



Republic of Latvia

# REPUBLIC OF LATVIA

Investor presentation



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July, 2023

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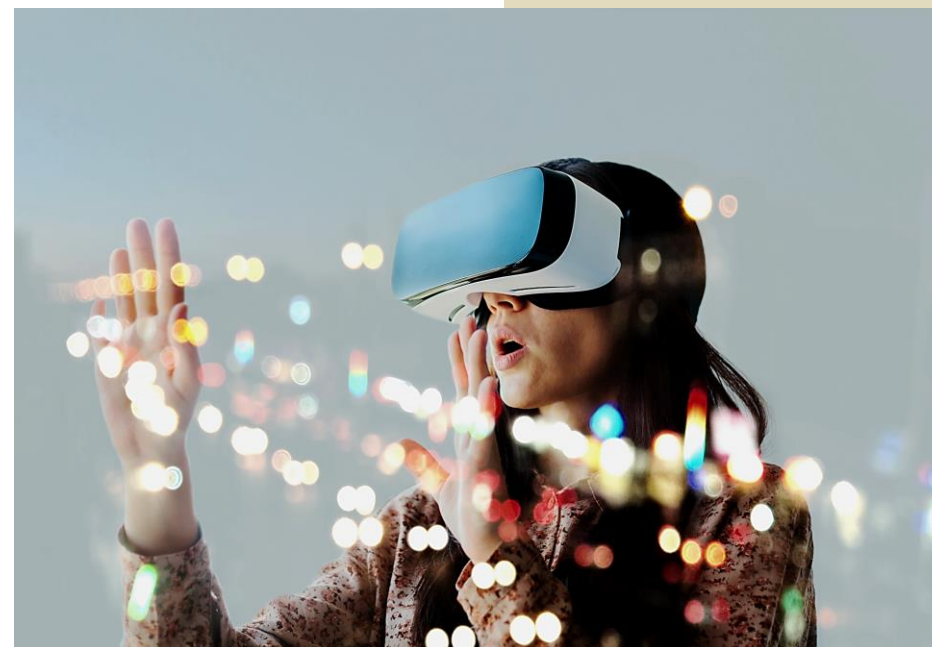
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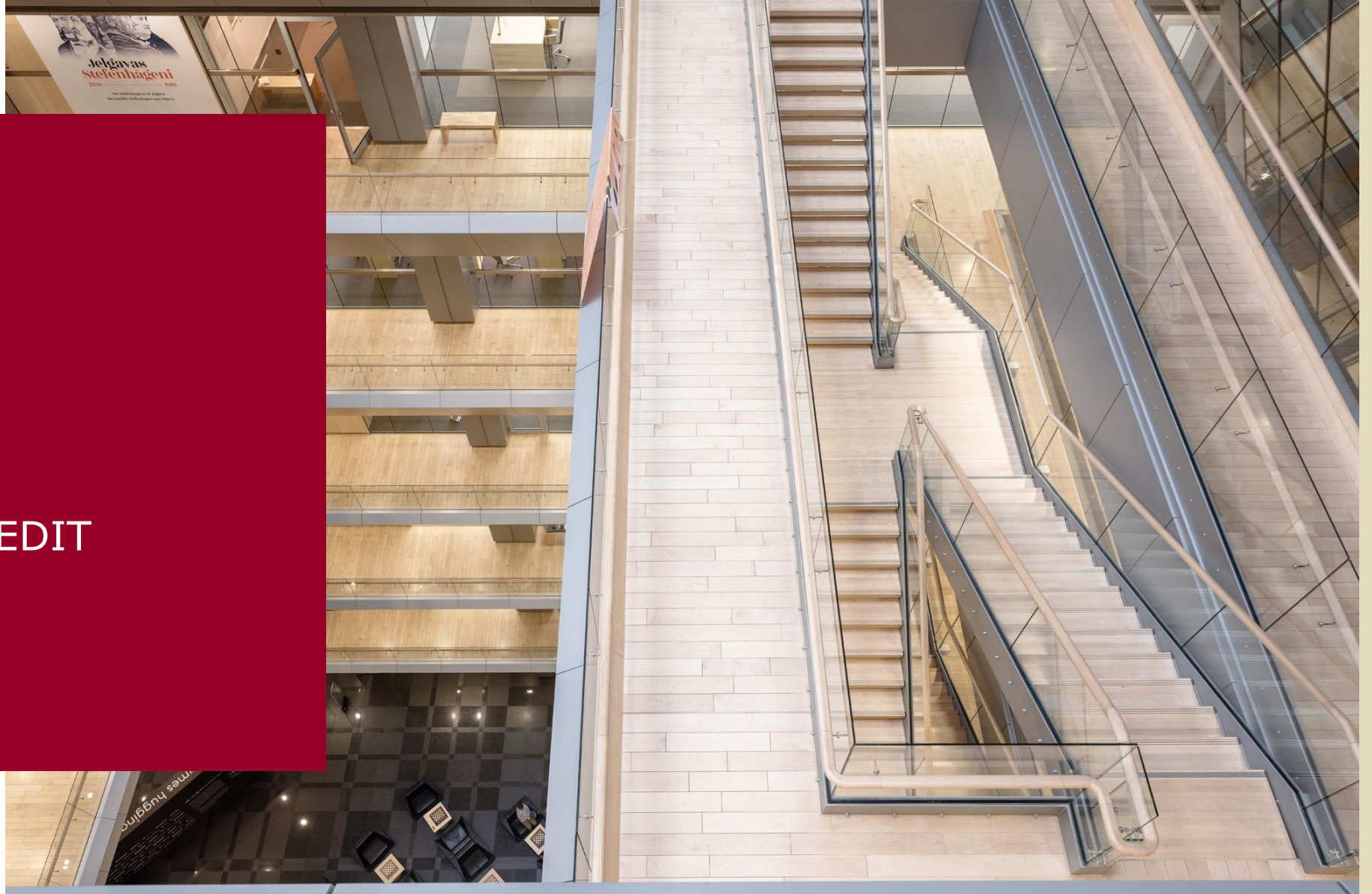
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**OVERVIEW:**

PORTRAIT OF  
THE SOVEREIGN CREDIT



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

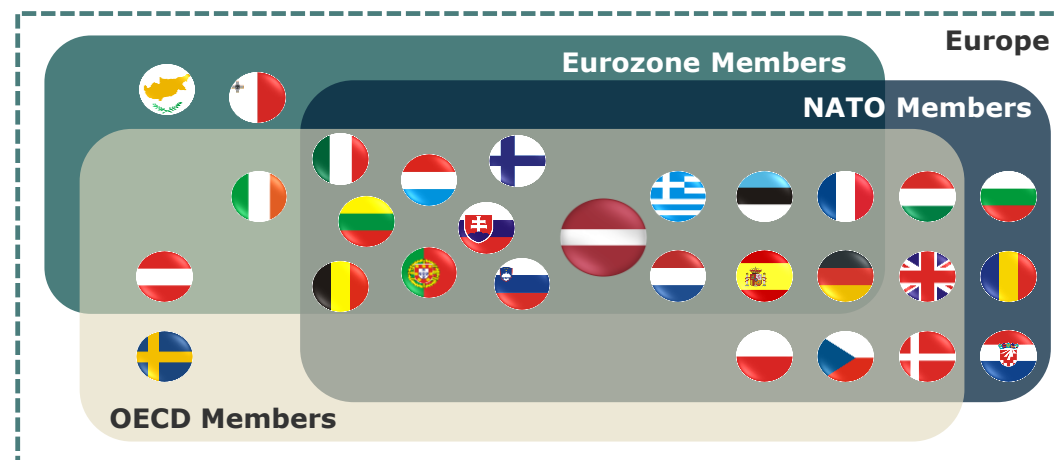


## Key facts

<b>Capital</b>	<b>Riga</b>
<b>Population</b> <sub>2023</sub>	<b>1.89 million<sup>1</sup></b>
<b>GDP per capita</b> <sub>2022</sub>	<b>EUR 20.72<sup>1</sup></b>
<b>Nominal GDP</b> <sub>2022</sub>	<b>EUR 39.08 billion<sup>1</sup></b>
<b>Main economic sectors 1Q2023</b>	<b>Services (73.3%<sup>1</sup>)</b> <b>Manufacturing (13.9%<sup>1</sup>)</b>
<b>Currency</b>	<b>Euro</b>
<b>Credit rating</b>	<b>A3 Stable (Moody's), A+ Negative (S&amp;P), A- Stable (Fitch)</b>
<b>Territory</b>	<b>64 573 sq. km<sup>1</sup></b>

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

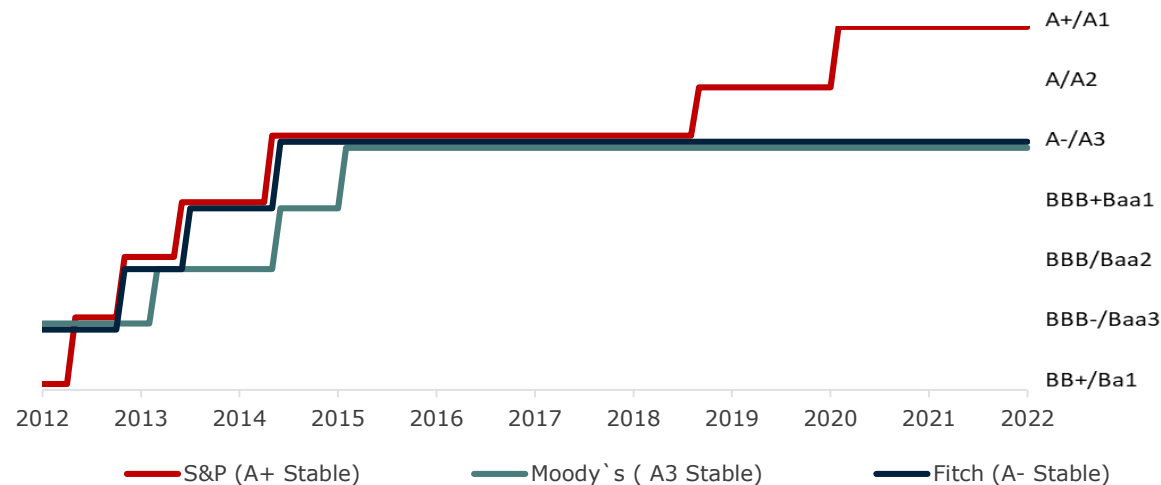
**Latvia is a member of the Eurozone, NATO and OECD**



# LATVIA'S CREDIT RATING REVIEWED AND REMAINS 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

## Key strengths of Latvia's sovereign credit profile

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

## Latest rating announcements

**A- / A3 / A+**  
**Stable / Stable / Negative**

- On January 27, 2023 **Moody's** published announcement that Latvia's long-term foreign currency sovereign credit ratings remains at the A3 level with Stable outlook (did not contain Rating action)
- On February 3, 2023 **Fitch** affirmed long-term foreign currency sovereign credit ratings at the A- level with Stable outlook (contained Ratings action)
- On June 16, 2023 **S&P Global** published announcement that Latvia's long-term foreign currency sovereign credit ratings remains the A+ level with Negative outlook (did not contain Rating action)

## ISS ESG Country rating for Latvia

### ESG Country Rating

D-	D	D+	C-	C	C+	B-	B	B+	A-	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](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)

# SUSTAINABLE ECONOMIC TRANSFORMATION

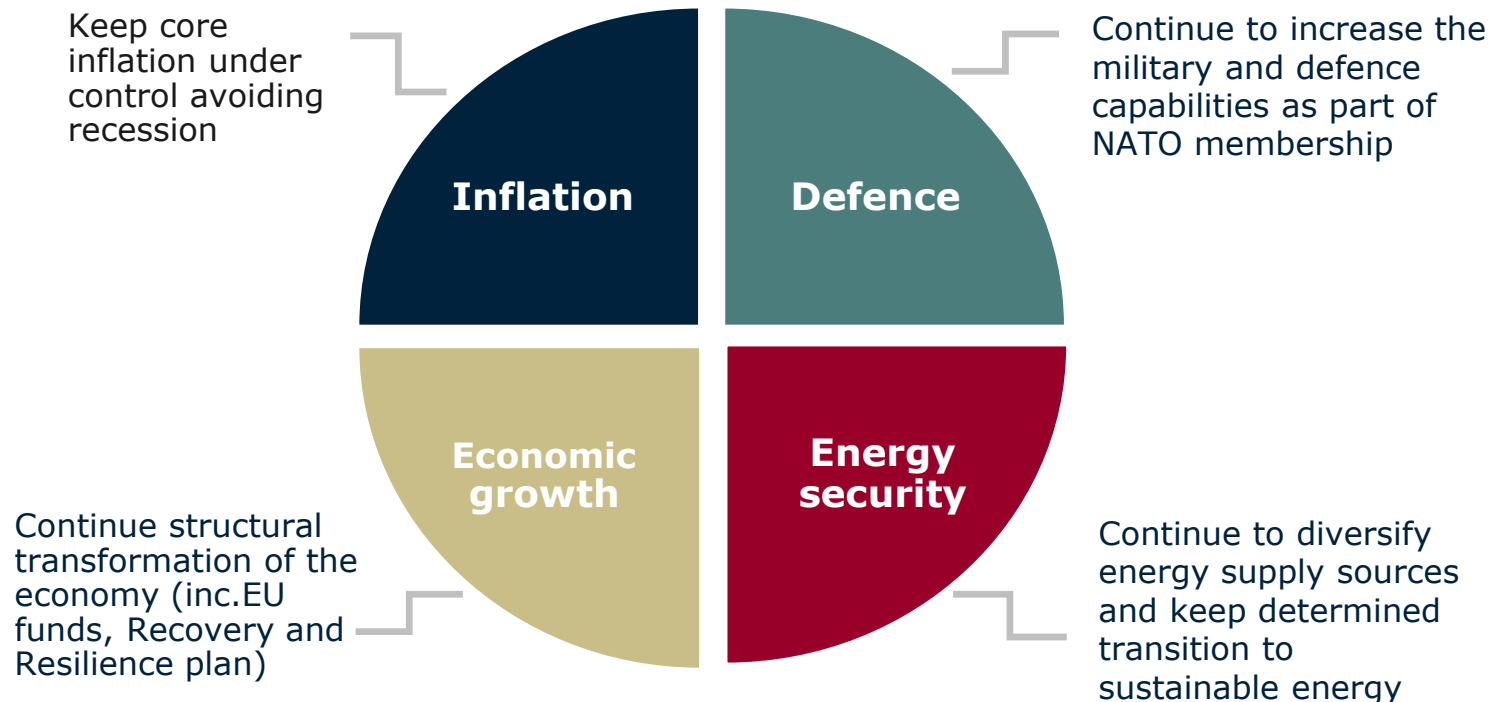
## Latest developments

- The Prime Minister has listed key priority areas for the Government – national security, energy, education and healthcare, labour market and capital market development
- On January 2023, a new Ministry for Climate and Energy in Latvia started to operate in order to accelerate the transition to renewable resources
- On March 9, the Parliament adopted the Law on the State Budget for 2023 and the Budget Framework for 2023, 2024 and 2025
- On April 6, the Government approved the Latvian Stability Programme for 2023-2026 and on April 16 it was submitted to European Commission
- On May 31, the Parliament elected foreign minister Mr. Edgars Rinkēvičs as new President of Latvia

## Strengths

- 1 Flexible, resilient economy despite external shocks
- 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

## MAIN UNDERTAKINGS





## **ENERGY AND SECURITY:**

ENERGY INDEPENDENCE FROM  
RUSSIA AND NATO MEMBERSHIP





# LATVIA HAS FULLY SWITCHED FROM RUSSIAN GAS TO THE NEW ALTERNATIVES

Baltic states, including Latvia, are diversified away from Russian gas

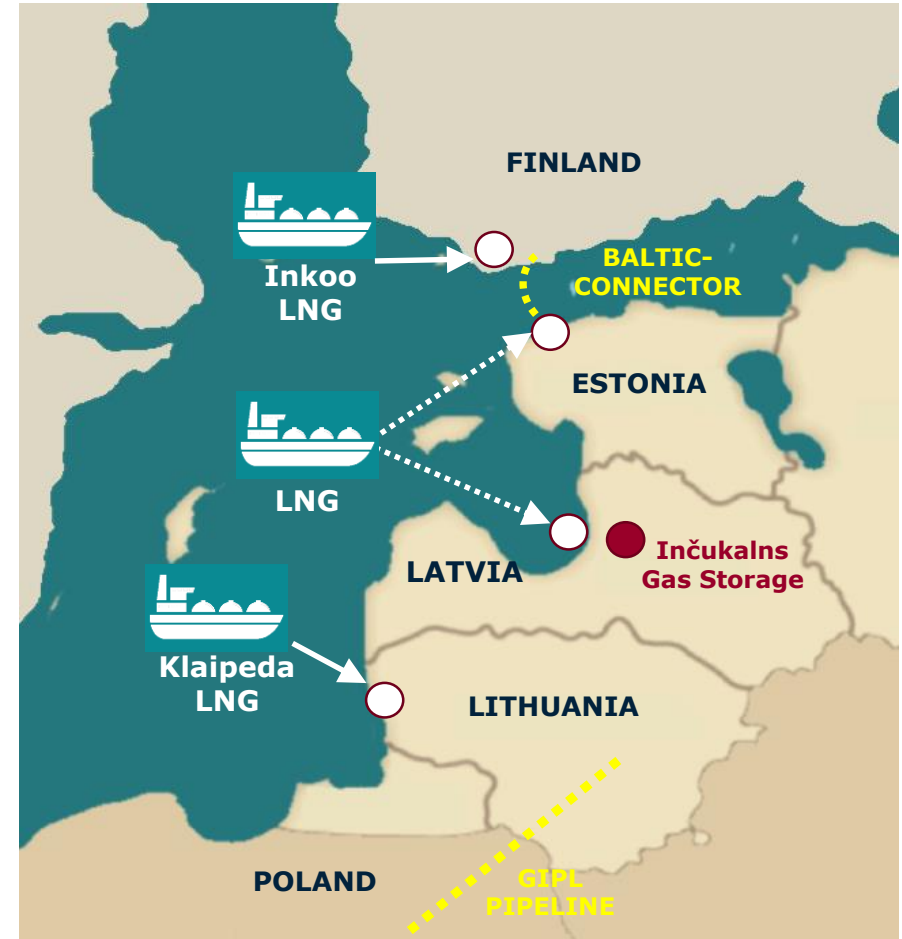
**Latvia made timely decisions. Gas supply integrity in the Baltic - Finnish region provides security**

**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). Klaipeda is planning to expand the LNG capacity.
2. New floating LNG terminal in Finland operational since January 2023. Additional infrastructure available also in Estonia.
3. Having alternative supply routes in the region, the development of the LNG terminal in Latvia (Skulte), near the underground gas storage at Inčukalns, may be considered, but currently, based on market considerations, without state support or guarantees.
4. Inčukalns is a unique underground natural gas storage and the 3rd largest in Europe with the 22.6 TWh total technical capacity (for period 2023/2024) that exceeds Latvia's annual needs.

**Inčukalns gas storage capacity is 100% reserved for the 2023/2024 cycle**

- As of 1st July 2023, Inčukalns gas storage capacity is fulfilled 50% more than it was at the end of April 2022. Total technical capacity of Inčukalns is already fully booked for the upcoming heating season.
- Latvia is well-prepared to tackle a possible energy shortage by creating gas energy security reserves of 1.8 TWh in December 2022.
- In 2022, annual gas consumption decreased by over 30%, from 12,5 TWh in 2021 to 8,8 TWh in 2022, impacted not only by austerity measures in 2022/2023 season, but also gradually replacing gas heating systems with alternative systems.



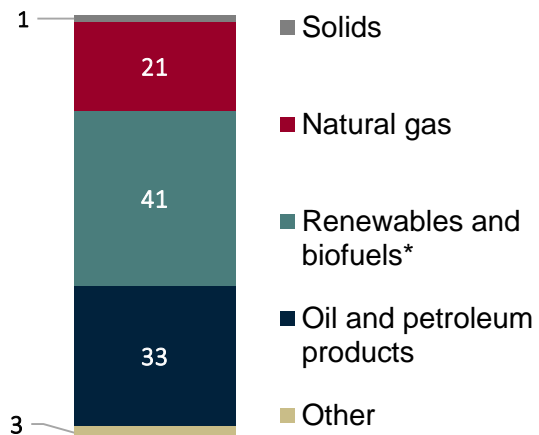
# LATVIA IS INTEGRAL PART OF SINGLE EU POWER MARKET. NO ELECTRICITY IMPORTED FROM RUSSIA

Latvia has diversified power supply and has strong focus on energy security and renewables

## Latvia can operate independently from Russia electricity supply

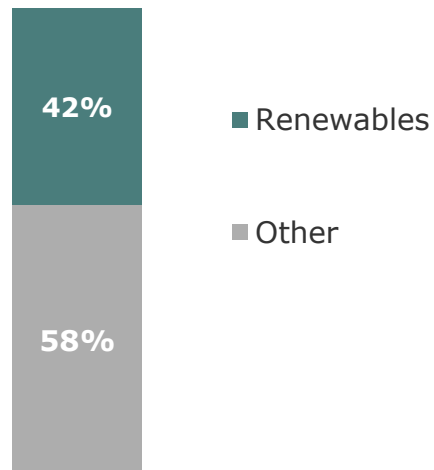
- From May 22, 2022 there are no electricity imports from Russia, just parallel synchronisation and system stability operations
- Large amount of electricity generated in hydropower plants, and gas reserves provided by «Latvenergo» can be used for flexible and dispatchable production of electricity and heat in power plants to balance growing capacities of renewable energy sources
- The Baltic region is connected to European power system with four powerful interconnections. In case of sudden disconnection from BRELL<sup>1</sup> system, emergency synchronization would be immediately ensured

## Latvia energy mix 2021



\* As per operational data, in 2022 Renewables and biofuels increased to 43.45%, verified statistics will be available on

## Latvia gross final energy consumption in 2021



## Latvia is among the greenest electricity producers in EU - 64% of actual electricity was generated from renewables in 2021<sup>2</sup>



3rd highest overall share of **gross final energy consumption** from renewable sources among EU countries in 2021<sup>3</sup>



6th largest share of renewable **electricity** production among EU countries in 2021<sup>4</sup>

<sup>1</sup>BRELL: Belarus, Russia, Estonia, Latvia and Lithuania

<sup>2</sup> Source: [https://energy.ec.europa.eu/system/files/2022-10/LV\\_2022\\_Energy\\_Snapshot.pdf](https://energy.ec.europa.eu/system/files/2022-10/LV_2022_Energy_Snapshot.pdf)

<sup>3</sup> Source: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Renewable\\_energy\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Renewable_energy_statistics)

<sup>4</sup> Source: [https://ec.europa.eu/eurostat/databrowser/view/NRG\\_IND\\_REN/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/NRG_IND_REN/default/table?lang=en)

## Way forward



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

**2020:** diversification among hydropower, wind, solar, biomass and other renewables, the share of all together 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



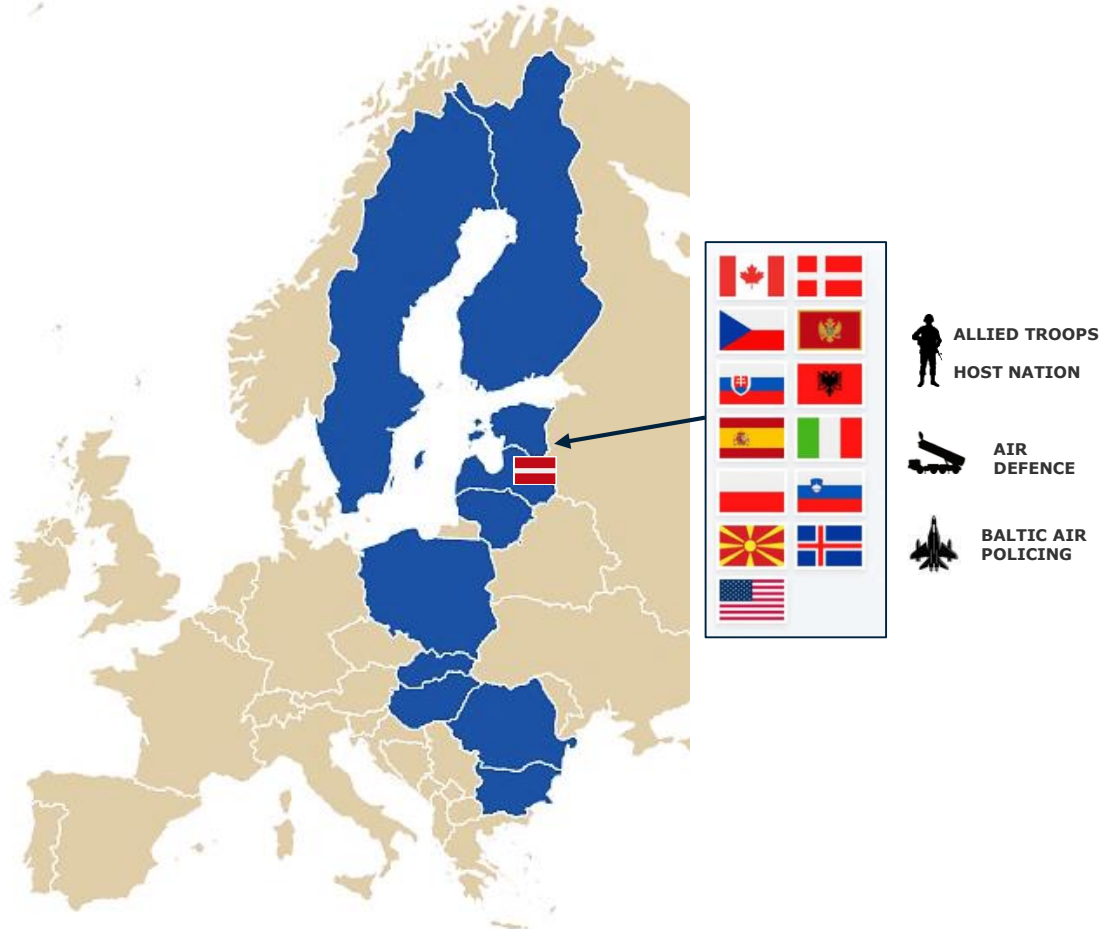
Several large investment projects planned, for example:

- 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 - newest member, Sweden - NATO member 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
- During NATO Summit 2022 in Madrid it was agreed to scale up existing battlegroups to brigade-size units
- U.S. troops continue a robust presence in Latvia

## Latest developments

- Latvia and Estonia will jointly acquire German medium-range air defense systems
- Canada plans to send Leopard-2 tanks to Latvia in the coming months - another step towards upgrading NATO's enhanced Forward Presence Battle Group Latvia
- Denmark will deploy a battalion of soldiers in Latvia next year

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

- Comprehensive state defence system
- Capability development in following areas: logistics, supply, air defence, coastal defence, mechanization, cyber
- Development of new military training range
- Introduction of conscription: First wave of volunteer recruits started their state defence service duty on 1 July, 2023
- Gradual increase of defence budget to 2.5% of GDP by 2025 (3% of GDP by 2027 according to the priorities of Government)



## FISCAL POLICY:

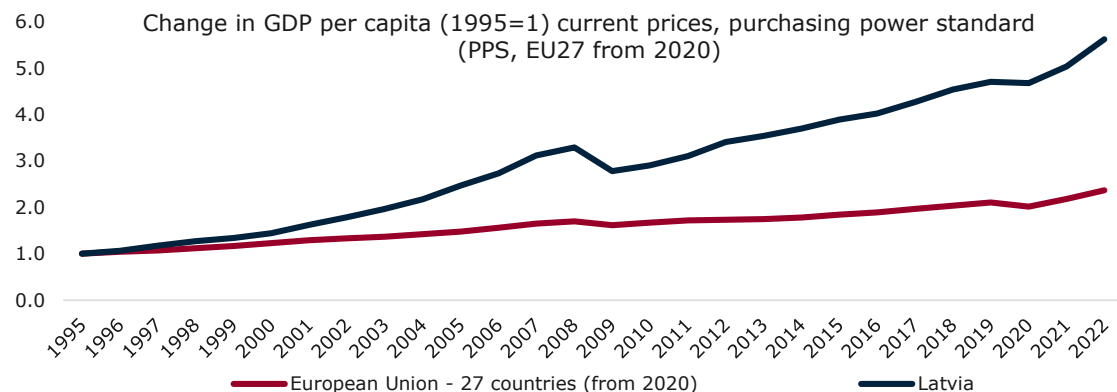
MODERATE DEFICIT AND LOW  
DEBT



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

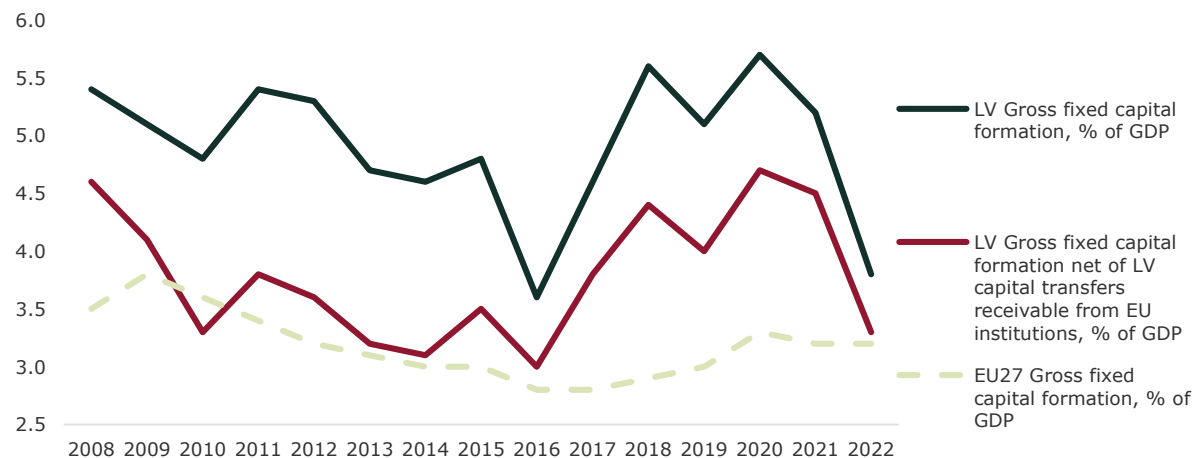
Moderate deficits and solid growth during 2012 -2019 contributed to public debt reduction

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



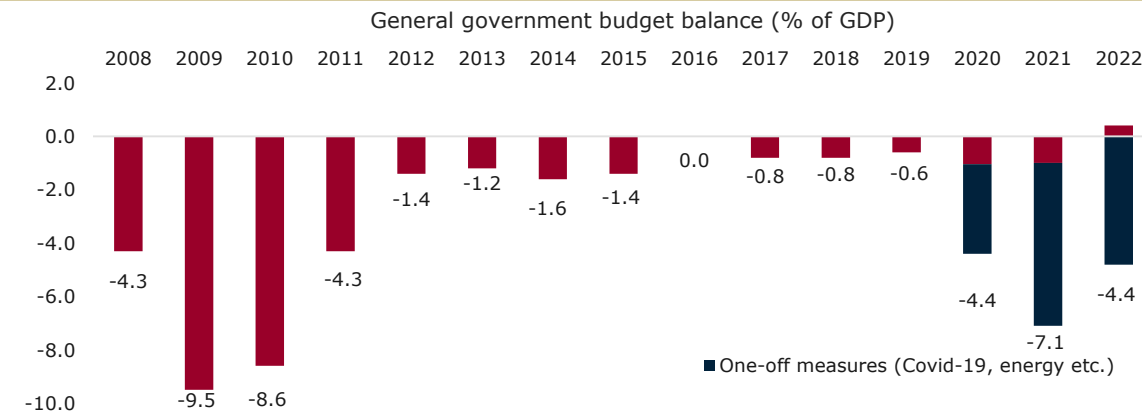
Source: Eurostat

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



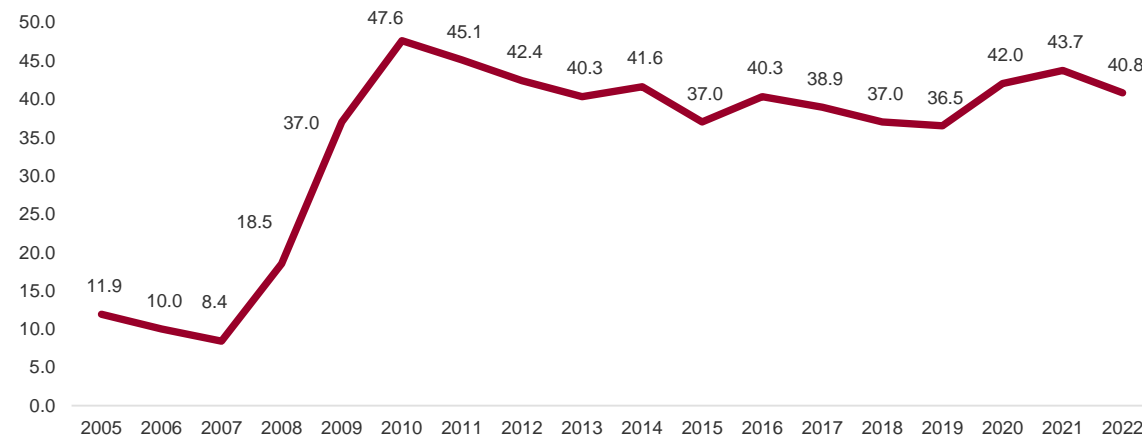
Source: Eurostat

**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, Stability Program 2023-2026 (approved on April 6, 2023)

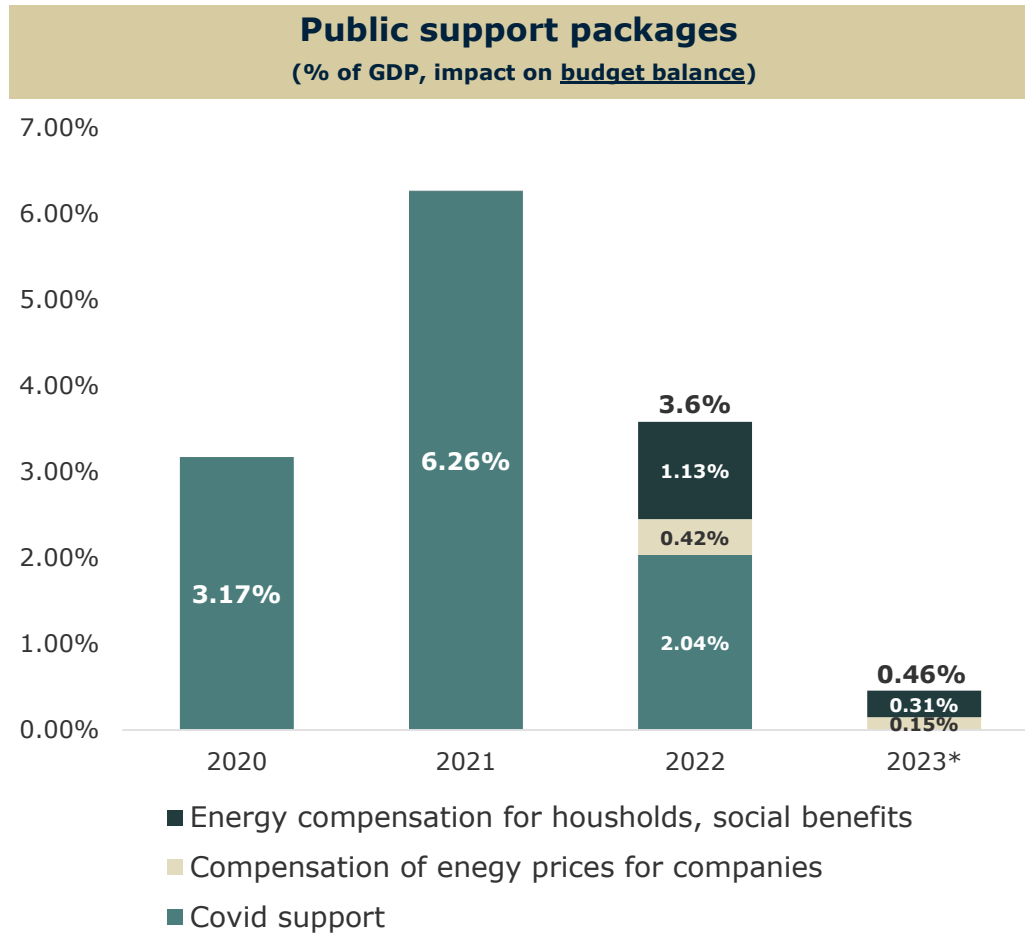
**General Government Debt (% of GDP)**



Source: Eurostat

# FISCAL SPACE PROVIDED A POSSIBILITY FOR SIGNIFICANT PUBLIC SUPPORT PACKAGE

Extension of support measures from 2022 into 2023 and calibrating them to minimize the negative spill-overs



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

*\* As on 13.03.2023.*

## Principles in calibrating the support measures, if needed

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

### Targeted support measures

- The size of **targeted measures** would be significant enough to address **the underplaying challenges**

### Broad support measures

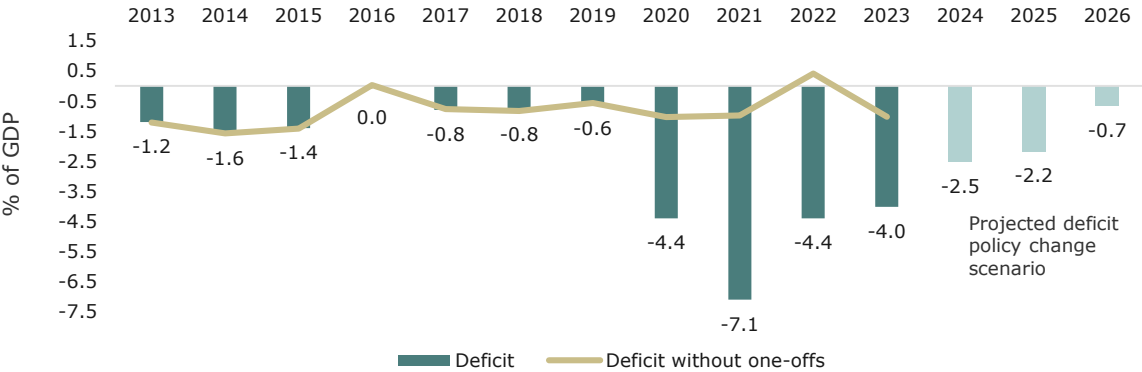
- To **avoid socio-economic risks** and ensure preservice of political stability
- As small in size as possible to **minimize negative effects** in wage – inflation spiral



# SUPPORTIVE FISCAL POLICY IN 2020–2022 AND GRADUAL RETURN TO «NORMALITY» - PRUDENT FISCAL POLICY IN THE COMING YEARS

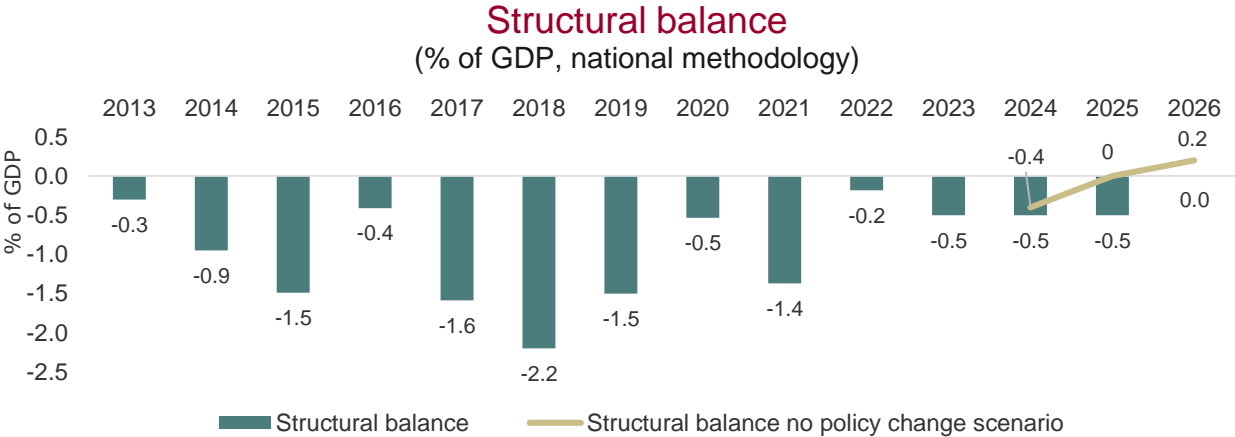
Government commitment to respect the structural balance rule of deficit not more than 0.5% of GDP

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

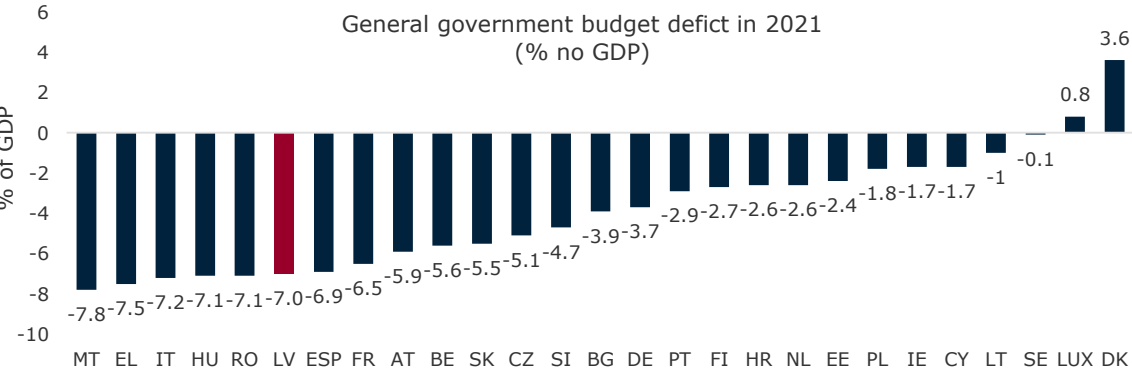


Source: Eurostat, Stability Program 2023-2026 (approved on April 6, 2023)

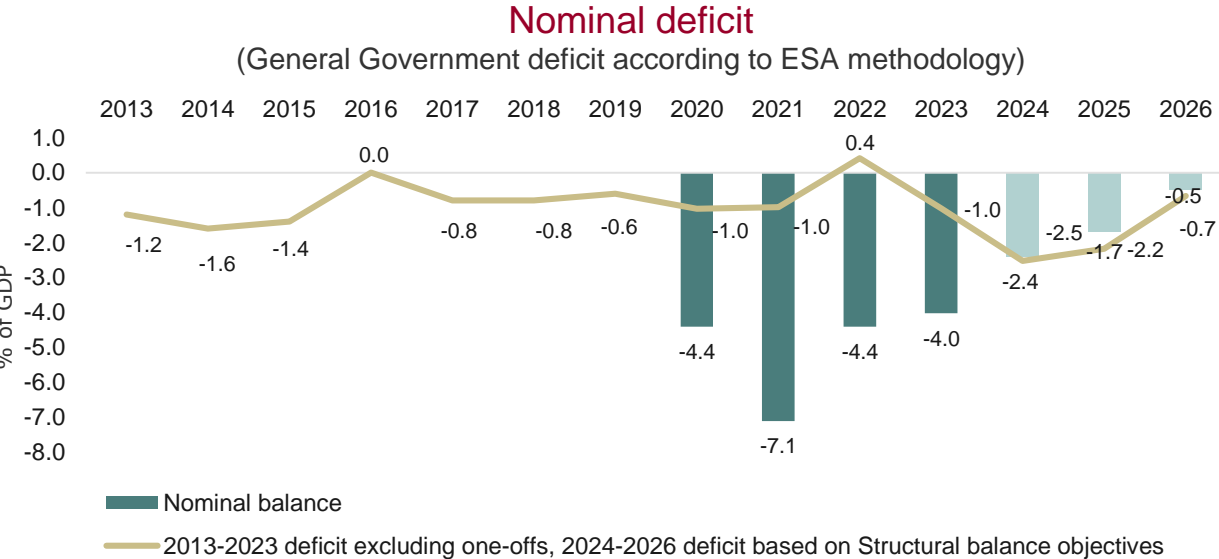
Fiscal strategy 2023 - 2026  
(expenditure exempted from the calculation: defense investments and energy, COVID-19 and refugees from UA support package)



Emergency COVID -19 package and supportive fiscal policy pushed deficit to one of highest in EU in 2021



Source: Eurostat

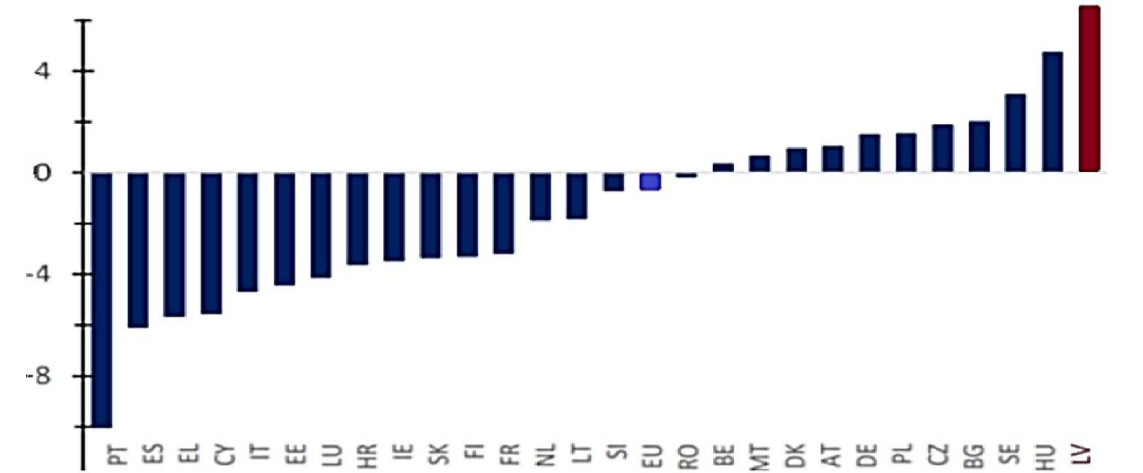


Source: Eurostat, Stability Program 2023-2026 (approved on April 6, 2023)

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

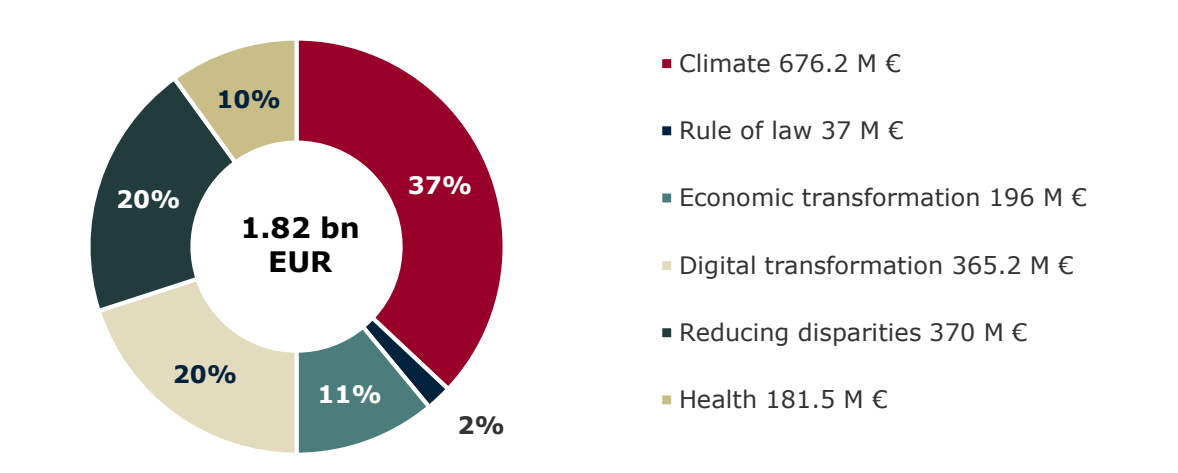
RRF and EU financing will support the implementation of the crucial investment and reform measures, including climate and digitalisation

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



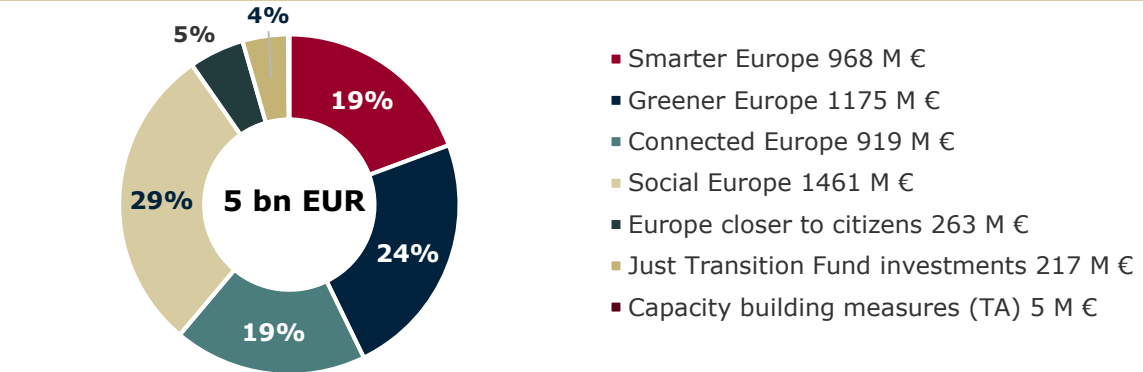
Source: EC Report on Public Finances in EMU 2021

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



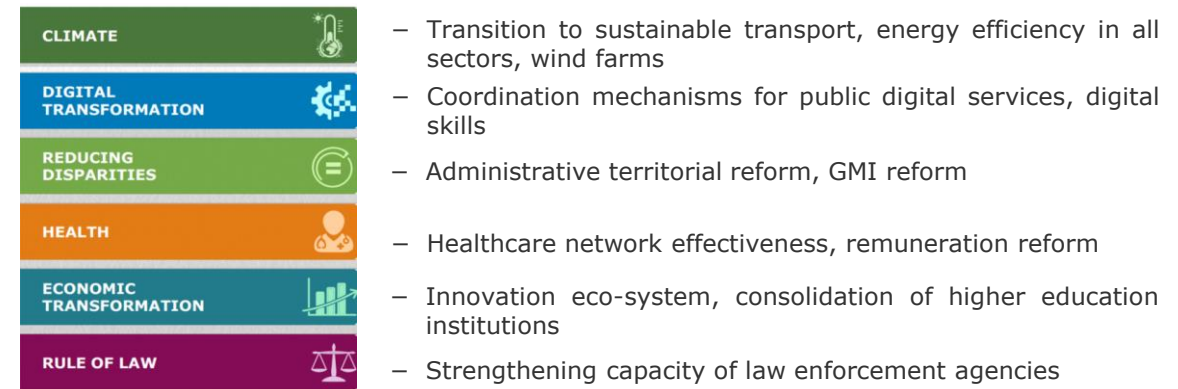
Source: Ministry of Finance

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. Frist calls of project selection has begun.



Source: Ministry of Finance

Reforms in Latvia under RRF



**THE ECONOMY:**  
FLEXIBLE AND RESILIENT  
ECONOMY

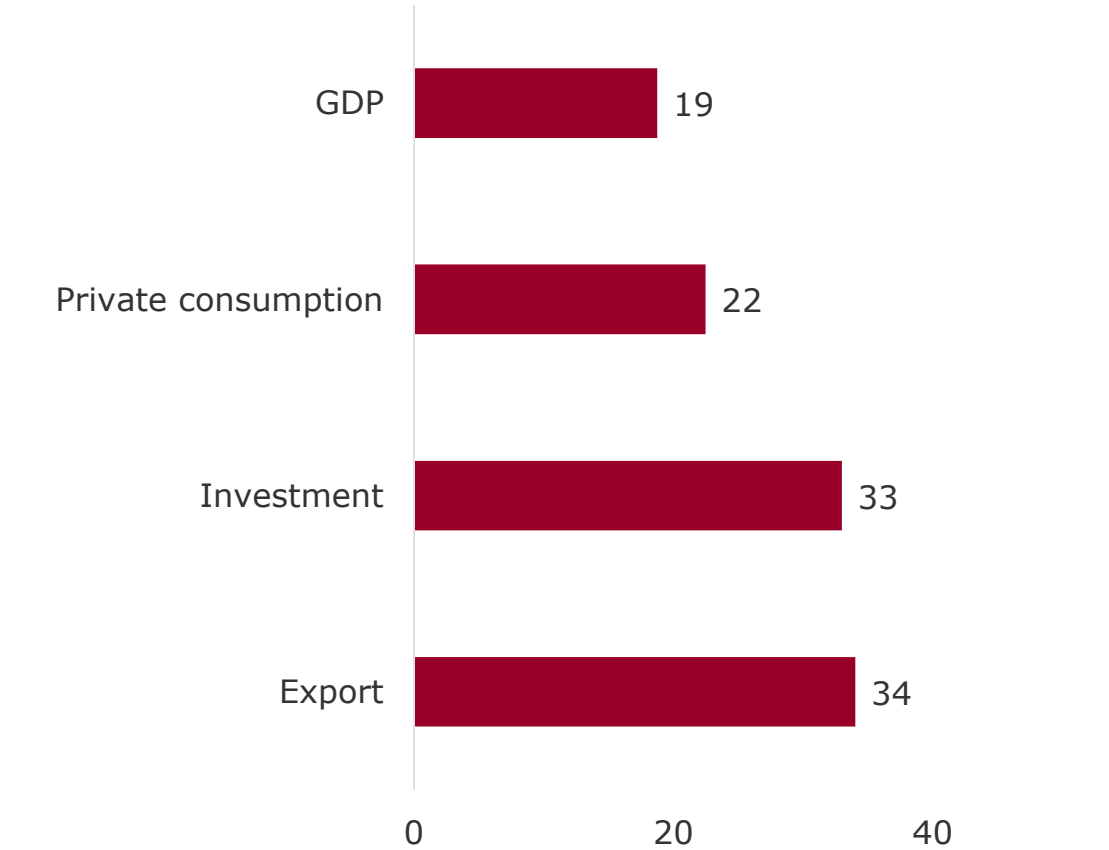




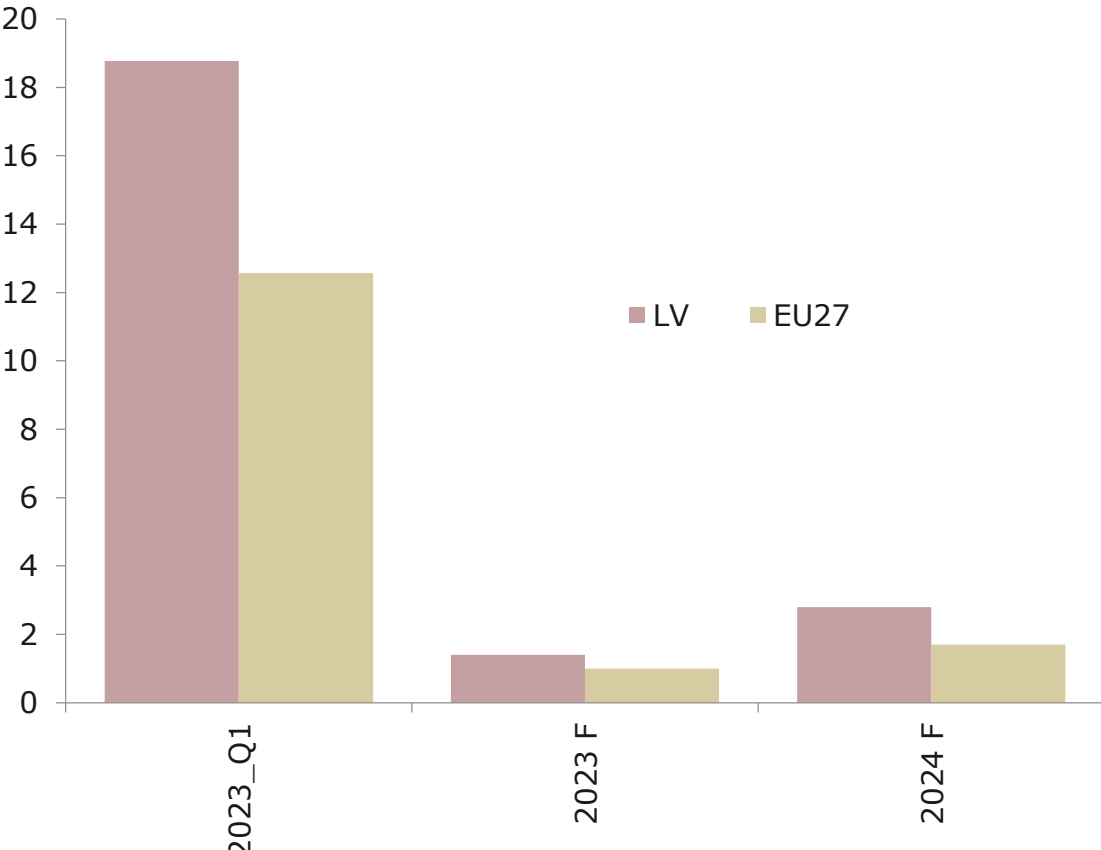
# INVESTMENT AND EXPORT DRIVEN ECONOMIC GROWTH

Sound fundamentals support economic activity, increase resilience to external shocks

GDP and it`s components  
(Q1 2023/average 2015; %; in real terms; s.a)



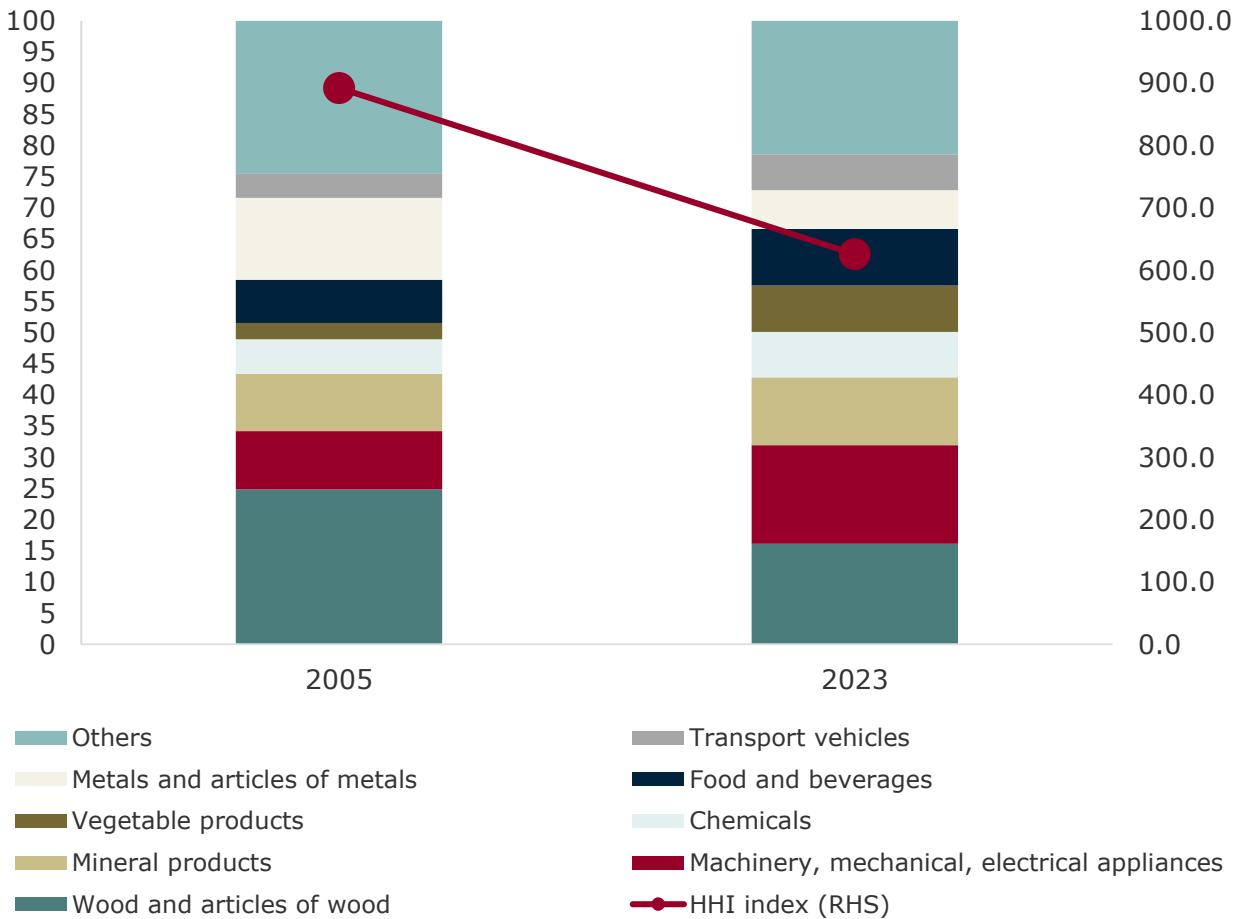
GDP in Q1 2023 compared to 2015 average (%; s.a.) and GDP forecast (y/y; %)



# STRUCTURAL TRANSFORMATION TOWARDS MORE PRODUCTIVE SECTORS

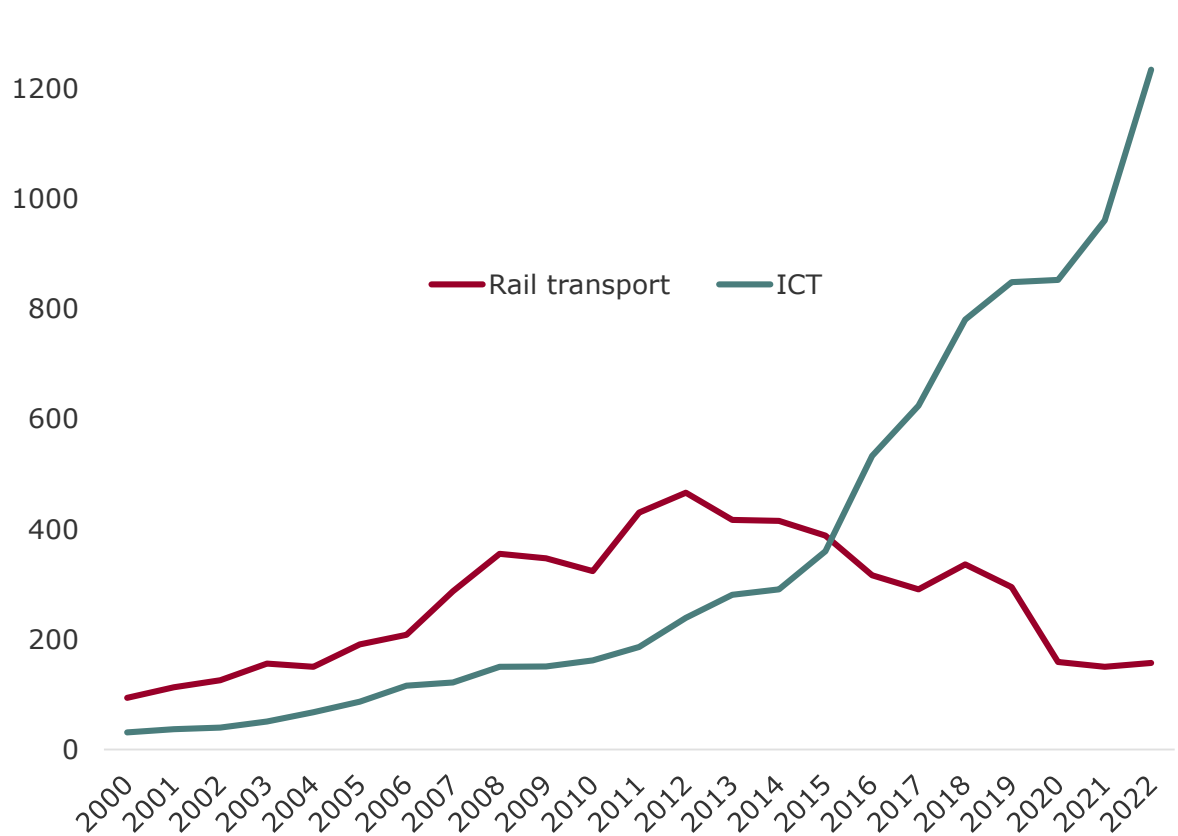
Merchandise export has become more diversified and sophisticated over time; a shift towards higher value-added services is evident over the long run

Export structure by commodity groups and Herfindahl-Hirschman index for commodity group concentration (% of total exports; index)



Source: Central Statistical Bureau

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

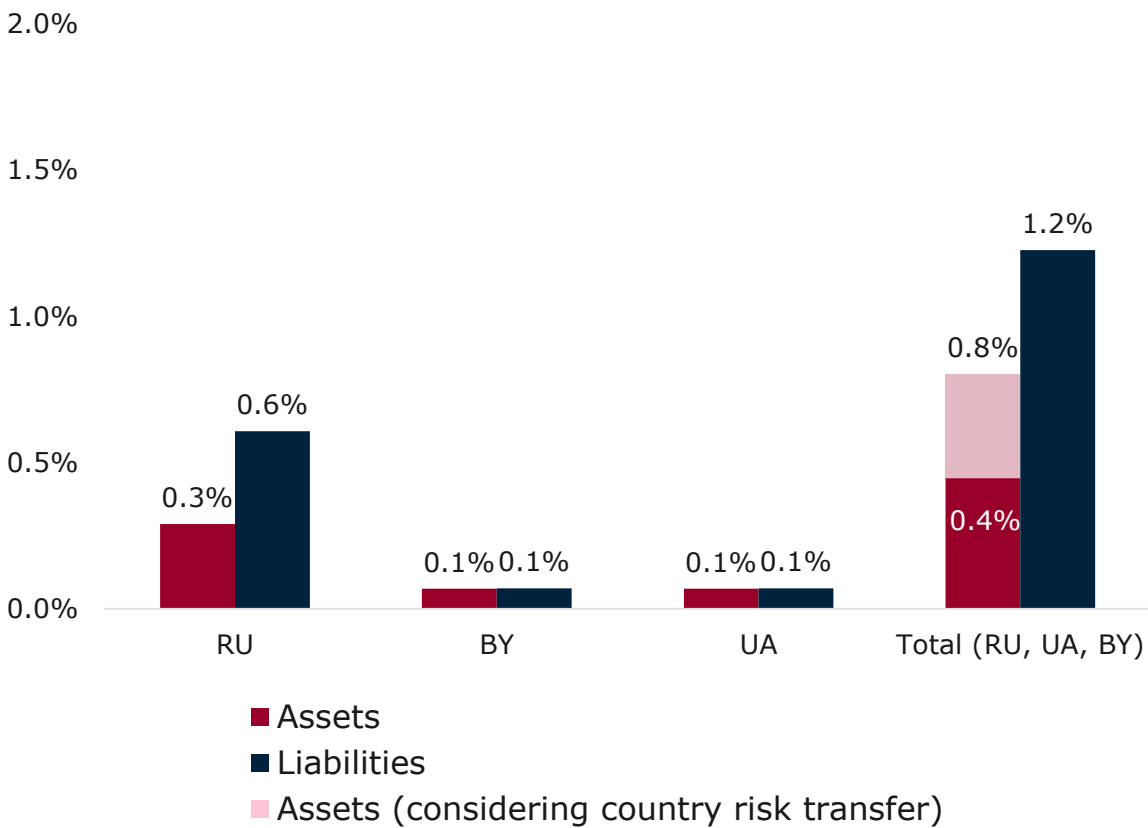


Source: Latvijas Banka

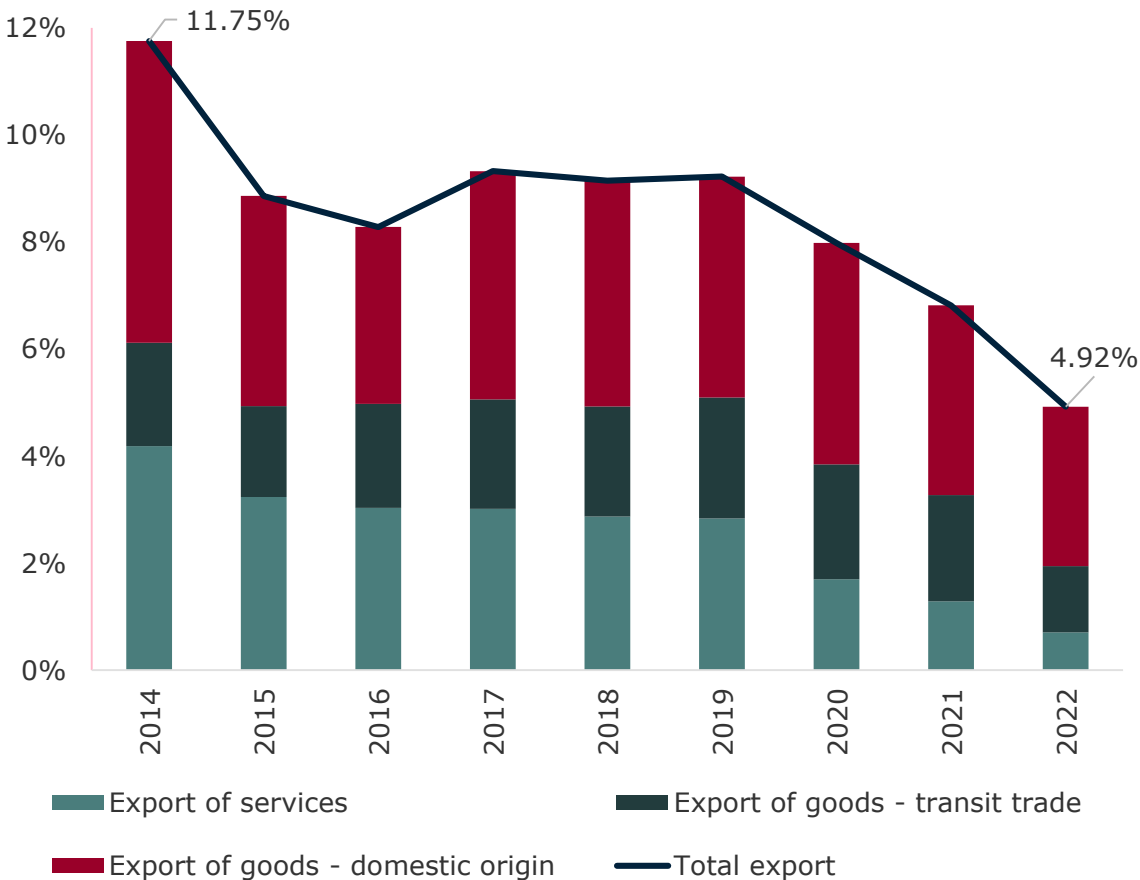
# EXPOSURE TO RUSSIA IS RATHER LIMITED

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

Banking sector exposures to RU, BY and UA  
(% of total assets, April 2023)



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





# AS GLOBAL ENERGY AND FOOD PRESSURES SUBSIDE, INFLATION DECLINES RAPIDLY

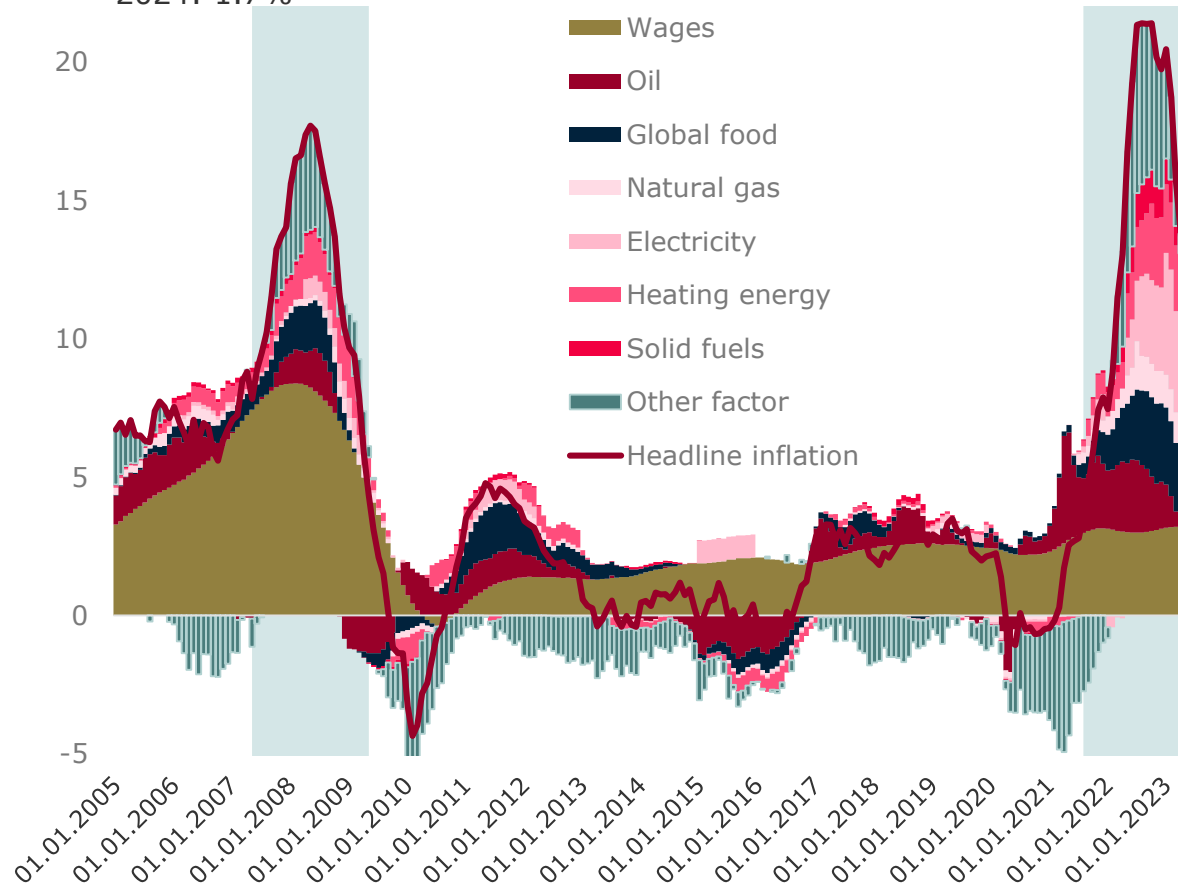
Larger share of food and energy in consumption basket and quicker pass-through to consumer prices elevates inflation; no material harm on competitiveness expected in medium term

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

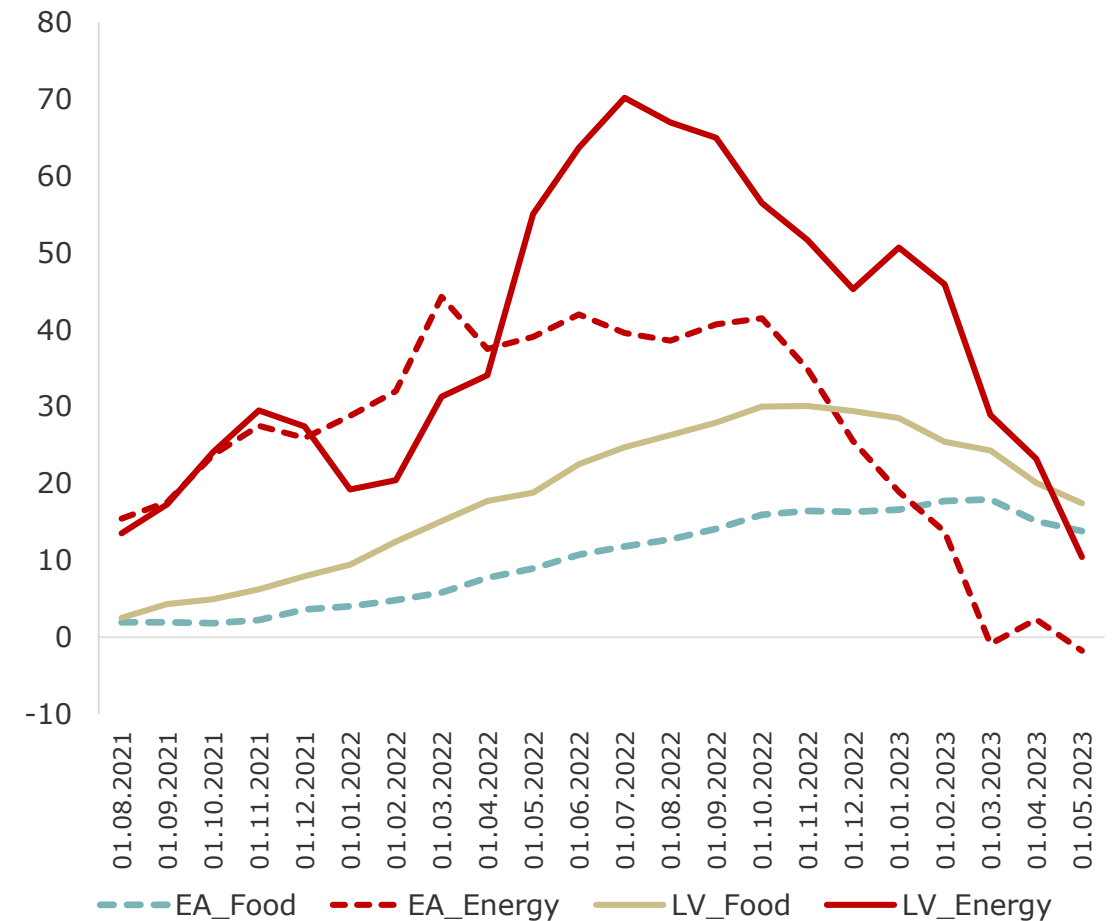
**CPI forecast** by European Commission (Spring Forecast 2023):

2023: 9.3%

2024: 1.7%



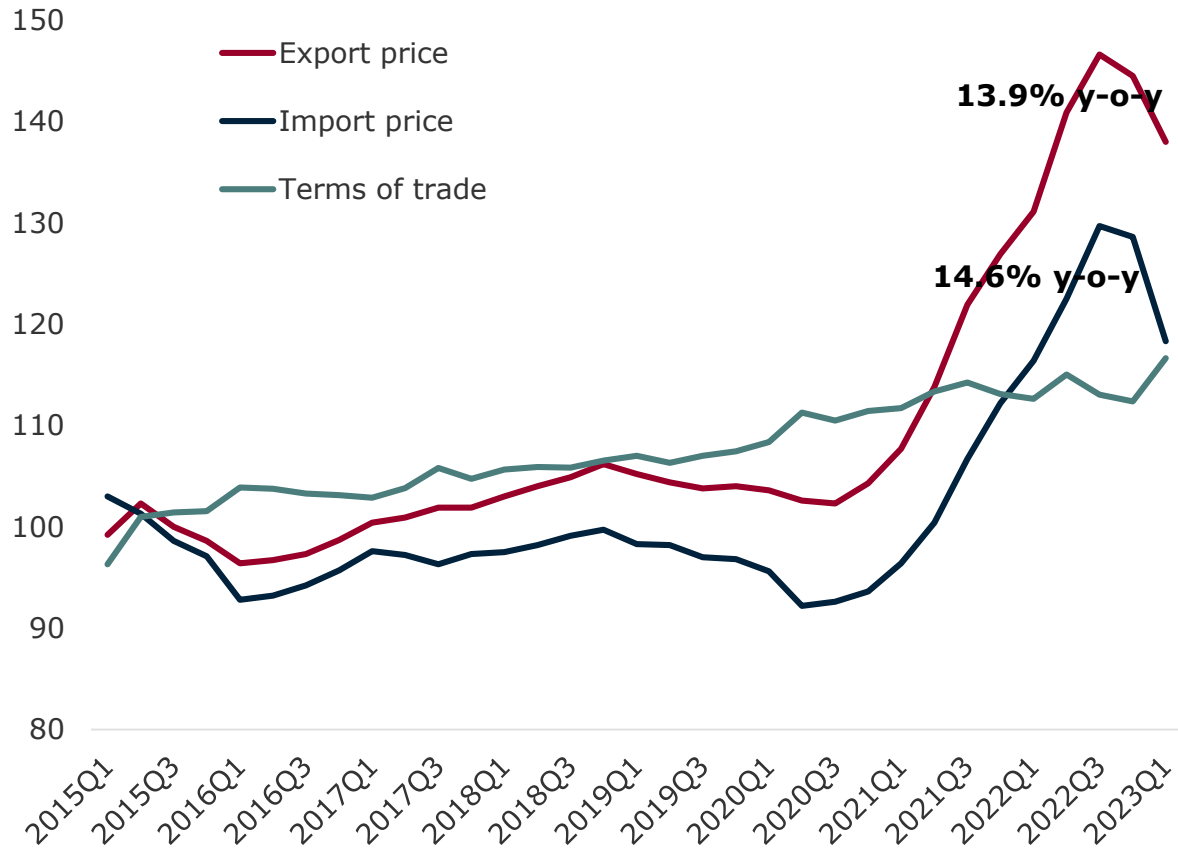
## Energy and food prices in LV and EA (year on year; %)



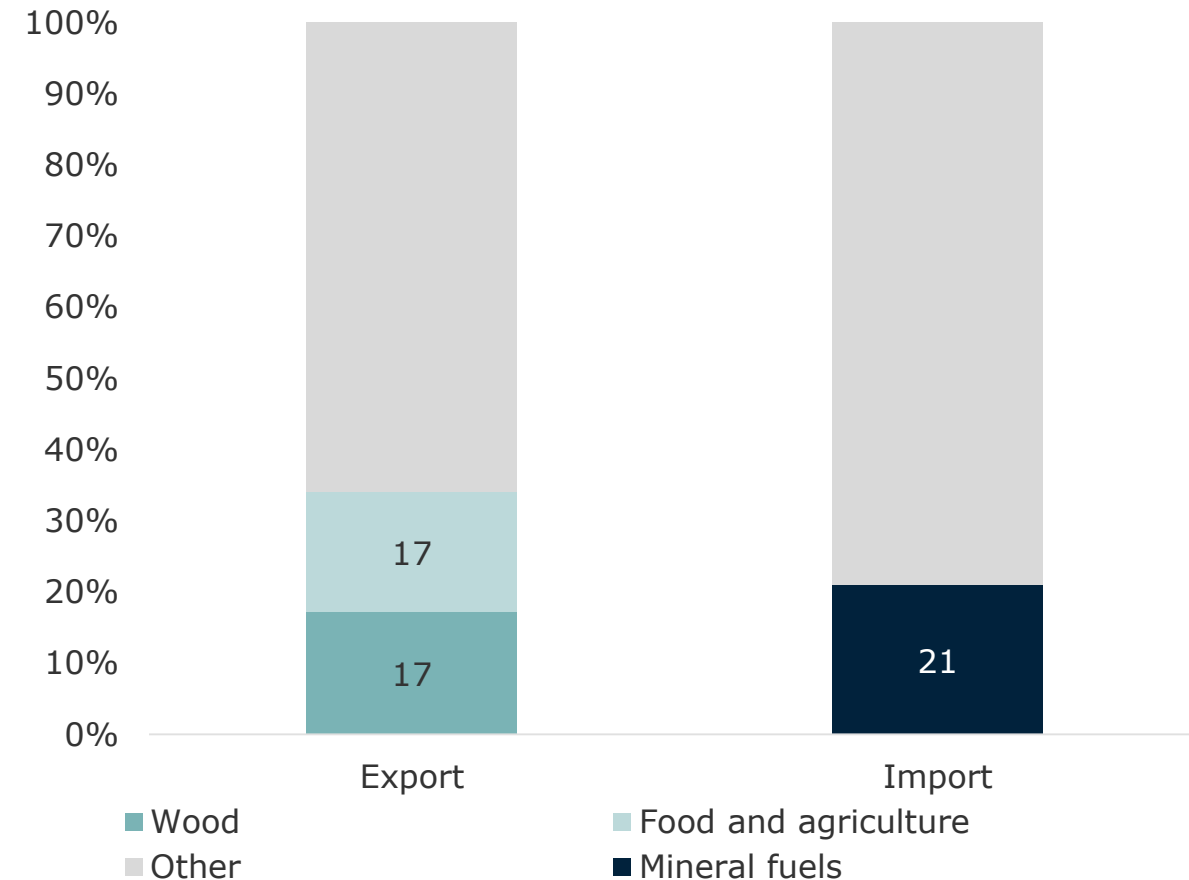
# TERMS OF TRADE STAY FAVOURABLE DESPITE SWINGS IN ENERGY PRICES

Declining energy prices have decreased import prices more substantially, leading to overall more favourable terms of trade

Terms of Trade  
(2015=100)



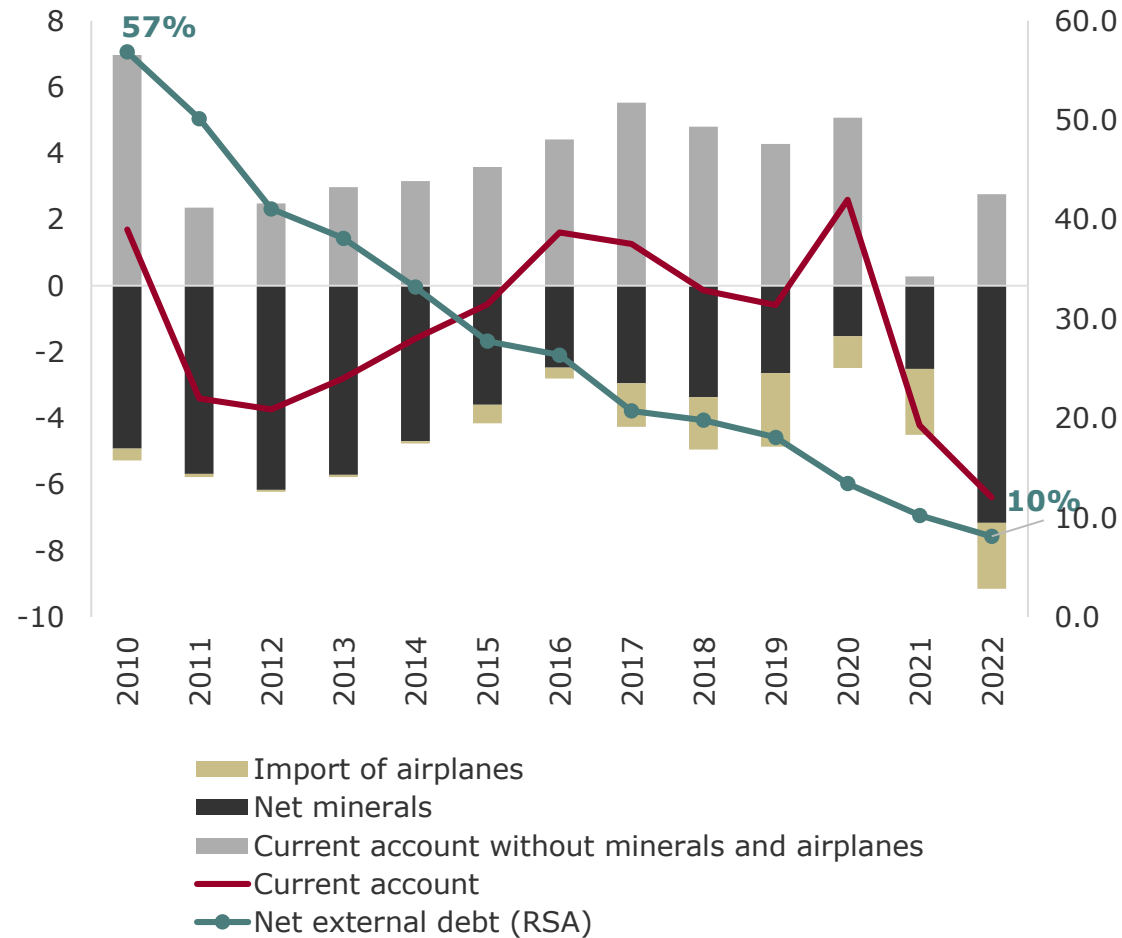
TOP 3 product group in the structure of export and import of goods  
in 2022 (% of total)



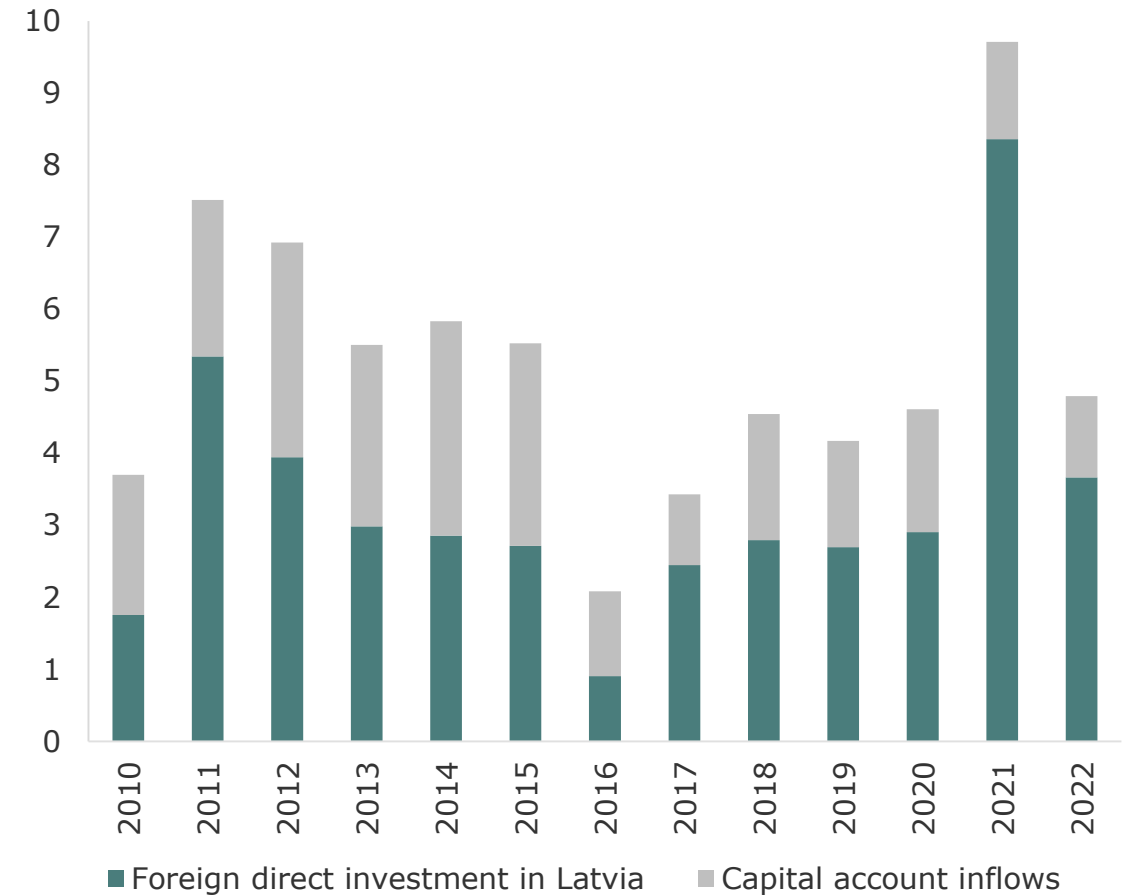
# WHILE CURRENT ACCOUNT DEFICIT TEMPORARILY INCREASED, LATVIA'S EXTERNAL POSITION REMAINS SOUND

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

External sector indicators  
(% of GDP)



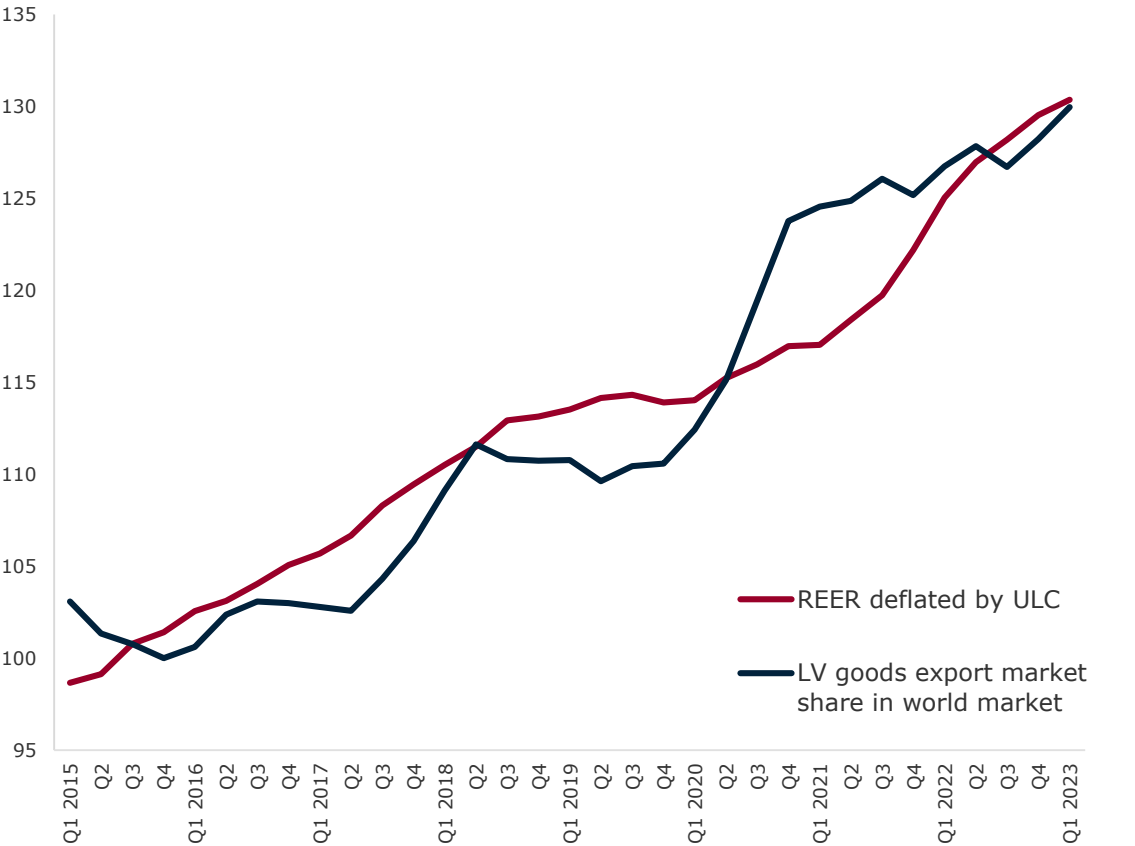
Investment inflows  
(% of GDP)



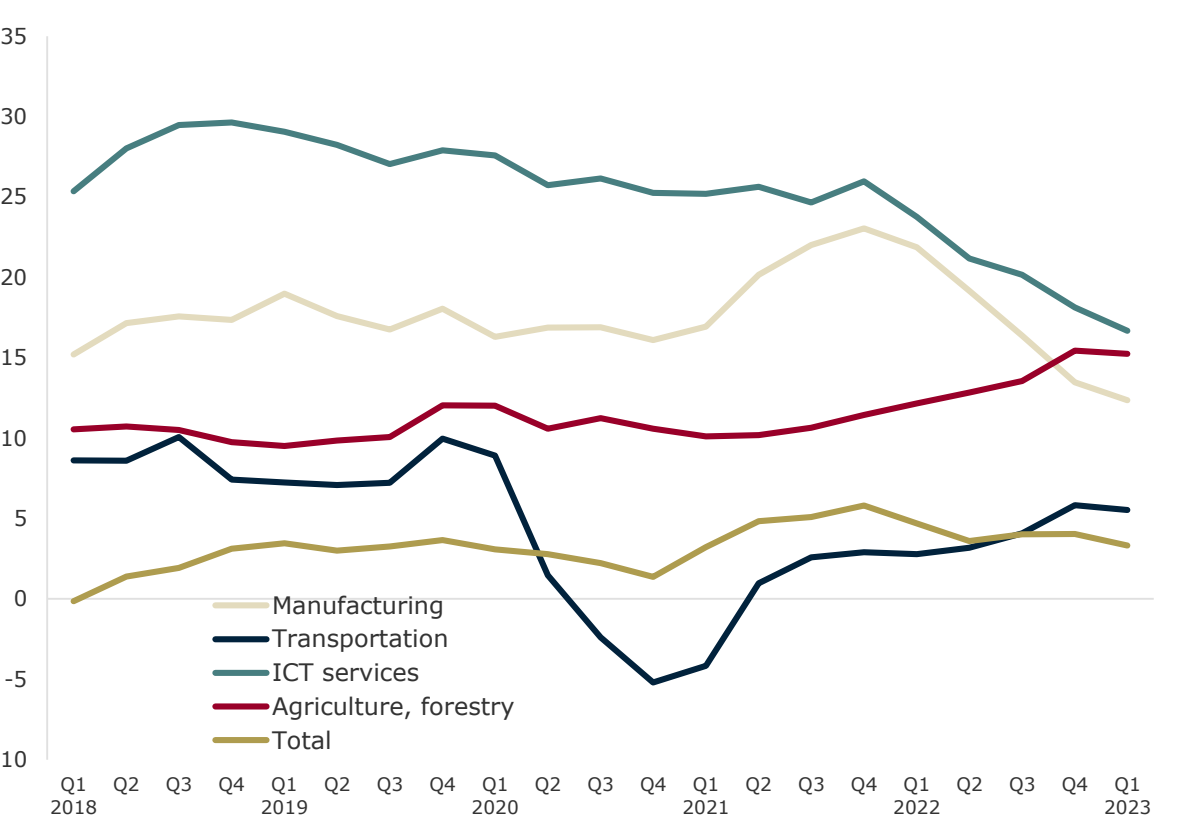
# DESPITE INCREASE IN COSTS COMPANIES REMAIN GLOBALLY COMPETITIVE AND PROFITABLE

Expansion of market share globally has continued despite appreciation in the real effective exchange rate; corporate profitability remains healthy

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



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



Source: European Commission, WTO

Source: Central Statistical Bureau of Latvia



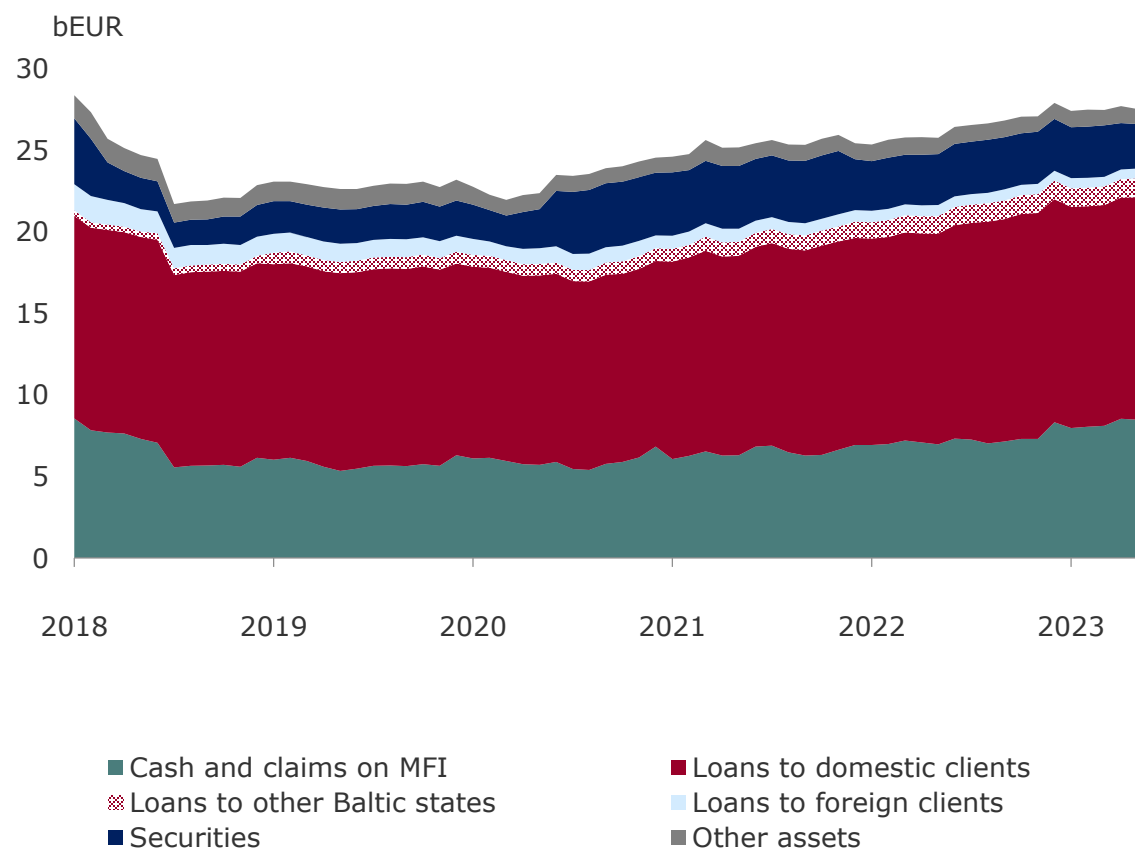
**BANKING SECTOR:**  
WELL-CAPITALIZED  
AND LIQUID



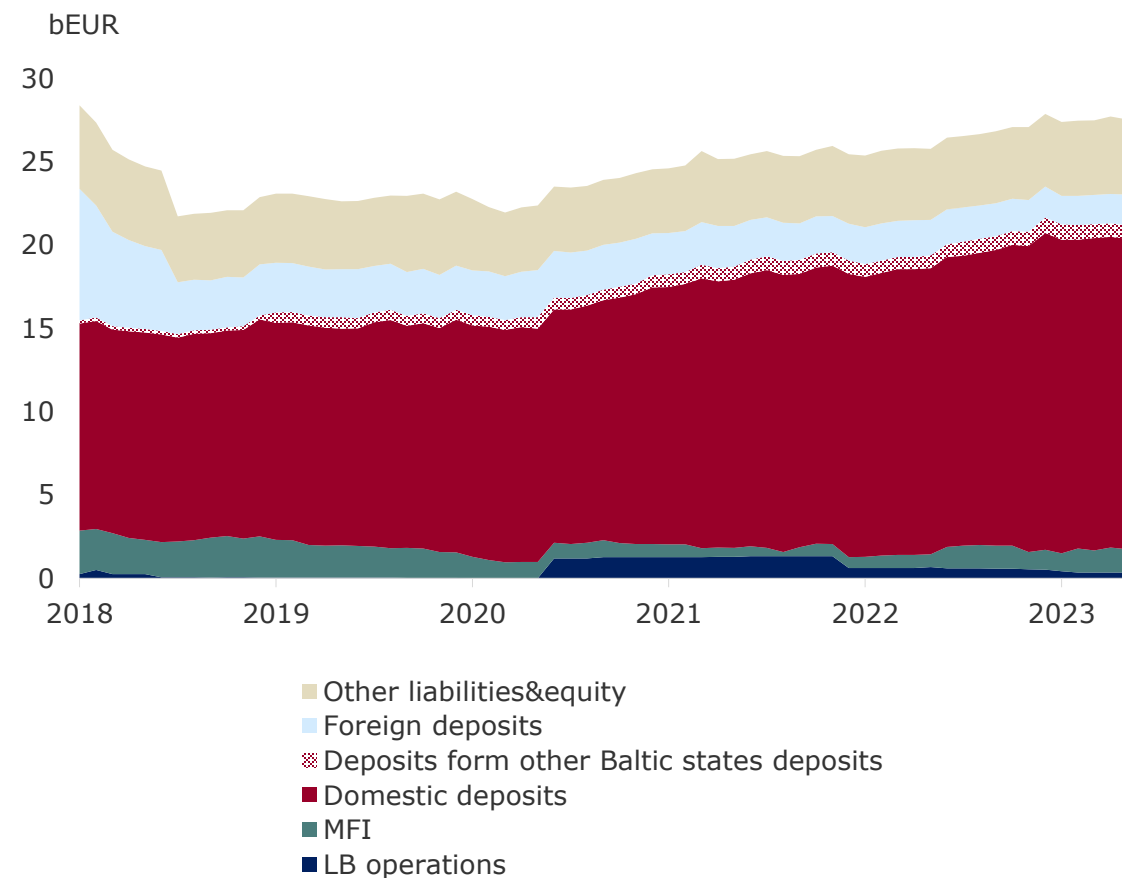
# DOMESTIC LOANS AND DEPOSITS PREVAIL IN BANKS' OPERATIONS

Banking sector focuses primarily on servicing domestic clients

## Banking sector assets



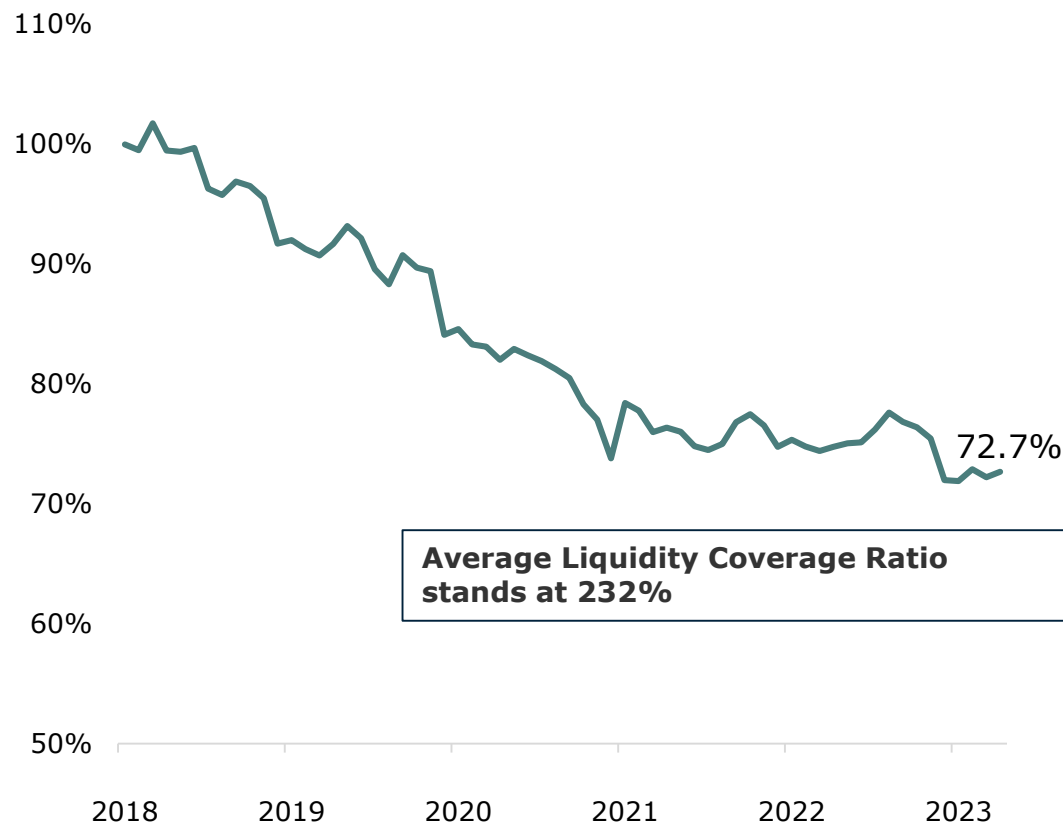
## Banking sector liabilities



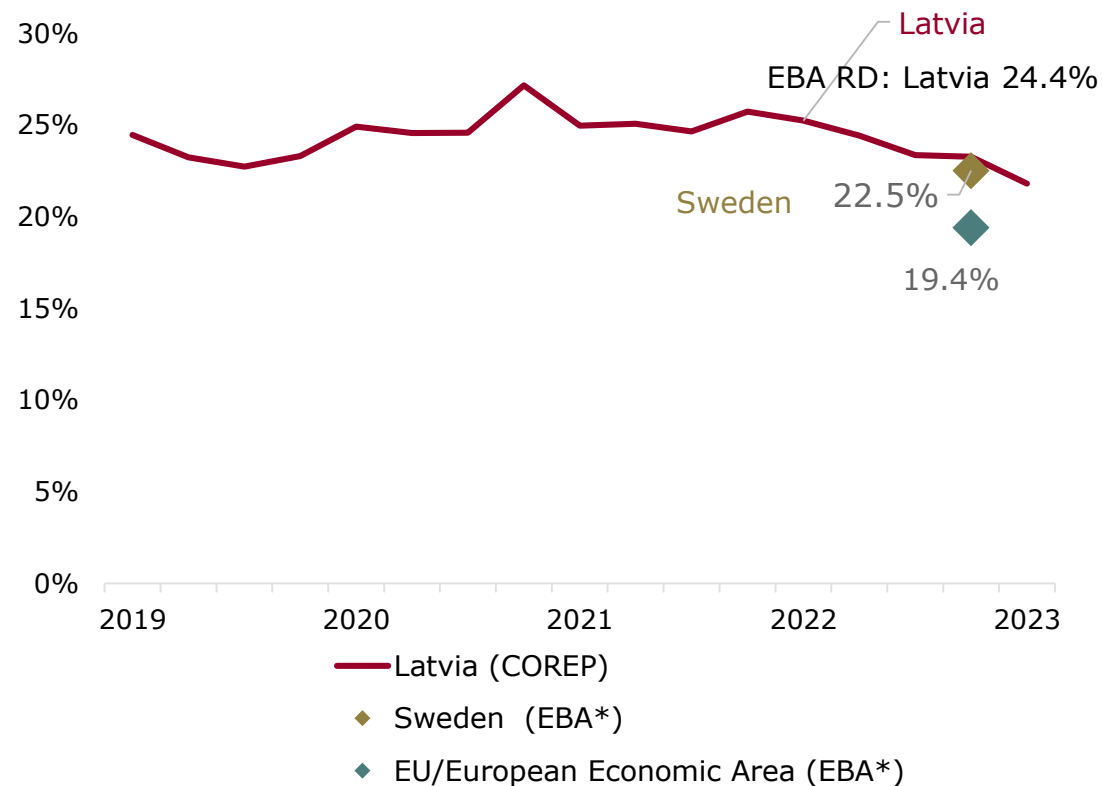
# BANKS HAVE AMPLE LIQUIDITY RESERVES AND HIGH CAPITALIZATION

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

## Domestic loan-to-deposit ratio



## Total capital ratio



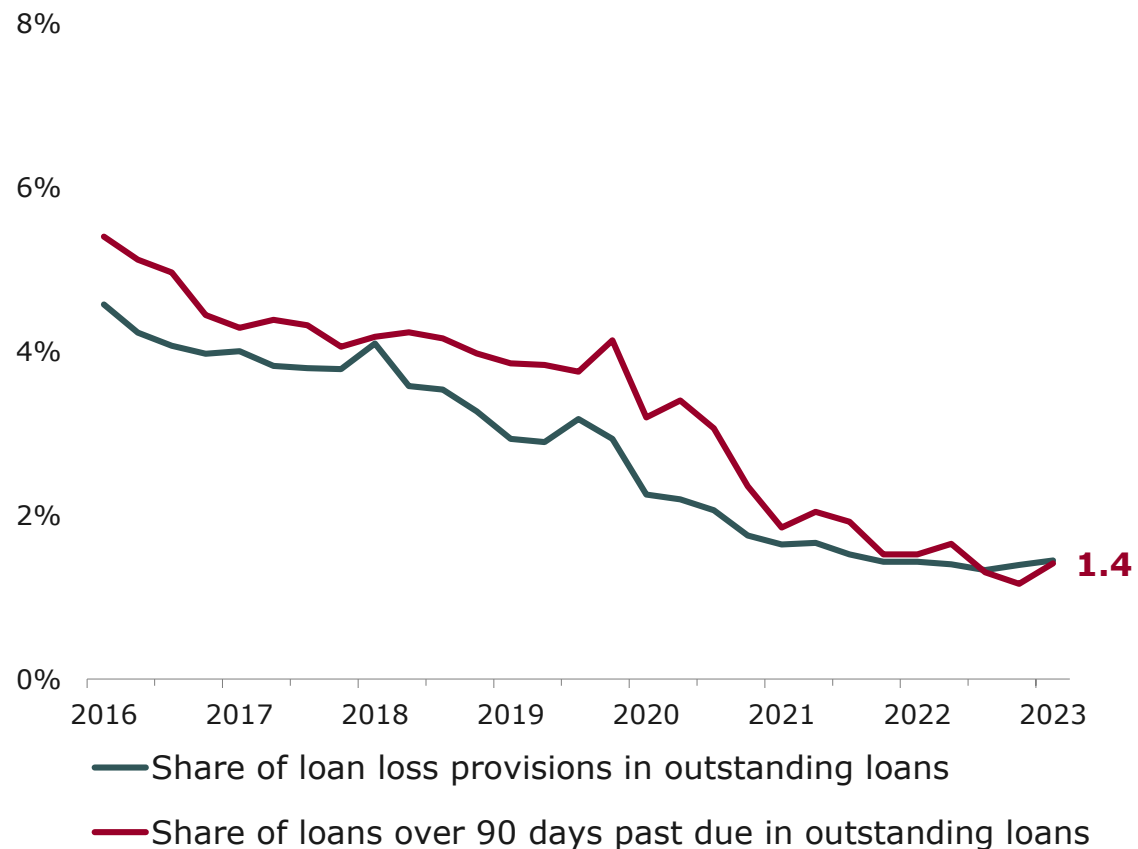
\* Data for Sweden and European Union (EU)/European Economic Area (EEA) are European Banking Authority (EBA) sample of largest institutions, for Latvia COREP data of active institutions are used

Source: Latvijas Banka, European Banking Authority (EBA) Risk Dashboard 2022 Q4

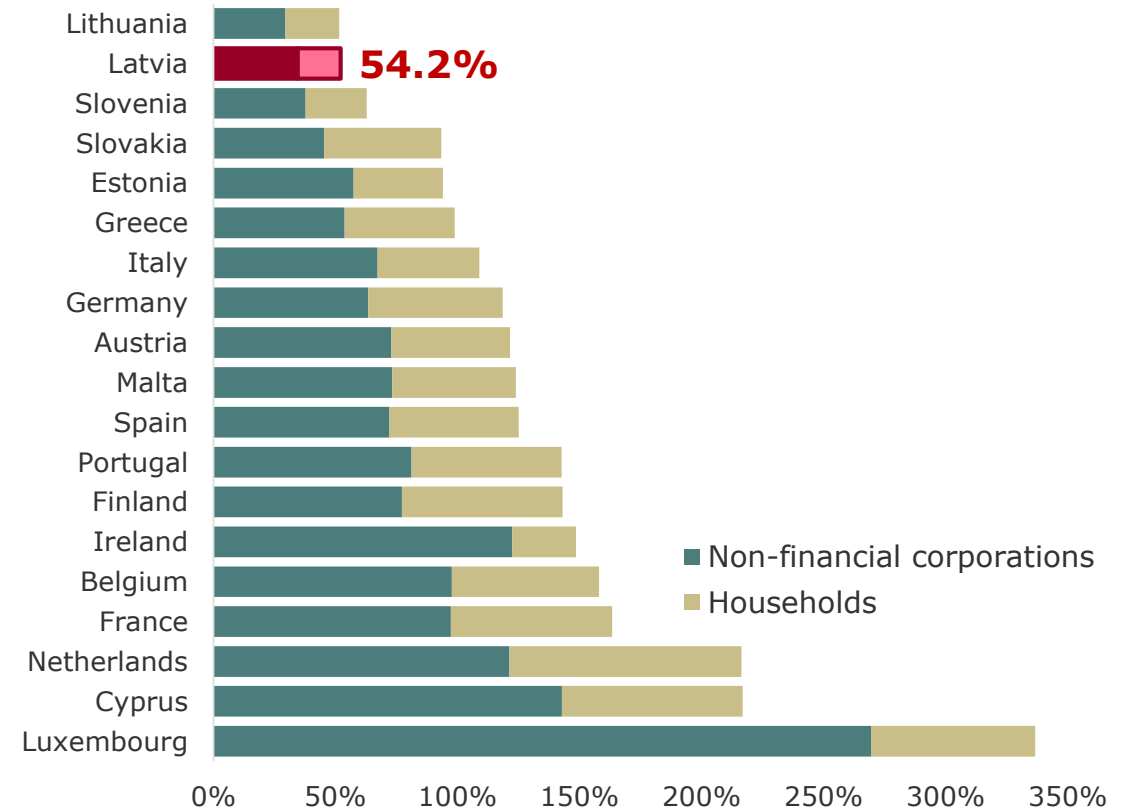
# BANKS' CREDIT QUALITY REMAINS GOOD, HOUSEHOLD AND CORPORATE INDEBTEDNESS IS LOW

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

## Total Loan portfolio quality



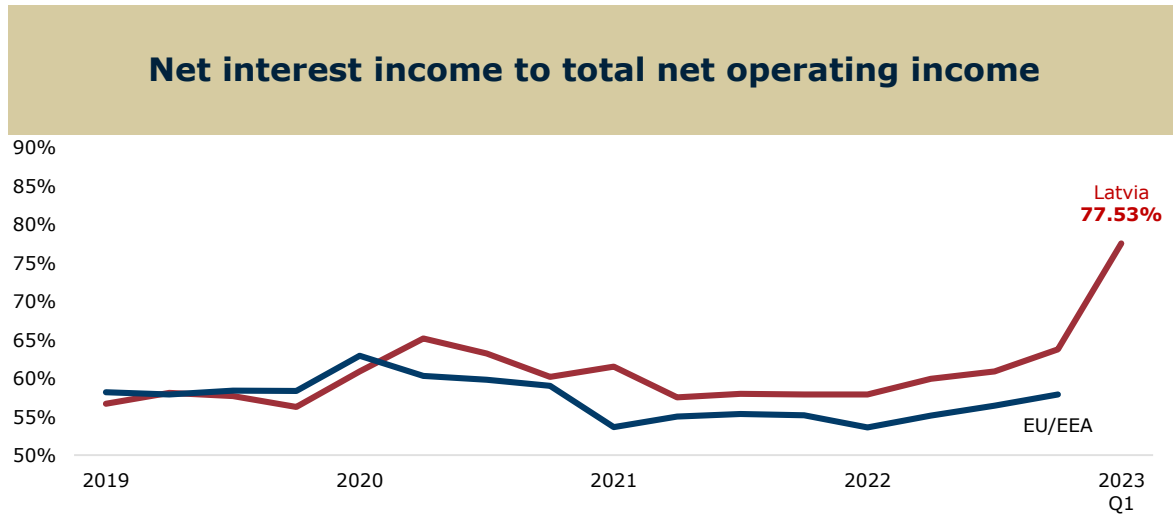
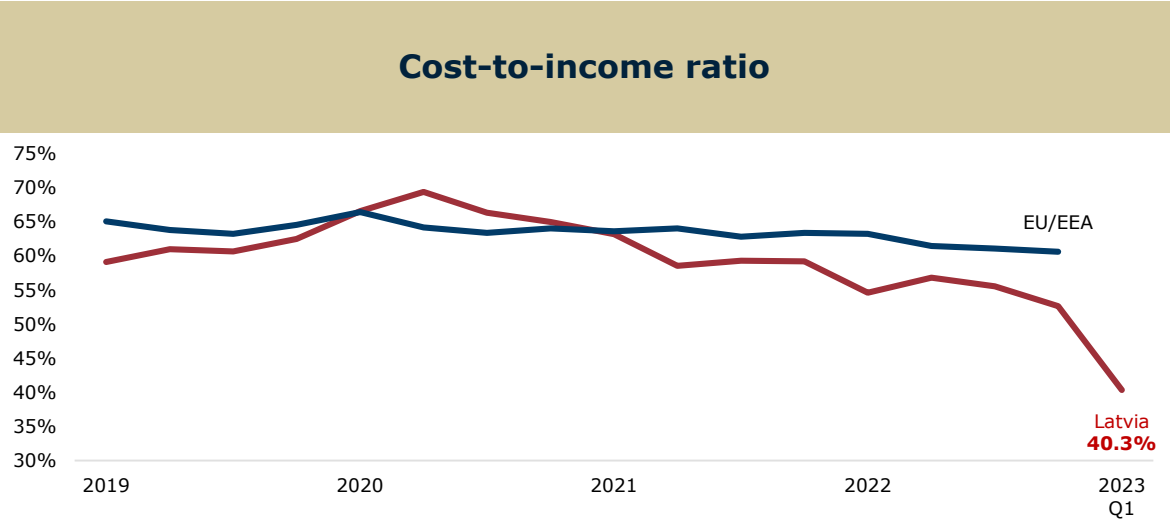
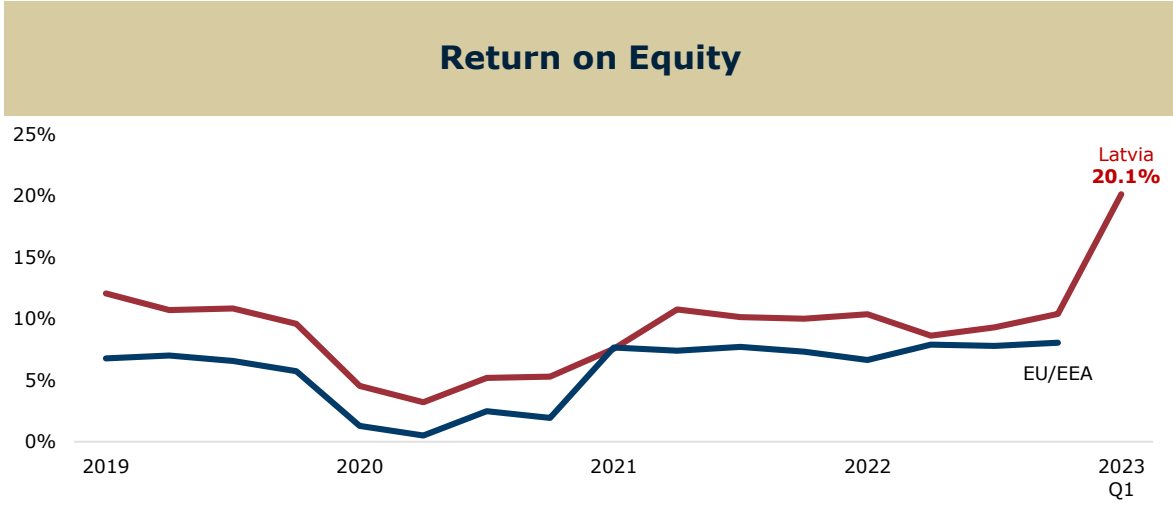
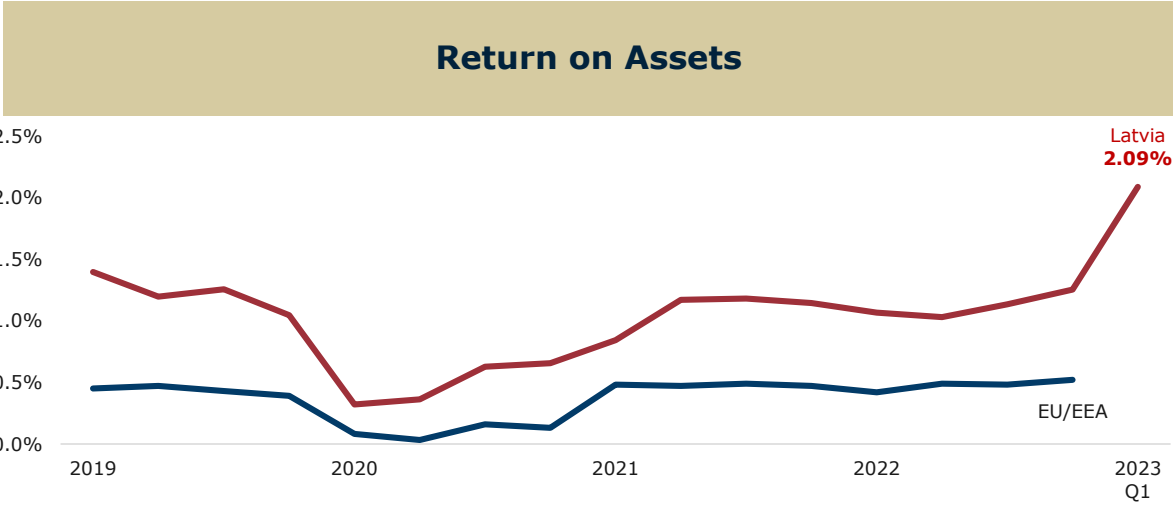
## Total debt\*-to-GDP



\*Total consolidated debt vis-a-vis rest of the economy in 2022 Q4

# BANKING SECTOR PROFITABILITY IS STURDY AND STAYS ABOVE EU AVERAGE

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



Data on European Union (EU)/European Economic Area (EEA) are European Banking Authority (EBA) sample of largest institutions. For Latvia - FINREP data on all institutions are used  
Source: Latvijas Banka, European Banking Authority(EBA) Risk Dashboard and Latvijas Banka calculations



# **GOVERNMENT DEBT MANAGEMENT:**

**FLEXIBILITY OF FUNDING STRATEGY**



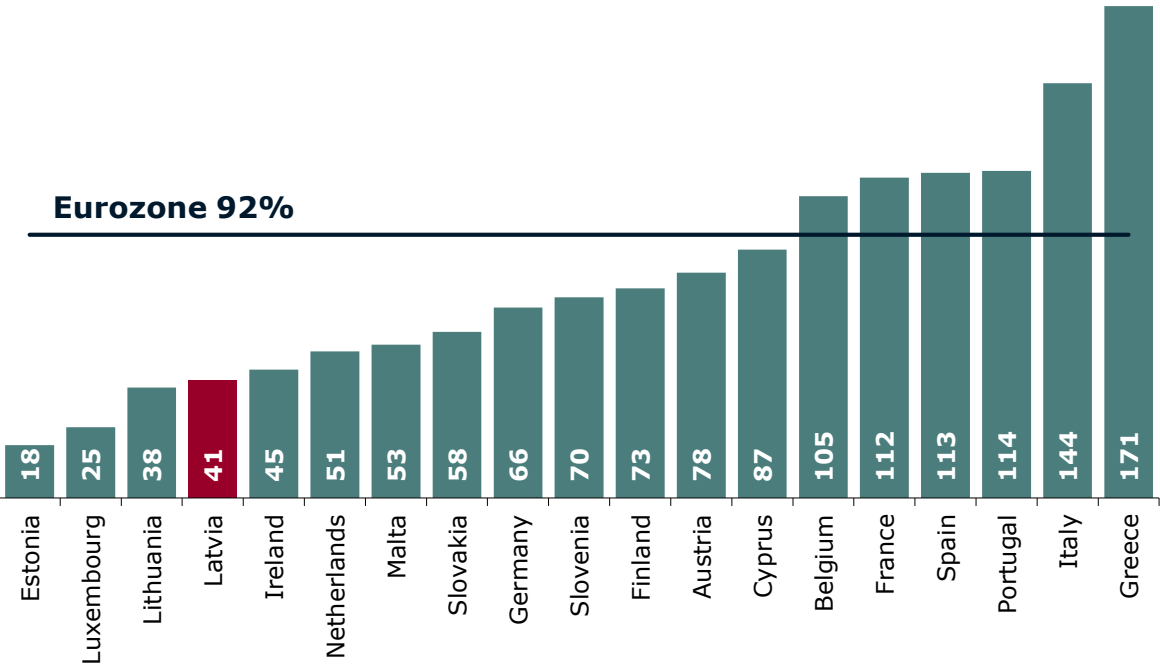
# GENERAL GOVERNMENT DEBT REMAINS LOW

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

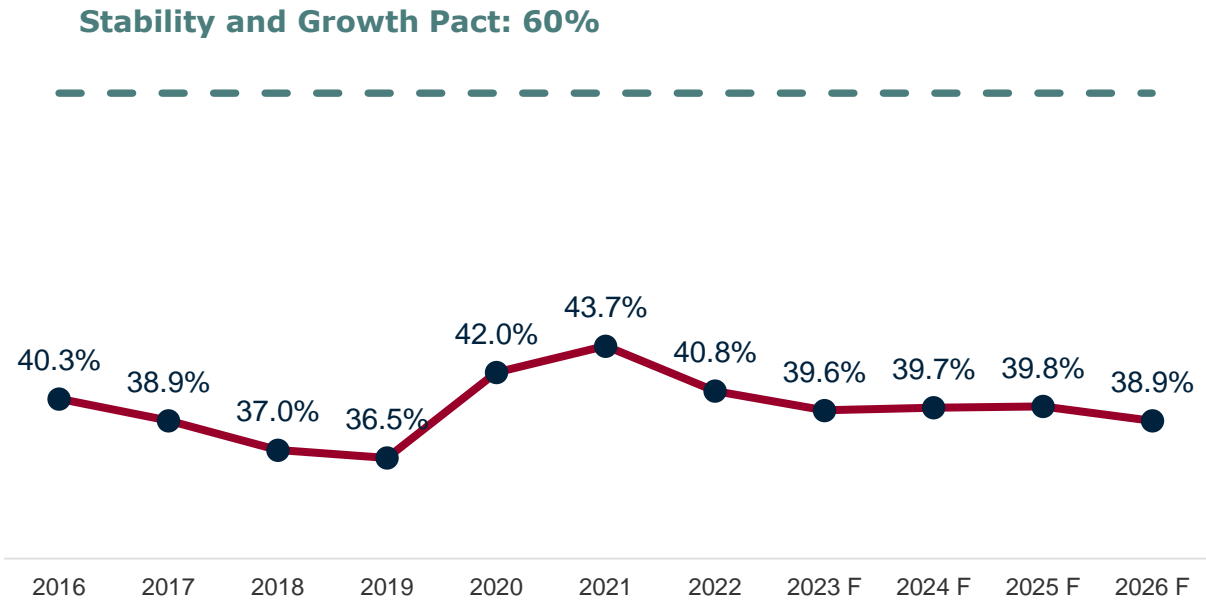
4<sup>th</sup> lowest general government debt level in the Eurozone in 2022

Low debt level provides effective buffer for additional funding needs, if necessary

General Government Debt 2022, % GDP  
(Eurozone countries)



General Government Debt % GDP



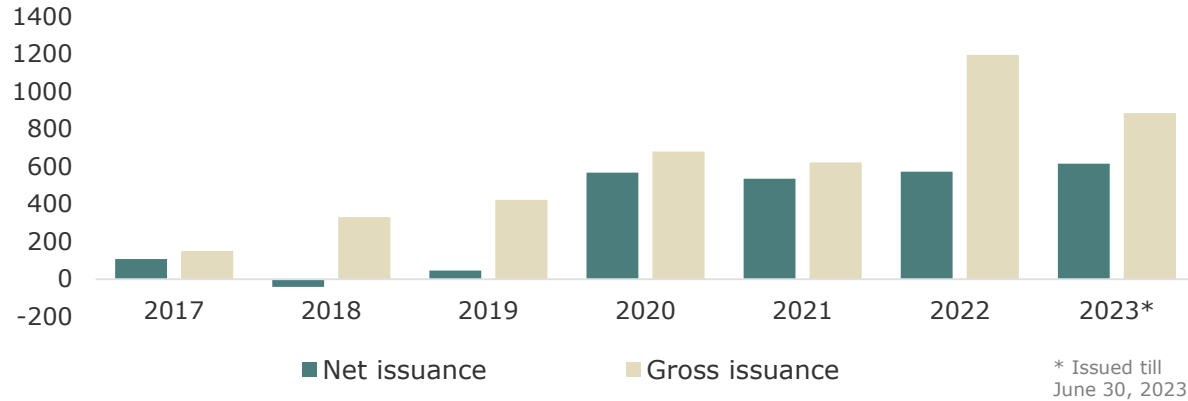
Source: Eurostat

Source: Eurostat, Stability Programme for 2023-2026

# DEMAND IN THE DOMESTIC AUCTIONS CONTINUES TO BE SUPPORTIVE

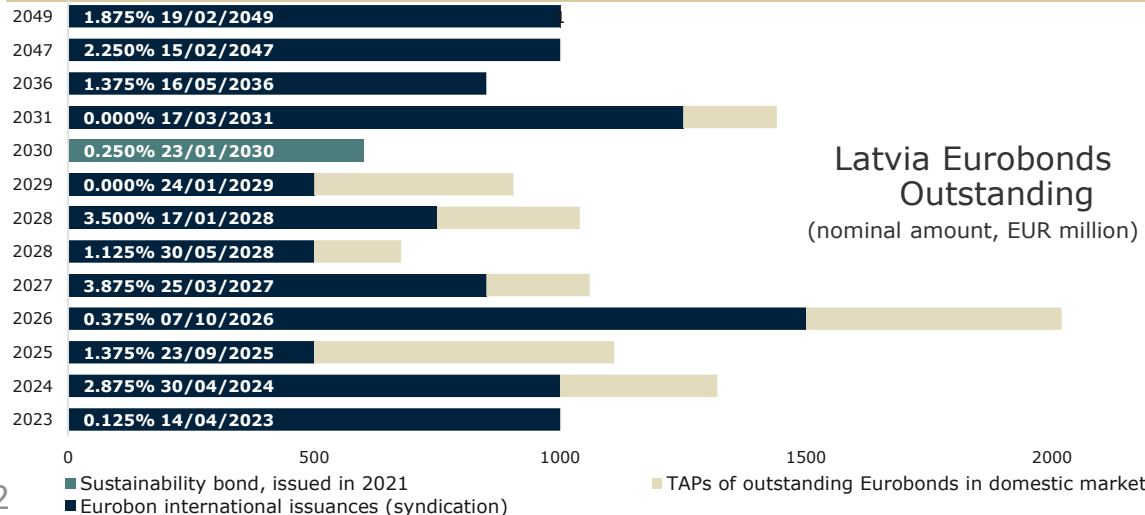
Liquidity of the outstanding Eurobonds is facilitated by TAP auctions in domestic market

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

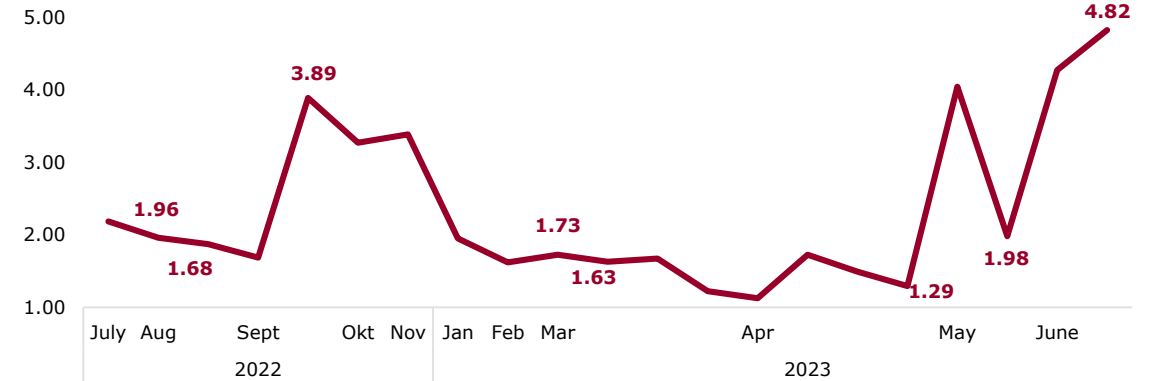


Source: The Treasury as of 07.06.2023.

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

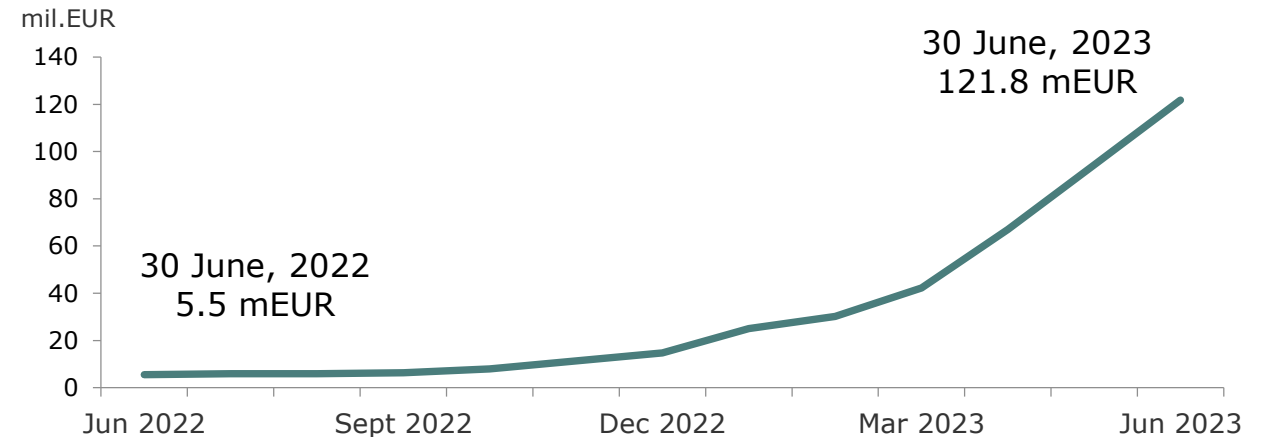


**Domestic market continues to perform strongly in domestic auctions (BIDs/Sold amount ratio)**



Source: The Treasury as of 30.06.2023.

**Savings Bonds – increasingly popular for retail investors**

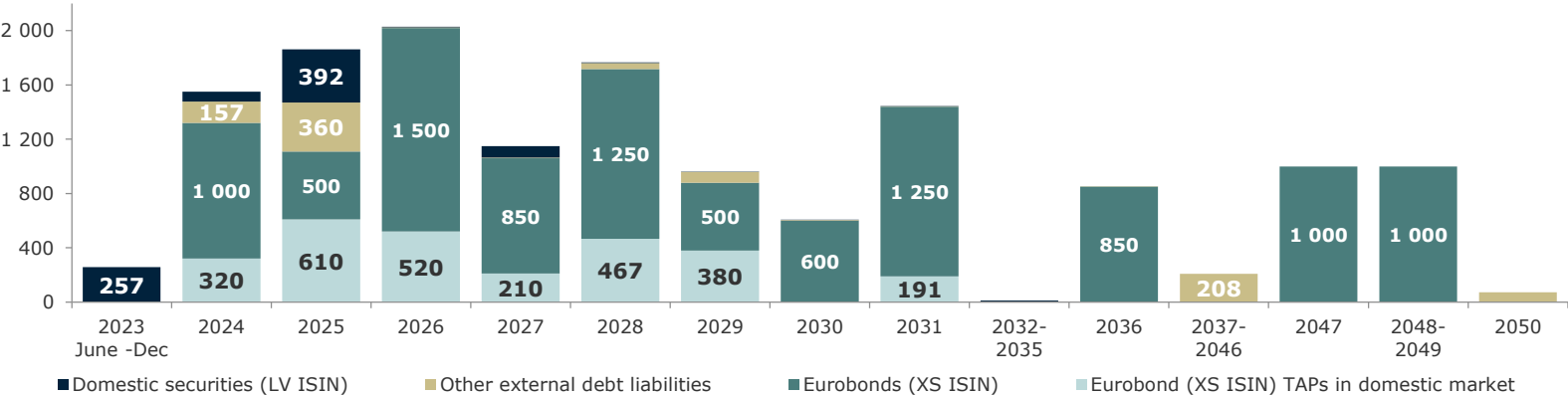


Source: The Treasury

# 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 May 31, 2023

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

	Actual 2022	Actual Jan – Jun 2023	Plan Jul-Dec 2023	Plan 2024
Gross Borrowing volumes (nominal amount)	2.2 bn EUR	1.7 bn EUR	1.7 bn EUR	2.6 bn EUR
Cash buffer (% of GDP)	3.9	2.9		

Source: The Treasury, June 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

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:

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