



Republic of Latvia



REPUBLIC OF LATVIA

Investor presentation



March, 2023

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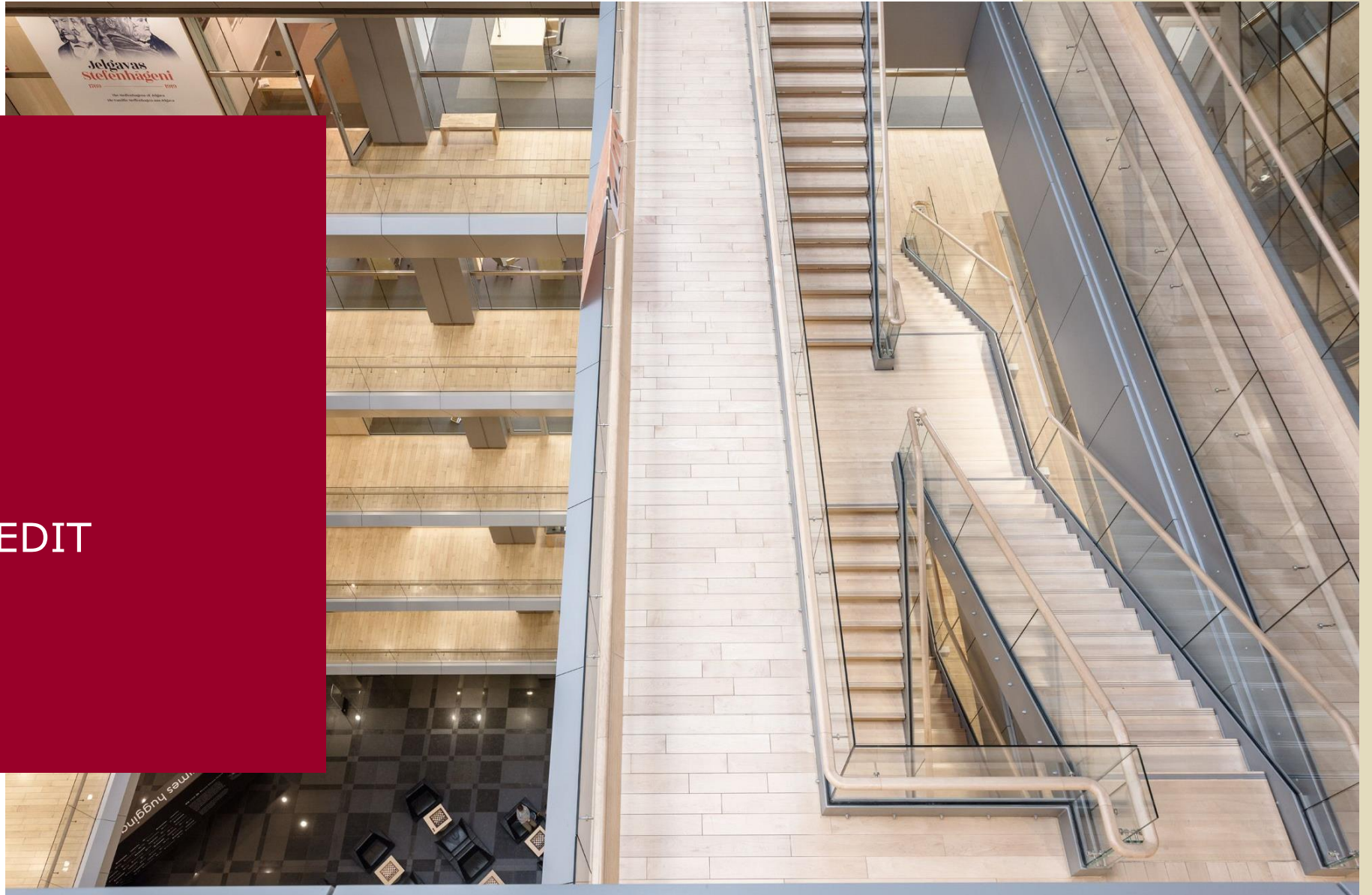
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OVERVIEW:

PORTRAIT OF
THE SOVEREIGN CREDIT



LATVIA BELONGS TO CORE EUROPE

Latvia is deeply integrated in the international community and committed to high standards in terms of the quality of economic policies and governance

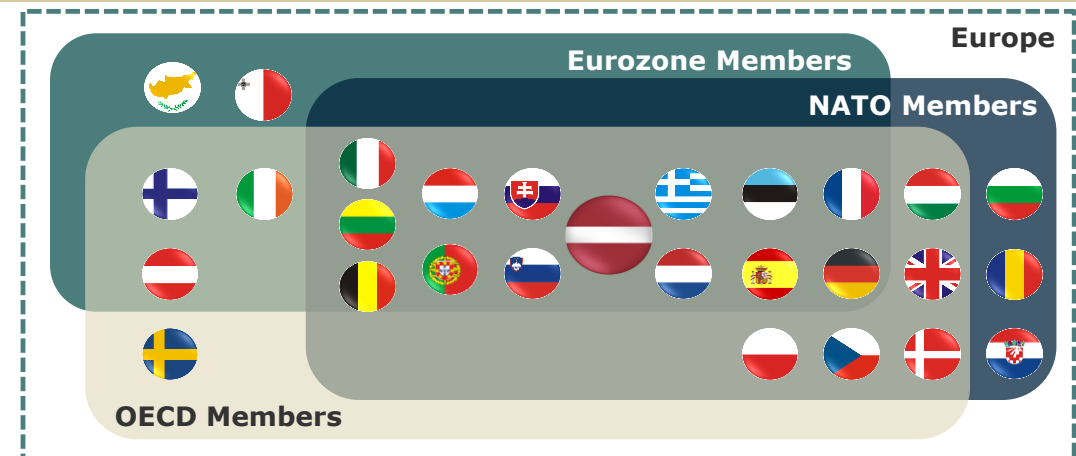


Key facts

Capital	Riga
Population₂₀₂₃	1.89 million¹
GDP per capita₂₀₂₂	EUR 20.72¹
Nominal GDP₂₀₂₂	EUR 39.08 billion¹
Main economic sectors 4Q2022	Services (71.3%¹) Manufacturing (14.3%¹)
Currency	Euro
Credit rating	A3 Stable (Moody's), A+ Negative (S&P), A- Stable (Fitch)
Territory	64 573 sq. km¹

Source: ¹Central Statistical Bureau of Latvia

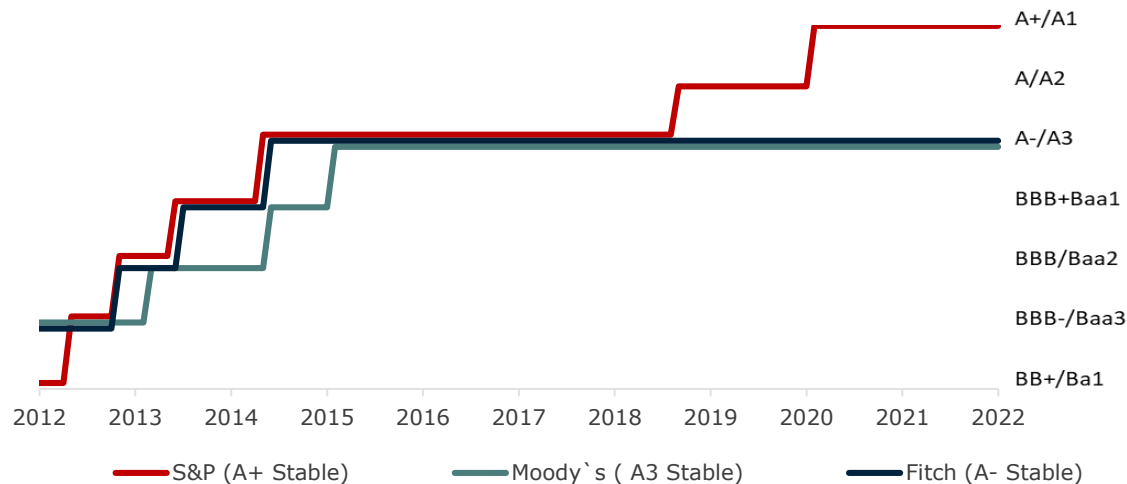
Latvia is a member of the Eurozone, NATO and OECD



LATVIA'S CREDIT RATING RECENTLY REVIEWED AND REMAINS STABLE IN «A» LEVEL GROUP

Rating agencies acknowledge flexibility of Latvia's economy, moderate level of government debt and swift policymaking that bolsters its creditworthiness

Long-term foreign currency rating development



Source: S&P, Fitch and Moody's

Latest rating actions

A- / A3 / A+

Stable / Stable / Negative

- On April 29, 2022 Moody's affirmed long-term foreign currency sovereign credit ratings at the A3 level with Stable outlook
- On December 6, 2022 S&P Global affirmed long-term foreign currency sovereign credit ratings at the A+ level and changed outlook from Stable to Negative
- On February 3, 2023 Fitch affirmed long-term foreign currency sovereign credit ratings at the A- level with Stable outlook

Key strengths of Latvia's sovereign credit profile

- The flexibility and adaptability of the Latvian economy and resilient export sector
- Track record of fiscal consolidation and implementation of structural reforms
- Moderate government debt-to-GDP ratio and moderate debt service costs
- Credible policy-making supported by EU, Eurozone and NATO membership
- Latvia's preparedness and progress made to ensure country's energy security

ISS ESG Country rating for Latvia

ESG Country Rating										
D-	D	D+	C-	C	C+	B-	B	B+	A-	A+
poor			medium			good			excellent	
Decile rank										
10	9	8	7	6	5	4	3	2	1	
Low relative performance								High relative performance		

Source: <https://www.issgovernance.com/esg/ratings/country-rating/> and https://www.kase.gov.lv/sites/default/files/public/FRD/%C4%80r%C4%93jie%20aiz%C5%86%C4%93mumi/2021_11_30_FINAL_SPO-20211130-Latvia.pdf

LATEST DEVELOPMENTS IN LATVIA AND CHALLENGES

Latest developments

- Priorities of the new Government are: national security and foreign policy, education, energy, climate and environment, competitiveness and improving the quality of life
- To accelerate the transition to renewable resources, a new Ministry for Climate and Energy in Latvia has been created and it has started to operate as of January 2023
- On March 9, the Saeima adopted the law on the State budget for 2023 and the budget framework for 2023, 2024 and 2025.

Strengths

- 1 Flexible economy with strong recovery prospects
- 2 Investment and export driven economic growth
- 3 Prudent fiscal management in pre-COVID years providing fiscal capacity to absorb external shocks
- 4 Well-capitalized and liquid banking sector, with tight AML/CFT regime
- 5 Good progress made to diversify sources of energy supply and ensure energy security. Limited energy dependence from Russia
- 6 NATO membership provides a security guarantee and defence co-operation to defer potential external aggression

Challenges

-
- Mitigate the impact of higher energy prices on the most vulnerable
 - Increase the military and defence capabilities as part of NATO membership
 - Structural transformation of the economy (inc. EU funds, Recovery and Resilience plan)
 - Diversify energy supply sources and energy supply routes

ENERGY AND SECURITY:

**ENERGY INDEPENDENCE FROM
RUSSIA AND NATO MEMBERSHIP**



LATVIA HAS ALREADY SWITCHED FROM RUSSIAN GAS TO THE NEW ALTERNATIVES

Baltic states, including Latvia, are well diversifying away from Russian gas

Latvia has moved quickly and made timely decisions

Latvia's access to global gas market is ensured by:

1. Primary gas channel with Klaipeda LNG floating terminal in Lithuania and Lithuania-Poland interconnection (GIPL)
2. New floating LNG terminal in Finland operational since Jan 2023
3. Possibly, an LNG terminal in Latvia in 2-3 years – Skulte port, located near underground gas storage at Inčukalns. Inčukalns is a unique underground natural gas storage and the 3rd largest in Europe with the 21,8 TWh total technical capacity that exceeds Latvia's annual needs of ~12 TWh

Latvia banned the Russian gas import on 1 January 2023, alternative gas supplies provide security

- In 2022, annual gas consumption decreased naturally by over 40%, from 12,7 TWh in 2021 to 8,8 TWh in 2022.
- Latvia is well-prepared to tackle a possible energy shortage by creating gas energy security reserves of 1.8 TWh in 2023
- Situation with high energy prices made the Government to adopt support packages for households and companies, as well as approve social benefits for most vulnerable
- Public sector applies the energy austerity measures for the heating season 2022/2023



WHILE LATVIA IS TECHNICALLY CONNECTED TO BRELL SYSTEM, IT IS ALREADY INTEGRAL PART OF SINGLE EU POWER MARKET AND HAS DIVERSIFIED POWER SUPPLY

Latvia has strong focus on energy security and renewables

Latvia can operate independently from Russia electricity supply

- From May 22, 2022 there are no electricity imports from Russia, just parallel synchronisation operations
- Large amount of electricity generated in hydropower plants, and gas reserves provided by «Latvenergo» can be used for production of electricity and heat in power plants
- The Baltic region is connected to European power system with four powerful interconnections. In case of sudden disconnection from BRELL¹ system, emergency synchronization would be immediately ensured

Latvia is among the greenest electricity producers in EU - 64% of electricity was generated from renewables in 2021²



3rd highest overall share of **gross final energy consumption** from renewable sources among EU countries in 2020³



5th largest share of renewable **electricity** production among EU countries in 2020⁴

¹BRELL: Belarus, Russia, Estonia, Latvia and Lithuania

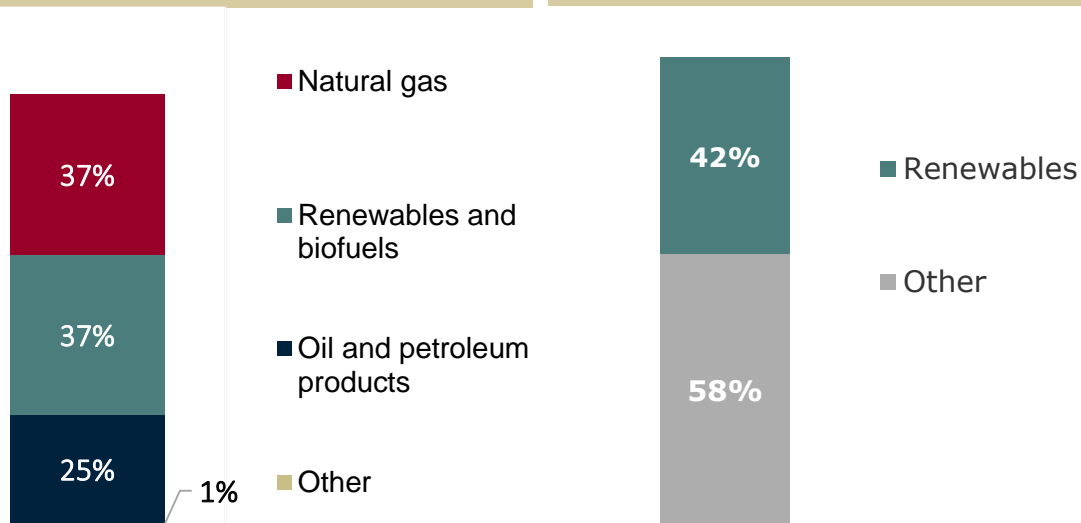
² Source: https://energy.ec.europa.eu/system/files/2022-10/LV_2022_Energy_Snapshot.pdf

³Source: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Renewable_energy_statistics

⁴ Source: <https://ec.europa.eu/eurostat/web/energy/data/shares>

Latvia energy mix 2021

Latvia gross final energy consumption in 2021



Way forward



1990: focus on gas as a main source of electricity and heat generation

2020: diversification among hydropower, wind, solar, biomass and other renewables, the share of the latter reaching 42% of gross final energy consumption in Latvia

2050: continue to use hydropower, wind, solar, biomass, but fossils are replaced with other renewable (potentially including hydrogen)



Full synchronization of Baltic power system with European Continental Network **by 2025**. Full independence from Russia



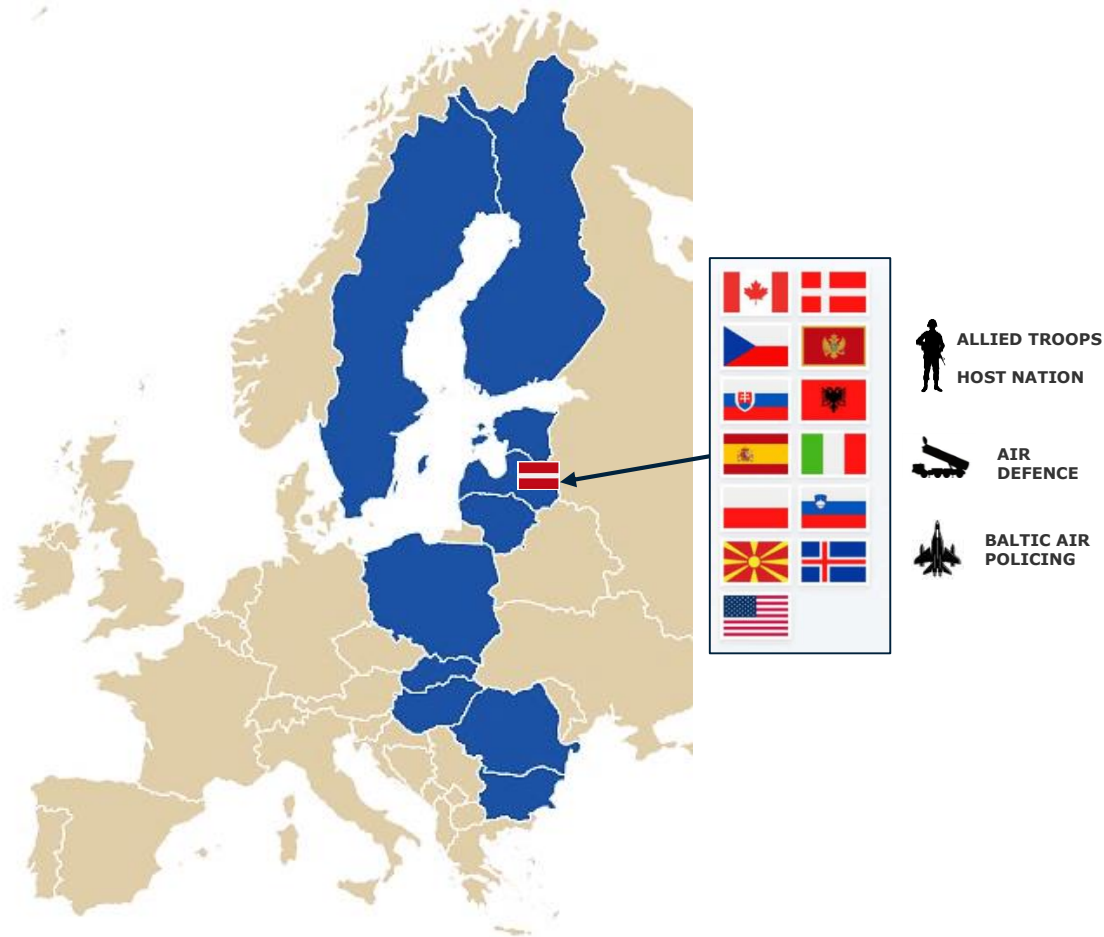
Several large investment projects planned, for example:

- ELWIND offshore wind farm project between Estonia and Latvia (planned to be implemented by **2030**)
- Latvenergo and Latvijas valsts meži (state-owned land managed) in a joint onshore wind parks project (planned to be implemented **by 2030**)

LATVIA – MEMBER OF THE WORLD’S STRONGEST MILITARY ALLIANCE

Latvia has been a member of the North Atlantic Treaty Organization (NATO) since 2004

**Latvia as part of NATO Eastern flank
Finland and Sweden - official NATO members soon**



NATO presence in Latvia

- Latvia`s defence and security is ensured by synchronization of the membership of NATO and EU, as well as different cooperation agreements
- Currently 11 nations are represented in the enhanced Forward Presence battlegroup in Latvia. There are also American and Danish units in Latvia.
- New baseline for deterrence and defence posture agreed in NATO Summit in Madrid - scaling up existing battlegroups to brigade-size units
- U.S. troops will continue a robust presence in Latvia

National efforts to strengthen combat capabilities and readiness (ART 3)

Comprehensive state defence system

Capability development:

- Gradual increase of defence budget to 2.5% of GDP by 2025
- Capability areas: logistics, supply, air defence, coastal defence, mechanization, cyber

Development of new military training range

Introduction of State defence service

FISCAL POLICY:

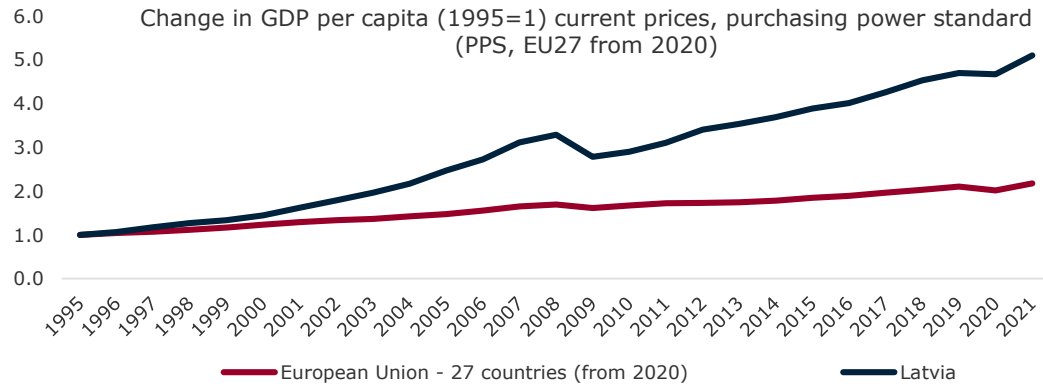
MODERATE DEFICIT AND FISCAL
BUFFERS



SOLID GROWTH, FISCAL BUFFERS AND HIGH PUBLIC INVESTMENTS IN PREVIOUS YEARS

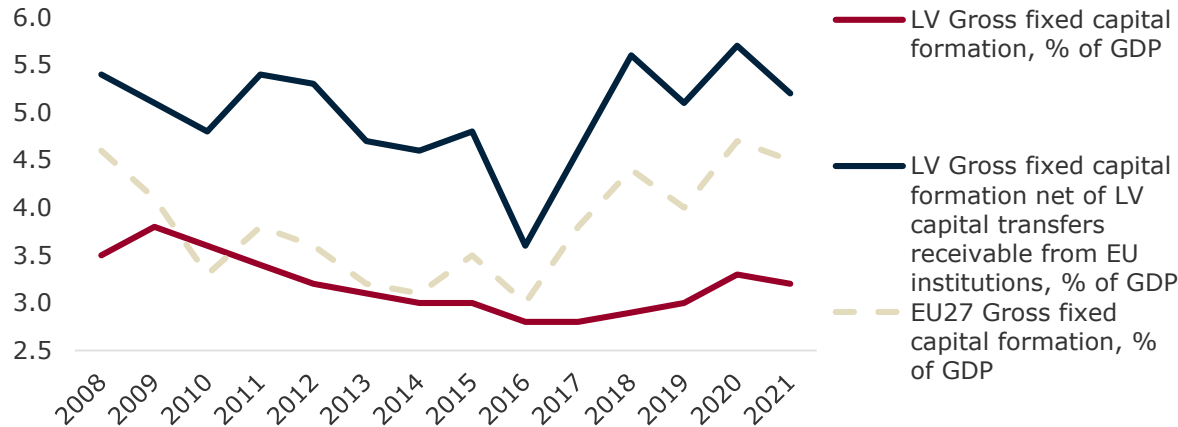
Moderate deficits and solid growth during 2012 -2019 contributed to public debt reduction

Since 1995 Latvia's GDP per capita (PPS, 1995=1) has experienced significant increase relative to EU average



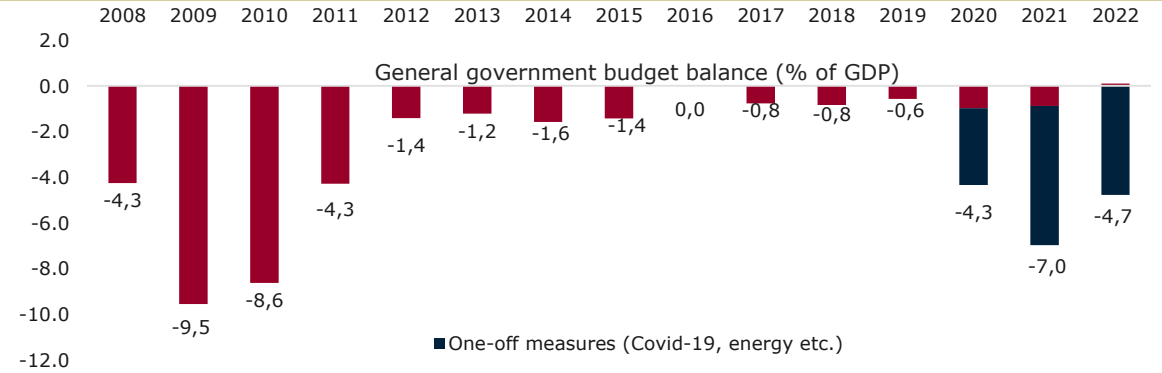
Source: Eurostat

Debt reduction has been achieved without compromising levels of public investment, which is above EU average, even netting out EU support



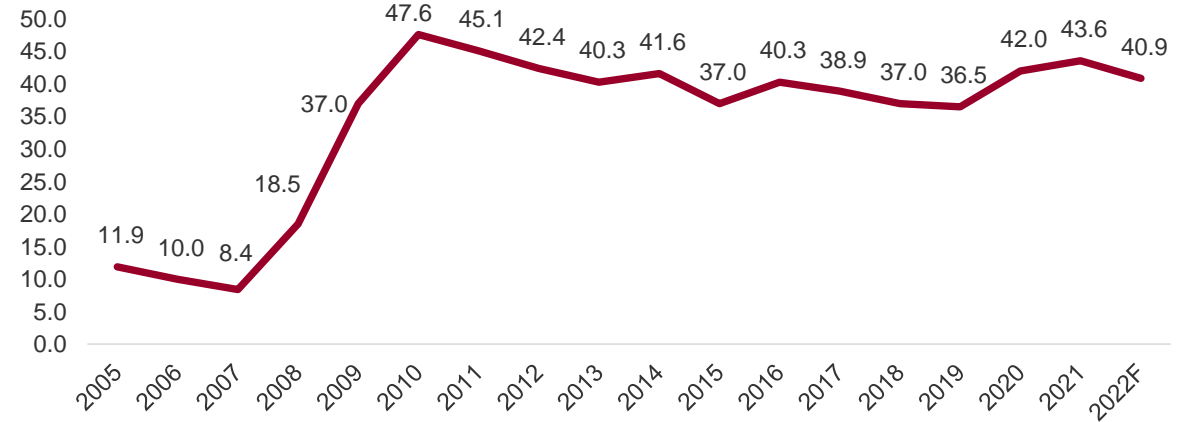
Source: Eurostat

Moderate deficits and solid growth during 2012 -2019 contributed to debt reduction by 10 pp in 8 years thus building fiscal buffer for next challenges



Source: Eurostat, Law on State Budget for 2023 and budgetary framework for 2023-2025, February 2023

Latvia general government debt development (% of GDP)



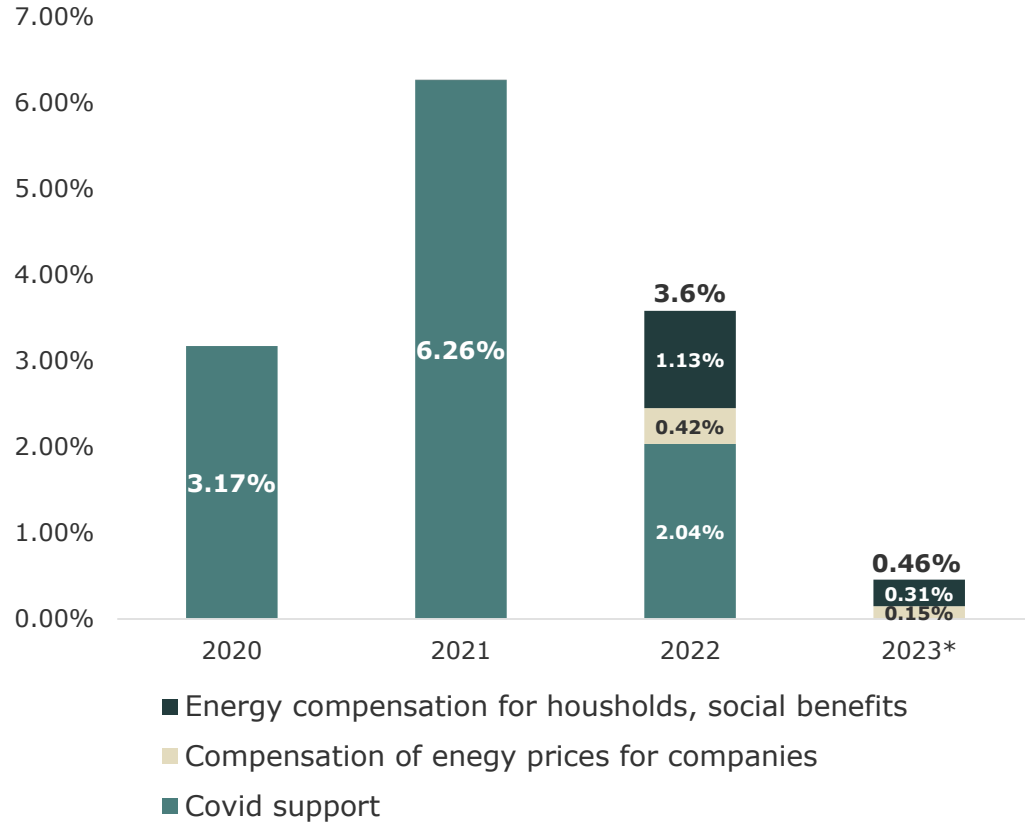
Source: Eurostat, Law on State Budget for 2023 and budgetary framework for 2023-2025

FISCAL SPACE PROVIDED A POSSIBILITY FOR SIGNIFICANT PUBLIC SUPPORT PACKAGE

Extension of support measures into 2023 and calibrating them to minimize the negative spill-overs

Public support packages

(% of GDP, impact on budget balance)



Principles in calibrating the support measures

- ✓ All support measures are temporary
- ✓ As far as possible the support is targeted to most vulnerable households and companies

Targeted support measures

- The size of **targeted measures** should be significant enough to address **the underlying challenges**

Broad support measures

- Necessary to **avoid socio-economic risks** and ensure preservance of political stability
- Should be as small in size as possible to **minimize negative effects** in wage – inflation spiral

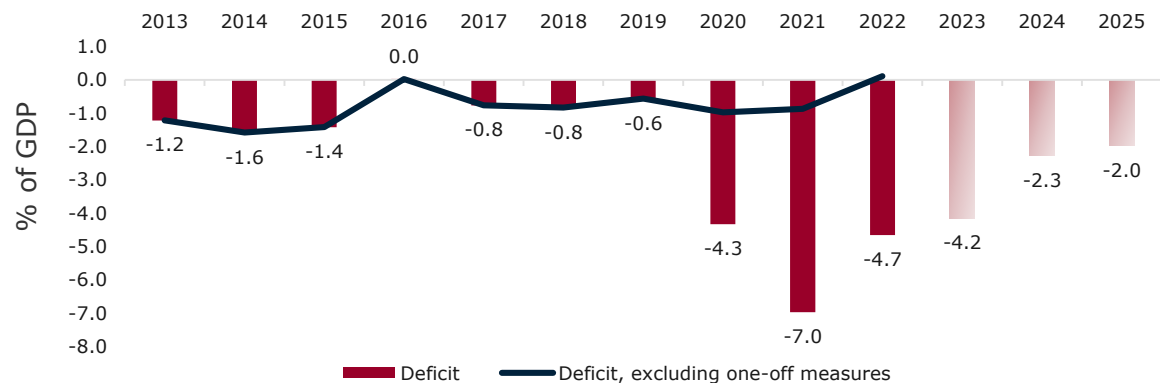
Note: electricity related support that applies to both households and companies is split equally among those categories

** Execution on 28.02.2023.*

SUPPORTIVE FISCAL POLICY IN 2020–2022 AND GRADUAL RETURN TO «NORMALITY» - prudent fiscal policy in the coming years

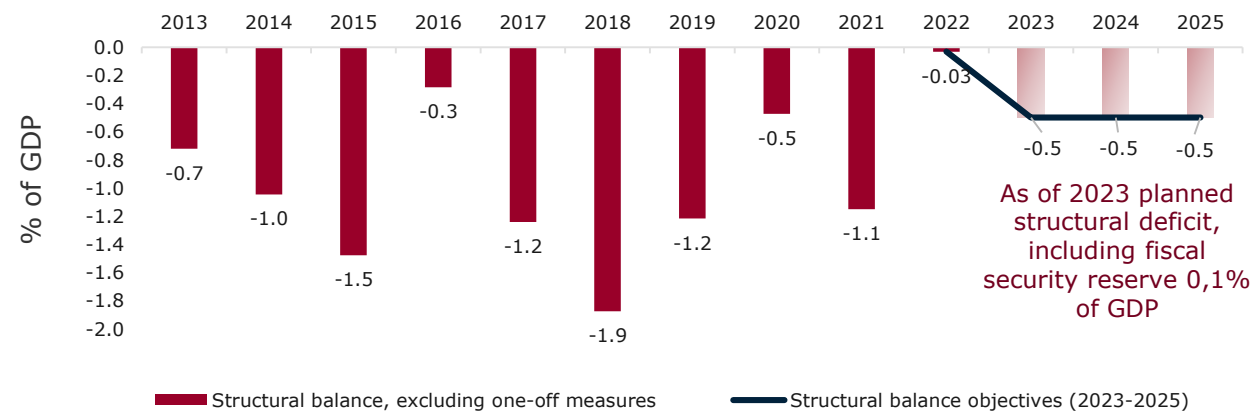
Government commitment to respect the structural balance rule of deficit not more than 0.5% of GDP

During COVID-19 crisis the general government deficit has increased more than just for the fiscal impact of the temporary (one-off) support



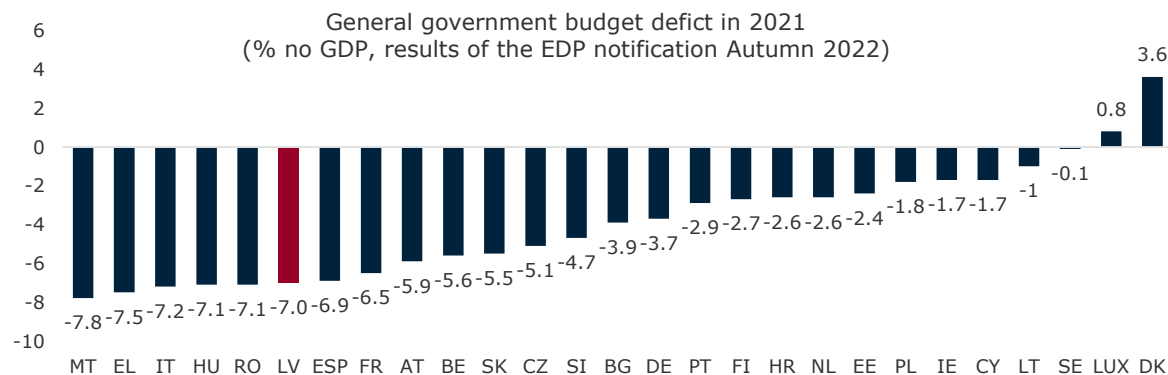
Source: Eurostat, Law on State Budget for 2023 and budgetary framework for 2023-2025, February 2023

Fiscal strategy 2023 - 2025 (expenditure exempted from the calculation - defense investments and energy, COVID-19 and refugees from UA support package)



As of 2023 planned structural deficit, including fiscal security reserve 0,1% of GDP

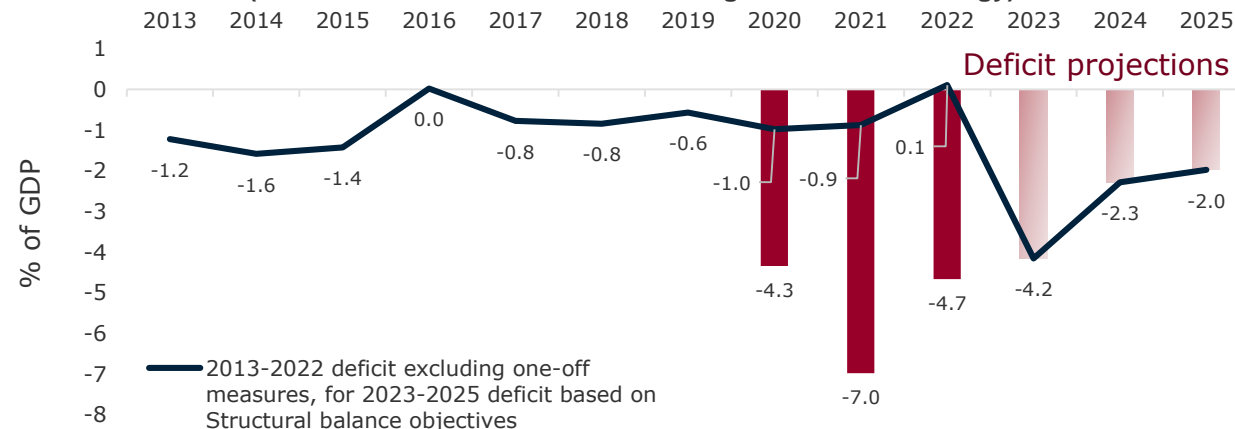
Emergency COVID -19 package and supportive fiscal policy pushed deficit to one of highest in EU



General government budget deficit in 2021 (% no GDP, results of the EDP notification Autumn 2022)

Nominal deficit

(General Government deficit according to ESA methodology)

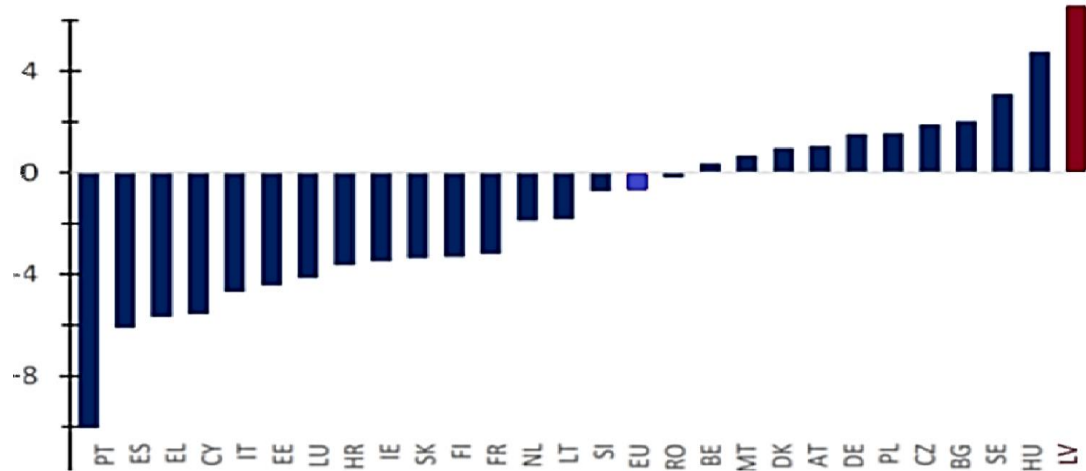


Source: Eurostat, Law on State Budget for 2023 and budgetary framework for 2023-2025, February 2023

CURRENT STRONG FOCUS ON GROWTH FRIENDLY EXPENDITURE AND COMMITMENT TO FURTHER REFORMS

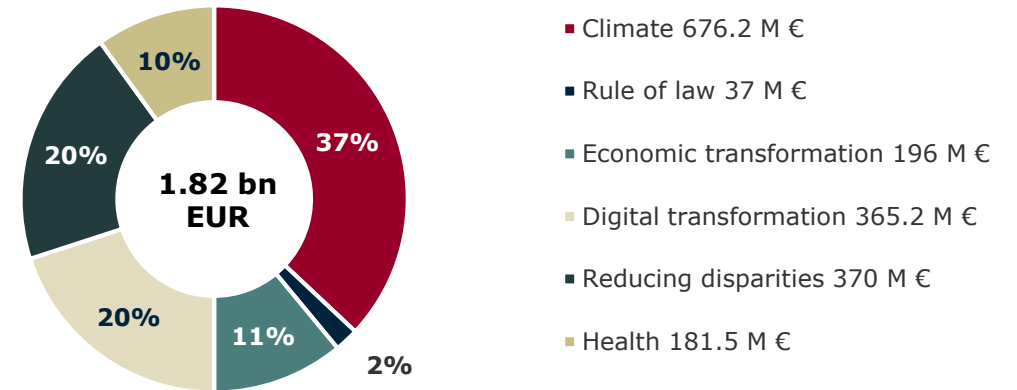
RRF and EU financing will support the implementation of the crucial investment and reform measures, including climate and digitalisation

Change in the share of growth friendly expenditure, by Member State (2001-2019, % primary expenditure)



Source: EC Report on Public Finances in EMU 2021

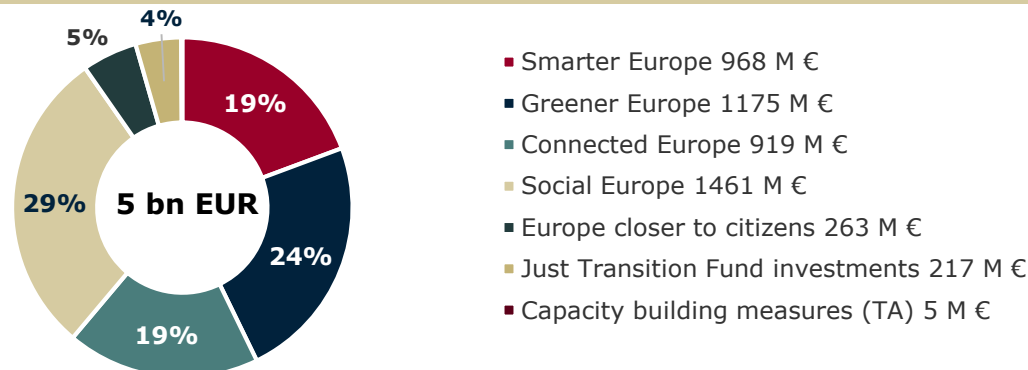
Recovery and Resilience plan (RRF) (Adopted by the Council on July 13, 2021)



Source: Ministry of Finance

EU Funds 2021-2027

EU Cohesion policy Programme adopted on November 25, 2022. Line ministries are working on fast-tracking implementation of planned investments within Programme. First call of project proposals had been launched on March 6, 2023.



Source: Ministry of Finance

Reforms in Latvia under RRF

CLIMATE		- Transition to sustainable transport, energy efficiency in all sectors, wind farms
DIGITAL TRANSFORMATION		- Coordination mechanisms for public digital services, digital skills
REDUCING DISPARITIES		- Administrative territorial reform, GMI reform
HEALTH		- Healthcare network effectiveness, remuneration reform
ECONOMIC TRANSFORMATION		- Innovation eco-system, consolidation of higher education institutions
RULE OF LAW		- Strengthening capacity of law enforcement agencies

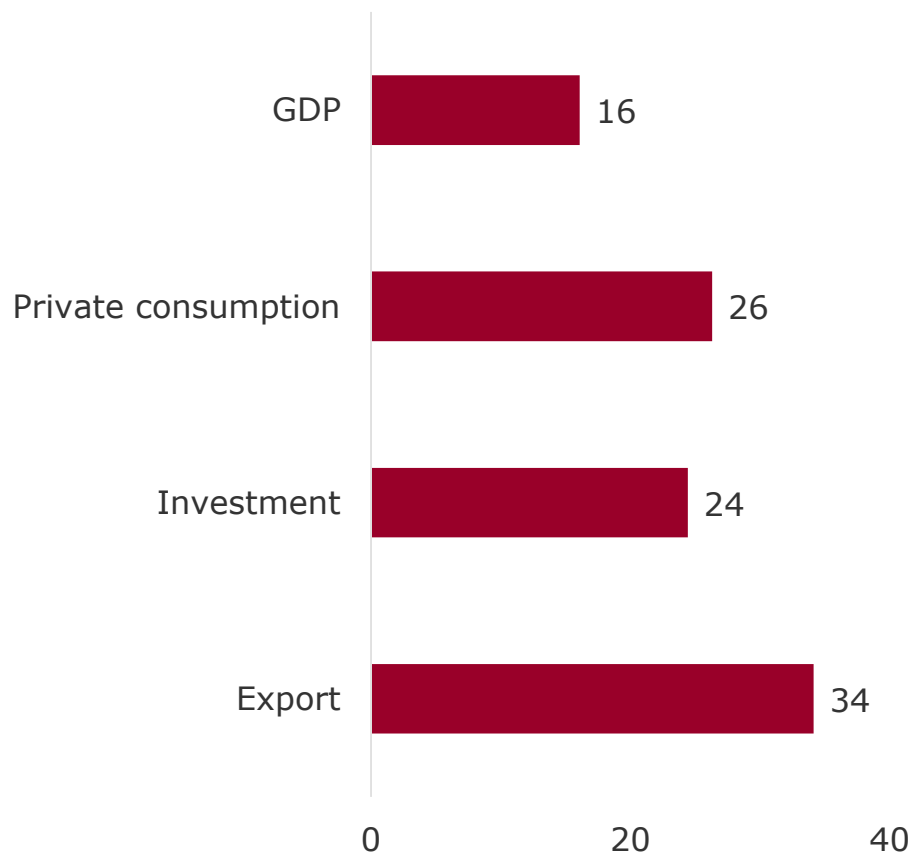
THE ECONOMY:
FLEXIBLE AND RESILIENT
ECONOMY



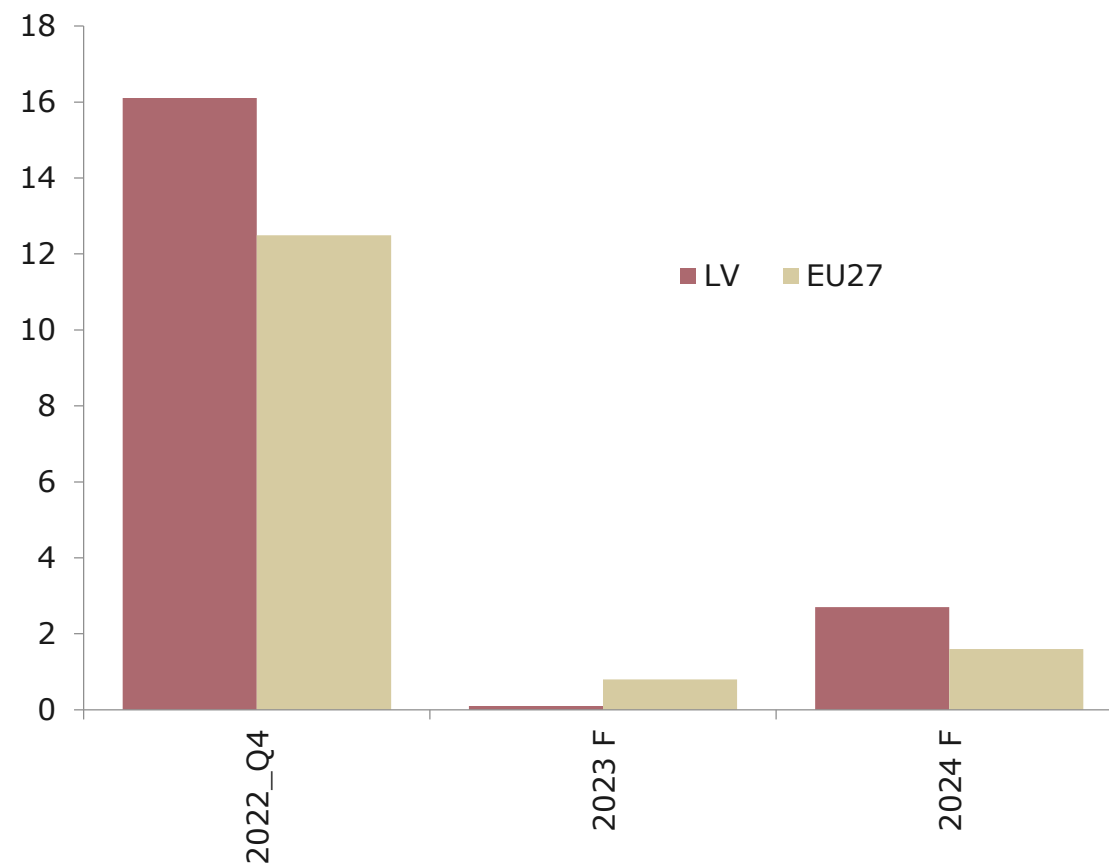
INVESTMENT AND EXPORT DRIVEN ECONOMIC GROWTH

Sound fundamentals support economic activity, increase resilience to external shocks

GDP components
(Q4 2022/average 2015; %; in real terms; s.a)



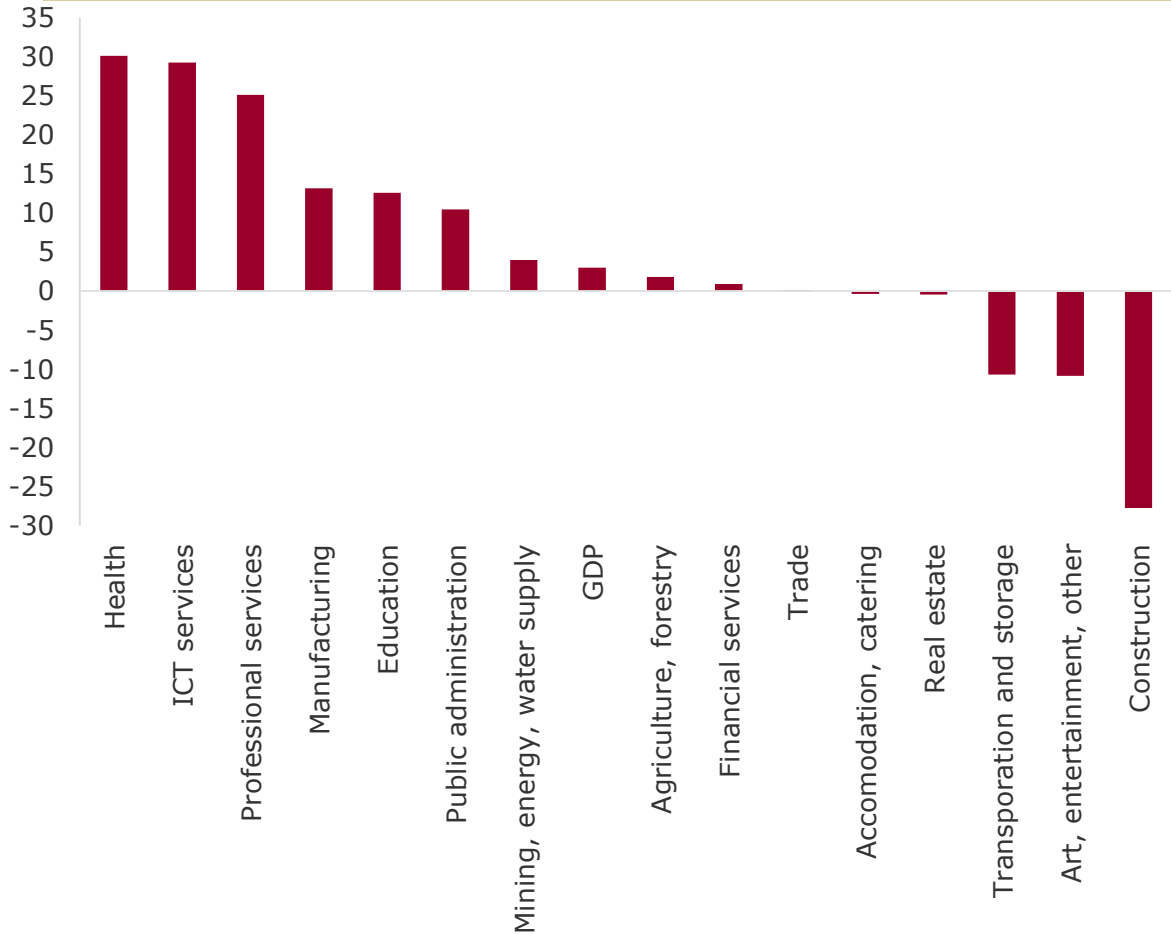
GDP in Q4 2022 compared to 2015 average (%; s.a.) and GDP forecast (y/y; %)



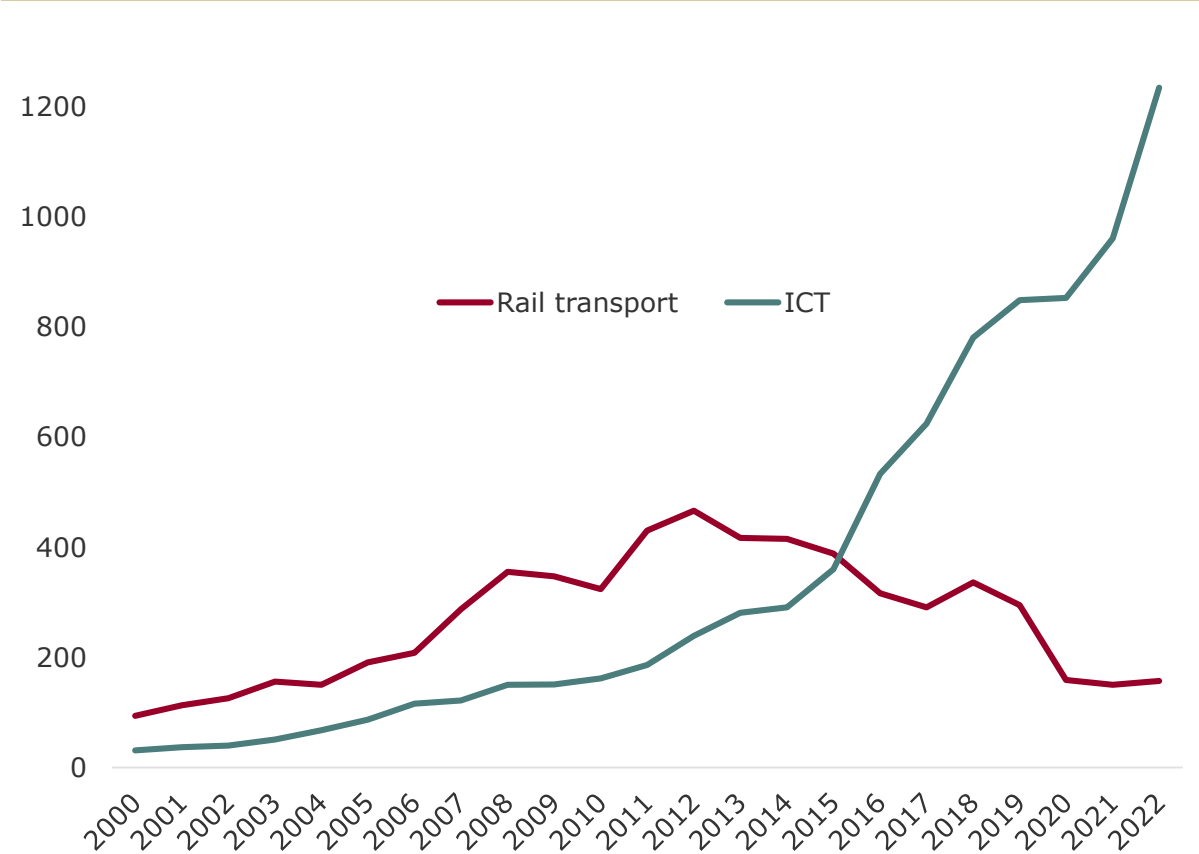
STRUCTURAL TRANSFORMATION TOWARDS MORE PRODUCTIVE SECTORS

Economic recovery from pandemic is dominated by several higher income sectors; a shift towards higher value-added services is evident over the long run

**Value added by sectors
(Q4 2022/average 2019; %; s.a.)**



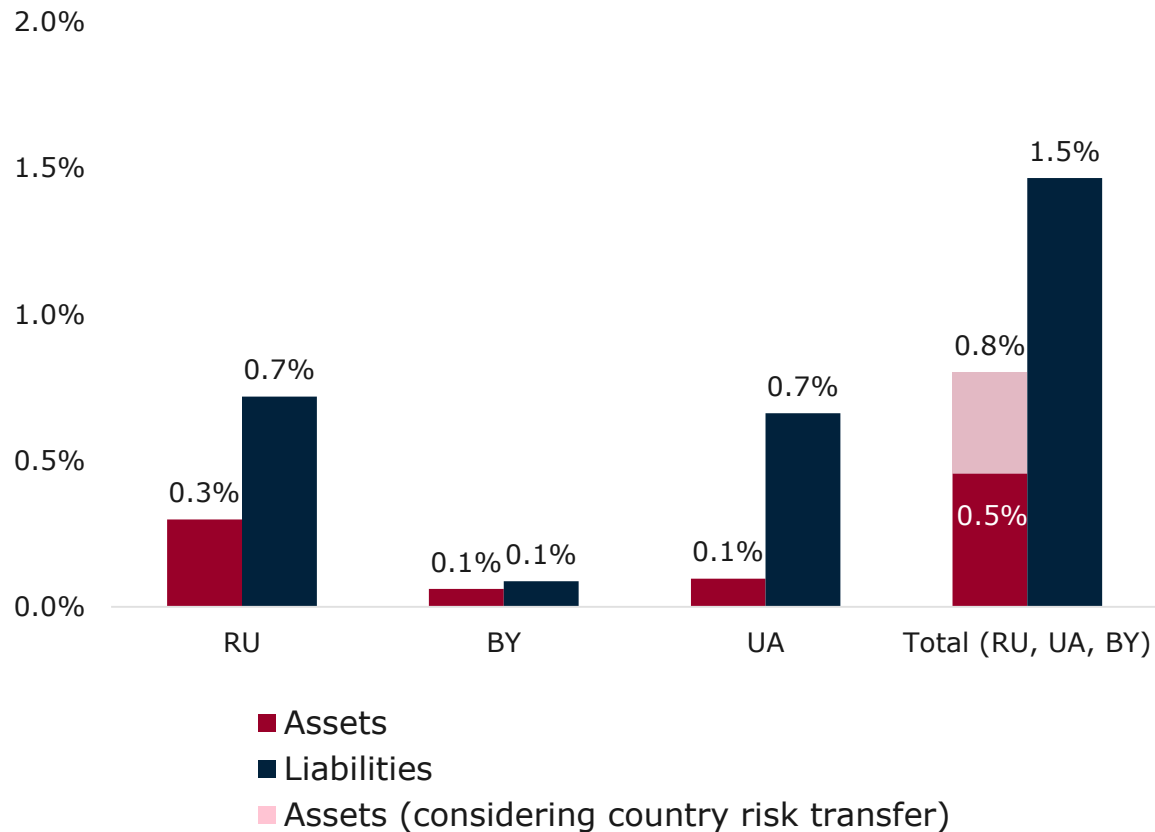
**Export income of rail transport and ICT services
(million EUR)**



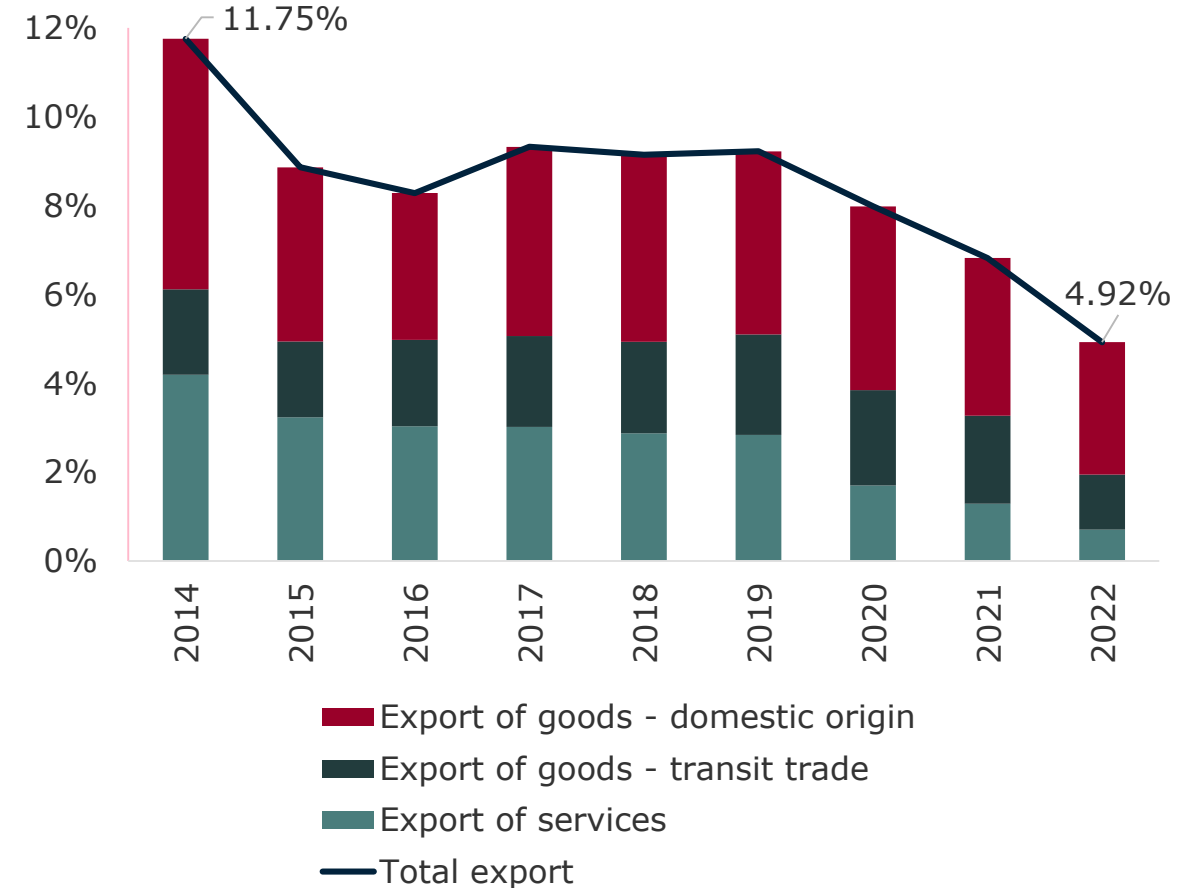
EXPOSURE TO RUSSIA IS RATHER LIMITED

Latvia has steadily reduced its exposure to Russia; economy is well diversified

Banking sector exposures to RU, BY and UA, % of total assets, December 2022



Export of goods and services to RU (% of total)

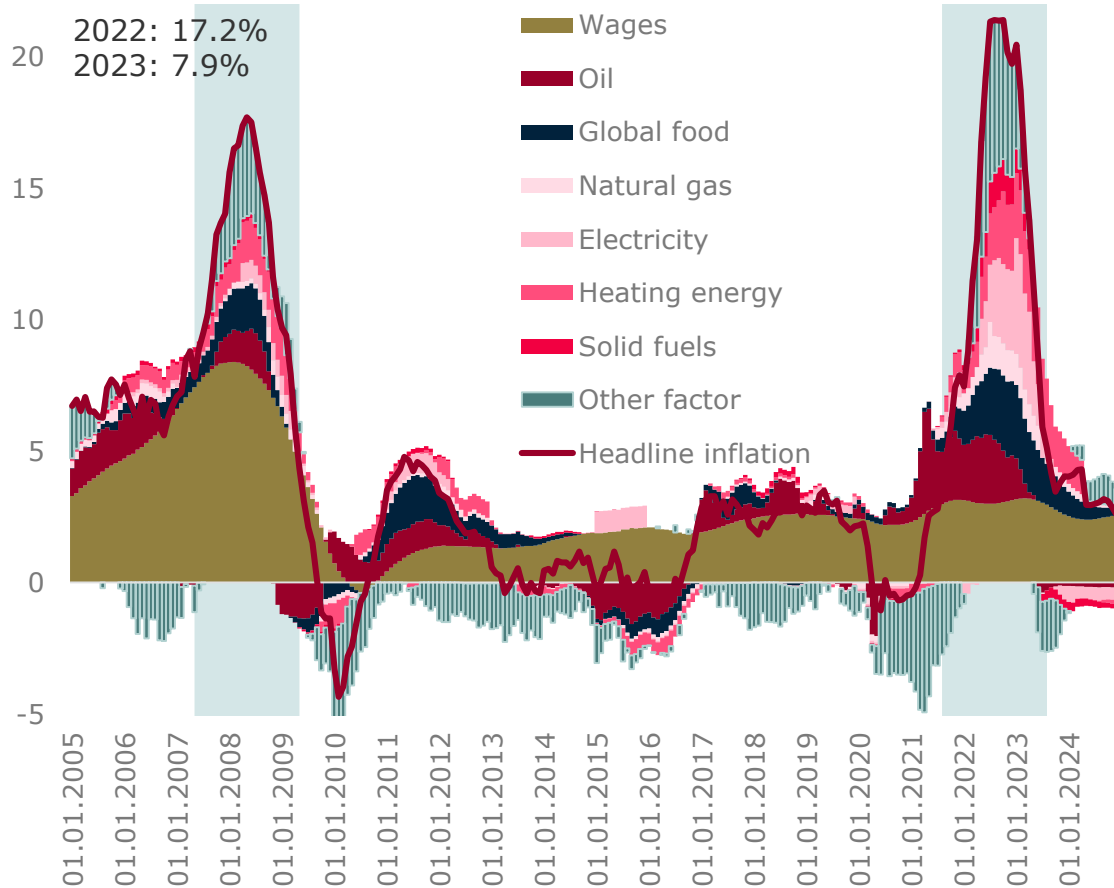


GLOBAL ENERGY AND FOOD PRESSURES PUSH UP INFLATION

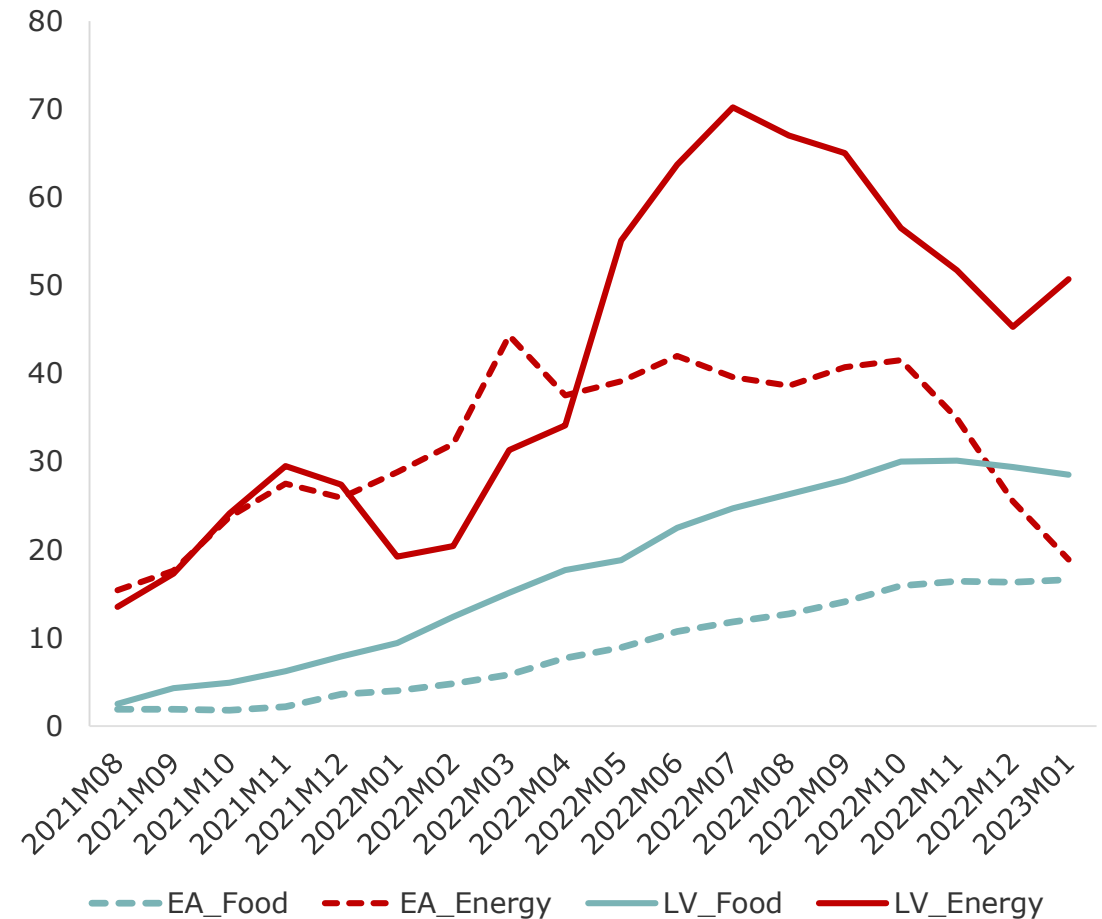
Larger share of food and energy in consumption basket and quicker pass-through to consumer prices elevates inflation; no material harm on competitiveness expected in medium term

Inflation (HICP; year on year; %) and contribution to changes (percentage points)

CPI forecast by European Commission:



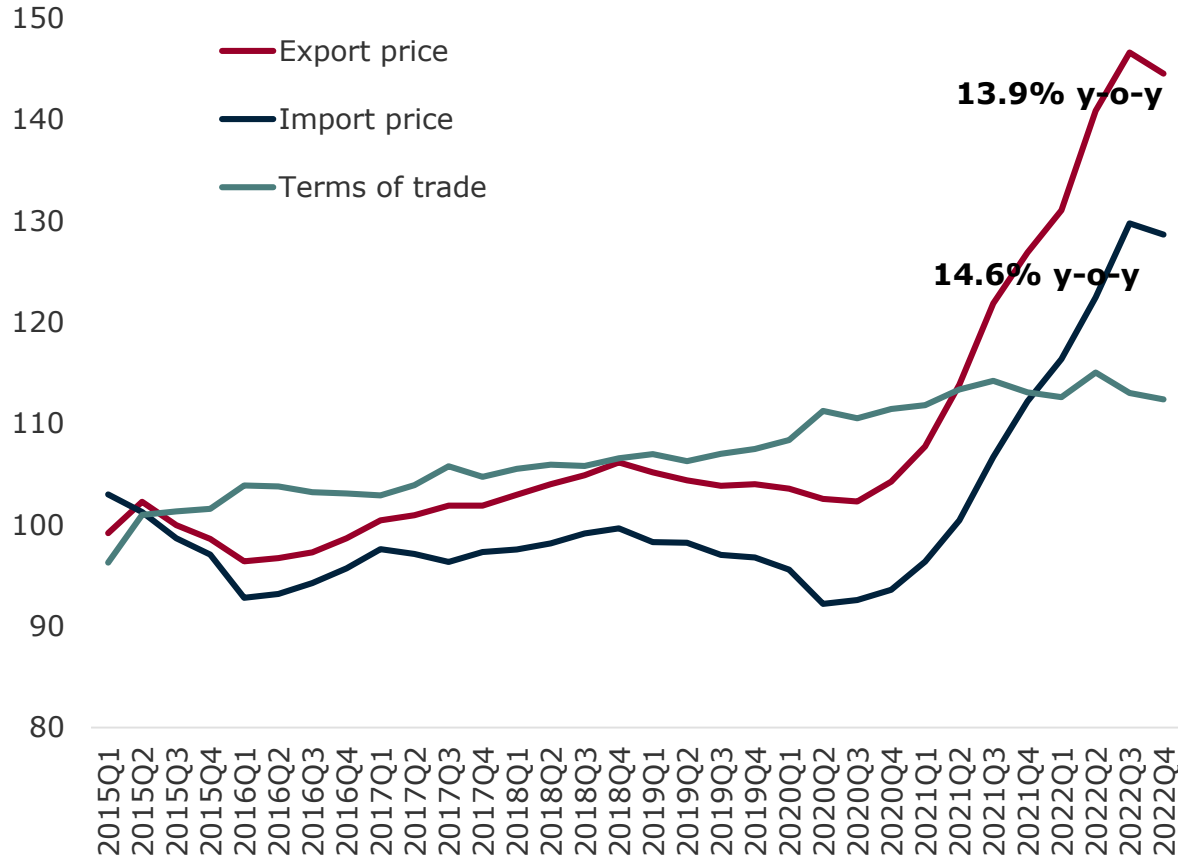
Energy and food prices in LV and EA (year on year; %)



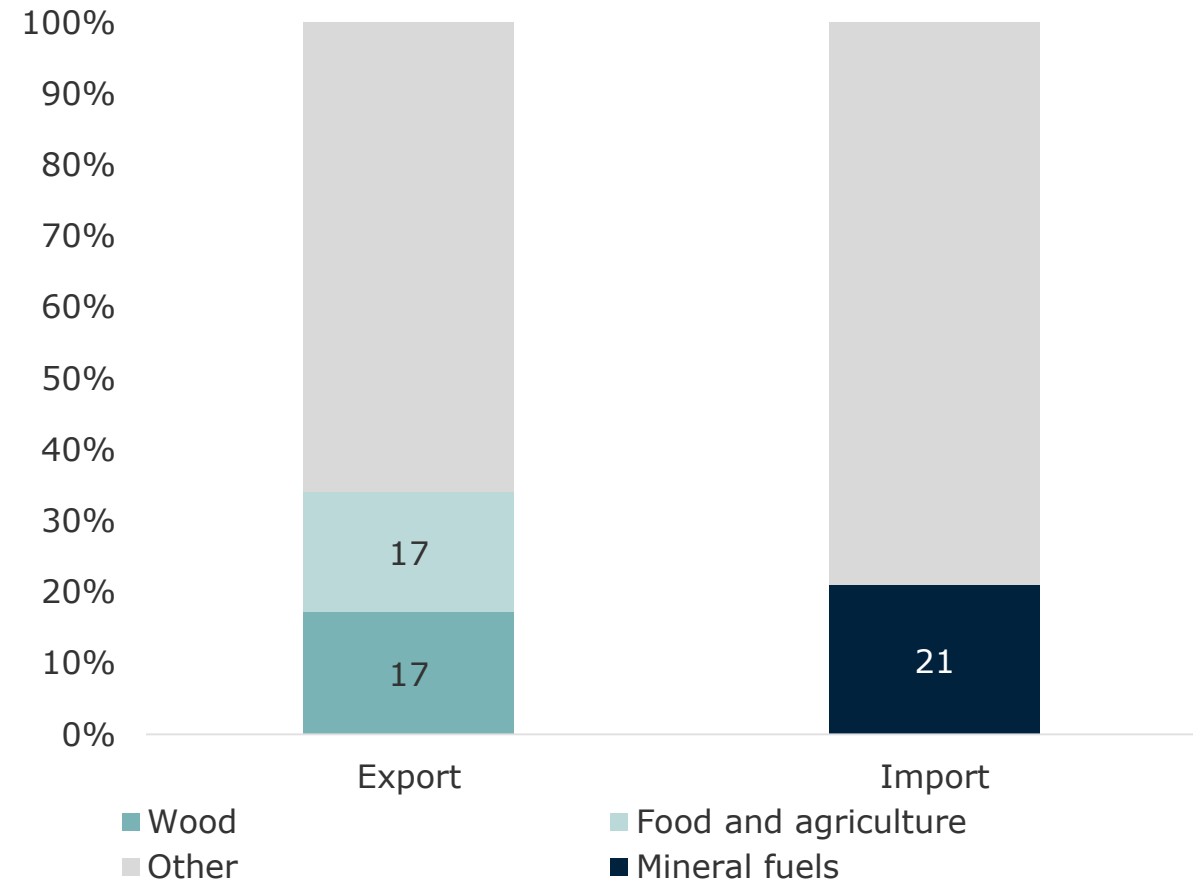
TERMS OF TRADE STILL FAVOURABLE DESPITE SURGING ENERGY PRICES

Energy price shock is cushioned by strong global price growth in several large export categories

**Terms of Trade
(2015=100)**



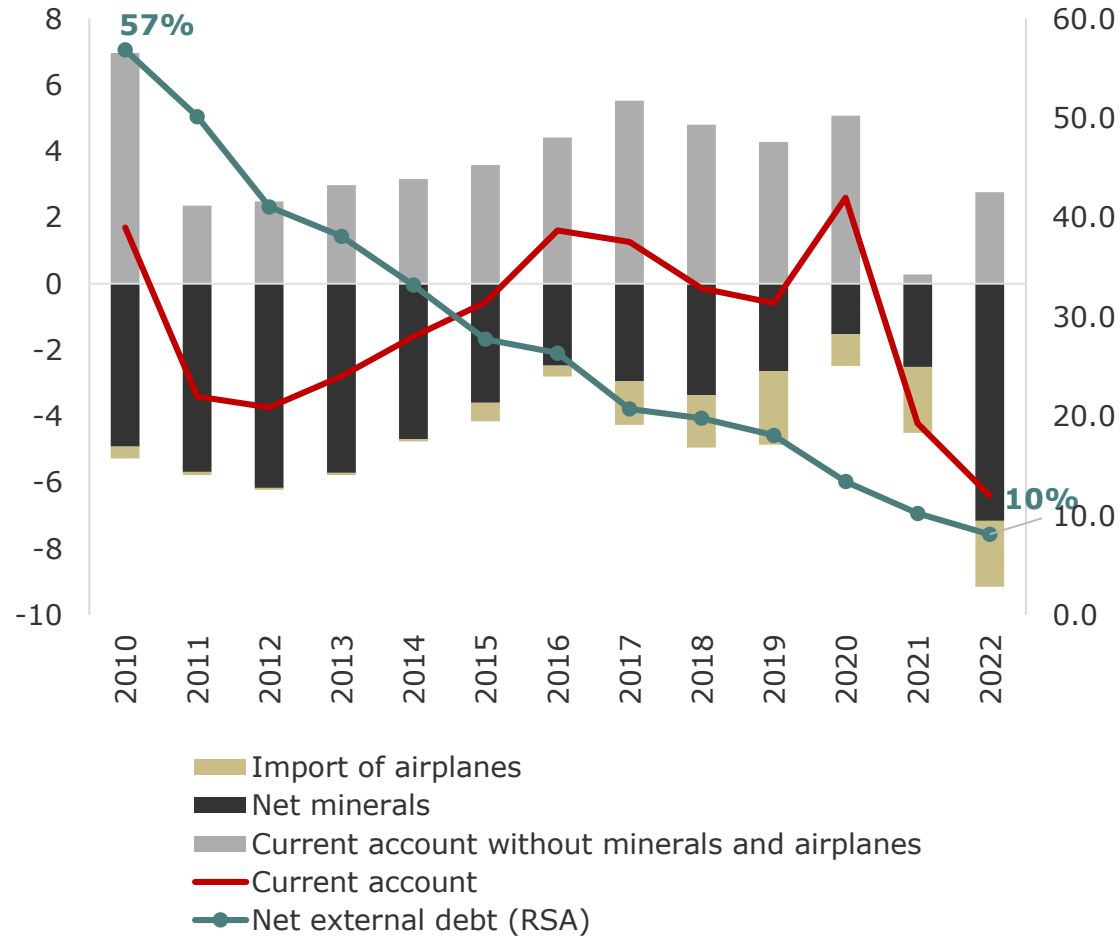
TOP 3 product group in the structure of export and import of goods in 2022 (% of total)



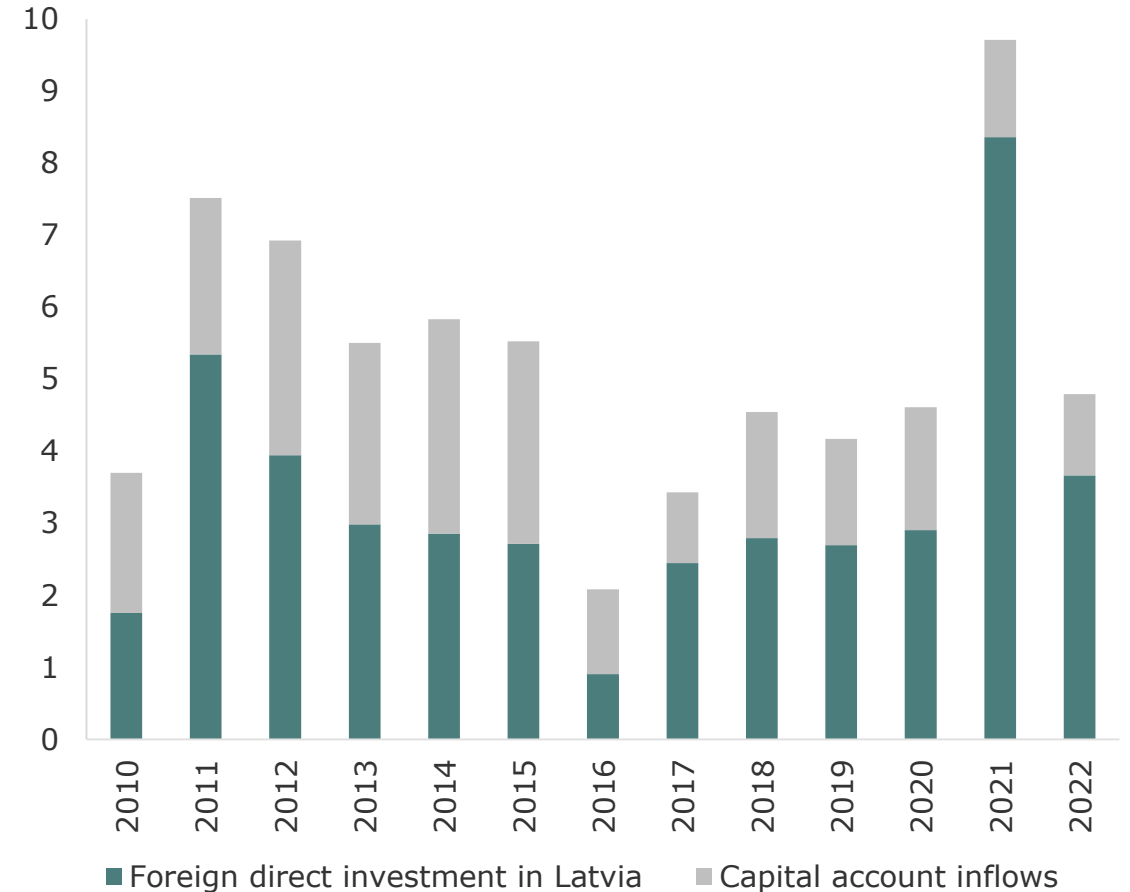
WHILE CURRENT ACCOUNT DEFICIT TEMPORARILY INCREASED, LATVIA'S EXTERNAL POSITION REMAINS SOUND

Current account deficit driven by high energy prices and an increase in inventories; net external debt remains low

**External sector indicators
(% of GDP)**



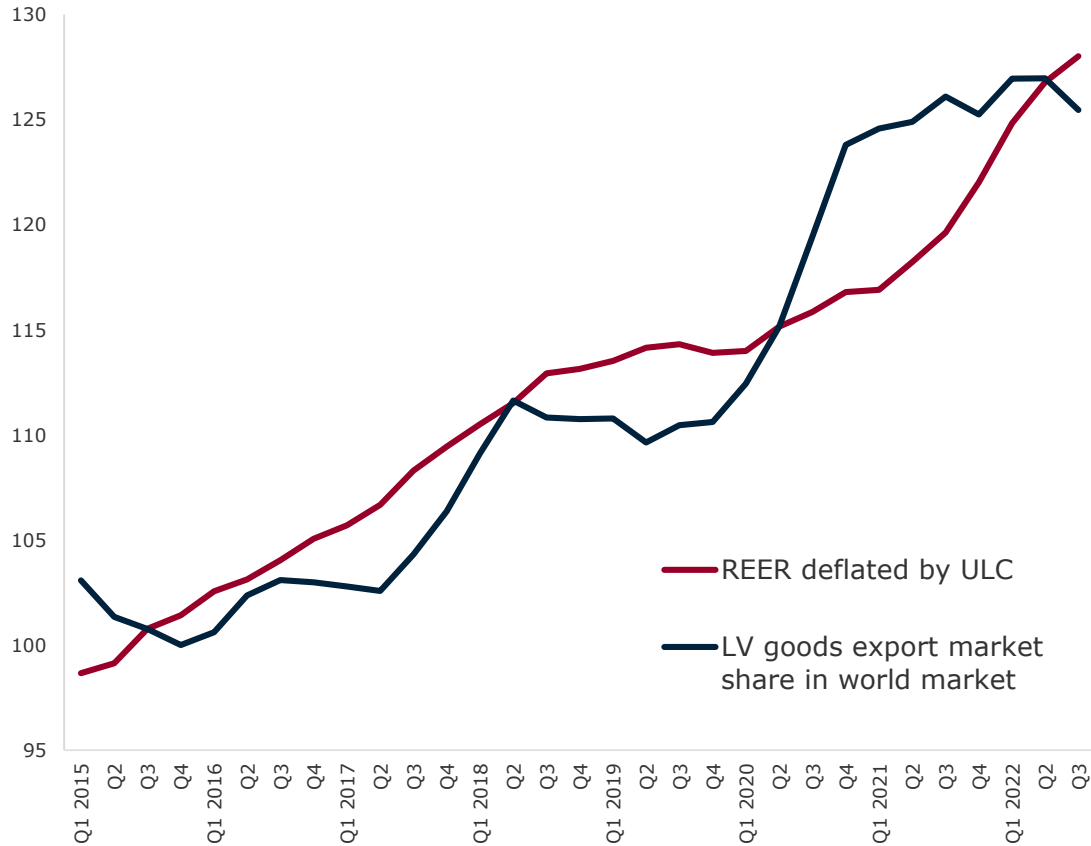
**Investment inflows
(% of GDP)**



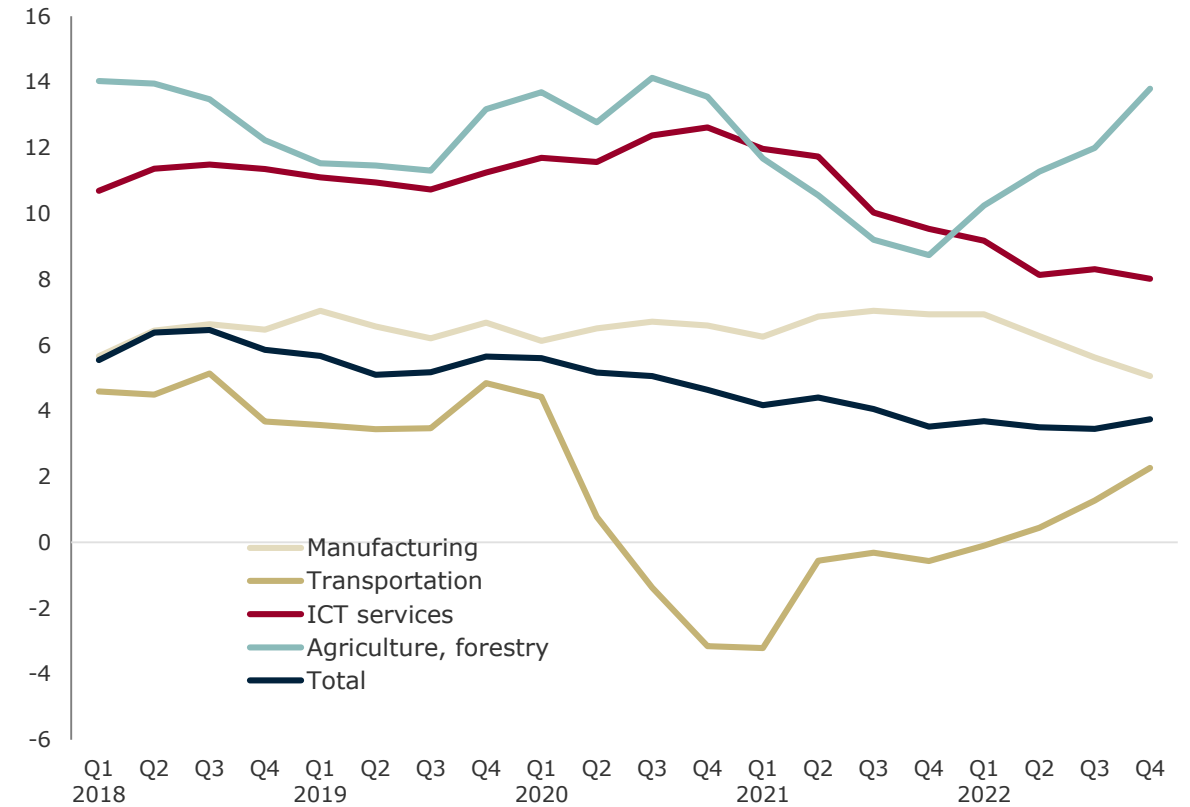
DESPITE INCREASE IN COSTS COMPANIES REMAIN COMPETITIVE GLOBALLY AND PROFITABLE

Expansion of market share globally has continued despite appreciation in the real effective exchange rate; corporate profit margins remain healthy

**REER deflated by ULC and export market share
(2015 = 100)**



**Profit margins
(profit after taxes to turnover; 4-quarter moving average %)**



Source: European Commission, WTO

Source: Central Statistical Bureau of Latvia

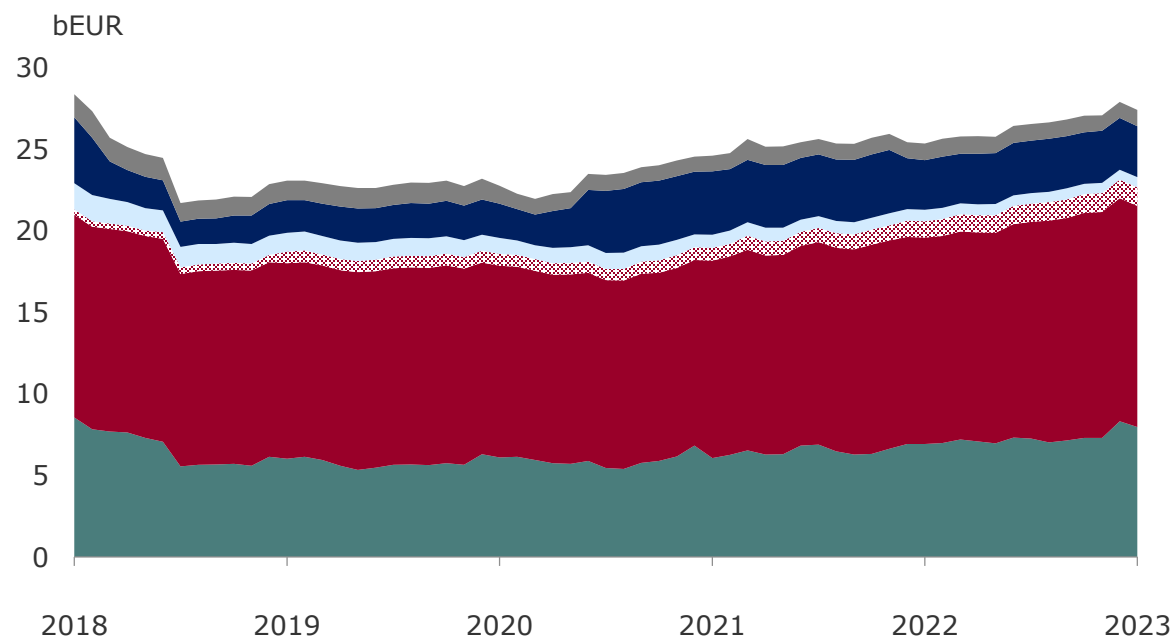
BANKING SECTOR:
WELL-CAPITALIZED
AND LIQUID



DOMESTIC LOANS AND DEPOSITS PREVAIL IN BANKS' OPERATIONS

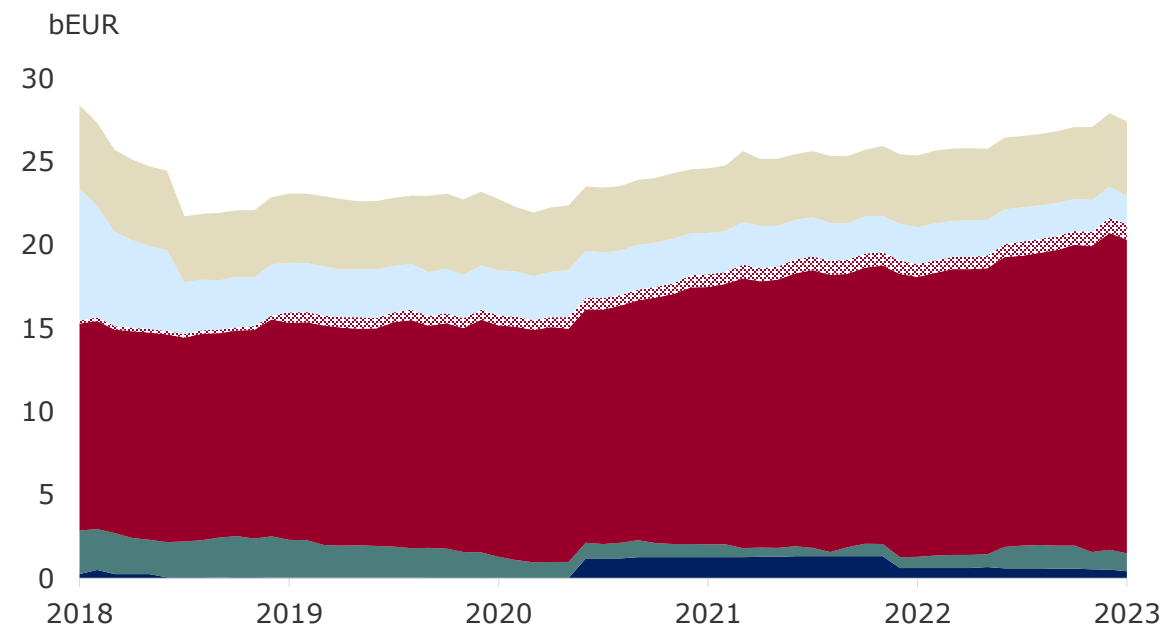
Banking sector focuses primarily on servicing domestic clients

Banking sector assets



- Cash and claims on MFI
- Loans to domestic clients
- ▨ Loans to other Baltic states
- Loans to foreign clients
- Securities
- Other assets

Banking sector liabilities

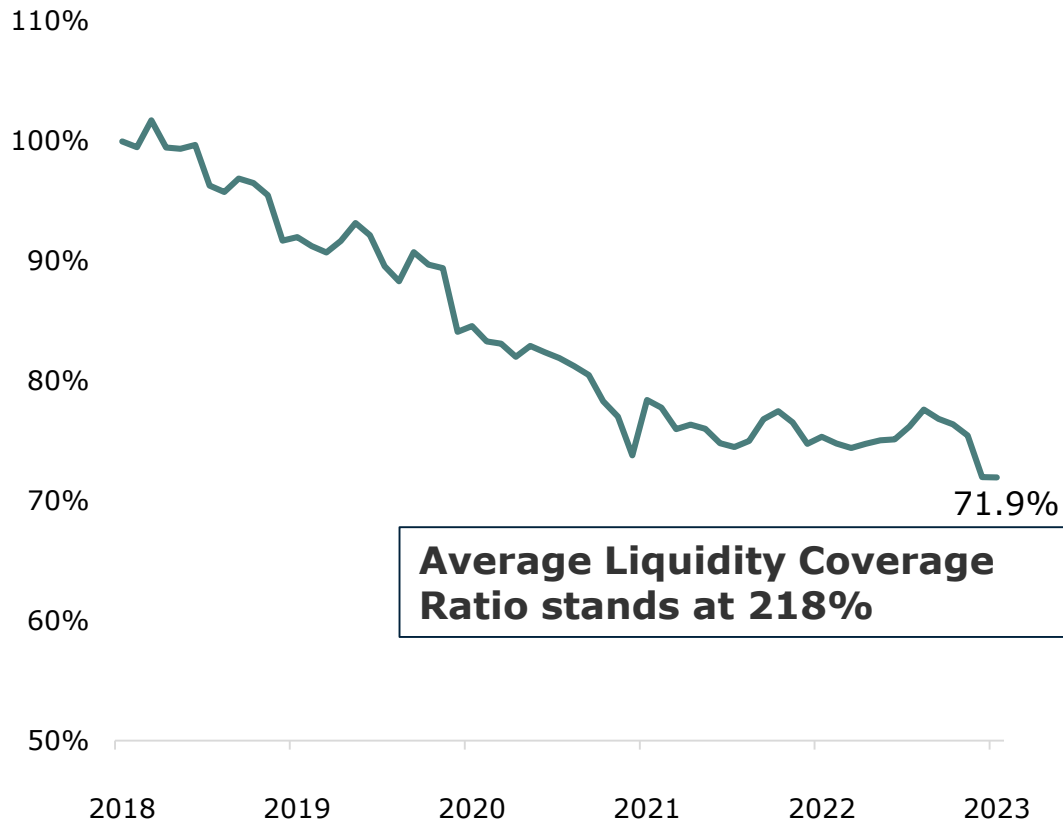


- Other liabilities & equity
- Foreign deposits
- ▨ Deposits from other Baltic states
- Domestic deposits
- MFI

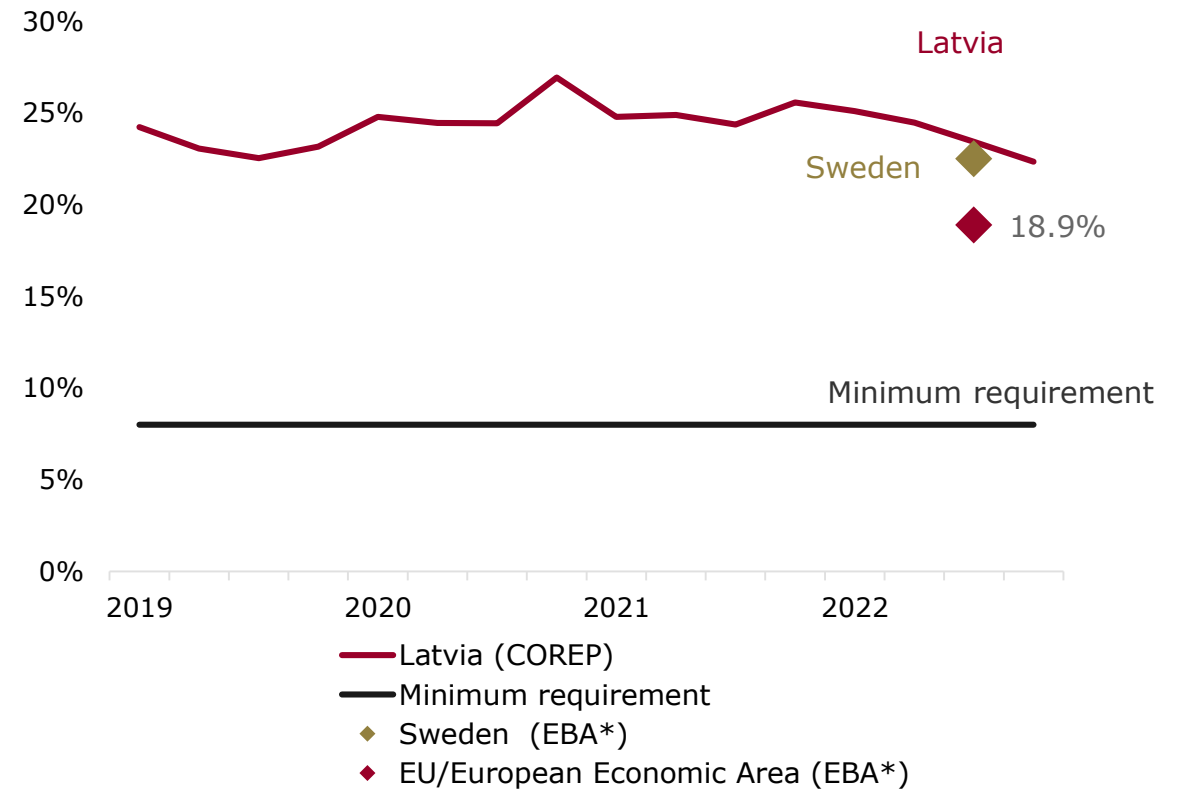
BANKS HAVE AMPLE LIQUIDITY RESERVES AND HIGH CAPITALIZATION

Banking sector is largely funded by domestic deposits; ample capital buffers provide good shock absorption capacity

Domestic loan-to-deposit ratio



Total capital ratio



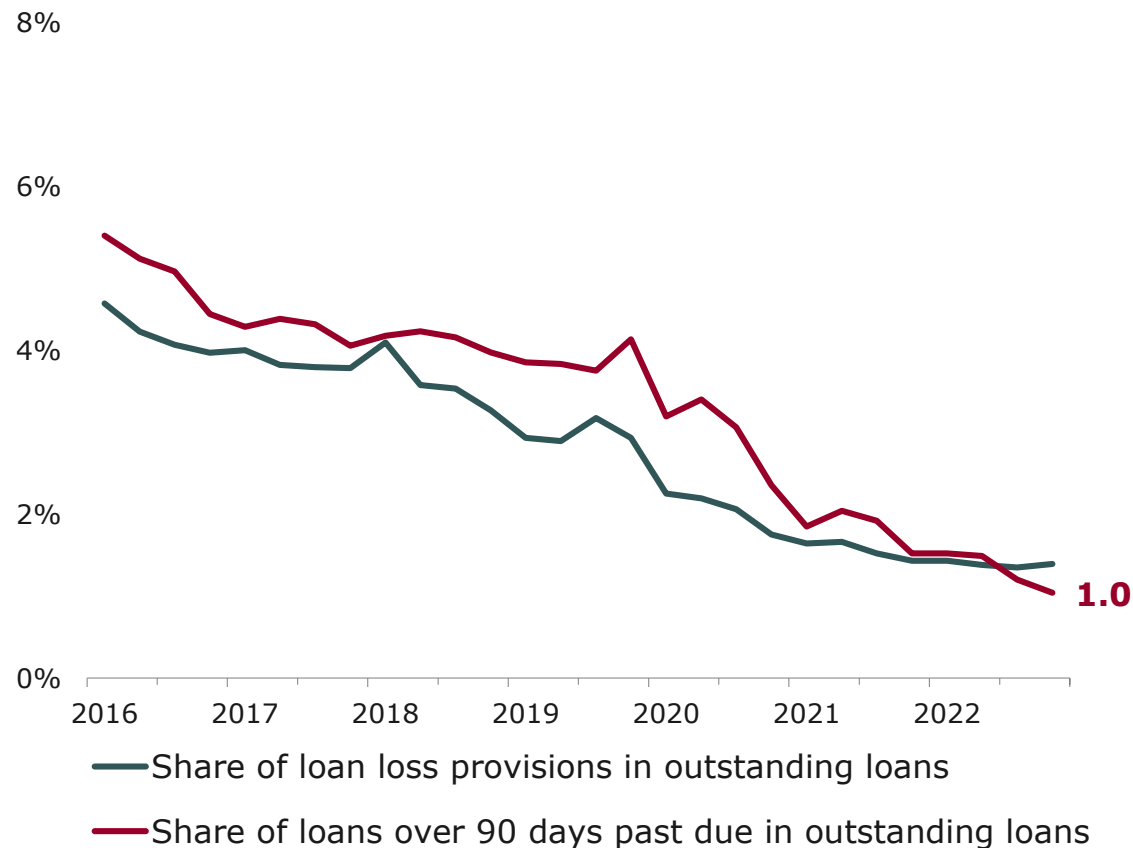
* Data for Sweden and European Union (EU)/European Economic Area (EEA) are European Banking Authority (EBA) sample of largest institutions, for Latvia COREP data of active institutions are used

Source: Latvijas Banka, European Banking Authority (EBA) Risk Dashboard

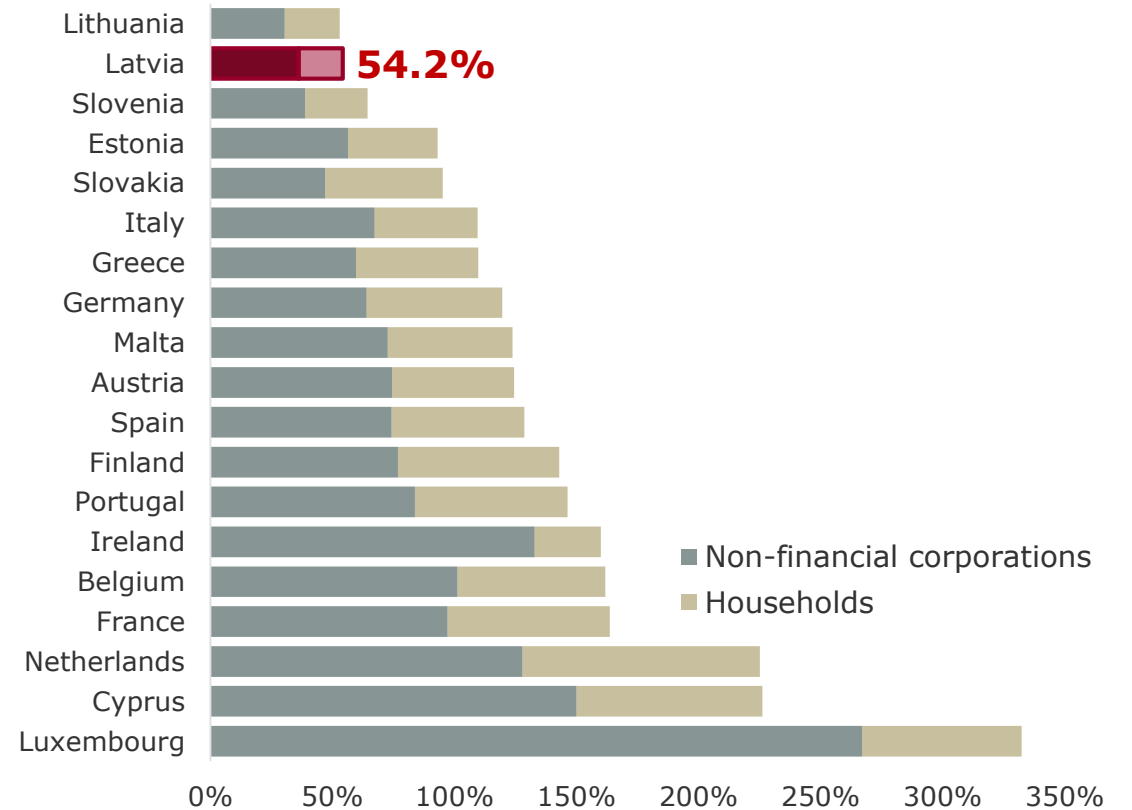
BANKS' CREDIT QUALITY REMAINS GOOD, HOUSEHOLD AND CORPORATE INDEBTEDNESS IS LOW

Prudent lending practices and low leverage of households and corporate sector supports asset quality

Total Loan portfolio quality



Total debt*-to-GDP

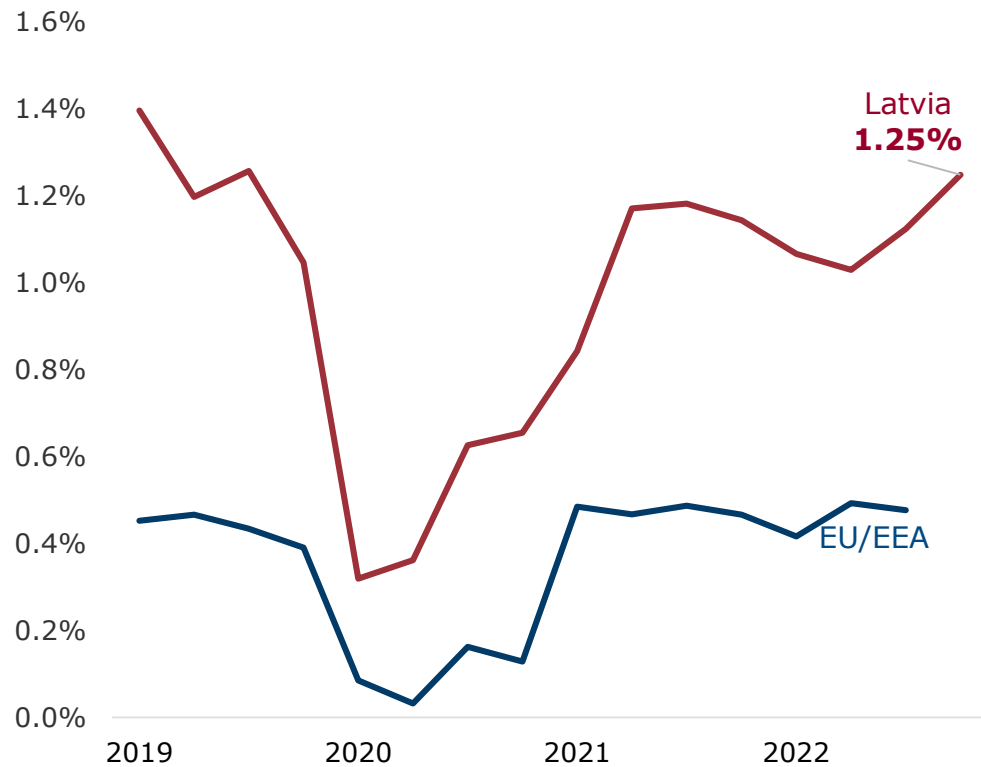


*Total consolidated debt vis-a-vis rest of the economy in 2022 Q3

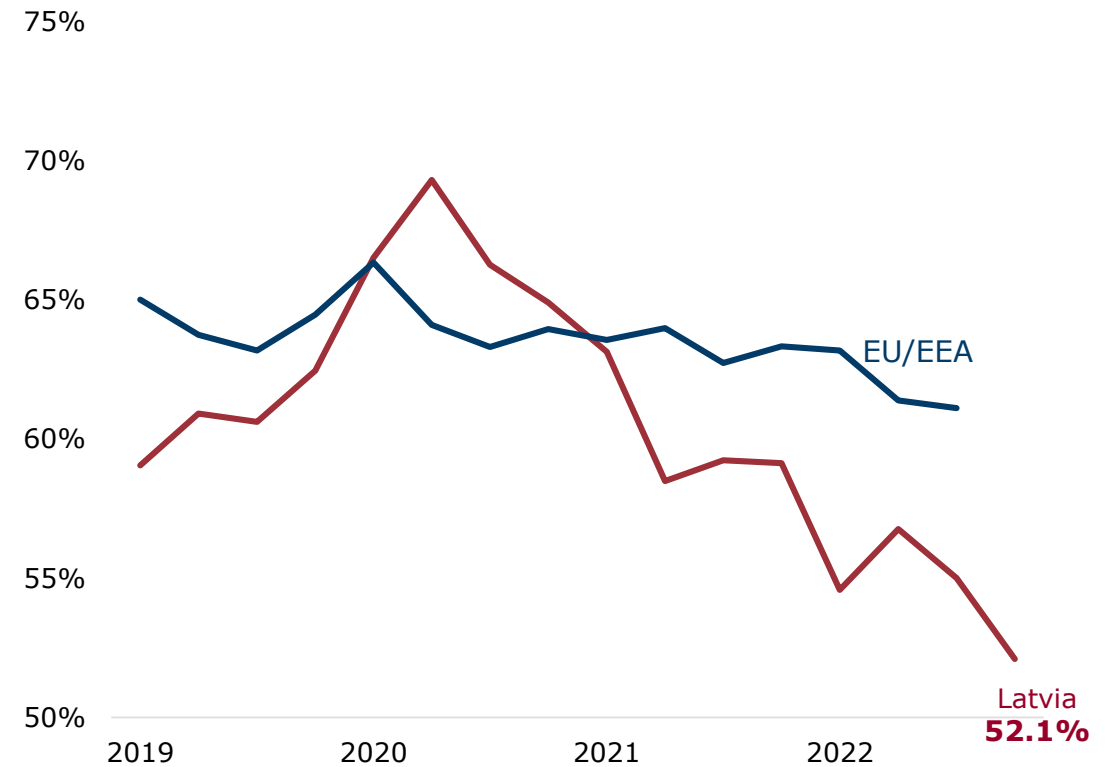
BANKING SECTOR PROFITABILITY IS STURDY AND STAYS ABOVE EU AVERAGE

Profitability is set to improve further in 2023 due to rising net interest income

Return on Assets



Cost-to-income ratio



**GOVERNMENT DEBT
MANAGEMENT:**

FLEXIBILITY OF FUNDING STRATEGY



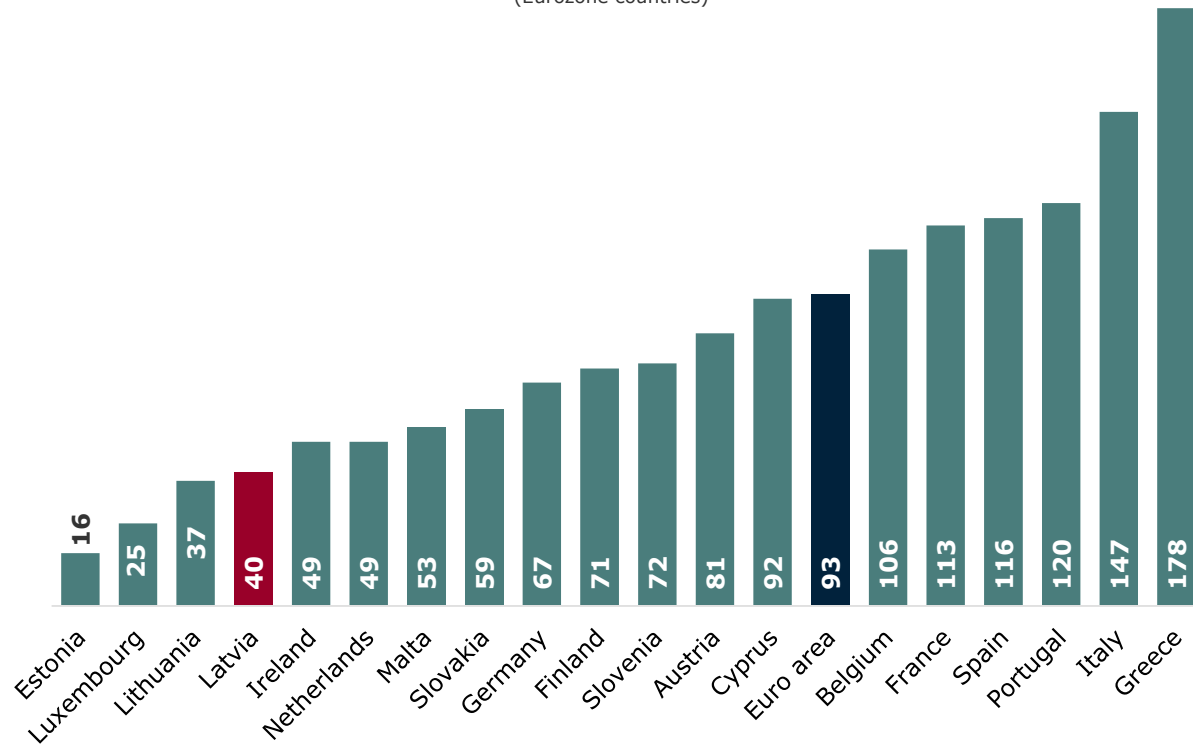
GENERAL GOVERNMENT DEBT REMAINS LOW

Despite additional funding needs during Covid-19 pandemic and current support measures during the energy price peak period, the debt level is expected to stay well below 60% of GDP in the medium term

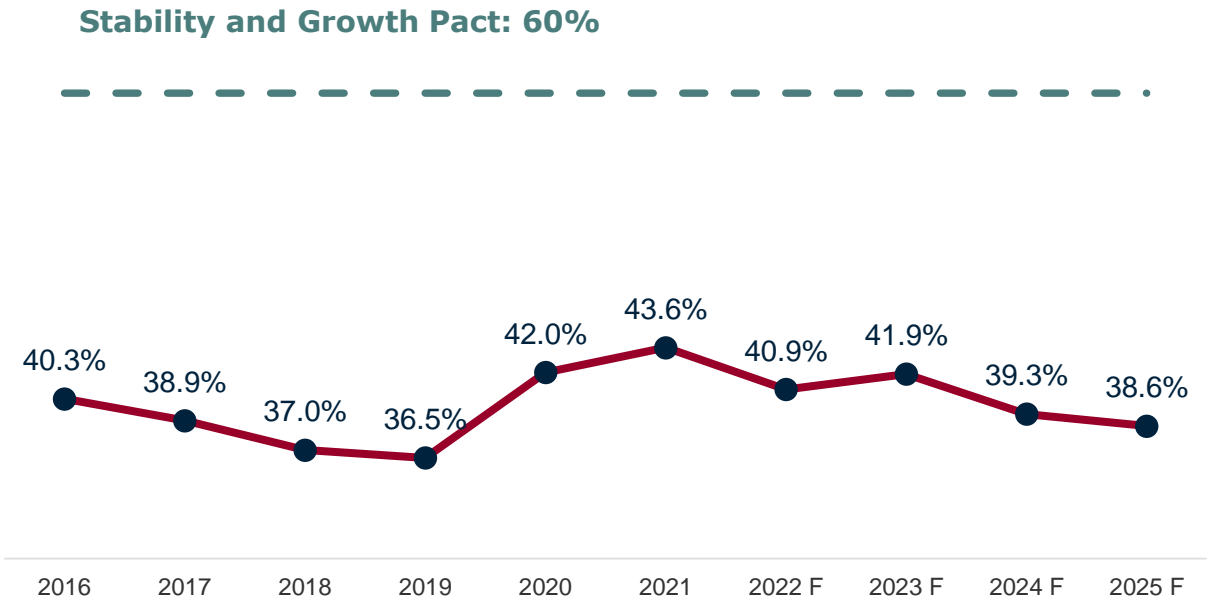
4th lowest general government debt level in the Eurozone

Low debt level provides effective buffer for scenarios of additional funding needs

General Government Debt Q3 2022, % GDP
(Eurozone countries)



General Government Debt % GDP



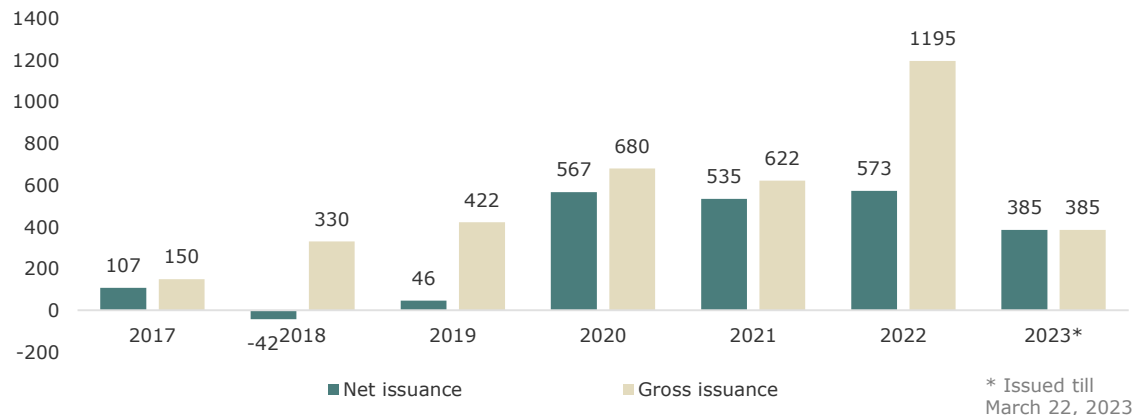
Source: Eurostat

Source: Eurostat, Law on State Budget for 2023 and budgetary framework for 2023-2025

FUNDING INSTRUMENTS ARE CUSTOMIZED TO ACTUAL SITUATION

Demand in the domestic auctions continues to be supportive in 2023

In 2022 the emphasis has been on the domestic market by borrowing largest ever volumes in relatively short period (millions, EUR)



* Source: The Treasury as of 22.03.2023.

Domestic market continues to perform strongly in domestic auctions (BIDs/Sold amount ratio)



Source: The Treasury as of 22.03.2023.

Last disbursement under EU SURE facility

In December 2022 Latvia received the last tranche from EC SURE facility in amount of 167 million EUR

Total amount of tranches Latvia has disbursed under EU SURE instrument is EUR 472 million

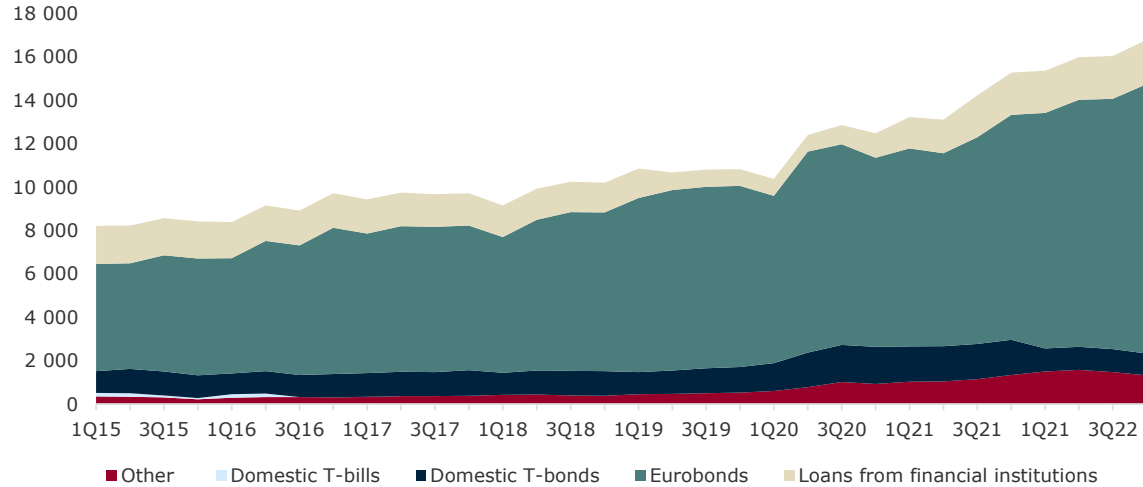
Primary dealers group and auctions

- Primary dealer system in Latvia operates since 11 February 2013
- Enlargement of Primary dealer group took place on 19 January 2021 when Erste Group Bank joined Citadele banka AS, Luminor Bank AS, SEB bankas, Swedbank AS
- Since 14 October 2020 GMTN programme XS ISIN Eurobonds TAPs are offered in auction in domestic market only (via Primary dealers)
- The Treasury holds regular auctions and offers tenors to address investor demand

CONSERVATIVE CENTRAL GOVERNMENT DEBT MANAGEMENT STRATEGY

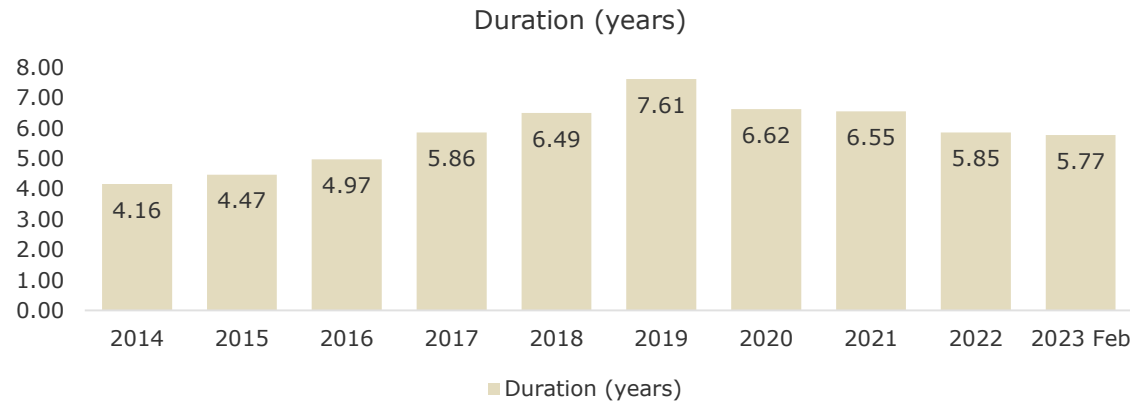
Debt portfolio parameters are in lines with Central Government Debt and Cash Management Strategy

Eurobonds dominate in debt structure by instruments (million EUR)



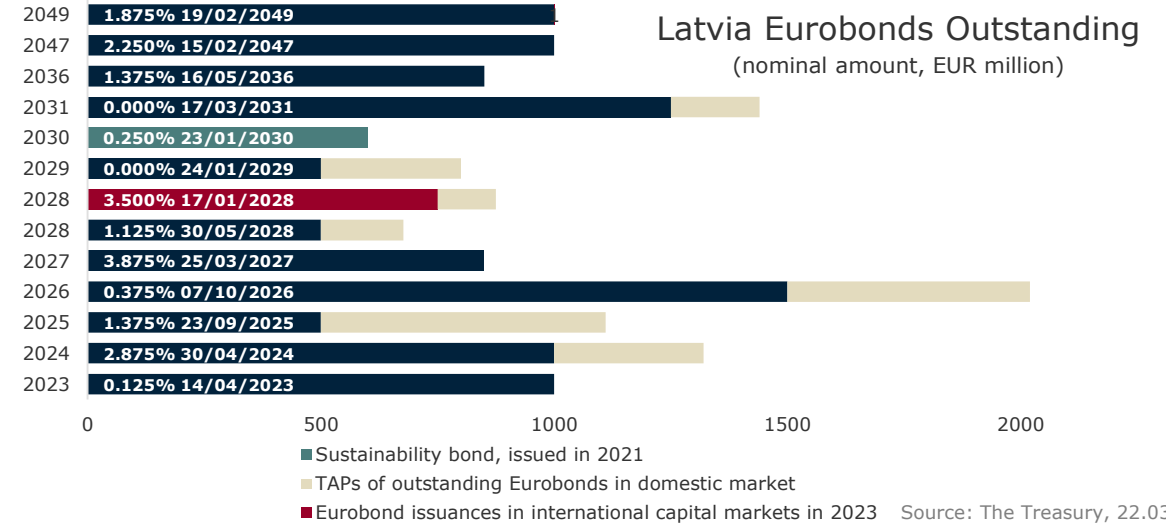
Source: The Treasury, December 31, 2022

Weighted average interest rate of debt portfolio below 1 % in 2021



Source: The Treasury

Liquidity of bonds outstanding is increased by regular TAP auctions of XS ISIN bonds in domestic market



Source: The Treasury, 22.03.2023

Debt Portfolio parameters are in line with Strategy

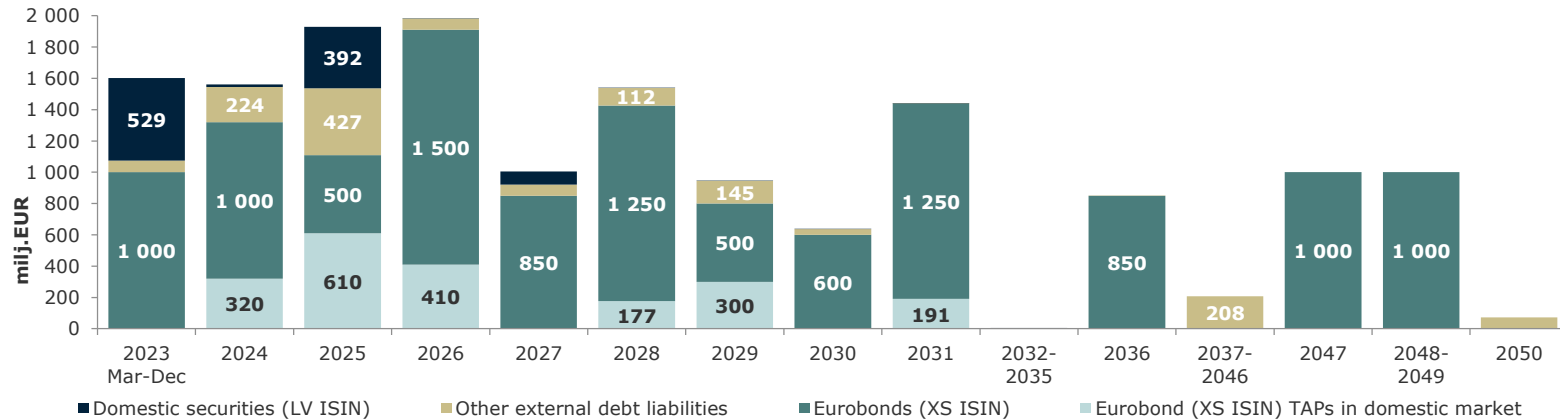
Parameters	Strategy	30/09/2022	31/12/2022
Maturity profile (%)			
• up to 1 year	≤ 25%	18.3%	17.4%
• up to 3 year	≤ 50%	39.7%	38.2%
Share of fixed rate ⁽¹⁾	≥ 60%	75.8%	76.4%
Macaulay duration (years)	5.00 – 9.00	6.00	5.85
Net debt ⁽²⁾ currency composition	100% EUR with a deviation of +/- 5%	100.53%	100.47%

Source: The Treasury

FLEXIBILITY IS EMBEDDED IN LATVIA'S FUNDING STRATEGY

Main funding instruments are government debt securities issued in the international and domestic capital market

Debt redemption profile (million EUR)



Source: The Treasury, on February 28, 2023

Power of the funding strategy lies within:

- ✓ Flexibility in choice of timing of issuance
- ✓ Flexibility in choice of currency
- ✓ Flexibility in tenors
- ✓ Flexibility to combine instruments and other available alternatives
- ✓ Maintained comfortable liquidity buffer

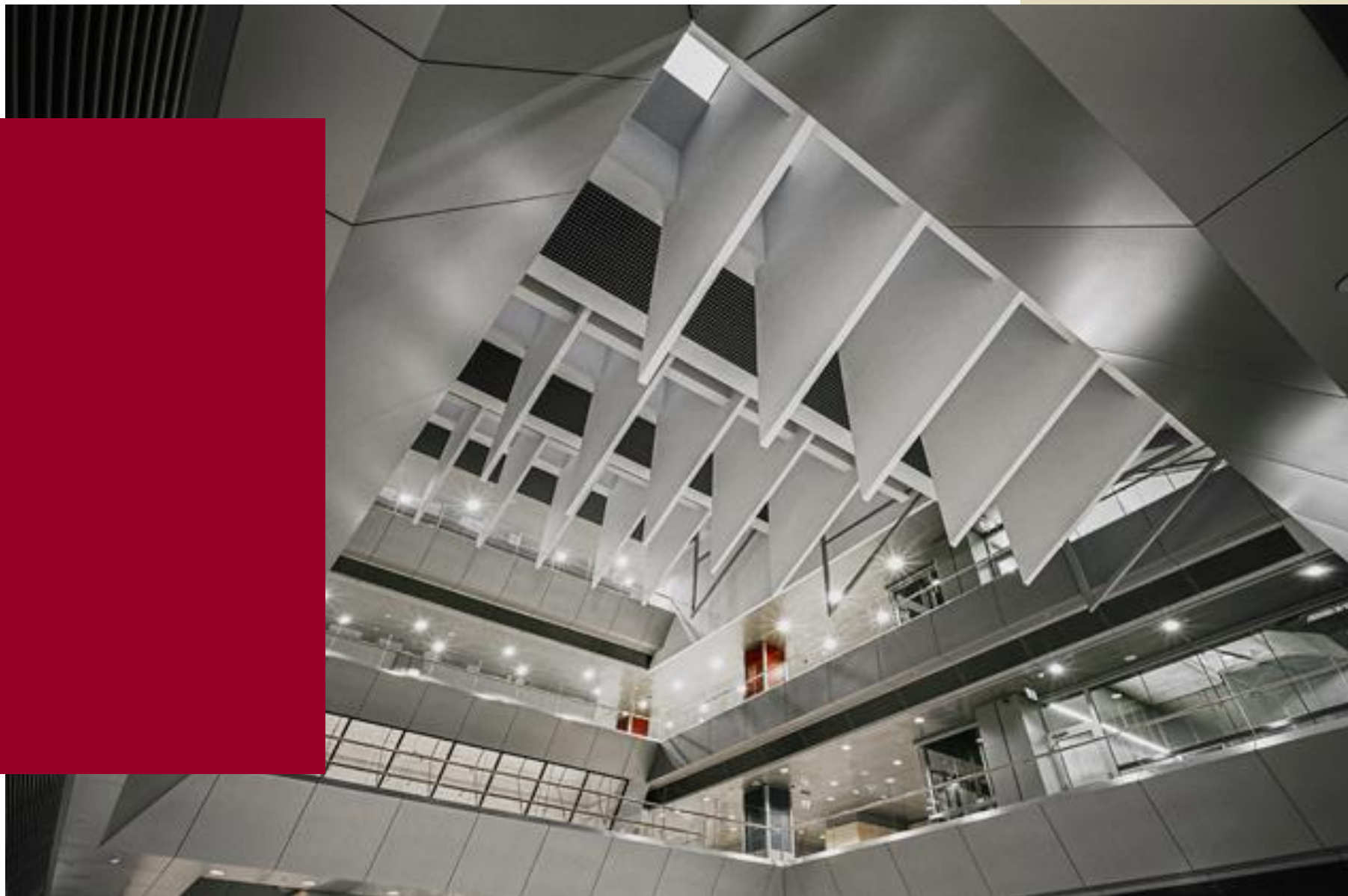
Estimated central government borrowing volumes in 2022-2024 (including international and domestic market)

	Actual 2022	Actual Jan –Feb 2023	Plan Mar-Dec 2023	Plan 2024
Gross Borrowing volumes	2.2 bn EUR	0.9 bn EUR	2.4 bn EUR	2.4 bn EUR
Cash buffer (% of GDP)	3.9	6.0		

The estimated gross borrowing volume is indicative, subject to actual state budget execution and may change due to number of contingencies and external factors, for example:

- additional financing requirement arising from the geopolitical situation and measures to strengthen national security of Latvia
- support for the economy and society to reduce the negative impact of increase in energy prices

CONCLUSION



INVESTMENT HIGHLIGHTS

Latvia has previously shown a strong ability to recover rapidly and overcome external shocks thanks to its flexible and resilient economy and the government's ability to ensure swift policy-making in extraordinary situations



Republic of Latvia

Stable «A» Credit Ratings

**Flexible Economy with
Investment and Export Driven
Economic Growth**

**Supportive Fiscal Policy and
Gradual Return to «Normality»**

Low Government Debt Level

**Banks Well Capitalised and
Liquid**

**Good Progress in Ensuring
Energy Security**

**Member of NATO - the World's
Strongest Military Alliance**