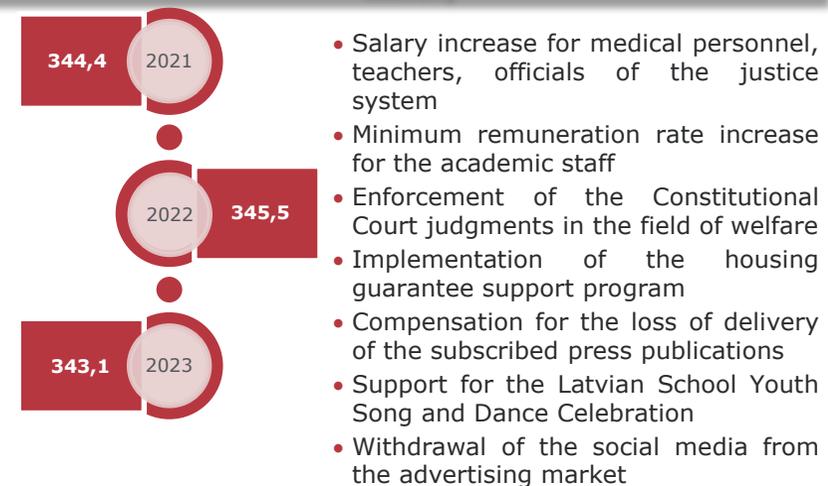


* Approved amount of support as of May 7, 2021. Amount may change during the course of 2021, subject to further government decisions and pandemic situation development

Spending Review Results (EUR, Million)



2021 Budget: Expenditure for priorities* (EUR, million)



*Does not include Covid-19 which is as a high priority

Pension Reform Underpins Stability of Public Finances

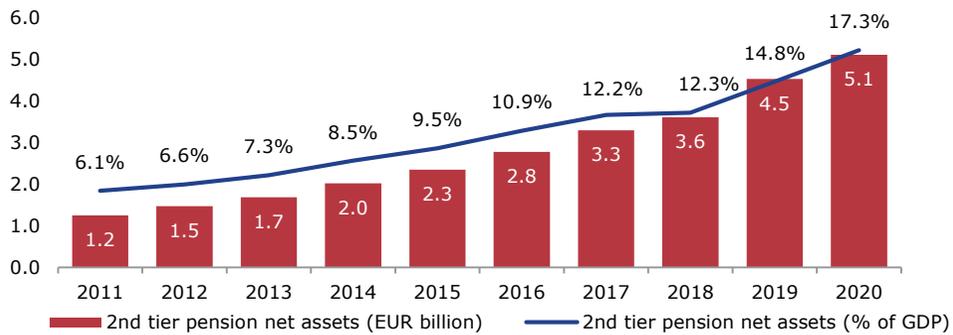
Latvia is well positioned to withstand fiscal challenges arising from an ageing population.

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 2021 till 1st January 2022 retirement age is 64 years.
- 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.

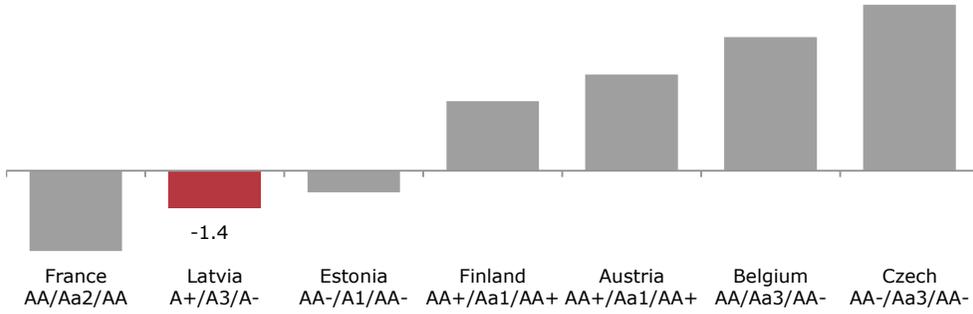
Source: The State Social Insurance Agency

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



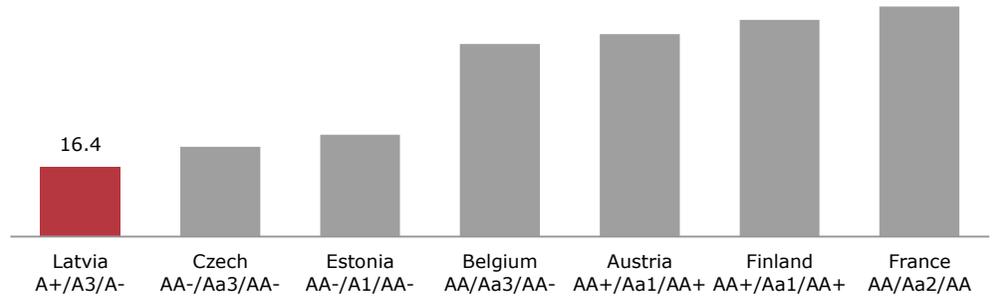
Source: Financial and Capital Markets Commission, Central Statistical Bureau of Latvia

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

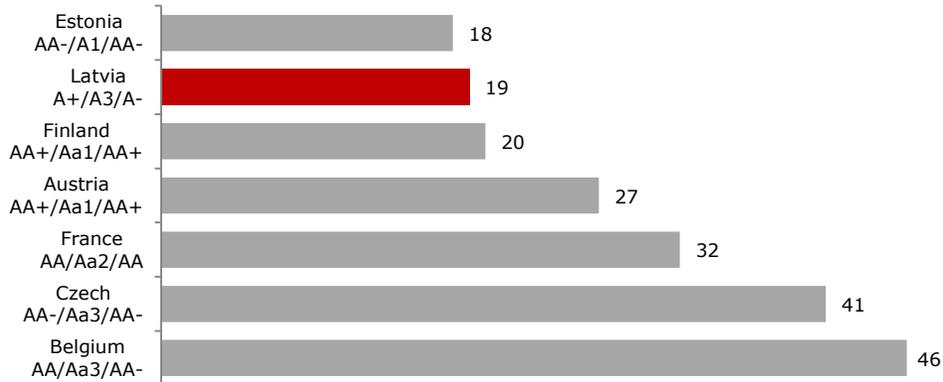


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Latvia's Advanced Country Status Reflected in "Soft" Metrics

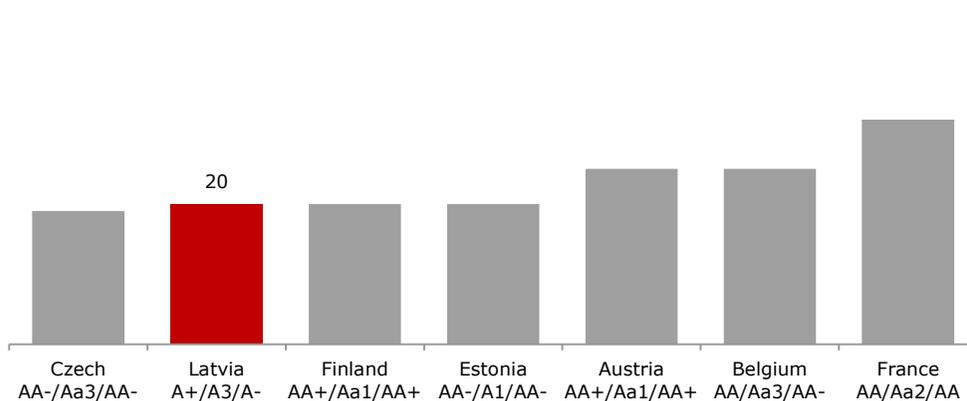
Expanded structural reforms build on existing high institutional strengths and favourable business environment.

World Bank "Ease of Doing Business" Ranking



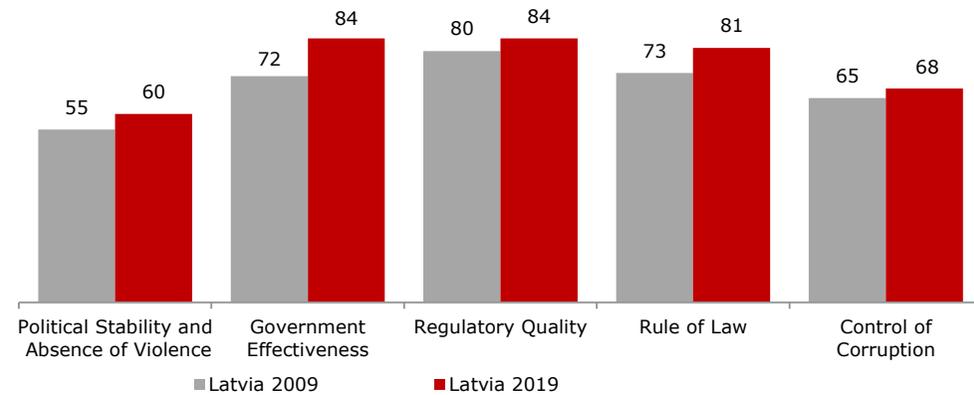
Source: World Bank, Doing Business 2020 (18.02.2021.)

Adjusted Top Statutory Tax Rate on Corporate Income (2020, %)



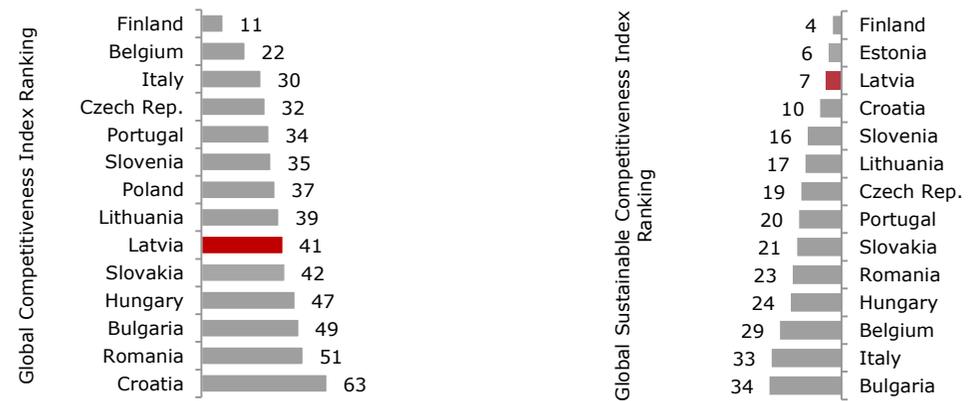
Source: European Commission, Taxation Trends in the European Union 2020

World Bank Worldwide Governance Rankings



Source: World Bank (18.02.2021.)

The Global Competitiveness Index Rankings



Source: World Economic Forum, The Global Competitiveness Report 2019, The Global Sustainable Competitiveness Report 2020

Reform Policies Laying Foundation for New Growth Model

Structural reforms will help to strengthen Latvia's growth potential in medium term.

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

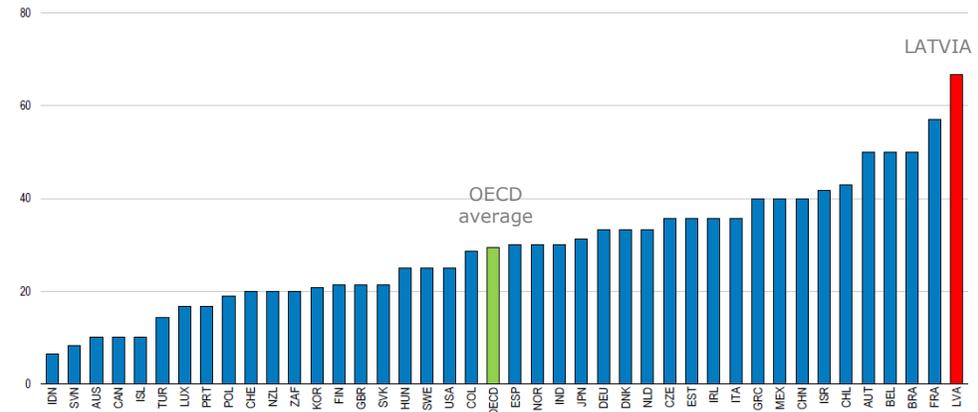
- Public sector reform is being implemented
- Whistleblower protection law in force since 1 May 2019
- Improvement in the insolvency process and tax compliance is being observed

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

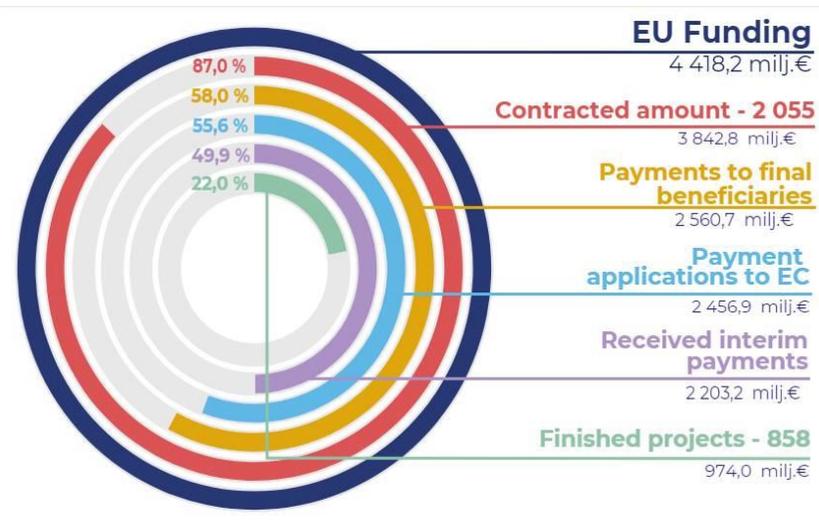
2017 OECD Reform Responsiveness Index, %



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 for 2014-2020



Source: Ministry of Finance; Data on 19.04.2021

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.
- The guaranteed funding available to Latvia under the RRF is €1.65 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 well below 60% in medium term

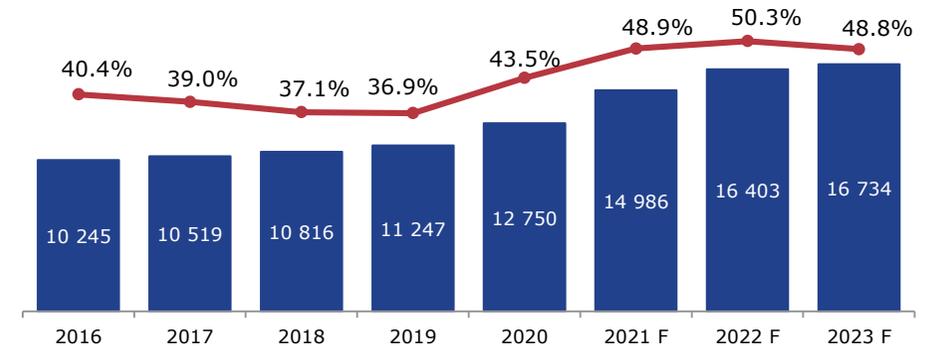
Despite the projected debt increase in the medium term because of Covid-19 support measures it is expected to be in line with Maastricht criteria

Key Characteristics of Latvia's Government Debt

- General government debt was amongst the lowest in the EU at 43,5 % of GDP at the end of 2020. It is the 3rd lowest in the Eurozone and the 7th 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

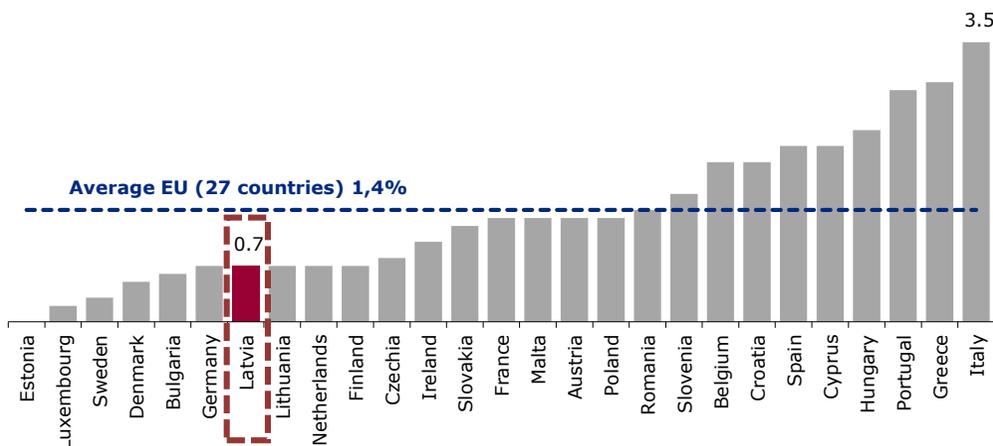
General Government Debt at Year End

(EUR million, % GDP, ESA methodology)



Source: Eurostat (actual data 2016-2020), forecast 2021-2023 (Latvia's Stability Programme for 2021 - 2024)

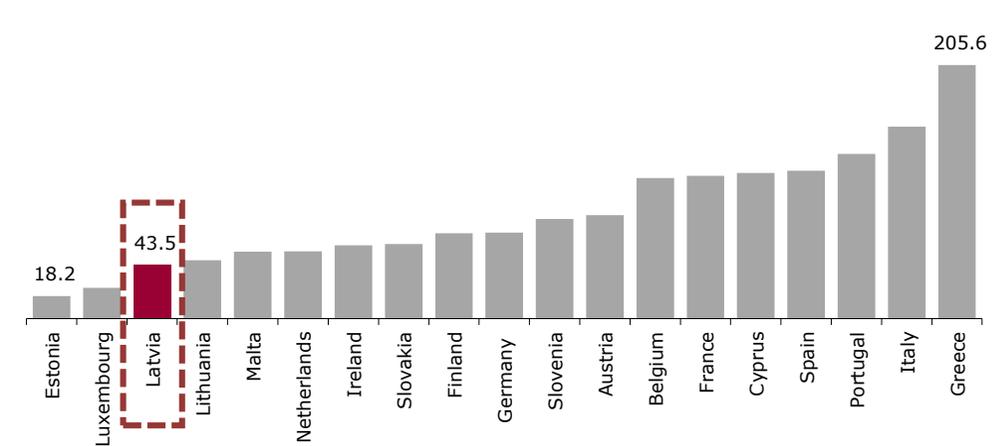
Interest payments 2020, % GDP



Source: Eurostat (April 2021)

General Government Debt 2020, % GDP

(Eurozone countries)



Source: Eurostat (April 2021)

Borrowings in international financial markets and bilateral loan facilities related to Covid-19

On the back of Covid-19 outbreak, necessary funding was ensured to finance Government approved support measures in 2020

Borrowing activities in international capital markets in 2021

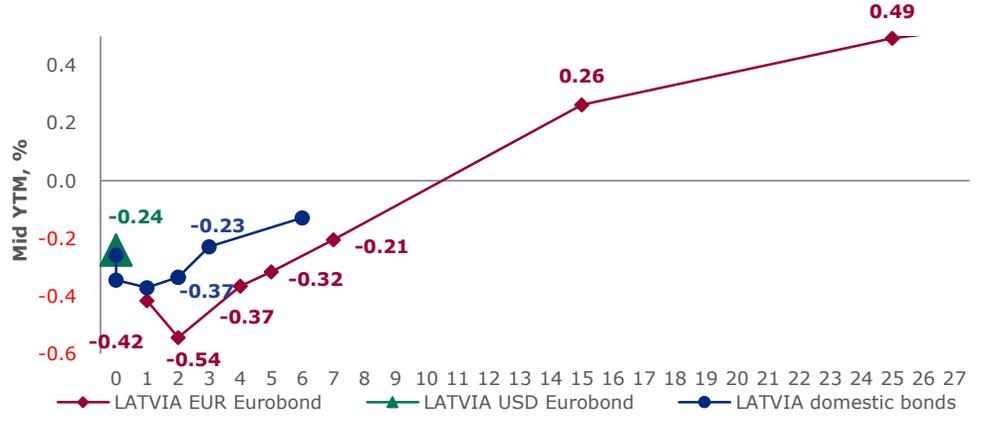
In order to swiftly react to the Covid-19 outbreak and ensure liquidity to finance the Government measures to support society, entrepreneurs and economic activity as a whole:

- On March 10, Latvia priced a new 10 year benchmark Eurobond in a total amount of EUR 1,25 billion. Yield was set at 0.105%.
- The transaction marks several records: (1) the lowest ever long-term borrowing yield reached, and (2) is the historically lowest long-term and the lowest coupon achieved by the Republic of Latvia in its Eurobond transactions.

Loans from international financial institutions and EU

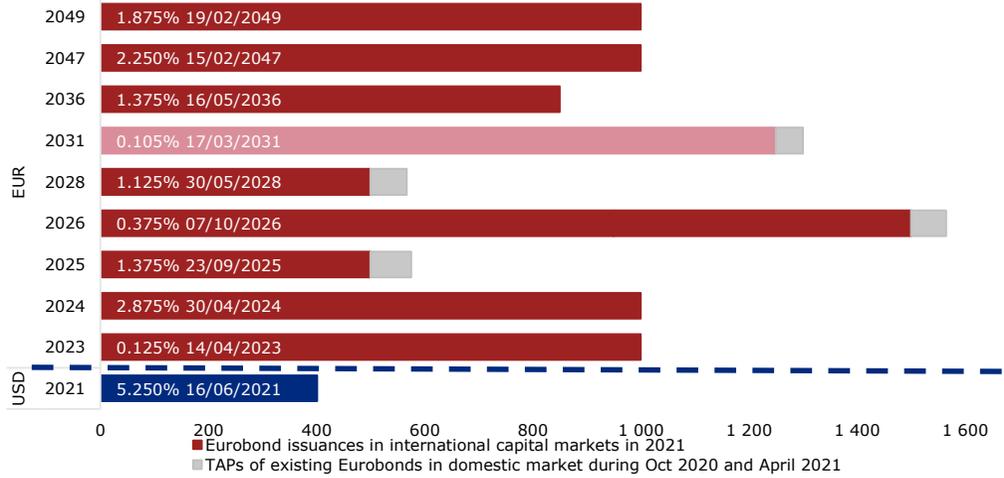
- In 2020 Latvia signed a loan facility with Nordic Investment bank in amount of EUR 500 million. The loan facility has been granted for the funding of extraordinary government expenditure in Latvia in order to mitigate the impact of the Covid-19 epidemic. As of today the loan is fully disbursed.
- In 2020 taking into account EU coordinated response to the Covid-19 by offering a new instrument for temporary support to mitigate unemployment risks in an emergency (SURE), Latvia took an opportunity and signed loan agreement with EU in account of EUR 192.7 million. As of today the loan is fully disbursed.
- In March 2021 Latvia applied for additional SURE support in amount of EUR 112.5 million, with planned disbursement till the end of May 2021.

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



Source: Data as of 6th May 2021, Bloomberg

Outstanding International Bonds (nominal amount, million)

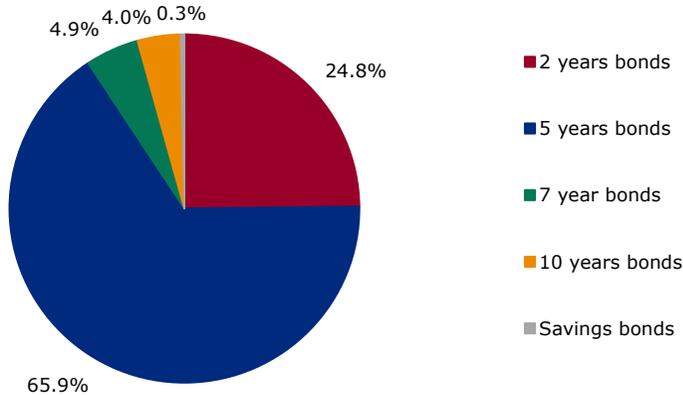


Source: The Treasury (28.04.2021)

Domestic Market Continues to Perform Strongly

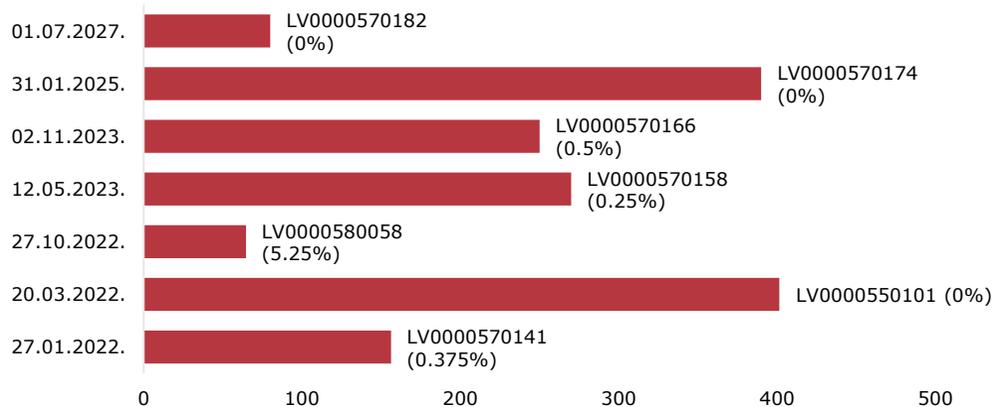
Demand in domestic market is very supportive trough challenging times, also during Covid-19 crisis.

Domestic Securities Outstanding by Original Maturity (as on March 31, 2021, %)



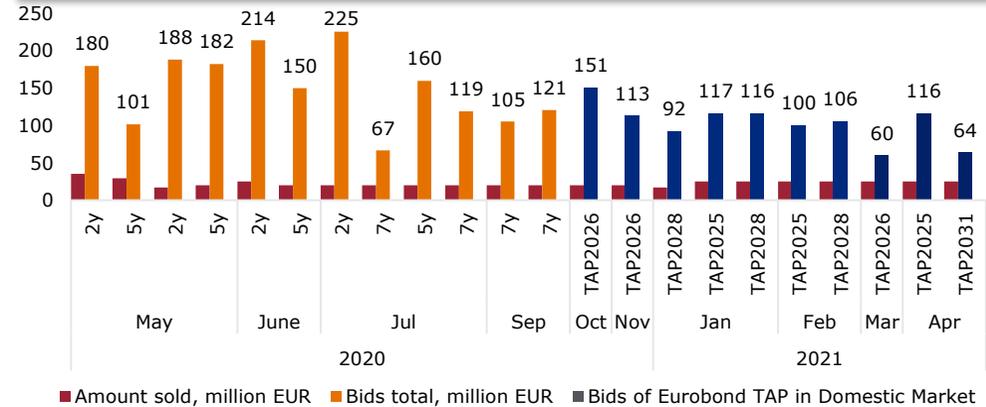
Source: The Treasury

Government domestic securities outstanding by maturity (as on April 28, 2021, 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.

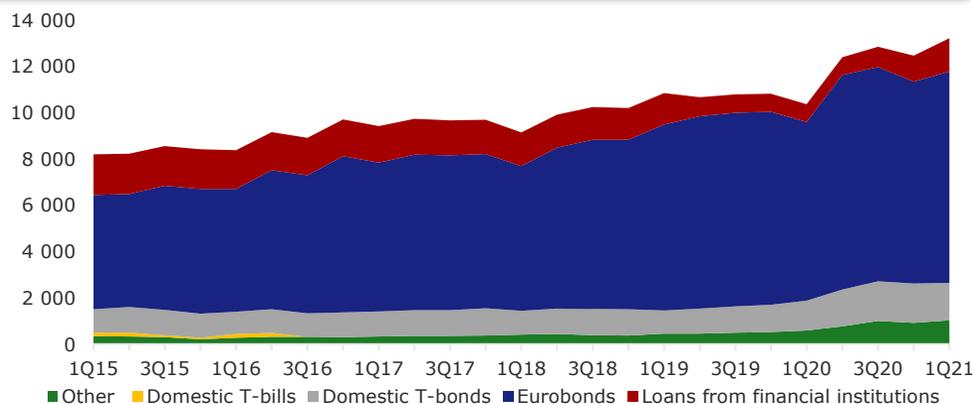
Securities in the domestic market

- Primary dealer system operates since 11 February 2013. On 19 January 2021 Erste Group Bank AG received Latvia's primary dealer status.
- For several years Latvia has concentrated domestic supply mainly in 5-year segment and focused on increasing the liquidity. In 2020 gross issuance volumes largely increased.
- 2 year T-Bond programme was opened in March, 2020 (coupon was fixed at the 0.000%) and tapped on regular basis, with rising demand. Currently 2 year T-Bond programme is one of the most liquid programmes.
- A new 7 year T-bond program was opened in July, 2020 (coupon was fixed at the 0.000%).
- On 14th of October 2020 for the first time GMTN programme Eurobonds TAPs were offered in auction in domestic market only (via Primary dealers). Currently re-openings of outstanding Eurobonds are offered on regular basis.

Central Government Debt Profile

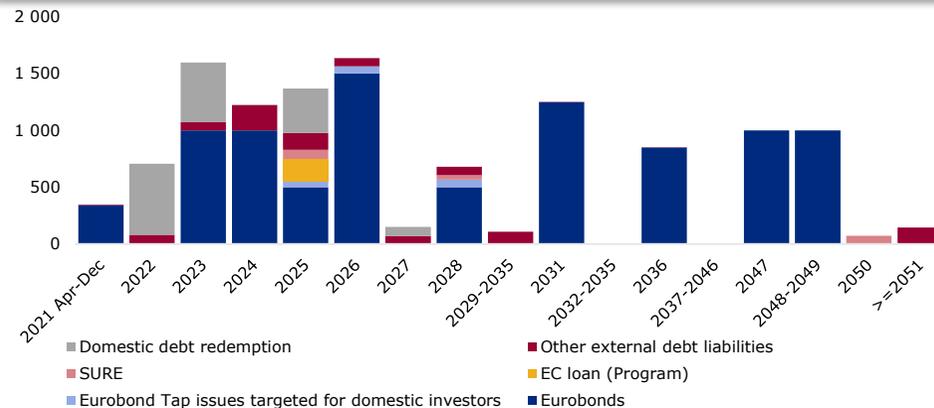
Government debt redemptions remain moderate

Debt structure by Instruments (million EUR)



Source: The Treasury, March 2021

Debt Redemption Profile (EUR million)



Source: The Treasury, on March 31, 2021

Debt Portfolio Management

Parameters	Strategy	31/12/2020	31/03/2021
Maturity profile (%)			
• up to 1 year	≤ 25%	18.8 %	14.7 %
• up to 3 year	≤ 50%	37.2 %	28.0 %
Share of fixed rate ⁽¹⁾	≥ 60%	82.10 %	84.3 %
Macaulay duration (years)	5.00 – 9.00	6.62	7.28
Net debt ⁽²⁾ currency composition	100% EUR with a deviation of +/- 5%	100.10%	100.11%

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

Borrowings in international capital markets will continue to 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)

Maintain a liquidity reserve for funding the Covid-19 impact mitigation and economic support measures

Borrowing Instruments (ACTUAL scenario)

- Benchmark issuances in international capital markets
- Regular auctions in domestic market in larger gross volumes
- Loans from international financial institutions (NIB, EK SURE)

Alternative Instruments

- Possible loan under EU/ RRF facility
- Issuance in domestic market under LV ISIN
- Borrowing opportunities from EIB
- Short-term loans from commercial banks
- Private Placement bond issuance
- Issuance in niche markets, USD

Central Government financing estimation

(ACTUAL scenario 2021-2023, EUR million)

31-March-2021	2021		2021	2022	2023
	Jan-Mar	Apr-Dec			
Central government budget balance, net lending and other flows	-590	-2 383	-2 973	-1 532	-443
Outstanding central government debt redemption	-1 081	-344	-1 425	-707	-1 593
<i>Of which:</i>					
Domestic debt repayment	-88	-4	-92	-624	-519
External debt repayment	-993	-340	-1 333	-83	-1 074
Total	-1 671	-2 727	-4 398	-2 239	-2 036
Gross borrowing	1 714	1 708	3 422	2 150	2 000
<i>Of which:</i>					
International issuance	1 250	1 250	2 500	1 500	1 400

Note: Indicative in the planned period, the estimated borrowing volume is based on a number of contingencies, subject to Covid-19 fiscal impact and government decisions on measures for mitigation of spread of Covid-19 and support for the economy

The borrowing volume could change due to Covid-19 negative fiscal impact and necessity to provide financing for additional Covid-19 mitigation and support measures, subject to further pandemic development and government decisions



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Investment Highlights

Latvia has previously shown a strong ability to recover rapidly from crises situations and overcome external shocks, for instance during the 2008 financial crisis. Thanks to a flexible and resilient economy, a prudent fiscal management and the government's ability to react swiftly in emergency situations, as proved again during the Covid-19 pandemic, experts anticipate Latvia's economy to rebound in second half of 2021.

Flexible and Resilient Economy

→ Government swift actions to stabilize the economy

Belongs to the Core of Europe

→ EZ membership
→ Member of all the important international organizations

Banks Well Capitalised, Profitable and Liquid

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

Sustainable Debt Level and Prudent Fiscal Management

→ Still in the line with Maastricht criteria



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

Diversified Export

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

Stable Credit Ratings

→ The Flexibility of the economy and economy's sound external profile