NOT FOR GENERAL CIRCULATION IN THE UNITED STATES OF AMERICA

OFFERING CIRCULAR DATED 7 JUNE 2013

Prospective investors should note that the Information Statement to be published and incorporated by reference in this Offering Circular is not available as at the date of this Offering Circular and will only be published on or before the first issue of Notes under the Programme. Full information on the Issuer and the Programme is only available on the basis of the combination of the Offering Circular and the Information Statement, and no investor should make any decision in relation to any Notes to be issued under the Programme without first considering the information contained in the Information Statement, together with the other information set out in this Offering Circular.

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

Under this Global Medium Term Note Programme (the **Programme**), the Republic of Latvia, acting through the Treasury (the **Issuer**, **Latvia** or the **Republic**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Republic and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Republic (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*" and "*Risk Factors Relating to Latvia*" in the most recent Information Statement.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market pursuant to the rules and regulations of the Luxembourg Stock Exchange.

This Offering Circular neither constitutes a base prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the **Luxembourg Prospectus Law**) which implements Directive 2003/71/EC, as amended (the **Prospectus Directive**) nor a simplified base prospectus pursuant to Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Supervisory Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*) (the **CSSF**), in its capacity as competent authority under the Luxembourg Prospectus Law.

The Republic may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to the Offering Circular, in the case of listed Notes only, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The ratings of the Programme and the Republic will be set out in the most recent Information Statement. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement (as defined below). A rating is not a recommendation to buy, sell or hold securities and may be subject revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) will be disclosed in the Pricing Supplement. Please also refer to "*Credit Ratings may not reflect all risks*" in the *Risk Factors* section of this Prospectus.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the *Securities Act*) or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes may be offered and sold (a) in bearer form or registered form outside the United States in reliance on Regulation S and (b) in registered form within the United States, to persons who are qualified institutional buyers (*QIBs*) (as defined in Rule 144A (*Rule 144A*) under the Securities Act) in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers who are QIBs are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A. For a descriptions of certain restrictions on offers, sales, and transfers of Notes and distribution of this Offering Circular, see "*Subscription and Sale and Transfer and Selling Restrictions* and "*Form of the Notes*".

Arrangers and Dealers

Citigroup	**J.P. Morgan**	**Société Générale Corporate & Investment Banking**

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement document (the **Pricing Supplement**) which, with respect to Notes to be listed on the Luxembourg Stock Exchange will be filed with the CSSF. Copies of Pricing Supplements in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and the Treasury of the Republic of Latvia at www.kase.gov.lv.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Republic and the relevant Dealer. The Republic may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Republic has confirmed to the Dealers in connection with the publication of the Information Statement on or before the first issue of Notes under the Programme that all information regarding the Republic and the Notes contained in this Offering Circular (including any information incorporated by reference) is true and accurate in all material respects and is not misleading in any material respect; this Offering Circular does not omit to state any fact necessary to make such information not misleading in any material respect; and all reasonable enquiries have been made to ascertain and to verify the foregoing. The Republic accepts responsibility for the information contained in this Offering Circular (including any information from time to time incorporated by reference) accordingly.

Subject as provided in the applicable Pricing Supplement, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Pricing Supplement as the relevant Dealer or the Managers, as the case may be.

Certain information under the heading "*Book-entry Clearance Systems*" has been extracted from information provided by the clearing systems referred to therein. The Republic confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant clearing systems, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Republic. Any such representation or information should not be relied upon as having been authorised by the Republic or the Dealers.

None of the Dealers has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made (to the fullest extent permitted by law) and no responsibility or liability is accepted by any of the Dealers, nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective directors, officers, partners, employees, agents, representatives or advisers, as to the accuracy or completeness of the information contained in this Offering Circular (including any information incorporated by reference) or any other information provided by the Republic in connection with the Republic, the Programme or the issue and offering of Notes thereunder or for any other statement, made or purported to be made by a Dealer or on its behalf, in connection with the Republic or the issue and offering of the Notes. No Dealer accepts any liability whether arising in tort or contract or otherwise in relation to the information contained in this Offering Circular or any other information provided by the Republic or any such statement.

Neither the delivery of this Offering Circular or the offering, sale or delivery of any Note shall in any circumstances constitute a representation that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic or otherwise) of the Republic since the date of this Offering Circular. The Dealers expressly do not undertake to review the financial condition (financial, economic or otherwise) of the Republic during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Republic or any Dealer to subscribe for or purchase, any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation and analysis of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Republic, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

The above disclaimers shall apply (without limitation) to all parts of this Offering Circular (including all documents which are deemed to be incorporated by reference). Neither the Dealers nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective directors, officers, employees, agents, partners or advisers shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement contained in this Offering Circular (including any document which is deemed to be incorporated by reference) or any other information.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, *see* "*Subscription and Sale and Transfer and Selling Restrictions*". Neither the Republic nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Republic or any Dealer to publish or supplement a prospectus for such offer.

In this Offering Circular, unless otherwise specified, references to "**U.S.$**", "**U.S. dollars**" and "**dollars**" are to the lawful currency for the time being of the United States of America, references to "**LVL**", "**Lats**" and "**Ls**" are to the lawful currency for the time being of the Republic of Latvia and references to "**Euro**", "**euro**" and "**€**" are to the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Capitalised terms which are used but not defined in any particular section of this Offering Circular will have the meaning attributed thereto in "*Terms and Conditions of the Notes*" or any other section of this Offering Circular.

Latvia is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Latvia against Latvia. Enforcement of such judgments in Latvia may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. Any judgement obtained in a court in Latvia against the Republic by a holder of any Note would be expressed in the lawful currency of the Republic of Latvia.

The Republic will waive certain sovereign immunity under the Notes (see further Condition 18.7 for the extent to which sovereign immunity is waived). See "*Risk Factors—Risk Factors Relating to an Investment in the Notes—A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions*".

In making an investment decision, investors must rely on their own examination of the Republic and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Dealers nor the Republic makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. INFORMATION

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs (as defined under "*Form of the Notes*") for informational use solely in connection with the consideration of the purchase of certain Notes issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act (*Rule 144A*) or any other applicable exemption. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together *Legended Notes*) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

TABLE OF CONTENTS

Page

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published shall be deemed to be incorporated in, and form part of, this Offering Circular:

(i) the most recent publicly available information statement (the **Information Statement**) of the Republic, as published by the Republic from time to time, beginning with the Information Statement to be published on or before the first issue of Notes under the Programme;

(ii) any amendment or supplement to the Information Statement or to this Offering Circular; and

(iii) with respect to any Notes issued by the Republic, the relevant Pricing Supplement,

except that any statement contained in this Offering Circular and any of the documents incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in a document subsequently incorporated by reference in this Offering Circular modifies or supersedes that statement. Copies of documents incorporated by reference in this Offering Circular can be obtained from the website of the Luxembourg Stock Exchange at www.bourse.lu and the Treasury of the Republic of Latvia at www.kase.gov.lv.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. The Republic and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this overview.

Issuer:	Republic of Latvia, acting through the Treasury
Risk Factors:	There are certain factors that may affect the Republic's ability to fulfil its obligations in respect of Notes issued under the Programme. These are set out under "*Risk Factors Relating to Latvia*" in the most recent Information Memorandum and may include, among other risks, certain potential factors which could adversely affect Latvia's economy and banking sector in the future. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk Factors*" and include certain risks relating to the structure of particular Series of Notes and certain market risks, as well as the fact that the Notes may not be a suitable investment for all investors.
Description:	Global Medium Term Note Programme
Arrangers:	Citigroup Global Markets Limited J.P. Morgan Securities plc Société Générale
Dealers:	Citigroup Global Markets Limited J.P. Morgan Securities plc Société Générale and any other Dealers appointed in accordance with the Programme Agreement.
Principal Paying Agent and Transfer Agent:	Citibank, N.A., London Branch
Registrar and Exchange Agent:	Citigroup Global Markets Deutschland AG
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*").
Programme Size:	The Programme is unlimited in amount.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Notes may be denominated in any currency agreed between the Republic and the relevant Dealer, subject to any applicable legal or regulatory restrictions.
Maturities:	The Notes will have such maturities as may be agreed between the Republic and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Republic or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Republic and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Republic and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Republic and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Republic and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to such other factors as the Issuer and the

	relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than following an Event of Default) or that such Notes will be redeemable at the option of the Republic and/or the Noteholders upon giving notice to the Noteholders or the Republic, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Republic and the relevant Dealer. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Pricing Supplement.
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Republic and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.
Events of Default	Events of default under the Notes include the non-payment of any interest due in respect of the Notes or any of them for a period of 30 days from the due date for payment thereof and breach of other obligations or undertakings under the Notes (which breach is not remedied within 60 days). Notes may only be declared immediately due and payable, upon an Event of Default, if holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes give notice in writing to the Republic (with a copy to the Fiscal Agent). Furthermore if the Republic receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the event of default giving rise to a declaration of acceleration is cured and that such holders wish the relevant

declaration to be withdrawn, the relevant declaration shall be withdrawn and shall have no further effect.

Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Status of the Notes:	The Notes will constitute direct, general, (subject to the provisions of Condition 4) unsecured and unconditional obligations of the Republic and will rank *pari passu* and without any preference among themselves and at least (save for certain obligations required to be preferred by law) equally in right of payment with all other present and future unsecured and unsubordinated indebtedness of the Republic.
Taxation:	All payments in respect of the Notes by or on behalf of the Republic will be made without withholding or deduction for or on account of any Taxes, unless required by law. In that event, the Republic will pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had bee required, subject to certain exceptions as provided in Condition 8.
Rating:	The ratings of the Programme and the Republic will be set out in the most recent Information Statement. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Pricing Supplement.
Listing and admission to trading:	Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Republic and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law, *provided, however,* that the due authorisation and execution of the Notes by and on behalf of the Republic shall be governed by

	the laws of the Republic.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on transfers. See "*Subscription and Sale and Transfer and Selling Restrictions*" below.
United States Selling Restrictions:	Regulation S, Category 1., Rule 144A and TEFRA D / TEFRA C / TEFRA not applicable, as specified in the applicable Pricing Supplement.
Use of Proceeds:	The net proceeds from each issue of Notes will be used for the refinancing of indebtedness and general funding purposes of the Republic.

RISK FACTORS

Investment in the Notes involves risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on Latvia's capacity to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Republic is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Republic or that the Republic currently deems to be immaterial may also materially affect the Republic's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

For Risk Factors Relating to Latvia, please refer to the latest Information Statement

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Republic

An optional redemption feature of Notes is likely to limit their market value. During any period when the Republic may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Republic may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Republic has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Republic may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Republic converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Republic converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(a) the market price of such Notes may be volatile;

(b) they may receive no interest;

(c) payment of principal or interest may occur at a different time or in a different currency than expected;

(d) they may lose all or a substantial portion of their principal;

(e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

The conditions of the Notes may be modified, waived or substituted without the consent of all the Noteholders

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority. Any such change in the conditions of the Notes may adversely affect the trading price of the Notes.

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or where the amendment is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

The conditions of the Notes restrict the ability of an individual holder to declare a default and permit a majority of holders to rescind a declaration of default

The conditions of the Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The conditions of the Notes also contain a provision permitting the holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The EU Savings Directive may result in certain holders not receiving the full amount of interest

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent in the meaning of the EU Savings Directive within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent., unless in the case of Luxembourg the beneficial owner of the interest payments opts for one of the two information exchange procedures available. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission (the "**EC**") has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Republic nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Republic is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

The law governing the Conditions of the Notes may change

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions

Latvia is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Latvia against the Republic. Enforcement of such judgments in Latvia may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. There is also a risk that, notwithstanding the waiver of sovereign immunity by the Republic (see further Condition 18.7 for the extent to which sovereign immunity is waived), a claimant will not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without the Republic having specifically consented to such enforcement at the time when the enforcement is sought.

The foreign exchange reserves of Latvia are controlled and administered by the Bank of Latvia, which is an independent central bank legally distinct from the Government. Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

Court judgements in Latvia

Any judgment obtained in a court in Latvia against the Republic by a holder of any Note would be expressed in the lawful currency of the Republic of Latvia.

Bearer Notes where denominations involve integral multiples: definitive bearer Notes

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in bearer form in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes in bearer form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC (each as defined under "*Form of the Notes*"). Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Republic will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Republic has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

There may be no active trading market for the Notes

Although an application has been made to list on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange’s regulated market, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by the Republic is influenced by economic and market conditions in Latvia and, to a varying degree, economic conditions in other Eastern European markets as well as global, emerging and developed markets generally. There can be no assurance that events which would cause volatility of the sort that occurred in worldwide financial markets in 1998 and 2008 will not occur again, or that any such volatility will not adversely affect the price or liquidity of the Notes.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Republic will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the **Investor’s Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency-equivalent yield on the Notes, (2) the Investor’s Currency-equivalent value of the principal payable on the Notes and (3) the Investor’s Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of a temporary global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Pricing Supplement, a permanent global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, each a **Bearer Global Note**) which, in either case, will:

(a) if the Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Pricing Supplement, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**); and

(b) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for, Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Note if the Temporary Bearer Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Note if the Permanent Bearer Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, or (ii) the Republic has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Republic will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common depositary or the common safekeeper for Euroclear and Clearstream, Luxembourg, as the case may be, on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Republic may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold outside the United States, will initially be represented by a global note in registered form (a **Regulation S Global Note**).

The Registered Notes of each Tranche offered and sold in the United States may only be offered and sold in private transactions to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (**QIBs**). The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a **Rule 144A Global Note** and, together with a Regulation S Global Note, each a **Registered Global Note**).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company (**DTC**) or (ii) be deposited with a common depositary or common safekeeper, as the case may be for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Global Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4) as the registered holder of the Registered Global Notes. None of the Republic any Paying Agent or the

Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Republic that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act and no alternative clearing system is available, (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Republic has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Republic has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Republic will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Republic may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *"Subscription and Sale and Transfer and Selling Restrictions".***

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Republic and the Principal Paying Agent.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on the day immediately following such day. At the same time holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Republic on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 7 June 2013 and executed by the Republic. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

The Republic may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

APPLICABLE PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[*Date*]

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated 7 June 2013 (including the most recent publicly available information statement of the Republic and any other documents incorporated by reference therein) [as supplemented by the supplement[s] dated [*date*[s]]] (the **Offering Circular**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. Copies of the Offering Circular are available on the website of the Luxembourg Stock Exchange at www.bourse.lu and the Treasury of the Republic of Latvia at www.kase.gov.lv.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular [dated [*original date*] which are incorporated by reference in the Offering Circular].

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.*]

1.	Issuer:		Republic of Latvia, acting through the Treasury
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	(i)	Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
	(ii)	Estimated Net Proceeds:	[ ]

6.	(a)	Specified Denominations:	[ ]
	(b)	Calculation Amount:	[ ]
			(*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations*.)
7.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable]
			(*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
8.	Maturity Date:		[*Fixed rate - specify date*/ *Floating rate* - Interest Payment Date falling in or nearest to [*specify month and year*]]
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Dual Currency] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:		[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum [payable[annually/ semi-annually/quarterly/other (*specify*)] in arrear] (*If payable other than annually, consider amending*

			Condition [Interest])
	(b)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date]/[*specify other*] (*N.B. This will need to be amended in the case of long or short coupons*)
	(c)	Fixed Coupon Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount
	(d)	Broken Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [*specify other*]]
	(f)	Determination Date(s):	[[ ] in each year] [Not Applicable] (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
15.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
	(c)	Additional Business Centre(s):	[ ]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/ *specify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[ ]
	(f)	Screen Rate Determination:	
		• Reference Rate:	[ ]

		(*Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*)
	• Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
	• Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(g)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ]
(h)	Margin(s):	[+/-] [ ] per cent. per annum
(i)	Minimum Rate of Interest:	[ ] per cent. per annum
(j)	Maximum Rate of Interest:	[ ] per cent. per annum
(k)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) *Other*] (*See Condition 5 for alternatives*)
(l)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]

16.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Accrual Yield:	[ ] per cent. per annum
	(b) Reference Price:	[ ]

	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7.4and 7.7 apply/*specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)
17.	Index Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a)	Index/Formula	[*Give or annex details*]
	(b)	Calculation Agent:	[ ]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[ ]
	(d)	Provisions for determining Interest Amount where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(e)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Convention/Preceding Business Day Convention/*specify other*]
	(g)	Additional Business Centre(s):	[ ]
	(h)	Minimum Rate of Interest:	[ ] per cent. per annum
	(i)	Maximum Rate of Interest:	[ ] per cent. per annum
	(j)	Day Count Fraction:	[ ]
18.	Dual Currency Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*Give or annex details*]
	(b)	Party, if any, responsible for calculating principal and/or interest due (if not the Principal Paying Agent):	[ ]
	(c)	Provisions applicable where	[*need to include a description of market disruption or*

		calculation by reference to Rate of Exchange impossible or impracticable:	*settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

19.	Issuer Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
	(d)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Republic is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Republic and the Principal Paying Agent*)
20.	Investor Put:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Republic is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example,*

		as between the Republic and the Principal Paying Agent [or the Trustee])
21.	Final Redemption Amount:	[[ ] per Calculation Amount/*specify other*/see Appendix]
22.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.4):	[[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23.	Form of Notes:	
	[Form:]	[Bearer Notes [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event] [*Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.*[1]] [Registered Notes: [Regulation S Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]] [Rule 144A Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]
	[New Global Note:	[Yes][No]]
24.	Additional Financial Centre(s) or other special provisions relating to Payment Days:	[Not Applicable/*give details*] (*Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraph 15(c) relates*)

[1] Include for Notes that are to be offered in Belgium.

25.	Talons for future Coupons to be attached to Definitive Notes in bearer form (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
26.	Other final terms:	[Not Applicable/*give details*] *(Consider including a term providing for tax certification if required to enable interest to be paid gross by Republics.)*

DISTRIBUTION

27.	(a)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b)	Date of Subscription Agreement:	[ ]
	(c)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
28.	If non-syndicated, name of relevant Dealer:		[Not Applicable/*give name*]
29.	U.S. Selling Restrictions:		Reg. S Category 1; TEFRA D / TEFRA C / TEFRA not applicable
30.	Additional selling restrictions:		[Not Applicable/*give details*]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Luxembourg Stock Exchange's regulated market and admission to trading on the Official List of the Luxembourg Stock Exchange of the Notes described herein pursuant to the Global Medium Term Note Programme of the Republic of Latvia, acting through the Treasury.]

[**RESPONSIBILITY**

The Republic accepts responsibility for the information contained in this Pricing Supplement.]

Signed on behalf of the Republic of Latvia, acting through the Treasury:

By: ....

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

Listing and Admission to trading:	[Application has been made by the Republic (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market with effect from [ ].] [Application is expected to be made by the Republic (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market with effect from [ ].] [Not Applicable.]

2. RATINGS

Ratings:	[The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].] [Each of [*defined terms*] is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended).] *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as the Republic is aware, no person involved in the issue of the Notes has an interest material to the offer. - *Amend as appropriate if there are other interests*]

4. YIELD (*Fixed Rate Notes only*)

Indication of yield:	[ ] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5. HISTORIC INTEREST RATES (*Floating Rate Notes Only*)

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].

6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (INDEX LINKED NOTES ONLY)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and details of where the information about the index can be obtained.]

The Issuer does not intend to provide post-issuance information.

7. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*DUAL CURRENCY NOTES ONLY*)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

The Issuer does not intend to provide post-issuance information.

8. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	CUSIP:	[ ]
(iv)	CINS:	[ ]
(v)	Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(viii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No] [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] [*include this text for Registered Notes which are to be held under the NSS*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [*include this text if "yes" selected in which case Bearer Notes must be issued in NGN form*]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Republic and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by the Republic of Latvia, acting through the Treasury (the **Republic**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;

(ii) any Global Note;

(iii) any definitive Notes in bearer form (**Bearer Notes**) issued in exchange for a Global Note in bearer form; and

(iv) any definitive Notes in registered form (**Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 7 June 2013 and made between the Republic, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and Citigroup Global Markets Deutschland AG as exchange agent (the **Exchange Agent**, which expression shall include any successor exchange agent) and as registrar (the **Registrar**, which expression shall include any successor registrar).

The Pricing Supplement for this Note (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to Part A of the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest bearing definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, (unless this is a Zero Coupon Note) Interest Commencement Dates and/or Issue Prices.

The Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 7 June 2013 and made by the Republic. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such Agents and the Registrar being together referred to as the **Agents**). If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Pricing Supplement will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If this Note is not admitted to trading on a regulated market in the European Economic Area, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Republic and the relevant Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

In the Conditions, euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, a Dual Currency Redemption Note or a combination of either of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the

Agency Agreement. The Republic and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Republic and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Republic and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

For so long as the Depository Trust Company (**DTC**) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Republic, and the Principal Paying Agent.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

2.2 Transfers of Registered Notes in definitive form

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Republic and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 8 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7, the Republic shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Republic may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS OF THE NOTES

The Notes and any relative Coupons constitute direct, general, (subject to the provisions of Condition 4) unsecured and unconditional obligations of the Republic and will at all times rank *pari passu* and without any preference among themselves. The full faith and credit of the Republic is pledged for the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Republic's other obligations under the Notes. The payment obligations of the Republic under the Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Republic.

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding the Republic will not grant or permit to be outstanding, and will procure that there is not granted or permitted to be outstanding, any mortgage, charge, lien, pledge or other security interest over any of its present or future assets or revenues or upon the official external reserves of the Republic (which expression includes the gold and the reserves of the Republic by whomsoever and in whatever form owned or held or customarily regarded and held out as the official external reserves thereof) or any part thereof, to secure any Relevant Indebtedness or any guarantee thereof unless the Republic shall, in the case of the granting of the security, before or at the same time, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably, or such other security or other arrangement is provided as shall be approved by the Noteholders in accordance with Condition 15.

For this purpose, **Relevant Indebtedness** means any indebtedness, present or future, (A) evidenced by notes, bonds or other similar instruments which are or may be quoted, listed or ordinarily purchased and sold on any stock exchange and (B) which is not listed on the NASDAQ OMX Riga (or any successor Latvian stock exchange) and issued in dematerialised form into the Latvian Central Depositary system.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

(b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest, in accordance with this Condition 5.1:

(i) if "Actual/Actual (ICMA)" is specified in the applicable Pricing Supplement:

 (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "30/360" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) **Interest Payment Dates**

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of II below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

I. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Pricing Supplement; and

II. either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the **TARGET 2 System**) is open.

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is either (1) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (2) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes and Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(ii) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "30E/360 (ISDA)" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(e) **Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Republic and any stock exchange on which the relevant Floating Rate Notes or Index Interest Linked Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Republic, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Republic, the Noteholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

6.2 Presentation of definitive Bearer Notes and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note, or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

6.4 Payments in respect of Registered Notes

Payments of principal in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non resident of Japan, shall be a non resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Republic or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.5 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Republic will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Republic to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Republic has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Republic, adverse tax consequences to the Republic.

6.6 Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) in the case of Notes in definitive form only, the relevant place of presentation;

(ii) each Additional Financial Centre specified in the applicable Pricing Supplement;

(b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is open; and

(c) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in that Specified Currency, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

6.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.4); and

(f) any premium and any other amounts (other than interest) which may be payable by the Republic under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Republic at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption at the option of the Republic (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Republic may, having given:

(a) not less than 15 nor more than 45 days' notice to the Noteholders in accordance with Condition 14; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph 7.2 and notice to that effect shall be given by the Republic to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.3 Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Republic in accordance with Condition 14 not less than 45 nor more than 60 days' notice the Republic will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7.3 in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Pricing Supplement.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg or DTC, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 7.3 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing and, in which event such holder, at its option, may elect by notice to the Republic to withdraw the notice given pursuant to this Condition 7.3 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

7.4 Early Redemption Amounts

For the purpose of Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = $RP \times (1 + AY)^{y}$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

7.5 Purchases

The Republic and its Agencies may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured, Coupons and Talons appertaining thereto are purchased therewith) in the open market or otherwise and at any price. Any Notes so purchased, while held by or on behalf of the Republic or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.

Any Notes so purchased may be cancelled or held and resold by the Republic. Any Notes so cancelled will not be reissued or resold.

In this Condition 7.5, **Agency** means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic and the government thereof (whether or not such statutory corporation is autonomous) and **Agencies** shall be construed accordingly.

7.6 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph 7.5 above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

7.7 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph 7.1, 7.2 or 7.3 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph 7.4(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

All payments of principal and interest in respect of the Notes shall be made without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Latvia or any political sub-division or any authority thereof or therein having power to tax (together, **Taxes**), unless such withholding or deduction is required by law. In that event, the Republic shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) presented for payment by a holder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of such Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) presented for payment by or on behalf of a holder who would not be liable for or subject to such withholding or deduction (A) by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so, or (B) by presenting the relevant Note to another Paying Agent in a member state of the European Union; or

(d) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note on the last day of such period of 30 days.

In these Conditions, **Relevant Date** means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received by the Principal Paying Agent as provided in the Agency Agreement on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition.

9. PRESCRIPTION

The Notes (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT

If either of the following events (each an "**Event of Default**") occurs and is continuing:

(a) ***Non-payment***

Any default is made in the payment of any interest due in respect of the Notes or any of them when due and the default continues for a period of 30 days; or

(b) ***Breach of other obligations or undertakings***

The Republic fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 45 days next following the service by any Noteholder on the Republic of notice requiring the same to be remedied, then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Republic (with a copy to the Principal Paying Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Republic.

If the Republic receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to the above mentioned declaration of acceleration is or are cured following any such declaration, the Republic shall give notice thereof in writing to the Noteholders (with a copy to the Principal Paying Agent), the Notes shall cease to be due and payable. No such rescission shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

11. REPLACEMENT OF NOTES, COUPONS AND TALONS

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Republic may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

12. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Republic is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and

(c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC.

In addition, the Republic shall promptly appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Republic and do not assume any obligation to, or relationship of agency or trust with, any Noteholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London and (b) if and for so long as the Bearer Notes are admitted to trading on, and listed on the Official List of, the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Republic shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

All notices to the Republic will be valid if sent to the Republic at the Treasury of the Republic of Latvia, Riga or such other address as may be notified by the Republic to the Noteholders in accordance with the above paragraphs of this Condition.

15. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS

15.1 *General*

The provisions for convening meetings of Noteholders as set out in Schedule 5 to the Agency Agreement shall apply to the Notes. The following is a summary of selected provisions in that Schedule.

For the purposes of Condition 10 and this Condition 15, a Note will be deemed to be "outstanding" as set out in Clause 1 of the Agency Agreement. In addition, in respect of a Note which is (a) held by the Republic or (b) held by a department, ministry or agency of the Republic, or by a corporation, trust or other legal entity that is controlled by the Republic or a department, ministry or agency of the Republic and the holder of the Note does not have autonomy of decision, the Note will be deemed to be not outstanding where:

(i) the holder of the Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposed modification;

(ii) a corporation, trust or other legal entity is controlled by the Republic or by a department, ministry or agency of the Republic if the Republic or any department, ministry or agency of the Republic has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and

(iii) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Republic:

(A) the holder may not, directly or indirectly, take instruction from the Republic on how to vote on a proposed modification; or

(B) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or

(C) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this definition.

15.2 ***Convening a meeting of Noteholders***

A meeting of Noteholders:

(a) may be convened by the Republic at any time; and

(b) will be convened by the Republic if a meeting is requested in writing by the holders of not less than 10 per cent. of the aggregate nominal amount of the Notes then outstanding.

15.3 ***Quorum and voting***

(a) *Quorum at initial meeting*

The quorum at any meeting at which Noteholders will vote on:

(i) a Reserved Matter will be one or more persons present holding or representing not less than 66 2/3 per cent. of the aggregate nominal amount of the Notes then outstanding; and

(ii) a matter which is not a Reserved Matter will be one or more persons present holding or representing not less than 50 per cent. of the aggregate nominal amount of the Notes then outstanding.

(b) *Quorum at adjourned meeting*

The quorum for any adjourned meeting will be one or more persons present holding or representing:

(i) not less than 66 2/3 per cent. of the aggregate nominal amount of the Notes then outstanding in the case of a proposed modification relating to a Reserved Matter; and

(ii) not less than 25 per cent. of the aggregate nominal amount of the Notes then outstanding in the case of a proposed modification relating to matter which is not a Reserved Matter.

(c) *Voting on non-Reserved Matters*

Save as otherwise provided in the Agency Agreement, any proposed modification in relation to a matter which is not a Reserved Matter may only be approved with the consent of the Republic and:

(i) the affirmative vote of a one or more persons present and holding or representing more than 50 per cent. of the aggregate nominal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(ii) a written resolution signed by or on behalf of a holder or holders of more than 50 per cent. of the aggregate nominal amount of the Notes outstanding.

(d) *Voting on Reserved Matters*

Except as provided in paragraph 15.3(e), any proposed modification relating to a Reserved Matter may only be approved with the consent of the Republic and:

(i) the affirmative vote of one or more persons present and holding or representing not less than 75 per cent. of the aggregate nominal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(ii) a written resolution signed by or on behalf of a holder or holders not less than 66 2/3 per cent. of the aggregate nominal amount of the Notes outstanding.

(e) *Cross-Series Modifications*

A Cross-Series Modification relating to a Reserved Matter affecting the Notes and any other series of Debt Securities may only be approved with the consent of the Republic and:

(i)(A) the affirmative vote of one or more persons present and holding or representing not less than 75 per cent. of the aggregate nominal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the holders of the Debt Securities of all series (taken in the aggregate) that would be affected by the proposed modification; or (i)(B) a written resolution signed by or on behalf of the holders of not less than 66 2/3 per cent. of the aggregate nominal amount of the outstanding Debt Securities of all series (taken in the aggregate) that would be affected by the proposed modification;

and

(ii)(A) the affirmative vote of one or more persons present and holding or representing more than 66 2/3 per cent. of the aggregate nominal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the holders of each series of Debt Securities (taken individually) that would be affected by the proposed modification; or

(ii)(B) written resolutions signed by or on behalf of the holders of more than 50 per cent. of the aggregate nominal amount of the then outstanding Debt Securities of each series (taken individually) that would be affected by the proposed modification.

If a proposed Cross-Series Modification in relation to a Reserved Matter is not approved in the manner described above but would have been approved if it had involved only the Notes and one or more, but less than all, of the other series of Debt Securities affected by the proposed modification, that Cross-Series Modification will be deemed to have been approved in relation to the Notes and the Debt Securities of each other series whose modification would have been approved if the proposed modification had involved only the Notes and such other series of Debt Securities, provided that:

(x) the Republic has notified the holders of all Debt Securities participating in the proposed modification that this partial Cross-Series Modification deeming provision shall apply; and

(y) the conditions in this partial Cross-Series Modification deeming provision are satisfied.

For the purposes of this Condition 15.3(e):

Debt Securities means the Notes and any other bills, bonds, debentures, notes or other debt securities issued by the Republic in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a Debt Security;

Cross-Series Modification means a modification which affects (i) the Notes or any agreement governing the issuance or administration of the Notes and (ii) one or more other series of Debt Securities or any agreement governing the issuance or administration of such other series of Debt Securities;

Series when used in relation to the Notes shall have the meaning ascribed to the term in the introductory paragraphs to these Conditions and **series**, when used in relation to a tranche of Debt Securities, shall mean such tranche of Debt Securities together with any further tranche or tranches of Debt Securities that in relation to each other and to the original tranche of Debt Securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series,

(f) *Written resolutions*

A written resolution signed by or on behalf of holders of the requisite majority of the outstanding Debt Securities will be valid for all purposes as if it was a resolution passed at a meeting of holders of the Debt Securities duly convened and held in accordance with these provisions. A written resolution may be set out in one or more documents in like form each signed by or on behalf of one or more holders of Debt Securities.

(g) *Binding effect*

A resolution duly passed at a meeting of holders of Debt Securities duly convened and held, and a written resolution duly signed by the requisite majority of holders of Debt Securities, will be binding on all such holders, whether or not the holder was present or represented at the meeting, voted for or against the resolution or signed the written resolution.

(i) *Modification*

Notwithstanding anything to the contrary in the Conditions, the Conditions and the Agency Agreement may be modified by the Republic without the consent of the Noteholders:

(a) to correct a manifest error or to cure an ambiguity; or

(b) if the modification is of a formal, minor or technical nature or for the benefit of the Noteholders.

The Republic will publish details of any such modification within 10 days of the modification becoming legally effective.

15.4 ***Reserved Matters***

In these Conditions, **Reserved Matter** means any proposed modification:

(a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes;

(b) to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes;

(c) to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(d) to change the currency in which, or the place of payment of, any amount due in respect of the Notes is payable;

(e) to impose any condition on, or otherwise modify the Republic's obligation to make, any payment on the Notes;

(f) to change the quorum required at any meeting of Noteholders or the majority required to pass any resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(g) to change this definition;

(h) to change or waive the provisions of the Notes set out in Conditions 3 or 10(a);

(i) to change the law governing the Notes, the courts to the jurisdiction of which the Republic has submitted in the Notes, the Republic's obligation to maintain an agent for service of process in England or the Republic's waiver of immunity, in respect of legal proceedings arising out of or in connection with the Notes;

16. FURTHER ISSUES

The Republic shall be at liberty from time to time, without the consent of the Noteholders the Couponholders, to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes *provided*, *however*, *that* the Notes are either (i) not issued with original issue discount, (ii) issued with less than a *de minimis* amount of original issue discount, or (iii) issued in a "qualified reopening" for U.S. federal income tax purposes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Notes and any non-contractual obligations arising out of or in connection with them are governed by English law.

18.2 Jurisdiction

The Republic agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, **Proceedings** and **Disputes**) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

18.3 Appropriate forum

The Republic irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

18.4 Service of process

The Republic irrevocably appoints the Ambassador of the Republic of Latvia to the Court of St. James's as its authorised agent for the service of process in England in respect of any Proceedings or Disputes. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

18.5 Non-exclusivity

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

18.6 Consent to enforcement etc

For the purposes of the State Immunity Act 1978, the Republic consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

18.7 Waiver of immunity

To the extent that the Republic may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise and whether or not on the grounds of sovereignty or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Republic or its assets or revenues, the Republic agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction *provided*, *however*, *that* immunity is not waived in respect of present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or military property or military assets or property or assets of the Republic related thereto.

18.8 Other documents

The Republic has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used for the refinancing of indebtedness and general funding purposes of the Republic.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the **Clearing Systems***) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Republic nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Book-entry Systems

DTC

DTC has advised the Republic that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (**Participants**) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the **Rules**), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system (**DTC Notes**) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (**Owners**) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Republic as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Republic, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Republic, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Republic may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Republic expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Republic also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Republic. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Republic.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Republic, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Latvia of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Latvian Taxation

Under existing Latvian laws and regulations, payments of principal and interest on the Notes to an individual who is a non-resident of Latvia or to a legal entity that is neither resident in Latvia nor maintains, or is engaged in trade or business through, a permanent establishment in Latvia (together "**Non-Latvian Holders**") will not be subject to taxation in Latvia and no withholding of any Latvian tax will be required on any such payments. In addition, gains realised by Non-Latvian Holders derived from the sale or exchange of the Notes will not be subject to any Latvian income or capital gains tax.

Under existing Latvian laws and regulations, payments of principal and interest on the Notes to an individual who is a resident of Latvia will not be subject to taxation at source in Latvia and no withholding of any Latvian tax will be required on any such payments. In addition, gains from the sale or exchange of the Notes realised by individuals who are residents of Latvia will not be subject to any Latvian income or capital gains tax. For legal entities which are resident in Latvia or maintain a permanent establishment in Latvia payments of principal and interest under the Notes will not be subject to taxation at source in Latvia and no withholding of any Latvian tax will be required on any such payments, however, the interest on the Notes, as well as gains realised from the sale or exchange of the Notes would be included in the tax payer's annual taxable income (subject to 15 per cent. corporate income tax). On 6 June 2013 the Parliament of the Republic of Latvia (*Saeima*) adopted amendments to the Law on Corporate Income Tax, under which gains realised from the sale or exchange of Notes listed on a regulated market of the European Union or the European Economic Area shall be excluded from a taxpayer's annual taxable income in Latvia. The respective amendments shall be applicable as of 1 January 2013, but are subject to proclamation by the President of the Republic of Latvia by publication in the official journal "*Latvijas Vēstnesis"*.

No Latvian stamp duty, registration, transfer or similar taxes will be payable in connection with the acquisition, ownership, sale or disposal of Notes by the Non-Latvian Holders of Notes providing that any sale or exchange of Notes takes place outside the territory of Latvia.

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE (IRS) CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders (as defined below) acquiring, holding and disposing of Notes. This summary addresses only the U.S. federal income tax considerations for initial purchasers of Notes at their issue price (as defined below) that will hold the Notes as capital assets (generally, property held for investment). This summary is based on the U.S.

Internal Revenue Code of 1986 (the **Code**), final, temporary and proposed U.S. Treasury regulations, and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect.

This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) partnerships, pass-through entities, or persons that hold Notes through pass-through entities; (viii) holders that are not U.S. Holders; (ix) investors that hold Notes as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for US federal income tax purposes; (x) investors that have a functional currency other than the U.S. dollar and (xi) US expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address U.S. federal estate, gift or alternative minimum tax considerations, or non-U.S., state or local tax considerations. This discussion applies only to holders of Registered Notes. Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under U.S. federal income tax laws, including the limitations provided in Section 165(j) and 1287 of the Code. Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term may be discussed in the applicable Pricing Supplement.

For the purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source or (iv) a trust that is subject to U.S. tax on its worldwide income regardless of its source.

This summary should be read in conjunction with any discussion of U.S. federal income tax consequences in the applicable Pricing Supplement. To the extent there is any inconsistency in the discussion of U.S. tax consequences to holders between this Offering Circular and the applicable Pricing Supplement, holders should rely on the tax consequences described in the applicable Pricing Supplement instead of this Offering Circular. The Republic generally intends to treat Notes issued under the Programme as debt, unless otherwise indicated in the applicable Pricing Supplement. The tax treatment of Notes to which a treatment other than as debt may apply may be discussed in the applicable Pricing Supplement. The following disclosure applies only to Notes that are treated as debt for U.S. federal income tax purposes.

Payments of Interest

General

Interest on a Note, including the payment of any additional amounts whether payable in U.S. Dollars or a currency, composite currency or basket of currencies other than U.S. Dollars (a **foreign currency**), other than interest on a "Discount Note" that is not "qualified stated interest" (each as defined below under "Original Issue Discount — General"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, in accordance with the holder's method of accounting for tax purposes. Interest paid by the Republic on the Notes and OID (as defined below), if any, accrued with respect to the Notes (as described below under "*Original Issue Discount*") and payments of any additional amounts will generally constitute income from sources without the United States.

Foreign Currency Denominated Interest

If a qualified stated interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. Dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. Dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period or taxable year, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. Dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or other disposition of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference, if any, between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount (**OID**). The following summary does not discuss Notes that are characterized as contingent payment debt instruments for U.S. federal income tax purposes. In the event that the Republic issues contingent payment debt instruments, the applicable Pricing Supplement may describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a **Short-Term Note**), will be treated as issued with OID (a **Discount Note**) if the excess of the Note's "stated redemption price at maturity" over its issue price is at least a de minimis amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an **instalment obligation**) will generally be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25% of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the "**issue price**" of a Note under the applicable Pricing Supplement will be the first price at which a substantial amount of such Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The "**stated redemption price at maturity**" of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest". A "**qualified stated interest**" payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "Variable Interest Rate Notes"), applied to the outstanding principal amount of the Note. Solely for the purpose of determining whether a Note has OID, the Republic will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. If a Note has de minimis OID, a U.S. Holder must include the de minimis amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under "—Election to Treat All Interest as Original Issue Discount". A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's de minimis OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

U.S. Holders of Discount Notes must generally include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (**accrued OID**). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Discount Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Discount Note allocable to the accrual period. The "**adjusted issue price**" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being **acquisition premium**) and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Market Discount

A Note, other than a Short-Term Note, will generally be treated as purchased at a market discount (a **Market Discount Note**) if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price", exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "de minimis market discount" and such Note is not subject to the rules discussed in the following paragraphs. For this purpose, the "**revised issue price**" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognized on the maturity or disposition of, a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Note with respect to which it is made and is irrevocable.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "Original Issue Discount — General" with certain modifications. For purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount, as adjusted by any acquisition premium. If a U.S. Holder makes this election for the Note, then, when the constant-yield method is applied, the issue price of the Note will equal its cost, the issue date of the Note will be the date of acquisition, and no payments on the Note will be treated as payments of qualified stated interest. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under "Market Discount" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder.

Variable Interest Rate Notes

Notes that provide for interest at variable rates (**Variable Interest Rate Notes**) will generally bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under U.S. Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified de minimis amount and (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A "**qualified floating rate**" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Note.

An "**objective rate**" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "**qualified inverse floating rate**" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "**current value**" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Republic) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified de minimis amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt may be more fully described in the applicable Pricing Supplement.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale or other disposition of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or other disposition. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Foreign Currency Notes

OID for any accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "Payments of Interest". Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or other disposition of a Note), a U.S. Holder will generally recognize exchange gain or loss, which will be ordinary gain or loss measured by the difference between the amount received (translated into U.S. Dollars at the exchange rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Market Discount on a Note that is denominated in, or determined by reference to, a foreign currency will be accrued by a U.S. Holder in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. Dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder will generally recognize U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does elect to include market discount in income currently will recognize, upon the disposition or maturity of the Note, the U.S. Dollar value of the amount accrued, calculated at the spot rate in effect on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Sale or Other Disposition of Notes

A U.S. Holder's tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to de minimis OID and de minimis market discount included in the U.S. Holder's income with respect to the Note, and reduced by the amount of any payments that are not qualified stated interest payments.. A U.S. Holder's tax basis in a Foreign Currency Note will be determined by reference to the U.S. Dollar cost of the Notes. The U.S. Dollar cost of a Note purchased with a foreign currency will generally be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder will generally recognize gain or loss on the sale or other disposition of a Note equal to the difference between the amount realized on the sale or other disposition and the tax basis of the Note. The amount realized on a sale or other disposition for an amount in foreign currency will be the U.S. Dollar value of this amount on the date of sale or other disposition or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. Except to the extent described above under "Original Issue Discount - Market Discount" or "Original Issue Discount – Short-Term Notes" or attributable to accrued but unpaid interest or changes in exchange rates, gain or loss recognized on the sale or other disposition of a Note will be capital gain or loss and will generally be treated as from U.S. sources for purposes of the U.S. foreign tax credit limitation. In the case of a U.S. Holder that is an individual, estate or trust, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Gain or loss recognized by a U.S. Holder on the sale or other disposition of a Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or other disposition of a Note will have a tax basis equal to its U.S. Dollar value at the time the interest is received or at the time of the sale or other disposition. Foreign currency that is purchased will generally have a tax basis equal to the U.S. Dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or an exchange for U.S. Dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of principal, interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain U.S. Holders are not subject to information reporting and backup withholding.

Certain individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Notes not held through an account with a financial institution. Investors who fail to report required information could be subject to substantial penalties.

Disclosure Requirements

U.S. Treasury Regulations meant to require the reporting of certain tax shelter transactions (**Reportable Transactions**) could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the U.S. Treasury Regulations, certain transactions with respect to the Notes may be characterized as Reportable Transactions including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Foreign Currency Note. Persons considering the purchase of such Notes should consult with their tax advisers to determine the tax return obligations, if any, with respect to an investment in such Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

EU Savings Directive

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008 the EC published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 7 June 2013, agreed with the Republic a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*".

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Republic. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilising activities may only be carried on by the Stabilising Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilising Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or *vice versa*, will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is a foreign purchase that is outside the United States;

(b) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered or sold within the United States except as set forth below;

(c) that, if it is a person other than a foreign purchaser outside the United States, it agrees that if it should resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes within the time period referred to in Rule 144A under the Securities Act after the original issue of the Notes, it will do so only (i) to the Republic or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(d) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (c) above, if then applicable;

(e) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(f) that the Notes in registered form, other than the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Republic:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND ONLY (1) TO THE REPUBLIC OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 OF THE SECURITIES ACT OR ANY OTHER EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(g) if it is a foreign purchase that is outside the United States, that if it should resell or transfer the Notes in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Republic:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT."; and

(h) that the Republic, the Dealers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Republic; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (a) outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S and (b) in the United States to a limited number of QIBs as defined in the Securities Act in connection with resales by the Dealers, in reliance on, and in compliance with, Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each issuance of Dual Currency Notes and Index Linked Notes will be subject to such additional U.S. selling restrictions as the Republic and the relevant Purchaser(s) may agree, as indicated in the applicable Final Terms. Each Dealer has agreed and each Purchaser will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

United Kingdom

Each Dealer has severally and not jointly represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Latvia

The Dealers have severally and not jointly represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither they nor any of their affiliates, nor any persons acting on their or their affiliates behalf, have engaged or will engage in any selling efforts in Latvia with respect to the Notes, other than in accordance with the laws of the Republic of Latvia and the Regulations of the Financial and Capital Market Commission.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in Notes described herein in Switzerland. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations nor a simplified prospectus as such term is understood pursuant to article 5 of the Swiss Collective Investment Scheme Act, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering of the Notes has been or will be filed with or approved by any Swiss regulatory authority. The Notes do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and are not subject to the approval of, or supervision by, any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority (FINMA), and investors in the Notes will not benefit from protection or supervision by any Swiss regulatory authority.

General

No action has been or will be taken in any jurisdiction by the Republic or the Dealers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Republic and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

None of the Republic and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Republic and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

Under the Law on Budget and Financial Management adopted on 24 March 1994, the Regulations of the Treasury of the Republic of Latvia No. 677 adopted by the Cabinet of Ministers on 3 August 2004 and the Internal Regulation of Ministry of Finance of the Republic of Latvia No.12-29/52 dated 29 October 2010 "Procedure of Exercising the Treasury Authorisation", any borrowing of the Treasury, on behalf of the Republic of Latvia, is subject to the debt ceiling as of 31 December of each year specified in the State Budget Law for the respective year and must also conform with the Latvian Central Government Debt Management Strategy and the Resource Attraction Plan approved by the Minister of Finance. The Minister of Finance will confirm in relation to each issue of Notes under the Programme that such issue will not breach the State Budget Law for the respective year and the Law on Budget and Financial Management and conforms with the Latvian Central Government Debt Management Strategy and the Resource Attraction Plan approved by the Minister of Finance.

Listing of Notes

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the registered office of the Republic and from the specified office of any Listing Agent for the time being in Luxembourg:

(a) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;

(b) a copy of this Offering Circular and the latest Information Statement; and

(c) any future offering circulars, prospectuses, information memoranda or statements, supplements and Pricing Supplement to this Offering Circular and any other documents incorporated herein or therein by reference.

In addition, copies of this Offering Circular, each Pricing Supplement relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the website of the Luxembourg Stock Exchange at www.bourse.lu and the Treasury of the Republic of Latvia at www.kase.gov.lv.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the Republic may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Enforcement of Judgments

As at the date of this Offering Circular, a judgment obtained in an English court against the Republic should be enforceable against the Republic in Latvia, as Council Regulation 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters (the **Brussels Regulation**) is directly applicable in Latvia. According to the Civil Procedure law of the Republic of Latvia the application of the recognition and enforcement of the foreign judgment in Latvia shall be submitted for decision to a district (city) court. The judgment of a foreign court after its recognition in Latvia shall be executed according to the procedures specified in the Latvian Civil Procedure Law.

A judgment obtained in an English court against the Republic may not be recognised and enforced by the Latvian courts if there are grounds for non-recognition as provided in the Brussels Regulation.

Dealers transacting with the Republic

Each of the Dealers and their affiliates have or may have engaged, and may continue to engage, in investment banking and/or commercial banking transactions with, and may perform services for the Republic and its affiliates in the ordinary course of business.

ISSUER

Republic of Latvia
The Treasury of the Republic of Latvia
Smilšu Street 1
Riga LV-1919
Republic of Latvia

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR AND EXCHANGE AGENT

Citigroup Global Markets Deutschland AG

Reuterweg 16
60323 Frankfurt am Main
Germany

LEGAL ADVISERS

To the Republic as to English and U.S. law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

LUXEMBOURG LISTING AGENT

Banque Internationale à Luxembourg SA
69, route d'Esch
Office PLM -101 F
L - 2953 Luxembourg

To the Dealers as to English and U.S. law

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

To the Dealers as to Latvian law

Attorneys at Law BORENIUS
Lacplesa 20a
Riga LV-1011
Republic of Latvia

DEALERS

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Société Générale
29, boulevard Haussmann
75009 Paris
France

SUPPLEMENT DATED 10 JANUARY 2014 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 (the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

Terms defined in the Offering Circular have the same meaning when used in this Supplement. This Supplement is supplemental to, and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular issued by the Issuer.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Purpose of the Supplement

The second paragraph under the heading "Latvia Taxation" of Taxation on page 65 of the Offering Circular shall be deemed deleted in its entirety and replaced with the paragraph below:

"Under existing Latvian laws and regulations, payments of principal and interest on the Notes to an individual who is a resident of Latvia will not be subject to taxation at source in Latvia and no withholding of any Latvian tax will be required on any such payments. In addition, gains from the sale or exchange of the Notes realised by individuals who are residents of Latvia will not be subject to any Latvian income or capital gains tax. For legal entities which are resident in Latvia or maintain a permanent establishment in Latvia payments of principal and interest under the Notes will not be subject to taxation at source in Latvia and no withholding of any Latvian tax will be required on any such payments. In addition, provided that the Notes are listed on an EEA regulated market, any gains realised from the sale or exchange of the Notes as well as payments of principal and interest under the Notes are excluded from the annual taxable income of legal entities which are resident in Latvia or maintain a permanent establishment in Latvia."

General Information

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Offering Circular by this Supplement and (b) any other statement in or incorporated by reference in the Offering Circular, the statements in (a) above will prevail.

SUPPLEMENT DATED 31 MAY 2017 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplement dated 10 January 2014 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

Terms defined in the Offering Circular have the same meaning when used in this Supplement. This Supplement is supplemental to, and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular issued by the Issuer.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to amend the Offering Circular to (a) delete the "*Notice to New Hampshire Residents*" section, (b) reflect the repeal of the EU Savings Directive and (c) update the "*Latvia Taxation*" section.

AMENDMENTS TO THE OFFERING CIRCULAR

The following amendments are made to the Offering Circular:

Notice to New Hampshire Residents

The section entitled "*Notice to New Hampshire Residents*" on page 5 of the Offering Circular is hereby deleted in its entirety.

Risk Factors

The risk factor entitled "*The EU Savings Directive may result in certain holders not receiving the full amount of interest*" on pages 15 to 16 of the Offering Circular is hereby deleted in its entirety.

Terms and Conditions of the Notes

Condition 8(b) on page 51 of the Offering Circular is hereby deleted in its entirety.

Condition 8(c) on page 51 of the Offering Circular is hereby deleted in its entirety and replaced by the following:

> "(c) presented for payment by or on behalf of a holder who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so; or"

Condition 12(c) on page 52 of the Offering Circular is hereby deleted in its entirety.

Taxation

The second paragraph of the section entitled "*Latvia Taxation*" on page 65 of the Offering Circular (as amended by the supplement dated 10 January 2014) is hereby further amended by the addition of the following at the end thereof:

> "On 9 May 2017 the Government approved the Finance Ministry's tax policy principles for 2018-2021 (the **Tax Policy Principles**). Legislation in respect of the Tax Policy Principles and related bills are due to be submitted to the Saeima on or around 20 June 2017 or 21 June 2017. The second reading is then expected to be held on 12 July 2017, at which the Tax Policy Principles could be endorsed by the Saeima and then enter into force on 1 January 2018. The Tax Policy Principles propose a number of tax reforms, including altering the system of corporate taxes in Latvia such that gains realised from the sale or exchange of Notes shall be included in the taxable base of legal entities which are resident in Latvia or maintain a permanent establishment in Latvia; however, the taxation of such gains will only apply upon a distribution of profits (in respect of which a corporate income tax of 20 per cent. will apply)."

The section entitled "*EU Savings Directive*" on page 73 is hereby deleted in its entirety.

General Information

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Offering Circular by this Supplement and (b) any other statement in or incorporated by reference in the Offering Circular, the statements in (a) above will prevail.

INFORMATION STATEMENT

Dated 31 August 2017

REPUBLIC OF LATVIA,
ACTING THROUGH THE TREASURY

The Republic of Latvia, acting through the Treasury (the **Republic** or **Latvia**) intends from time to time to issue notes (the **Notes**) under a global medium term note programme established by it (the **Programme**). The specific aggregate principal amount, maturity, interest rate and dates of payment of interest, issue price, redemption or other special terms, currency, and form and denomination of the Notes being offered at a particular time will be contained or referred to in an offering circular relating to the Programme and a pricing supplement relating to the Notes being issued.

Recipients of this Information Statement should retain it for future reference, since it is intended that each offering circular and pricing supplement prepared in connection with the issuance of any Notes under the Programme will refer to this Information Statement for a description of Latvia, until a new information statement is issued.

This Information Statement will be updated from time to time by Latvia. Statistical data appearing in this Information Statement has, unless otherwise stated, been obtained from the Central Statistical Bureau of Latvia (the **Central Statistical Bureau**), the Ministry of Finance, the Bank of Latvia, the Financial and Capital Market Commission and the Treasury. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Certain statistical information relating to 2016 and any period within 2017 should be treated as preliminary and statistical information for these and prior years may be subject to future adjustment. Unless otherwise stated, all annual information, including budgetary information, is based on calendar years.

Latvia publishes statistical information on a regular basis and such statistical information can be found on the websites of the Central Statistical Bureau (www.csb.gov.lv), the Ministry of Finance (www.fm.gov.lv), the Bank of Latvia (www.bank.lv), the Financial and Capital Market Commission (www.fktk.lv) and the Treasury (www.kase.gov.lv), among other sources. Statistical information in this document is presented up to 31 December 2016 or, where later information is available, up to 30 June 2017. Reflecting the frequency with which certain statistical data is published by the bodies listed above, any person reading this Information Statement is advised to check their websites for any statistical information which may supersede information contained in this Information Statement.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this disclosure document, as well as written and oral statements that Latvia and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may be deemed to be forward-looking statements. Statements that are not historical facts, including, without limitation, statements about Latvia's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. When used in this disclosure document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. Therefore, undue reliance should not be placed on them. Latvia has based these forward-looking statements on its current view with respect to future events and financial results.

Forward-looking statements speak only as of the date on which they are made and Latvia undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties and Latvia cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to:

- plans with respect to the implementation of economic policy, including privatisations, and the pace of economic and legal reforms;
- expectations about the behaviour of the economy if certain economic policies are implemented;
- the outlook for gross domestic product, inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and
- estimates of external debt repayment and debt service.

PRESENTATION OF INFORMATION

In this Information Statement, unless otherwise specified, references to:

- **U.S.$**, **U.S. dollars** and **dollars** are to the lawful currency for the time being of the United States of America; and
- references to **euro** and **€** are to the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended. The euro became the lawful currency of Latvia on 1 January 2014.

Certain figures included in this disclosure document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

GENERAL INFORMATION

Under the Law on Budget and Financial Management adopted on 24 March 1994, the Regulations of the Treasury of the Republic of Latvia No. 677 issued by the Cabinet of Ministers on 3 August 2004 and the Order of Ministry of Finance of the Republic of Latvia No.339 dated 14 August 2017 "On Authorisation to the Treasury and the Signatory Authority", the Treasury, on behalf of the Republic of Latvia, is entitled to borrow money, provided that such borrowing is in line with the central debt management strategy, cash management strategy and funding plan approved by the Minister of Finance. In addition, each State Budget Law sets a total debt ceiling which must not be exceeded at 31 December of the year to which the relevant State Budget Law applies. The 2017 State Budget Law has set a total debt ceiling outstanding of €9.95 billion as at 31 December 2017. Copies (and certified English translations where the documents in question are not in English) of each of the authorisation documents referred to above (except for the 2017 State Budget Law, the cash management strategy and the funding plan) may be obtained during normal business hours at the offices of the Listing Agent in Luxembourg.

Information relating to "The National Budget" is available on the Ministry of Finance of the Republic of Latvia's website at www.fm.gov.lv and on the Treasury of the Republic of Latvia's website at www.kase.gov.lv.

The Republic is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of Notes under the Programme nor, so far as the Republic is aware, is any such litigation or arbitration pending or threatened. There is, however, a matter relating to a €200 million promissory note which was signed on behalf of Lielvarde Region Council by its former mayor in breach of applicable laws relating to borrowings by local authorities in Latvia. As the promissory note was signed in breach of the applicable laws, Lielvarde Region Council and the Republic are of the view that they are not responsible for the promissory note and are taking measures with the aim of ensuring that the promissory note does not create any liabilities or risks in respect of the municipal budget.

CONTENTS

Page

SUMMARY

This Summary does not purport to be complete and must be read as an introduction to this disclosure document.

THE REPUBLIC OF LATVIA

Geography and Population

Latvia is located in the Baltic region of northern Europe and is bordered by Estonia to the north, Russia to the east, Lithuania to the south and Belarus to the south-east. The western border of the country is the Baltic Sea, along which the country has a 498 kilometre (**km**) coastline. Latvia is divided into four historical districts: Kurzeme (western Latvia), Zemgale (southern Latvia), Vidzeme (northern Latvia) and Latgale (eastern Latvia). Latvia covers an area of approximately 64,573 km^2. The capital city is Riga.

As at 1 January 2017, the total population of Latvia was approximately 1,950,116. Since 2000, the total population has decreased by approximately 431,599 persons, or 18.1 per cent. of the population in early 2000, principally as a result of ageing, a low birth rate and emigration. The highest population concentration is in Riga. As at 1 January 2017, 641,423 people resided there, representing 32.9 per cent. of the total population.

Government Structure

In accordance with the constitution of the Republic of Latvia (as amended the **Constitution**), the Saeima is the highest legislative body. The Saeima is a unicameral parliament consisting of 100 members, elected in general, equal, direct, secret and proportional elections for a four-year term. All Latvian citizens who are 18 years of age and over are entitled to vote.

The twelfth Saeima was elected in October 2014. The current ruling coalition comprises three parties: Unity (23 seats) Union Greens and Farmers (21 seats) and National Alliance (17 seats). The coalition holds 61 of the 100 seats of the Saeima. The next Saeima elections are scheduled to take place in October 2018.

The Saeima is entitled to elect, appoint, approve or dismiss a range of state officials and also elects the president of Latvia (the **President**) for a term of four years. The current President is Raimonds Vējonis, who was elected on 3 June 2015 and took office on 8 July 2015. The next Presidential elections are scheduled to take place in June 2019. The current Prime Minister of Latvia is Māris Kučinskis. His appointment was approved by the twelfth Saeima in February 2016.

International Relations

Latvia is a member state of the United Nations (**UN**), the International Monetary Fund (the **IMF**), the World Trade Organisation (the **WTO**), the Council of Baltic Sea States (the **CBSS**), the EU, the North Atlantic Treaty Organisation (**NATO**) and the Council of the Organisation for Economic Cooperation and Development (the **OECD**). Current Latvia-Russia bilateral relations are affected by Russia's ongoing actions in Ukraine and, to a large extent, depend on the status of the broader EU-Russia relations. However, practical cooperation with Russia on issues important to Latvia continues at the governmental expert level and in various sectors, including consultations between the respective Ministries of Foreign Affairs, work on the border demarcation commission, cross-border cooperation and cooperation in the area of transport. Latvia regards the United States of America as its main strategic partner and a dependable ally.

GDP

The global financial crisis that commenced at the end of 2007 significantly adversely affected Latvia's economy in subsequent years, with real GDP falling by 3.6 per cent. in 2008, 14.3 per cent. in 2009 and 3.8 per cent. in 2010.

From 2011 to 2013, Latvia's real GDP grew by an average of 4.4 per cent. annually, which put Latvia among the fastest growing economies in the EU in this period. In 2014, Latvia's real GDP grew by 2.1 per cent., reflecting slower growth in the EU and a weakening economic situation in Russia. In 2015 and 2016, despite the tense geopolitical situation in the region, Latvia's real GDP grew by 2.7 per cent. and 2.0 per cent., respectively.

Inflation

Inflation (measured in terms of changes in the harmonised consumer price index (the **HICP**)) was very low between 2013 and 2016, with the annual inflation rate being 0.0 per cent., 0.6 per cent., 0.2 per cent. and 0.1 per cent. in 2013, 2014, 2015 and 2016, respectively. These low levels of inflation generally reflected declining global food and energy prices and weaker global demand and growth in the Eurozone. However, inflation has increased gradually as from the end of 2016, reflecting a rise in global oil and food prices. Accordingly, for the 12-month period ended 30 June 2017, the annual inflation rate was 1.9 per cent.

The annual growth rate of core HICP inflation (which excludes energy and food) was 0.3 per cent. and minus 0.1 per cent. in 2012 and 2013, respectively, but has remained broadly stable since 2014 with annual growth rates of 1.7 per cent., 1.5 per cent. and 1.2 per cent. in 2014, 2015 and 2016, respectively, and 1.7 per cent. for the 12 month period ended 30 June 2017.

Financial Assistance

Deteriorating economic conditions in Latvia in 2008 and a banking crisis at the end of that year significantly adversely affected State budget revenues and, as a result, Latvia sought financial assistance from the IMF and other international bodies towards the end of 2008.

The IMF Stand By Arrangement which Latvia entered into in December 2008 was part of the wider financial assistance package agreed with the EU, the International Bank for Reconstruction and Development (the **World Bank**), the European Bank for Reconstruction and Development (the **EBRD**) and a number of Nordic and other EU countries, bringing the total financial assistance package to approximately €7.5 billion. By the end of 2011, only €4.5 billion of this financial assistance had been disbursed to Latvia and the financial assistance package has now lapsed. By 31 December 2016, Latvia had repaid €3.54 billion, or 79 per cent., of the amount borrowed.

A significant contributor to Latvia's emergence from recession has been the economic reforms implemented, including those required under the conditions of the financial assistance package. The principal aims of this economic reform programme were to arrest the immediate liquidity crisis and then to restructure Latvia's economy and improve its competitiveness to reach sustainable GDP growth and a balanced budget as soon as practicable, while maintaining the exchange rate peg which was a key policy of both the Government and the Bank of Latvia in the period prior to the adoption of the euro.

RISK FACTORS RELATING TO LATVIA

Latvia's economy and its banking sector may be adversely affected by a range of factors, including major regional or global economic downturns and difficulties experienced by its major regional trading partners

Latvia's economy may be adversely affected by a range of factors, including major regional or global economic downturns and difficulties experienced by its major regional trading partners. For example, Latvia's GDP declined by 14.3 per cent. in real terms in 2009 compared to 2008 and its registered unemployment rate increased from 7.0 per cent. as at 31 December 2008 to 16.0 per cent as at 31 December 2009, in each case principally as a result of the global financial crisis which began in the second half of 2008.

In addition, the recession in Latvia adversely affected the financial position of both corporate and retail borrowers resulting in a deterioration of loan quality and an increase in the provisions made by Latvian banks, with the share of non-performing loans (loans with payments overdue more than 90 days) (**NPLs**) in the total Latvian bank loan portfolio reaching 19.4 per cent as at 31 July 2010, compared to 3.6 per cent. as at 31 December 2008 before the crisis commenced.

Latvia, as a small open economy, is dependent on a number of major trading partners. For example, Latvia's economic recovery from 2010 to 2016 was driven in significant part by export growth as a result of increased competitiveness stemming from wage restraint and deflation in Latvia in the 2009 – 2010 period. Latvia's improvement in cost competitiveness has slowed since mid-2010. Sustained wage growth in excess of productivity and any significant increase in domestic-driven inflation in the future are likely to erode Latvia's cost competitiveness.

At various times since the second half of 2011, the situation in the international financial markets deteriorated significantly, resulting in several EU sovereign rating downgrades and leading to concerns regarding the stability of the Eurozone. This resulted in higher rates for sovereign debt, leading to the undermining of national economies. The risk of a further credit crisis and a squeeze on liquidity increased significantly at those times.

Latvia is vulnerable to external shocks such as the global financial crisis, the European sovereign debt crisis and shocks caused by the reversal of monetary policy in developed market economies and can be impacted by possible contagion effects, where a region or a country is adversely affected by adverse developments in neighbouring countries or in countries perceived to have related or similar economic characteristics. Although Latvia's economy has improved since the global financial crisis and it has a prudent fiscal policy, any recurrence of the European sovereign debt crisis or contagion-related issues could have an adverse effect on Latvia's economy.

Factors that could have a negative effect on Latvia's economy include:

- a weakening of economic conditions in the EU, reflecting the fact that many EU Member States are major trading partners of Latvia. In 2016, EU Member States accounted for 74.0 per cent. of Latvia's exports and 79.8 per cent. of its imports; and

- a worsening of the current situation in Ukraine or other similar disruption in the region, whether caused by actions of Russia or other factors. Russia together with other Commonwealth of Independent States (**CIS**) countries are significant trading partners of Latvia, accounting for 11.5 per cent. of its exports and 10.4 per cent. of its imports in 2016.

Current risks faced by Latvia's banking sector include:

- risk posed by a deterioration of foreign macro-financial conditions (especially in light of current geopolitical tensions in the region) and protracted overall uncertainty, which may have an adverse impact on asset quality and profitability within the banking sector;

- a significant amount of the total banking sector assets are held by foreign banks, mostly of Nordic origin. Accordingly, a significant downturn in the Nordic real estate market and the impact that this would have on the Nordic economies may increase the cost of the parent banks' wholesale funding and, consequently, have an adverse impact on the economic growth and lending volumes in Latvia; and

- a large number of domestic (mostly small sized) banks in Latvia are reliant on non-resident deposits for a significant part of their funding, which presents a risk to these banks as non-resident deposits are generally subject to a higher degree of volatility.

There can be no assurance that any material adverse developments in any of the current risks described above or any other events not currently anticipated will not negatively affect investor confidence in Latvia, Latvia's economy, its banking sector or its ability to raise capital in the external debt markets in the future. Should any of these effects occur, this could adversely affect Latvia's ability to service its public debt, including the Notes.

Any deterioration in Latvia's relations with its major energy suppliers may adversely affect the supply of energy resources and therefore have a negative effect on the Latvian economy

In 2015, Latvia was 48.9 per cent. self-sufficient in the total consumption of primary energy resources. As a result, Latvia imports a large percentage of its energy requirements, including all of its natural gas requirements, from Russia. Any significant increases in the prices of its major energy imports or adverse changes in relations with its major energy suppliers could have an adverse effect on certain sectors of Latvia's economy.

Latvia has significant central Government debt repayment obligations and any inability to obtain funding to meet those obligations could adversely affect Latvia in a number of ways

Latvia has significant central Government debt repayment obligations in future years, see "*Indebtedness*". Latvia expects to finance those repayments by borrowings in the international capital markets and elsewhere. In recent years, funding conditions in the international capital markets have been volatile. Should these conditions continue to be volatile or worsen, Latvia may not be able to access the international capital markets at the times when it requires funding or may only be able to do so at a higher cost than it would otherwise be required to pay. In extreme cases, the need to make principal payments when other funding is not readily available could result in Latvia needing to negotiate with its creditors or seeking to obtain international financial assistance.

Official economic data may not be directly comparable with data produced by other sources

Although a range of Government ministries, including the Ministry of Finance, along with the Bank of Latvia and the Central Statistical Bureau, produce statistics on Latvia and its economy, there can be no assurance that these statistics are comparable with those compiled by other bodies, or in other countries, which use different methodologies. Prospective investors in the Notes should be aware that figures relating to Latvia's GDP and many other aggregate figures cited in this Information Statement may differ from figures prepared by international bodies, such as the EU or the IMF, which may use different methodologies. In addition, the existence of an unofficial or unobserved economy may affect the accuracy and reliability of statistical information. Prospective investors should be aware that none of the statistical information in this Information Statement has been independently verified.

DESCRIPTION OF THE REPUBLIC OF LATVIA

Geography and Population

Latvia is located in the Baltic region of northern Europe and is bordered by Estonia to the north, Russia to the east, Lithuania to the south and Belarus to the south-east. The western border of the country is the Baltic Sea, along which the country has a 498 km coastline. Latvia is divided into four historical districts: Kurzeme (western Latvia), Zemgale (southern Latvia), Vidzeme (northern Latvia) and Latgale (eastern Latvia). Latvia covers an area of approximately 64,573 km^2. The capital city is Riga.

The country is low lying and generally flat, rising steadily from west to east, reaching its highest point of 312 metres above sea level at Gaizina Kalns. Latvia shares its longest border with Lithuania (588 km), followed by Estonia (343 km), Russia (276 km) and Belarus (161 km).

As at 1 January 2017, the total population of Latvia was approximately 1,950,116. Since 2000, the total population has decreased by approximately 431,599 persons, or 18.1 per cent. of the population in early 2000, principally as a result of ageing, a low birth rate and emigration.

The urban/rural ratio of the total population has remained constant since 2000 with 68 per cent. of the total population living in urban areas as at 1 January 2017 and 32 per cent. in rural areas. The population density is 30 persons per square kilometre as of 1 January 2017.

The highest population concentration is in Riga. As at 1 January 2017, 32.9 per cent. of the total population, 641,423 people, resided in Riga. Since 2000, the population in Riga has decreased by 122,906 or 16.1 per cent.

As at 1 January 2017, 62.0 per cent. of the population was Latvian and 25.4 per cent. was Russian, with a range of other ethnic groups making up the balance.

The average life expectancy weighted for gender balance of those born in 2016 is 74.8 years (69.8 years for males and 79.4 years for females).

Historical Background

Latvia's origins lie in the 12th century with the arrival of western Europeans, mainly German crusaders spreading the Catholic faith, although records of inhabitants date back to the ancestors of Baltic Finns in around 3000 BC and the formation of the Baltic and Finno-Ugrian tribes in 2000 BC.

The crusaders established the State of Livonia as a political union of territories belonging to the Livonian Order of Knights and to the Catholic church by the 1270s. Riga was founded in 1201. In 1285, Riga was admitted into the Hanseatic League of northern Germany, thereby assuming a central mediating role in east-west trade.

The territory of Latvia, through its access to the Baltic Sea trade routes, is strategically positioned. As a result, throughout the middle ages, Latvia (or parts of it) was controlled by other states, including Denmark, Poland-Lithuania, Sweden and Russia. From the middle of the 16th century until the end of the 18th century, part of Latvia was known as the Duchy of Courland, a semi-independent state paying tribute to Poland.

In 1721, Russia took control of the Latvian territories following its victory over Sweden in the Great Northern War. In the 1860s, the Young Latvian Movement was formed in order to promote the indigenous language and oppose Russification policies and to publicise and counteract the socio-economic oppression of Latvians. In 1903, the Latvian Social Democratic Union was formed, which continued to champion national interests and Latvia’s national self-determination, particularly during the failed 1905 revolution in Russia.

Latvia’s independence from Russia was declared on 18 November 1918 following the end of the First World War. In 1922, the Constitutional Assembly (*Satversmes Sapulce*, a special meeting convened to approve a constitution) adopted the constitution (*Satversme*) of the Republic of Latvia which proclaimed the country to be a democratic republic. In May 1934, the Parliament was dismissed and the activities of the political parties were suspended following a coup d’etat engineered by the then Prime Minister. With the outbreak of the Second World War, Latvia was annexed by the Soviet Union in 1940 and was invaded and occupied by Germany between 1941 and 1944. The Soviet Union reacquired control of Latvia in 1944 although its annexation of Latvia in 1940 was never recognised by most western democracies, including the United States.

After rapid political change in Eastern Europe and the Soviet Union in the late 1980s, the Supreme Council of Latvia re-established legal independence with the Declaration of the Renewal of the Independence of the Republic of Latvia on 4 May 1990. On 6 September 1991, the independence of the Baltic Republics (including Latvia) was recognised by the Soviet Union.

In September 1991, following the collapse of the Soviet Union, Latvia was admitted to the UN. On 29 March 2004, Latvia joined NATO and, on 1 May 2004, it became a Member State of the EU.

In 2007, a border treaty between Latvia and Russia was signed and has subsequently been fully ratified by both states.

Political System and Developments

In accordance with the Constitution, the Saeima is the highest legislative body. The Saeima is a unicameral parliament consisting of 100 members, elected in general, equal, direct, secret and proportional elections for a four-year term. All Latvian citizens who are 18 years of age and over are entitled to vote.

The main function of the Saeima is to pass legislation. In addition, the Saeima approves the national budget, determines the size of the armed forces and oversees the work of the Government. International agreements, which include matters that are decided by a legislative process, require ratification by the Saeima.

The Saeima has the power to amend the Constitution. This requires the approval of two-thirds of the members present at three separate readings, provided that at least two-thirds of all members of the Saeima are in attendance at each reading.

The Saeima is entitled to elect, appoint, approve or dismiss a range of state officials and also elects the head of state, the President, for a term of four years. According to the Constitution, any person who enjoys full rights of citizenship and who has attained the age of 40 years may be elected President. A person with dual citizenship is not eligible. The same person may not hold office as President for more than eight consecutive years or two consecutive terms.

One of the President's main functions is to represent Latvia internationally. In addition, the President nominates the Prime Minister and, if necessary, may initiate a referendum to approve the dissolution of the Saeima.

The Cabinet of Ministers, which consists of 13 ministers appointed by the Prime Minister, is the highest executive power in Latvia. The Prime Minister determines the general direction of the Government's activities and ensures that the Cabinet of Ministers works in a coordinated and purposeful manner. The Prime Minister is responsible for the work of the Cabinet of Ministers and is answerable to the Saeima. The Prime Minister or his nominee chairs Cabinet meetings and meetings of Cabinet committees.

Government and Politics

On 3 June 2015, the Saeima elected Raimonds Vējonis as the fifth President of Latvia since 1993. The next Presidential elections are scheduled to take place in June 2019.

The elections for the twelfth Saeima were held in October 2014 with a turnout of 906,538 valid votes (representing 58.85 per cent. of eligible voters). The following table shows the name of each political party or alliance, and the number of seats currently held by them, in the twelfth Saeima:

Name of party or party alliance	**Number of seats in twelfth Saeima**
Concord	23
Unity	23
Union Greens and Farmers	21
National Alliance of All for Latvia and Union For Fatherland and Freedom/LNNK	16
Latvian Regional Alliance	7
For Latvia from the Heart	7
Unaffiliated members of parliament(1)	3
Total	**100**

Source: The Saeima

Note:

(1) Of the three unaffiliated members of parliament, two were elected as members of the Latvian Regional Alliance and the National Alliance of All for Latvia and Union For Fatherland and Freedom/LNKK, respectively, but subsequently left those parties. The third unaffiliated member of parliament replaced a member of Concord.

The current Prime Minister of Latvia is Māris Kučinskis. His appointment was approved by the twelfth Saeima in February 2016 following the resignation of the previous prime minister. The current ruling coalition comprises three parties: Unity (23 seats), Union Greens and Farmers (21 seats) and National Alliance (16 seats). The coalition holds 60 of the 100 seats of the Saeima.

Each Saeima elects a Presidium which supervises the work of that Saeima. The Presidium consists of five members of parliament: the Speaker, two Deputy Speakers, the Secretary and the Deputy Secretary. Six parliamentary groups have been established in the twelfth Saeima and there are 16 standing committees and 14 sub-committees. In addition, groups of members of parliament and permanent delegations to international organisations have been established to promote cooperation with the governments of other countries.

Pursuant to the Constitution, the next Saeima elections are scheduled to take place in October 2018.

Local Authorities

Latvia's administrative system comprises 119 administrative divisions (these include 110 local authorities and 9 republican cities, which are also considered to be local authorities) which differ greatly in terms of area, population, settlement structure, economic characteristics and level of development.

Local authorities benefit from significant autonomy from the central Government, as guaranteed by the Law on Local Governments. They operate independently within the framework of their competencies and legislation, and have their own property, separate from the property of the State.

All local authorities have equal competencies, except for Riga, which has wider competencies and special functions, reflecting its status as the capital city. Riga is the largest municipality and has 60 deputies on its city council. Local authorities are elected for a term of four years by direct universal suffrage, under proportional representation on the basis of a list system. The most recent local elections took place in June 2017.

Out of the 1,443,796 citizens who were entitled to vote, 727,467 (50.39 per cent.) exercised their right and took part in local elections.

Local authorities in Latvia are responsible for a wide range of functions, including organising utility services, providing some education facilities, making available health care, social assistance and social care for residents and maintaining cultural activities. See "*Indebtedness—Local Government Debt*" for a discussion on local government funding.

The Judicial System

Latvia's three tier judicial system is independent from the executive and legislative branches of Government. The first level of the judicial system comprises 27 district (city) courts, including the administrative district court, as the courts of first instance for civil, criminal and administrative cases. The second level comprises six regional courts, including the administrative regional court, acting as courts of appeal. The third level comprises the Supreme Court. The administrative courts consider cases relating to the exercise of executive power by state, municipal and other public institutions which relate to the rule of law and public law issues.

The highest court in Latvia is the Supreme Court. The Supreme Court is comprised of the Departments of Administrative, Civil and Criminal Cases, which have authority to accept cassation appeals in all types of cases (civil, criminal and administrative) and are the final and supreme judicial body in Latvia.

Latvia's judicial system has been reorganised with the aim of establishing a system of "clear court instances", consisting of a clear three tier court system. Under this system, the district (city) courts hear all cases as the court of first instance, the regional courts review cases as an appellate court and the Supreme Court acts as a court of cassation. As part of the reorganisation, the Chamber of Criminal Cases of the Supreme Court was abolished on 31 December 2014 and the Chamber of Civil Cases of the Supreme Court was abolished on 31 December 2016.

In addition, in order to optimise the efficiency of the courts and balance workload, the concept of "court houses" is being implemented gradually and is generally planned to be completed in 2018. This concept involves the consolidation of the district (city) courts located within the catchment area of a regional court into a smaller number of courts (with former courts being transformed into "court houses"). As a result, there will be fewer district (city) courts within the catchment area of a regional court. This is aimed at facilitating access to justice and ensuring the effectiveness, efficiency and quality of judicial services in Latvia.

Finally, the Constitutional Court of Latvia consists of seven judges who are each elected by the Saeima for a 10-year term. This court is authorised to hear cases involving legislative acts and international agreements, including cases relating to the compliance of such acts and agreements with law and the Constitution. The Constitutional Court hears cases following the filing of a petition by an eligible party in accordance with the law. Members of the Constitutional Court elect a president for a three-year term who presides over the Court's sessions, organises the work of the Court and represents the Court.

Prevention and Combating of Corruption

Latvia has made significant efforts to establish and enforce an overarching anti-corruption policy. In 2002, the Corruption Prevention and Combating Bureau (the **Bureau**) was established as an independent institution for the prevention and combating of corruption and to monitor the financing of political parties. The Bureau carries out its work in close cooperation with other public institutions such as State Revenue Service, State Police, Security Police and Prosecutor's General Office. The Bureau plays a central role in the fight against corruption in Latvia and has the following functions:

- developing and implementing Latvia's mid-term anti-corruption policy;
- monitoring compliance of public officials with anti-corruption legislation;
- controlling political party financing and pre-election campaign financing; and
- investigating corruption-related offences in the public sector, such as bribery, the trading of influence and exceeding public authority in bad faith.

The Bureau reports on a regular basis to the Cabinet of Ministers and the Saeima.

Combating Terrorism

In April 2003, a Government action plan for combating terrorism was introduced. The plan aims to improve cooperation between state institutions when seeking to prevent or combat terrorism. In particular, the plan aims to prevent terrorists from using the territory of Latvia or its banking system to achieve their goals. All of the measures identified in the plan have been implemented and completed.

In particular, a counter-terrorism centre has been established which started operations in February 2005. The centre seeks to co-ordinate the actions of institutions fighting terrorism, seeking to ensure the timely exchange of information and the compilation and analysis of information on counter-terrorist activities. In order to improve the efficiency of the national counter-terrorism system, the Ministry of the Interior and the counter-terrorism centre have prepared a conceptual rating scale of levels of terrorism threat.

Latvia supports the efforts of international organisations, including the UN, NATO, the EU, the OSCE and the Council of Europe, to combat global terrorism. Latvia has ratified and introduced all 13 UN Conventions and Protocols which form the basis of international legislation on issues of counter-terrorism.

Latvia has also signed the Additional Protocol to the Council of Europe Convention on the Prevention of Terrorism (the **Riga Protocol**), which is the first regional instrument implementing certain aspects of the UN Security Council Resolution 2178 (2014) on foreign terrorist fighters. It not only criminalises actions in the early stages of preparations for acts of terror for the first time in international law, but also enables European states to co-operate more swiftly and effectively by creating a new 24/7 contact point network.

Within the EU, Latvia has become involved in a range of practical counter-terrorism initiatives which provide for an increased level of cooperation between investigatory and security services, as well as in judicial matters. In accordance with the EU Declaration on Combating Terrorism (adopted 25 March 2004) and the EU Plan of Action on Combating Terrorism (2004), Latvia has introduced a number of provisions in its legislation aimed at promoting practical cooperation among EU Member States in combating terrorism and is participating in the preparation of other EU regulations relating to the exchange of information, witness protection and funding for the fight against terrorism.

In response to terrorist attacks within the European Union and in areas popular among European tourists in 2015, the European Union adopted a set of internal and external measures to counter the threat originating from international terrorism. A crucial element in the EU counter-terrorism efforts is closer engagement with third countries (Middle East and Northern Africa, Western Balkans and others) on security issues and counter-terrorism.

In recognition of the increasing threat posed by terrorism, Latvia joined the Global Coalition to Counter Daesh upon its founding in 2014, and supports international efforts to counter Daesh propaganda, impede the open flow of foreign terrorist fighters, disrupt terrorism financing networks and stabilise liberated areas. Since 2016 Latvia has committed to provide military training to Iraqi security forces and financial support in order to assist with stabilisation efforts in Syria.

International Relations

Supranational Organisations

Participation in global and regional organisations, especially membership of the EU, NATO, the IMF, the OECD and other organisations (such as the Council of Europe and the OSCE) is of essential importance for Latvia. Such participation enables Latvia to meet new challenges and to contribute to the resolution of specific problems, while also representing the country's national interests in global politics.

Latvia became a member state of the UN in 1991, thus creating a global dimension for Latvian foreign policy. By acceding to international declarations such as the Millennium Development Declaration and the UN Cairo Declaration, Latvia has demonstrated its readiness to become involved in the resolution of global problems.

Membership of the WTO, which was achieved in 1999, has contributed to the development of Latvia's economy. On 1 July 2016, Latvia acceded to the OECD and became the 35th member state of the OECD. Membership of the OECD had been high on the Government's agenda since 1996 and will contribute further to Latvia's economic and social development.

Latvia joined NATO and the EU in 2004. In the face of a tense geopolitical situation following ongoing Russian actions in Ukraine, NATO agreed a set of measures to strengthen collective defence. This included enhancing the Baltic air policing operation, ensuring a persistent allied presence on a rotational basis in respect of joint exercises in the Baltic territory, establishing the Very High Readiness Joint Task Force (VJTF) and the opening of NATO Force Integration Units (NFIUs) in a number of Eastern NATO members, including Latvia. These decisions demonstrate NATO's resolve to respond to the changed security environment on NATO's borders.

Latvia continues to advocate the full implementation of the comprehensive package of measures designed to respond to the changed security environment on NATO's borders resulting from the NATO Wales Summit in September 2014.

Latvia's membership in international organisations and participation in missions demonstrates solidarity with its allies, while allowing Latvia to exert influence and an opportunity to take part in crisis resolutions abroad. In 2015, Latvia took part in missions and operations of the OSCE, the EU and NATO.

Latvia is contributing to the NATO-led Resolute Support Mission in Afghanistan (which replaced the International Security Assistance Force (ISAF) operation in January 2015), the EU maritime operation offshore Somalia (EU NAVFOR ATALANTA), the EU Training Mission in Mali (EUTM Mali) and the EU operation in the Mediterranean (EUNAVFOR Med Sophia). Latvia also participates in the EU Advisory Mission for Civilian Sector Reform in Ukraine (EUAM Ukraine), the EU Monitoring Mission in Georgia (EUMM Georgia) and the OSCE's special monitoring mission in Ukraine.

In 2015, Latvia was elected to the Board of Governors of the International Atomic Energy Agency (IAEA) for a term of two years, and a Latvian Ambassador is Vice-Chair of the Board of Governors.

Ensuring and developing relations with EU Member States and institutions plays a major role in Latvia's foreign policy; see "—*EU Membership*".

Latvia has been a member of the Schengen Area since 21 December 2007. This allows the free movement of people and goods within the Schengen Area, comprising 26 European countries, without any passport controls or customs formalities.

Regional and Bilateral Relationships

The Baltic region

Latvia seeks good relations with its neighbouring countries, both at a bilateral level and through membership of regional organisations such as the Council of the Baltic Sea States (the **CBSS**), which is the most comprehensive organisation for regional cooperation around the Baltic Sea. It includes three Baltic States, five Nordic countries (Denmark, Finland Iceland, Norway and Sweden), Germany, Poland, Russia and a representative from the EC. Latvia highly values the work of the Task Force against Trafficking in Human Beings and the other activities of the CBSS promoting sustainable growth, security and prosperity in the Baltic Sea region. The Presidency of the CBSS will be held by Latvia from July 2018 to June 2019.

The institutional frameworks that have been established by Latvia, Lithuania and Estonia (such as the Baltic Assembly and the Baltic Council of Ministers (the **BCM**)) promote practical cooperation between the parliaments and the governments of the three Baltic countries.

Latvia is a part of the Nordic-Baltic Eight (the **NB8**), a regional cooperation format comprising Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. The role of coordinator of the NB8 alternates on an annual basis, and Latvia last acted as coordinator in 2016. The NB8 has continuously strengthened and advanced since the early 1990s and marked its 25th anniversary in 2016. There are more than 50 political and expert consultations held at various levels among the NB8 annually. A NB8 Wise Men report, released in 2010, identified the advantages of regional unity and suggested a range of actions to be taken in order to enhance Nordic-Baltic cooperation.

The European Union Strategy for the Baltic Sea Region (the **EUSBSR**), adopted in 2009, is the first EU macro-regional strategy uniting the eight EU Member States around the Baltic Sea: Estonia, Denmark, Finland, Germany, Latvia, Lithuania, Poland and Sweden. The EUSBSR has three main objectives: "Save the Sea", "Connect the Region" and "Increase Prosperity", and provides an integrated framework for addressing many important regional issues through constructive cooperation as well as promoting more balanced development in the region. Each objective relates to a wide range of policies such as bio economy, education, energy, health, innovation, shipping, tourism and other areas. Latvia, together with Lithuania, is coordinating the EUSBSR policy area "Energy" which is interlinked with the Baltic Energy Market Interconnection Plan (the **BEMIP**). Both the EUSBSR and the BEMIP are aimed at facilitating competitive, secure and sustainable energy in the Baltic Sea region. See "*Economy of Latvia—Energy*".

Russia

Current Latvia–Russia bilateral relations are affected by Russia's ongoing actions in Ukraine and, to a large extent, depend on the status of the broader EU-Russia relations. However, practical cooperation on issues important to Latvia continues at the governmental expert level and in various sectors, including consultations between the respective Ministries of Foreign Affairs, work on the border demarcation commission, cross-border cooperation and cooperation in the area of transport.

The sanctions imposed by the EU on Russia and Russia's countermeasures have had a number of effects on Latvia's economy. Russia's response to the EU sanctions has had a negative impact on Latvia's economy, though more serious damage is thought to have been sustained in respect of the Latvian economy due to Russia's own economic recession. However, Latvia's manufacturers have been able to diversify their export markets and despite the problems in the Russian market, Latvia's total exports continued to increase in 2015 and 2016.

United States of America

Latvia regards the United States of America as its main strategic partner and a dependable ally. Latvia maintains an ongoing dialogue with the United States on both traditional and new security challenges, including in areas such as hybrid threats, cybersecurity, international terrorism and organised crime. Latvia strongly supports the Transatlantic Trade and Investment Partnership which is being negotiated between the EU and the United States.

EU membership

As a Member State of the EU since 2004, Latvia actively participates in the EU decision making process at European Council meetings and at the meetings of the Council of the European Union. Latvia is also represented in the European Parliament, the Committee of Regions and the European Economic and Social Committee. In the first half of 2015, Latvia held the Presidency of the Council of the European Union.

Latvia has eight parliamentary seats in the European Parliament out of a total of 751. The Group of the European People's Party (Christian Democrats) holds four Latvian seats in the European Parliament. The Group of the Progressive Alliance of Socialists and Democrats in the European Parliament, the Group of the Greens/ European Free Alliance; the Group of European Conservatives and Reformists, and the Group of the Alliance of Liberals and Democrats for Europe each hold one Latvian seat in the European Parliament.

Membership of the European Economic and Monetary Union and the adoption of the single currency were both required by the terms of Latvia's accession to the EU and were set as objectives by the Latvian Government. On 1 January 2014, the Bank of Latvia became a part of the Eurosystem and the euro became the lawful currency of Latvia.

As a Member State, Latvia is subject to multilateral surveillance by the Council of the European Union. Latvia is obliged to prepare an annual Stability Programme covering fiscal policy, Latvia's main assumptions underlying its economic outlook and an assessment of economic policy measures and their budgetary impact. This information must cover the current and previous year and include forecasts for at least the next three years. On 31 May 2012, the Saeima ratified the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union that requires 25 of the 28 EU countries (the UK, the Czech Republic and Croatia did not join this treaty) to maintain a balanced budget.

Latvia's membership of the EU has resulted in a major inflow of EU funds relating to support for investments. The total amount of EU Cohesion Fund financing relating to cohesion and structural funds allocated to Latvia for the period between 2007 and 2013 equalled €4.5 billion.

For the period between 2014 and 2020, the EU Commission approved the allocation of €4.4 billion in cohesion funds to Latvia. These are to be applied in 10 priority areas as shown in the table below:

Area	**Funds**
	(*€ million*)
Research, technological development and innovation	468
ICT and e-governance	173
Competitiveness of small and medium-sized enterprises	314
Energy efficiency	481
Environment and resource efficiency	623
Sustainable transport systems	1,160
Employment and labour mobility	170
Education skills and lifelong learning	510
Social inclusion	419
Technical assistance	101
Total	**4,418**

Source: Ministry of Finance

By the end of 2016, national normative acts for investments (being Cabinet Regulations relating to the implementation of EU funds) had been adopted in respect of €3.7 billion (84.7 per cent.) of the total cohesion funds allocated to Latvia. By the end of 2017 it is intended that national normative investments will have been adopted in respect of 98 per cent. of the total cohesion funds and that the majority of the specific objectives (including enterprise support measures and measures aimed at improving public infrastructure) will have been identified. By 31 December 2016, project contracts amounting to a total of €1.4 billion (31.1 per cent) of the cohesion funds allocated to Latvia had already been signed, and this figure is expected to rise to €3 billion (68.2 per cent.) by the end of 2017.

The table below sets out the use of EU funds (and other foreign financial assistance) by Latvia for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016 (not including state co-financing).

	2012	**2013**	**2014**	**2015**	**2016**
			(*€ million*)		
Current expenditure	729	695	852	771	695
Capital expenditure	320	348	326	327	145
Funds received but not yet spent	142	10	(135)	(111)	(124)
Total	**1,191**	**1,053**	**1,043**	**987**	**716**

Source: The Treasury
Note:
(1) Calculated based on statistical assumptions used in EDP (Excessive Deficit Procedure) tables prepared for Eurostat.

The table below summarises Latvia's own resource payments to the EU budget for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	2012	**2013**	**2014**	**2015**	**2016**
			(*€ millions*)		
GNI-based own resource(1)	161.8	204.6	211.3	166.4	167.4
VAT-based own resource(2)	21.9	26.4	30.7	30.4	28.3
UK correction and lump sum reductions(3)	12.1	15.5	16.5	18.3	24.1
Traditional own resources(4)	24.2	20.7	25.9	29.7	38.1
Agricultural duties	–	–	–	–	–
Customs duties	*24.2*	*20.7*	*25.9*	*29.7*	*38.1*
Sugar levies	–	–	–	–	–
Total	**220.1**	**267.3**	**284.4**	**244.8**	**258.0**

Source: Ministry of Finance
Notes:
(1) Charged on each Member State's gross national income (**GNI**) at a uniform rate determined pursuant to the budgetary procedure.
(2) Charged at 0.3 per cent. of Latvia's harmonised value added tax (**VAT**) base, which is harmonised for own resource purposes to reflect VAT rate differences between Member States.
(3) Payments for the financing of correction mechanisms in favour of the United Kingdom and other Member States, who benefit from gross reductions in their annual GNI-based own resource payments.
(4) Traditional own resources equals the sum of agricultural duties, customs duties and sugar levies. Customs duties are levied on imports from non-EU countries

ECONOMY OF LATVIA

Background

Since 1990, when Latvia regained independence, a consistent economic policy has laid the foundations, and established good macroeconomic preconditions, for a market economy and future economic growth.

From mid-1999, the Latvian economy began to recover from the Russian crisis of the previous year. Despite the global economic slowdown starting in 2000, the Latvian economy continued to grow steadily. Its programme of reforms and integration into the EU had a positive impact on the country's economic development, with Latvia achieving at the time the highest economic growth rates in the EU. From 2000 to 2007, real GDP increased annually by an average of approximately 8.5 per cent. per year, although growth accelerated towards the end of the period. These high levels of growth were primarily achieved through stable domestic demand based on growth in incomes, financial stability, an expansion of credit opportunities, accession to the EU and an overall positive outlook within the country.

The global financial crisis that commenced at the end of 2007 significantly adversely affected Latvia's economy in subsequent years, with real GDP falling by 3.6 per cent. in 2008, 14.3 per cent. in 2009 and 3.8 per cent. in 2010.

From 2011 to 2013 the Latvian economy grew by an average of 4.4 per cent. annually, which put Latvia among the fastest growing economies in the EU in this period. In 2014 the economic growth rate slowed to 2.1 per cent., driven by slower growth in the EU and a weakening economic situation in Russia. In 2015 and 2016, despite the tense geopolitical situation in the region, Latvia's real GDP grew by 2.7 per cent. and 2.0 per cent., respectively.

The general economic sentiment index in Latvia stood at 105.4 at 31 March 2017. Confidence indicators in the industry, retail trade, services, construction and consumer sectors have all demonstrated improved confidence since early- to mid-2009.

The table below shows the growth trend in selected economic indicators as at the end of each quarter in the years ended 31 December 2012, 2013, 2014, 2015 and 2016, in each case compared to the preceding period.

	2012				2013			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
	(*per cent.*)							
Household consumption	2.1	4.5	3.2	2.7	5.4	7.6	6.7	0.6
Retail trade turnover	9.0	6.4	7.7	6.4	4.6	4.3	2.5	4.6
First registered passenger cars	41.0	21.8	8.8	1.5	6.7	12.6	15.4	9.5

	2014				2015			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
	(*per cent.*)							
Household consumption	1.8	1.2	1.2	0.8	3.9	3.1	5.1	1.8
Retail trade turnover	2.2	4.6	3.5	3.9	7.6	5.7	5.0	2.3
First registered passenger cars	17.2	10.4	12.2	13.1	8.4	2.8	(2.1)	(2.9)

	2016			
	Q1	Q2	Q3	Q4
	(*per cent.*)			
Household consumption	3.0	4.2	3.2	3.2
Retail trade turnover	2.4	2.6	1.6	2.5
First registered passenger cars	(3.7)	0.6	(4.5)	(12.3)

Source: Central Statistical Bureau
Note:
(1) Growth measured against the equivalent period of the preceding year.

Since 2012, the labour market situation has been gradually improving and stabilising. In the period from 2012 to 2016, the number of employed persons (aged 15 to 64) has increased by 1.2 per cent. from 851,800 in 2012 to 862,300 in 2016. The employment rate (for persons aged 15 to 64) for the same period increased by 9.0 per cent., reaching 68.7 per cent. in 2016. The number of unemployed persons (aged 15 to 64) during this period decreased by 8.6 per cent. from 154,400 in 2012 to 94,800 in 2016 with the unemployment level (for persons aged 15 to 64) decreasing to 9.9 per cent. in 2016 (5.4 percentage points lower compared to 2012).

The global financial crisis did, however, positively affect Latvia's foreign trade balance and its current account balance of payments, with the trade deficit falling from 17.2 per cent. of GDP in 2008 to 8.6 per cent. of GDP in 2010 before increasing in 2011 to 12.4 per cent. of GDP. In 2012, 2013 and in 2014, Latvia's foreign trade deficit was 12.0 per cent. of GDP, 11.5 per cent. of GDP and 9.3 per cent. of GDP, respectively. In 2015 and 2016 imports grew at a slower pace than exports and the foreign trade deficit reached 8.4 and 7.0 per cent. of GDP, respectively. Latvia's current account balance of payments was additionally significantly positively affected by a slowdown in the inflow of foreign direct investment (**FDI**) from the second half of 2007 due to the global financial crisis. In 2011, 2012 and 2013, the current account balance was negative reflecting both the increased trade deficit and increasing profitability in foreign-owned enterprises (including, in particular, banks) which increases the deficit on the income account through dividend payments and retained earnings. In 2014, the current account balance was a deficit equal to 2.0 per cent. of GDP and, in 2015, the current account deficit decreased to 0.8 per cent. of GDP. In 2016, there was a current account surplus of 1.5 per cent. of GDP. The three-year average level of the current account in 2016 was -0.4 per cent. of GDP, well below the 4.0 per cent. threshold determined in the EU early warning mechanism.

Financial Assistance

Deteriorating economic conditions in Latvia in 2008 and a banking crisis at the end of that year significantly adversely affected State budget revenues and, as a result, Latvia sought financial assistance from the IMF and other international bodies towards the end of 2008. The IMF Stand-By Arrangement which Latvia entered into in December 2008 was part of the wider financial assistance package agreed with the EU, the World Bank, the EBRD and a number of Nordic and other EU countries, bringing the total financial assistance package to approximately €7.5 billion. By the end of 2011, only €4.5 billion of this financial assistance had been disbursed to Latvia and the financial assistance package has now lapsed. By 31 December 2016, Latvia had repaid €3.54 billion, or 79 per cent., of the amount borrowed. See "*Indebtedness—Financial Assistance from International Lenders*".

Economic Reform Programme

Latvia, in line with other EU Member States, coordinates its economic policy and reforms within the framework of the EU's economic governance. As part of this, Latvia has implemented and regularly updates a national reform programme entitled "*The National Reform Programme of Latvia for the Implementation of the Europe 2020 Strategy*" (the **NRP of Latvia**), which was adopted by the Cabinet of Ministers of the Republic of Latvia on 26 April 2011 and submitted to the European Commission on 29 April 2011. The NRP of Latvia describes the medium-term macroeconomic scenario, main macro-structural bottlenecks of Latvia and key measures for eliminating them, as well as national targets of Latvia for 2020 in the context of the Europe 2020 strategy and key measures for achieving them.

Since the adoption of the NRP of Latvia, progress reports relating to its implementation have been prepared and submitted to the European Commission annually. The progress reports reflect the updated medium term macroeconomic scenario, assess progress in the implementation of the EU Council's country-specific recommendations, provided a detailed analysis on the implementation of policy directions of the NRP of Latvia (including progress on achievement of the Europe 2020 strategy targets) and contain information on the spending of financing provided by the EU.

Latvia's main structural policy priorities according to the NRP of Latvia are to maintain a sustainable and balanced state budget, improve vocational and higher education, foster research and innovation, continue reforming its social assistance system, health care and public administration, strengthen measures against tax evasion and continue improving its conflict of interest regime. The improvement of the business environment, support for entrepreneurship and implementation of different policy measures that foster energy efficiency and the use of renewable energy sources are also among Latvia's priorities.

Moreover, the recommendations of the OECD expressed in the OECD Economic Survey on Latvia regarding its socio-economic policy are similar to the EU Council's country-specific recommendations. The government pays serious attention to the implementation of these recommendations and has reflected the necessary measures in the government's action plan.

The fiscal discipline framework in Latvia has also been strengthened through the introduction of a Fiscal Discipline Law (**FDL**) that came into force in March 2013. See "*Public Finance—Preparation and Approval of the Central Government Budget*".

In the World Bank's Doing Business 2017 report, Latvia was ranked 14th out of 190 countries on ease of doing business, and ranked sixth among EU Member States. Latvia continues to focus on improving the business environment, with recently approved measures including improving the enterprise registration process, the introduction of an improved tax declaration system and the introduction of electronic property registration.

Gross Domestic Product

In 2012 and 2013, real GDP increased by 4.0 per cent. and 2.6 per cent., respectively, in each case compared to the previous year. Over the same period, real GDP increased by an average of 4.3 per cent. per year, one of the highest growth rates in the EU. The rate of real GDP growth slowed to 2.1 per cent. in 2014, reflecting lower growth in the EU and a weakening economic situation in Russia. Despite the tense geopolitical situation in the region, in 2015 and 2016 the Latvian economy continued to grow and real GDP increased by 2.7 per cent. and 2.0 per cent., respectively.

The table below sets out Latvia's nominal GDP determined using the expenditure method in each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(€ millions)		
Private consumption	13,331.2	14,039.4	14,456.5	14,863.9	15,516.0
Public consumption	3,798.8	4,021.5	4,145.5	4,394.5	4,383.6
Gross fixed capital formation	5,551.2	5,291.0	5,337.3	5,242.2	4,577.7
Changes in inventories	177.6	164.2	139.4	143.2	407.3
Exports of goods and services	13,418.0	13,741.3	14,067.8	14,360.7	14,509.9
Imports of goods and services	(14,391.2)	(14,470.9)	(14,515.4)	(14,636.3)	(14,373.1)
GDP	**21,885.6**	**22,786.5**	**23,631.2**	**24,368.3**	**25,021.3**

Source: Central Statistical Bureau

The table below sets out the structure of Latvia's nominal GDP (determined using the expenditure method) of each sector specified in each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(per cent.)		
Private consumption	60.9	61.6	61.2	61.0	62.0
Public consumption	17.4	17.6	17.5	18.0	17.5
Gross fixed capital formation	25.4	23.2	22.6	21.5	18.3
Changes in inventories	0.8	0.7	0.6	0.6	1.6
Exports of goods and services	61.3	60.3	59.5	58.9	58.0
Imports of goods and services	(65.8)	(63.5)	(61.4)	(60.0)	(57.4)
GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Bureau

The table below sets out the real growth rates of each sector specified to Latvia's GDP determined using the expenditure method for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(per cent.)		
Private consumption	3.2	5.0	1.3	3.5	3.4
Public consumption	0.3	1.6	2.1	3.1	2.7
Gross fixed capital formation	14.4	(6.0)	0.1	(1.8)	(11.7)
Exports of goods and services	9.8	1.1	3.9	2.6	2.8
Imports of goods and services	5.4	(0.2)	0.5	2.1	4.6
GDP	**4.0**	**2.6**	**2.1**	**2.7**	**2.0**

Source: Central Statistical Bureau

The table below sets out the total and per capita GDP of Latvia for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016, in both current and constant prices.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
At current prices (*€ millions*)	21,885.6	22.786.5	23,631.2	24,368.3	25,021.3
At constant prices (*€ millions*)	19,846.9	20,368.2	20,800.0	21,364.1	21,780.8
Percentage change over previous period (constant prices)	4.0	2.6	2.1	2.7	2.0
Per capita[(1)]					
At current prices (€)	10,743	11,315	11,838	12,324	12,762
At constant prices (€)	9,743	10,129	10,438	10,805	11,109
Resident population					
At beginning of period	2,044,813	2,023,825	2,001,468	1,986,096	1,968,957
Average for the period	2,034,319	2,012,647	1,993,782	1,977,527	1,961,175

Source: Central Statistical Bureau

Note:

(1) Based on average population for the relevant period.

Principal Sectors of the Economy

In terms of broad sectoral classification, Latvia's primary sector (agriculture, forestry and fishing) accounted for 3.3 per cent. and 3.2 per cent. of total value added in 2015 and in 2016, respectively.

The secondary sector (manufacturing, other industry (mining and quarrying, electricity, gas, steam and conditioning supply, water supply, sewage, waste management and remediation activities) and construction) accounted for 22.9 per cent. of total value added in 2015 and 21.9 per cent. of total value added in 2016. The principal contributors to total value added in the secondary sector are manufacturing and construction.

The tertiary sector (services) accounted for 73.8 per cent. of total value added in 2015 and 74.9 per cent. of total value added in 2016. Within the services sector, the main activities contributing to total value added are wholesale and retail trade and repair services, transport and storage, real estate activities and a range of other commercial and public services.

The table below sets out nominal GDP (calculated using the production method) by primary, secondary and tertiary sector (and by each principal sub-sector within those sectors) for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(€ millions)		
Primary sector	**716.2**	**747.5**	**728.0**	**723.9**	**710,0**
Secondary sector	**4,718.1**	**4,816.3**	**4,861.6**	**4,937.1**	**4,805.3**
Manufacturing	2,557.4	2,560.7	2,567.3	2,652.4	2,758.9
Other industry(1)	917.0	935.1	897.1	903.0	909.0
Construction	1,243.7	1,320.5	1,397.1	1,381.7	1,137.3
Tertiary sector	**14,051.3**	**14,673.7**	**15,344.2**	**15,905.4**	**16,473.2**
Trade(2)	3,060.2	3,169.1	3,317.5	3,415.0	3,497.0
Transportation and storage	2,043.4	2,072.2	2,111.1	2,042.3	1,996.4
Real estate activities	2,317.2	2,549.2	2,759.3	2,874.0	2,863.3
Other commercial services(3)	3,707.2	3,810.7	3,933.8	4,182.0	4,615.4
Public services(4)	2,923.3	3,072.6	3,222.5	3,392.1	3,501.2
Total value added	**19,485.7**	**20,237.5**	**20,933.8**	**21,566.4**	**21,988.5**
Taxes on products (minus subsidies)	2,400.0	2,549.1	2,697.3	2,801.9	3,032.8
Nominal GDP	**21,885.6**	**22,786.5**	**23,631.2**	**24,368.3**	**25,021.3**

Source: Central Statistical Bureau

Notes:

(1) Includes mining and quarrying, electricity, gas, steam and conditioning supply, water supply, sewage, waste management and remediation activities.

(2) Includes wholesale and retail trade, repair of motor vehicles and motorcycles and accommodation and food service activities.

(3) Includes information and communication, financial and insurance activities, professional, scientific and technical activities, administrative and support service activities, arts entertainment and recreation and other service activities.

(4) Includes public administration, defence and compulsory social security, education and human health and social work activities.

The tables below set out the share of each sector, by primary, secondary and tertiary sector (and by each principal sub-sector within those sectors), of total value added for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
	Share (per cent.)				
Primary sector	**3.7**	**3.7**	**3.5**	**3.3**	**3.2**
Secondary sector	**24.2**	**23.8**	**23.2**	**22.9**	**21.9**
Manufacturing	13.1	12.7	12.3	12.3	12.5
Other industry(1)	4.7	4.6	4.3	4.2	4.2
Construction	6.4	6.5	6.7	6.4	5.2
Tertiary sector	**72.1**	**72.5**	**73.3**	**73.8**	**74.9**
Trade(2)	15.7	15.7	15.8	15.9	15.9
Transportation and storage	10.5	10.2	10.1	9.5	9.1
Real estate activities	11.9	12.6	13.2	13.3	13.0
Other commercial services(3)	19.0	18.8	18.8	19.4	21.0
Public services(4)	15.0	15.2	15.4	15.7	15.9
Total value added	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Bureau

Notes:

(1) Includes mining and quarrying, electricity, gas, steam and conditioning supply, water supply, sewage, waste management and remediation activities.

(2) Includes wholesale and retail trade, repair of motor vehicles and motorcycles and accommodation and food service activities.

(3) Includes information and communication, financial and insurance activities, professional, scientific and technical activities, administrative and support service activities, arts entertainment and recreation and other service activities.

(4) Includes public administration, defence and compulsory social security, education and human health and social work activities.

The table below sets out the real growth rate of each GDP sector and principal sub-sector (calculated using the production method) for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(per cent.)		
Primary sector	**7.4**	**4.5**	**0.03**	**0.7**	**1.5**
Secondary sector	**3.4**	**0.2**	**0.8**	**2.2**	**(1.0)**
Manufacturing	4.3	(2.0)	0.4	4.3	5.6
Other industry(1)	(5.7)	1.6	(4.8)	1.3	5.3
Construction	8.7	3.7	5.4	(1.1)	(17.9)
Tertiary sector	**3.0**	**2.4**	**1.9**	**2.7**	**2.1**
Trade(2)	0.9	3.6	4.4	4.5	3.9
Transportation and storage	5.5	0.2	2.4	(0.2)	0.5
Real estate activities	3.5	5.1	1.4	2.8	(0.6)
Other commercial services(3)	6.0	1.6	(1.5)	2.4	2.8
Public services(4)	(0.2)	2.3	3.5	3.1	2.5
Taxes on products (minus subsidies)	10.4	7.5	5.3	4.3	6.5
GDP	**4.0**	**2.6**	**2.1**	**2.7**	**2.0**

Source: Central Statistical Bureau

Notes:

(1) Includes mining and quarrying, electricity, gas, steam and conditioning supply, water supply, sewage, waste management and remediation activities.

(2) Includes wholesale and retail trade, repair of motor vehicles and motorcycles and accommodation and food service activities.

(3) Includes information and communication, financial and insurance activities, professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation and other service activities.

(4) Includes public administration, defence and compulsory social security, education and human health and social work activities.

Primary Sector

The primary sector accounted for between 3.7 per cent. and 3.2 per cent. of Latvia's total value added in the period from 2012 to 2016. The real growth rates in the primary sector were 7.4 per cent. in 2012, 4.5 per cent. in 2013, 0.03 per cent. in 2014, 0.7 per cent. in 2015 and 1.5 per cent. in 2016. Forests cover about 47.5 per cent. of Latvia and are the country's most important natural resource, while wood production is one of Latvia's principal exports. Agriculture plays a significant role as a source of employment, see "—*Employment*", and agricultural products (comprising live animals, prepared foodstuffs, principally fish and dairy products, and vegetable products) are a significant contributor to Latvia's exports, see "*Balance of Payments—Foreign Trade*". Agriculture also provides additional income for many families. According to the 2013 agricultural census, there were 81,796 farmsteads of all sizes spread over 1.9 million hectares of land, giving an average farm size of around 23 hectares. According to the results of the 2013 agricultural census, the number of agricultural holdings in Latvia is reducing year by year, but the area cultivated is increasing. In comparison with data from the 2010 Farm Structure Survey, the number of economically active agricultural holdings has diminished by 1.9 per cent., but the agricultural area has grown by 103,800 hectares or 5.4 per cent. The utilised agricultural area has increased by 81,400 hectares or 4.5 per cent. The average size of an agricultural holding has increased from 34.5 hectares in 2010 to 37.4 hectares in 2013 or by 8.3 per cent. The average utilised agricultural area per holding has increased from 21.5 hectares to 23.0 hectares or by 6.6 per cent. These areas are mainly used as arable land (14.7 hectares on average per holding) and meadows and pastures (8 hectares on average per holding). Between 2001 and 2013, the total area of arable land in the country has increased by 2.2 per cent.

Secondary Sector

Manufacturing

The table below sets out the value added in nominal terms, the share of manufacturing of Latvia's total value added, as well as the real growth rate in manufacturing (in each case, calculated using the production method) for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
Manufacturing *(nominal, € million)*	2,557.4	2,560.7	2,567.3	2,652.4	2,758.9
Share *(per cent.)*	13.1	12.7	12.3	12.3	12.5
Real growth rate *(per cent.)*	4.3	(2.0)	0.4	4.3	5.6

Source: Central Statistical Bureau

Latvia's industrial strengths are in wood processing, the food industry, metalwork and the production of metal goods, and the chemical and pharmaceutical industry, which together constituted 67.0 per cent. of the manufacturing sector's output in 2016.

The table below shows the structure of manufacturing based on the percentage proportion of value added in the year ended 31 December 2016 and changes in production volumes in manufacturing in each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December					
	Structure	**Changes in production volumes**				
	2016	**2012**	**2013**	**2014**	**2015**	**2016**
	(per cent.)					
Wood processing	27.9	5.4	2.7	6.9	7.1	8.0
Food industry	23.1	2.5	6.0	0.1	(4.6)	1.8
Metals and metal articles	8.5	16.3	(17.6)	(10.5)	– (1)	– (1)
Chemical, rubber, plastics and pharmaceuticals	7.5	8.3	(8.7)	(2.6)	(4.1)	10.7
Paper industry and publishing	4.4	10.1	5.6	(0.6)	0.0	3.6
Light industry	4.0	3.0	1.4	(13.6)	(13.2)	2.1
Machinery and equipment	2.4	8.7	1.4	2.4	7.9	8.5
Non-metallic mineral products	5.9	8.6	4.6	1.2	(9.8)	11.6
Transport vehicles	3.4	15.8	3.0	(15.2)	3.5	(2.9)
Electrical and optical equipment	7.6	19.9	18.4	32.3	16.7	12.6
Other industries	5.5	26.1	(7.6)	(12.0)	3.5	0.8
Total	**100.0**	**9.3**	**0.1**	**(0.3)**	**4.3**	**5.6**

Source: Ministry of Economics
Notes:

(1) Data not available.

In the wood industry, changes in production volumes generally reflect demand in Europe for processed wood products. Approximately 74 per cent. of the wood processing industry's production is exported, principally to EU countries. Approximately 67 per cent. of the goods produced by the food industry are sold in the domestic market. The majority of the metal and metal products produced in Latvia are exported, principally to EU countries, and demand in these markets recovered strongly between 2010 and 2012 before falling significantly in 2013 and 2014. In the chemical industry, fluctuation in production volumes also principally reflects external demand as around 79 per cent. of Latvia's chemical, rubber, plastics and pharmaceutical production is exported.

The expansion of exports due to increased competitiveness and external demand is the principal reason for the growth in the production volume of manufacturing in 2012. The growth rate in the production volume of manufacturing was 9.3 per cent. in 2012. Latvia's increased competitiveness in 2012 was principally due to wage restraint and deflation. However, see "*Risk Factors—Latvia's economy and its banking sector may be adversely affected by a range of factors, including major regional or global economic downturns and difficulties experienced by its major regional trading partners*".

The growth rate in the production volume of manufacturing in 2013 was 0.1 per cent. and in 2014 was 0.3 per cent. lower than in 2013. The real growth rate of the manufacturing sector in 2013 was zero and, in 2014, the sector experienced a negative real growth rate of 0.3 per cent. compared to 2013. This was principally due to reduced demand in foreign markets affecting the chemical and pharmaceutical sector and the metals sector. In 2015, the growth rate in the production volume of manufacturing was 4.3 per cent., with metalworking, electrical and optical equipment and wood processing industries being the main contributors to this growth. The growth in the metalworking sector was aided by the resumption of the activity of one of the major industrial enterprises, JSC KVV Liepājas Metalurgs. In 2016, the growth rate in the production volume of manufacturing was 5.6 per cent., with wood processing, electrical and optical equipment, chemical, rubber, plastics and pharmaceuticals and non-metallic mineral products industries being the main contributors to this growth.

Construction

The table below sets out the value added in nominal terms, the share of construction of Latvia's total value added, as well as the real growth rate in construction (in each case, calculated using the production method) for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
Construction *(€ millions)*	1,243.7	1,320.5	1,397.1	1,381.7	1,137.3
Share *(per cent.)*	6.4	6.5	6.7	6.4	5.2
Real growth rate *(per cent.)*	8.7	3.7	5.4	(1.1)	(17.9)

Source: Central Statistical Bureau

The real growth rate in construction was 8.9 per cent. in 2012, 3.7 per cent. in 2013 and 5.4 per cent. in 2014. Reflecting this growth, construction's share in total value added has increased from 6.4 per cent. in 2012 to 6.7 per cent. in 2014. The growth of the construction sector between 2012 and 2014 was mainly driven by public procurement projects using EU funds. However, the construction sector contracted in real terms by 1.1 per cent. in 2015 and by 17.9 per cent. in 2016, which can partly be attributed to the impact of the transition from the 2007-2013 EU funds programming period to the 2014-2020 EU funds programming period. Reflecting this decline, construction's share in total value added has decreased from 6.7 per cent. in 2014 to 5.2 per cent. in 2016.

Tertiary Sector

The tables below set out the value added in nominal terms and a breakdown of the share of the services sector (calculated using the production method) to total value added by significant sub-sectors for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December					
	2012		**2013**		**2014**	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Wholesale and retail trade, repair services	2,750.4	14.1	2,827.4	14.0	2,949.7	14.1
Transportation and storage	2,043.4	10.5	2,072.2	10.2	2,111.1	10.1
Real estate activities	2,317.2	11.9	2,549.2	12.6	2,759.3	13.2
Public administration and defence, compulsory social security	1,427.7	7.3	1,476.2	7.3	1,522.9	7.3
Professional, scientific and technical activities(1)	1,681.5	8.6	1,693.9	8.4	1,652.4	7.9
Education	926.8	4.8	985.9	4.9	1023.5	4.9
Information and communication	844.1	4.3	897.9	4.4	920.0	4.4
Financial and insurance activities	806.3	4.1	817.7	4.0	942.9	4.5
Human health and social work activities	568.7	2.9	610.5	3.0	676.0	3.2
Remaining services(2)	685.1	3.5	742.8	3.7	786.4	3.8
All services	**14,051.3**	**72.1**	**14,673.7**	**72.5**	**15,344.2**	**73.3**

	Year ended 31 December			
	2015		**2016**	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*
Wholesale and retail trade, repair services	3,014.8	14.0	3,060.1	13.9
Transportation and storage	2,042.3	9.5	1,996.4	9.1
Real estate activities	2,874.0	13.3	2,863.3	13.0
Public administration and defence, compulsory social security	1,597.6	7.4	1,649.4	7.5
Professional, scientific and technical activities(1)	1,732.8	8.0	1,843.6	8.4
Education	1,089.1	5.0	1,112.6	5.0
Information and communication	989.8	4.6	1,060.0	4.8
Financial and insurance activities	1,009.7	4.7	1,242.7	5.7
Human health and social work activities	705.4	3.3	739.1	3.4
Remaining services(2)	850.0	4.0	906.0	4.1
All services	**15,905.4**	**73.8**	**16,473.2**	**74.9**

Source: Central Statistical Bureau
Notes:
(1) Includes professional, scientific and technical activities; administrative and support service activities; and other service activities.
(2) Includes accommodation and food services activities; arts, entertainment and recreation.

The table below sets out a breakdown of the real rates of growth of each significant sub-sector within the services sector (calculated using the production method) for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	2013	2014	2015	2016
			(per cent.)		
Wholesale and retail trade; repair services	1.2	2.9	4.5	4.1	3.3
Transportation and storage	5.5	0.2	2.4	(0.2)	0.5
Real estate activities	3.5	5.1	1.4	2.8	(0.6)
Public administration and defence; compulsory social security	(2.3)	1.7	1.5	2.4	3.9
Professional, scientific and technical activities[(1)]	6.1	(0.6)	(5.7)	1.5	2.5
Education	1.0	2.0	4.1	3.6	0.7
Information and communication	6.3	5.4	(2.4)	3.6	2.9
Financial and insurance activities	4.1	(0.1)	11.6	1.4	3.5
Human health and social work activities	2.8	4.2	6.8	3.7	2.4
Remaining services[(2)]	2.8	7.1	2.3	6.2	5.8
Services total	**3.0**	**2.4**	**1.9**	**2.7**	**2.1**

Source: Central Statistical Bureau
Notes:
(1) Includes professional, scientific and technical activities, administrative and support service activities; and other service activities.
(2) Includes accommodation and food services activities, arts, entertainment and recreation.

Within the tertiary services sector, the principal sub-sectors by share of total value added are wholesale and retail trade and repair services (**trade**); transport and storage (**transport**); real estate activities (**real estate**); and public administration and defence and compulsory social security (**public administration**). Within the tertiary services sector, together these activities accounted for 60.8 per cent. of total services in 2012 and 2013, 60.6 per cent. of total services in 2014, 59.9 per cent. of total services in 2015 and 58.1 per cent. of total services in 2016.

Wholesale and retail trade; repair services

The table below shows a breakdown of trade (calculated using the production method) for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	2013	2014	2015	2016
			(€ millions)		
Wholesale trade, except trade in and repairs for motor vehicles and motorcycles	1,365.4	1,391.2	1,462.6	1,485.3	1,501.1
Retail trade, except trade in and repairs for motor vehicles and motorcycles	1,134.4	1,165.9	1,214.5	1,237.2	1,253.8
Motor vehicles and motorcycles trade and repair services	250.6	270.3	272.6	292.3	305.2
Wholesale and retail trade; repair services	**2,750.4**	**2,827.4**	**2,949.7**	**3,014.8**	**3,060.1**

Source: Central Statistical Bureau

For the purposes of calculating GDP, wholesale trade is defined as an intermediate process in the distribution of merchandise, whereas retail trade is defined as the final process in the distribution of merchandise. Repair services comprise the maintenance and repair of goods associated with wholesale and retail trade.

As a percentage of trade as a whole, retail trade was 41.2 per cent. in 2012 and 41.0 per cent. in 2016; wholesale trade was 49.6 per cent. in 2012 and 49.1 per cent. in 2016; and repair services were 9.1 per cent. in 2012 and 10.0 per cent. in 2016.

In overall terms, wholesale and retail trade and repair services grew in real terms in each of 2012, 2013, 2014, 2015 and 2016. These trends reflected the fact that private consumption was positively affected from 2012 to 2016 by declining unemployment and increased wages.

In terms of real growth rates, the wholesale and retail trade and repair services sector growth was slower than services as a whole only in 2012.

Transportation and storage

The share of transportation and storage in Latvia's total value added was 10.5 per cent. in 2012, 10.2 per cent. in 2013, 10.1 per cent. in 2014, 9.5 per cent. in 2015 and 9.1 per cent. in 2016. In terms of real growth, transportation and storage grew by 5.5 per cent. in 2012, 0.2 per cent. in 2013 and 2.4 per cent. in 2014, contracted by 0.2 per cent. in 2015 but then grew by 0.5 per cent. in 2016. The contraction in 2015 was principally due to a decline in freight turnover at ports and railways. This decline in freight turnover at ports and railways continued in 2016, but was offset by an increase in the volume of road freight. Certain freight transport statistics are set out below under "—*Infrastructure*".

Real estate activities

The share of the real estate sector of Latvia's total value added was 11.9 per cent. in 2012, 12.6 per cent. in 2013, 13.2 per cent. in 2014, 12.5 per cent. in 2015 and 13.0 per cent. in 2016. The growth in the real estate sector increased steadily in 2012 and 2013, was weaker in 2014, increased again in 2015, but fell in 2016 due to a weaker construction sector.

Public administration and defence; compulsory social security

The share of public administration in Latvia's total value added was 7.3 per cent. in each of 2012, 2013 and 2014, 7.4 per cent. in 2015 and 7.5 per cent. in 2016. In terms of real growth, public administration fell by 2.3 per cent. in 2012 and grew by 1.7 per cent. in 2013, by 4.5 per cent. in 2014, by 2.4 per cent. in 2015 and by 3.9 per cent. in 2016.

See also "*Public Finance—Summary of Latvia's Budgets since 2010*" for a discussion of budget cuts affecting the public sector since 2010.

Financial and insurance activities

The share of financial intermediation, which is dominated by Latvia's banking sector, in Latvia's total value added was 4.1 per cent. in each of 2012, 4.0 per cent. in 2013, 4.5 per cent. in 2014, 4.7 per cent. in 2015 and 5.7 per cent. in 2016. At real rates, the sector grew by 4.1 per cent. in 2012, fell by 0.1 per cent. in 2013 and then grew by 11.6 per cent. in 2014, by 1.4 per cent. in 2015 and by 3.5 per cent. in 2016. Since 2012, the Latvian banking sector has returned to profitability as the macrofinancial environment has improved and resulted in the release of loan loss provisions. The aggregate loan portfolio of Latvian banks increased by 3.1 per cent. in 2016, which was the first increase in the annual growth rate since the global financial crisis. See "*Monetary and Financial System—Financial Sector Supervision*".

Education and health

Together, the share of education and health and social work in Latvia's total value added was 7.7 per cent. in 2012, 7.9 per cent. in 2013, 8.0 per cent. in 2014, 8.3 per cent. in 2015 and 8.4 per cent. in 2016. In terms of real growth, education grew by 1.0 per cent. in 2012, 2.0 per cent. in 2013, 4.1 per cent. in 2014, 3.5 per cent. in 2015 and 0.7 per cent. in 2016. The health and social work subsector grew by 2.8 per cent. in real terms in 2012, by 4.2 per cent. in 2013, by 6.8 per cent. in 2014, by 3.7 per cent. in 2015 and by 2.4 per cent. in 2016.

Tourism

Following the global financial crisis, tourism in Latvia started to recover in 2010. In the five years from 2012 to 2016, the number of overnight foreign visitors in Latvia increased by 43.5 per cent. In 2016, the number of overnight travellers (both resident and non-resident) in Latvia was 2.3 million, an increase of 7.7 per cent as compared to 2015. As compared with 2015, the number of overnight foreign visitors grew by 6.7 per cent., reaching 1.57 million; in turn, the number of nights spent by foreign visitors increased by 5.9 per cent. The total expenditure of overnight non-resident travellers in 2016 decreased by 12.4 per cent., from €541 million to €474 million, compared to 2015. The top six countries accounting for the largest proportion of overnight non-resident travellers to Latvia in 2016 were Russia, Germany, Lithuania, Estonia, Finland and the United Kingdom, together constituting nearly 56.3 per cent. of all non-resident overnight arrivals. Tourism is considered to be one of Latvia's economic development opportunities. It is also an important source of export revenue and a contributor to GDP. Tourism exports in 2016 accounted for €996.5 million, a decrease of 2.6 per cent compared to the previous year.

At 31 December 2016, there were 607 hotels and other accommodation establishments in Latvia, of which 119, or approximately 20 per cent., were located in Riga. The Latvian Tourism Development Guidelines for 2014-2020 identify the most competitive forms of tourism in Latvia based on an assessment of global and local tourism trends, challenges in the industry and the availability of tourism resources, as well as the strategic goals of tourism development in Latvia. These include meetings, incentives, conferences and exhibitions (MICE), health tourism, nature tourism, and cultural tourism and creative industries. The guidelines aim to increase the competitiveness of Latvia's sustainable tourism, encourage international competitiveness, reduce seasonal imbalance in tourism flows and extend the average length of stay.

Latvia's target tourism markets are countries that have the greatest potential to increase Latvia's returns on its marketing investments and to contribute to the achievement of the economic goals of the Latvian tourism sector. The Latvian Tourism Marketing Strategy for 2016-2020 identifies Germany, Russia, Finland, Sweden, the United Kingdom, Norway, Lithuania and Estonia as high priority markets, The Netherlands, Italy, Denmark, Belorussia, Poland, France and Spain as priority markets and America, Japan, China and South Korea as prospective markets.

Inflation

Inflation (measured in terms of changes in the HICP) was very low between 2013 to 2016 with the annual inflation rate being 0.0 per cent., 0.6 per cent., 0.2 per cent. and 0.1 per cent. in 2013, 2014, 2015 and 2016, respectively. These low levels of inflation generally reflected declining global food and energy prices and weaker global demand and growth in the Eurozone. However, inflation has increased gradually since the end of 2016, reflecting a rise in global energy and food prices. Accordingly, for the 12-month period ended 30 June 2017 the annual inflation rate was 1.9 per cent.

The annual growth rate of core HICP inflation (which excludes energy and food) was 0.3 per cent. and minus 0.1 per cent. in 2012 and 2013, respectively, but has remained broadly stable since 2014 with annual growth rates of 1.7 per cent., 1.5 per cent. and 1.2 per cent. in 2014, 2015 and 2016, respectively, and 1.7 per cent. for the 12 month period ended 30 June 2017.

The table below sets out the annual growth rate of the HICP and the core HICP for 2012, 2013, 2014, 2015, 2016 and for the 12 month period ended 30 June 2017.

	Year ended 31 December					
	2012	**2013**	**2014**	**2015**	**2016**	**2017[(1)]**
HICP *(annual rate of change in per cent.)*	2.3	0.0	0.7	0.2	0.1	1.9
Core HICP excluding energy and food *(annual rate of change in per cent.)*	0.3	(0.1)	1.7	1.5	1.2	1.7

Source: Eurostat
Note:
(1) 12 month period ended 30 June.

Wages

Since 2012, average monthly gross wages have grown and the average monthly gross wage in 2016 was €859, an increase of 25.4 per cent. compared to the average monthly gross wage in 2012.

The table below sets out the average monthly gross and net wages in Latvia and their growth rates, together with the real wage index, for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
Average monthly gross wages *(€)*	685	716	765	818	859
Gross growth (per cent.)	3.7	4.6	6.8	6.8	5.0
Average monthly net wages *(€)*	488	516	560	603	631
Growth *(per cent.)*	3.9	5.6	8.6	7.6	4.6
Real wage index *(per cent. of previous year)*	101.6	105.6	108.0	107.4	104.6

Source: Central Statistical Bureau

In 2016, the average monthly gross wage increased by 5.0 per cent. to €859 from €818 in 2015. This increase was primarily due to improved conditions in the economy.

Between January 2012 and January 2017, the minimum monthly wage in Latvia was increased from €284.58 to €380, an increase of 33.5 per cent. Between the first quarter of 2012 and the first quarter of 2017, the nominal hourly wage in Latvia increased from €5.71 to €7.32. From 2012 to 2016, real labour productivity per hour worked has increased by 15.5 per cent. Prior to January 2011, the basic personal (tax-free) allowance in Latvia was €49.80 per month. In January 2011, the basic personal allowance increased to €64.03 per month. Since 1 January 2014, the basic personal allowance has been €75 per month, though from 2016 a differentiated non-taxable minimum allowance is gradually being introduced depending on a person's income (with the minimum threshold being €75 per month and the maximum €100 per month).

The monthly tax allowance for dependent persons increased from €165 in 2014 to €175 in 2016. Since January 2014, the monthly tax allowance has been €120 for the third disability group and €154 for the first and second disability group.

See "—*Tax Policy Principles*" for a discussion of the proposed Tax Policy Principles and the potential impact of these in respect of wages.

Employment

The lowest point in the Latvian labour market following the global financial crisis was at the end of the first quarter of 2010, when the number of employed persons fell to 830,400 and the unemployment rate reached 21.3 per cent.

The table below sets out the Labour Force Survey (**LFS**) annual average unemployment rate (unemployed non-working persons (aged 15-64) actively seeking a job, registered with the State Employment Agency, as a percentage of the active population), the registered unemployment rate, the labour participation rate (the active population (persons aged 15-64 who are employed or actively seeking a job) as a percentage of the total population) and the employment rate (the number of employed persons aged 15-64 expressed as a percentage of the total population) in Latvia in 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
Unemployment rate	15.3	12.1	11.1	10.1	9.9
Registered unemployment rate, end of period *(per cent.)*	10.5	9.5	8.5	8.7	8.4
Labour participation rate, annual data *(per cent.)*	74.4	74.0	74.6	75.7	76.3
Employment rate *(per cent.)*	63.0	65.0	66.3	68.1	68.7
Men	64.4	66.8	68.4	69.9	70.0
Women	61.7	63.4	64.3	66.4	67.6

Sources: State Employment Agency, Central Statistical Bureau

Reflecting Latvia’s emergence from recession, from 2012 the male employment rate has increased faster than the female employment rate and was 70.0 per cent. in 2016 compared to the female employment rate of 67.6 per cent.

Female unemployment according to LFS data in 2012 was around 14.2 per cent., while male unemployment was 16.5 per cent. From 2012 to 2016, the total unemployment rate decreased from 15.3 per cent. to 9.9 per cent. In 2016, male unemployment was 11.2 per cent. while unemployment for women was 8.6 per cent.

The following table shows annual average employment by sector in Latvia in 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	2013	2014	2015	2016
	(*thousands of persons*)				
Agriculture, forestry and fishing	73.3	71.9	66.3	71.1	68.7
Mining and quarrying	2.8	2.8	3.7	3.9	3.4
Manufacturing	122.5	125.7	118.8	116.3	123.5
Electricity, gas, steam and air conditioning supply	11.0	11.6	10.0	12.6	14.0
Water supply; sewage, waste management and remediation activities	6.8	6.2	5.2	7.1	8.3
Construction	62.3	67.3	73.2	71.9	66.1
Wholesale and retail trade; repair services	127.4	133.4	132.3	128.9	124.2
Transportation and storage	75.1	77.3	84.8	85.3	83.3
Accommodation and food service activities	28.3	26.5	29.3	30.4	30.5
Information and communication	21.5	24.3	26.3	26.0	23.8
Financial and insurance activities	24.2	21.0	17.9	20.6	23.5
Real estate activities	23.0	22.7	20.7	20.7	21.4
Professional, scientific and technical activities	27.7	34.4	36.1	36.2	33.6
Administrative and support service activities	25.5	24.6	24.3	24.8	23.6
Public administration and defence; compulsory social security	58.9	61.3	58.6	59.1	62.2
Education	92.1	94.6	85.1	83.4	81.7
Human health and social work activities	51.2	47.7	52.0	55.8	53.6
Arts, entertainment and recreation	23.0	21.5	22.4	22.4	24.9
Other service activities	17.3	16.8	14.7	18.0	19.9

Source: CSB; Age 15 to 64

The sectors which were the biggest employers in 2016 in Latvia were trade, manufacturing, transport and storage, education, construction and agriculture, forestry and fishing, which together accounted for 53.9 per cent. of total employment based on CSB figures.

Social Security System

Social Insurance

The State social security system guarantees a defined amount of compensation for loss of income in certain situations to persons paying social insurance contributions. The amount of compensation depends on the income from which the amount of the contribution has been calculated. The receipt of social benefits requires contributions to have been made.

The types of social insurance available in Latvia are state pension insurance; unemployment insurance; insurance for work-related accidents and diseases; disability insurance; maternity, paternity and sickness insurance; and parents' insurance.

Since 2014, an employee insured for all types of social insurance will have a compulsory contribution rate of 34.09 per cent. of his gross wage. The total social insurance contribution is split between the employer and the employee at 23.59 per cent. and 10.50 per cent., respectively.

Social insurance contribution payments are calculated based on the likely risks for various groups of tax payers. As a result, certain categories of payers do not make contributions for certain types of insurance. For example, pensioners would not pay for unemployment and disability insurance. These types of exemptions reduce the rate of contribution for many payers.

The benefits and contributions which are paid are financed by the State Social Insurance special budget and, where necessary, social security costs can also partly be financed by accumulated budget resources. From 2012 to 2013 the State Social Insurance special budget expenditures exceeded revenues by €70.4 million and €57.9 million, respectively. Since 2014, the State Social Insurance special budget has operated with a surplus (of €100.4 million in 2014, €91.1 million in 2015 and €47.8 million in 2016). For 2017, the State Social Insurance special budget is planned with a €65.3 million surplus. This trend towards a surplus reflects a number of measures taken with a view to balancing the budget and creating a sustainable social insurance framework, including an increase in social contribution; a general reduction in certain types of compensation and setting upper limits for compensation amounts. In addition, the retirement age will increase by three months a year from 62 to 65 years between 2014 and 2025.

Pension System

In 1996, Latvia commenced reform of its pension system in order to create greater flexibility with regard to demographic fluctuations and to provide long-term stability given the ageing population. The pension system focuses on incentives for the working age population to remain in the labour market as long as possible beyond the minimum retirement age (which in 2017 is 63 years for both men and women, although see "—*Social Insurance*" above). Since July 2001, a three-tier pension system has been in operation in Latvia. The first tier comprises a state compulsory unfunded pension scheme, the second tier comprises a state funded pension scheme and the third tier comprises a private voluntary pension scheme. All persons making social insurance contributions are included in the first tier. Contributions paid by the members are used for the payment of old age pensions to the existing generation of pensioners. Social insurance contributions paid by those who participate in the second pension tier are invested by selected fund managers and saved for the pension of the individual making the contribution. The third pension tier allows every individual to create additional savings for his pension in private pension funds.

The first tier has been in operation since 1 January 1996. The pension amount paid under this tier depends on the recipient's accumulated pension capital, age at retirement and forecasted life expectancy after retiring. The number of contributors (including transfers) to this scheme in 2016 was approximately 1.1 million (unique persons). Expenditures for old age pensions under this tier equalled 6.5 per cent. of GDP in 2016.

The second tier has been in operation since 1 July 2001. Under this tier, the participant's contributions are invested in capital markets instruments in Latvia and abroad by his selected fund manager. The assets of this tier at the end of 2016 were managed by seven private investment management companies which offer 20 investment plans. The number of participants in the second tier scheme at the end of 2016 was over 1.2 million. The net assets of the investment plans of the scheme equalled 11.0 per cent. of GDP at the end of 2016. In 2016, the contribution rate was 6.0 per cent. of gross wages.

The third tier has been in operation since 1 July 1998. The third tier gives any person the free choice to create additional savings for his pension by paying contributions into private pension funds. At the end of 2016, there were six private pension funds operating in Latvia, consisting of five open pension funds and one closed pension fund, offering 17 pension plans to 272,019 participants, or 27.5 per cent. of Latvia's economically active population. In 2016, 13.5 per cent. of total contributions were made by employers and 86.5 per cent. were made by individual participants. The net capital of the scheme equalled 1.52 per cent. of GDP at the end of 2016.

Tax Policy Principles

On 9 May 2017 the Government approved the Finance Ministry's tax policy principles for 2018-2021 (the **Tax Policy Principles**). Legislation in respect of the Tax Policy Principles and related bills were endorsed by the Saeima on 27 and 28 July 2017, and will enter into force on 1 January 2018.

The Tax Policy Principles include the following tax reforms:

- Three personal income tax basic rates for salary income and income from economic activities are stipulated in the Tax Policy Principles: 20 per cent. on annual income of up to €20,000, 23 per cent. on annual income between €45,000 and €55,000, and 31.4 per cent. on annual income exceeding €55,000.

- The non-taxable differentiated minimum in respect of income will be increased to €250 a month (in 2020), and tax allowances for dependants will also be raised.
- The non-taxable minimum in respect of income for pensioners will be raised from the current level of €235 a month to €250 in 2018. This will subsequently rise to €270 in 2019 and €300 in 2020.
- The minimum monthly wage will be increased to €430 from the current level of €380.
- The personal income tax rate for capital gains and income from capital will be increased to 20 per cent.
- The "solidarity tax" (which is a tax levied on income which exceeds the ceiling for mandatory state social contributions) will be transformed. Instead of being paid into the central government budget, the proceeds of the "solidarity tax" will be applied to social security, the healthcare financing budget and the personal income tax account.
- Mandatory social insurance contributions will be increased by one per cent. starting from 2018, and this revenue will be used for financing the healthcare sector.
- The system of corporate taxes will be altered such that a corporate income tax of 20 per cent. will apply to profit distributions. No tax will apply to retained earnings. Tax allowances for donations, EU subsidies for agriculture, large investment projects initiated prior to the end of 2017 and special economic zones will be maintained.
- Gains realised from the sale or exchange of securities shall be included in the taxable base of legal entities which are resident in Latvia or maintain a permanent establishment in Latvia if such securities are held for less than 36 months; however, the taxation of such gains will only apply upon a distribution of profits (in respect of which a corporate income tax of 20 per cent. will apply).
- The micro-enterprise tax regime will be amended such that companies with an annual turnover of up to €40,000 will qualify as a micro-enterprise (as compared to the current position where companies with an annual turnover of up to €100,000 qualify). Commencing in 2019, a personal income tax of 20 per cent. will apply to dividends paid by a micro-enterprise.
- Improvements are planned for the so-called lifestyle businesses (currently individual economic operators whose annual revenues do not exceed €15,000 and that are performing certain listed economic activities (e.g., craftsmen, photographers, florists, providers of beauty services and home care services) are allowed to pay a fixed amount (combined personal income tax and mandatory state social insurance contributions)).
- Taxes on slot machines will be raised, and personal income tax will apply to income from gambling exceeding €3,000.
- Excise tax rates will be gradually increased in accordance with excise tax changes in the other Baltic countries.
- A number of restrictions are stipulated, including those concerning (i) personal income tax payers' education, medical and other expenses, (ii) individuals' donations to political parties, (iii) contributions to private pension funds and life insurance, and (iv) restrictions on corporate income tax rebates for companies that donate to charity.

Infrastructure

Since EU accession, Latvia has been investing in improving its transport infrastructure with the help of EU structural funds. A number of transport and communications sectors have also been liberalised and competition and service levels are increasing.

The table below sets out certain transport and communications statistics for Latvia for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	2012	2013	2014	2015	2016
Road					
Passenger cars (*thousands*) (*no. at period end*)	618.3	634.5	657.8	679.1	664.2
Goods vehicles (*thousands*) (*no. at period end*)	76.3	79.9	83.2	85.9	84.1
Freight (*million tonnes*)	52.6	60.6	62.2	62.6	63.4
Rail					
Freight (*million tonnes*)	60.6	55.8	57.0	55.6	47.8
International freight (*million tonnes*)	59.2	54.7	55.8	54.0	46.3
Exports (*million tonnes*)	4.9	4.4	4.5	2.8	2.4
Imports (*million tonnes*)	49.7	47.7	49.4	48.3	42.0
Air					
Cargo loaded and unloaded in Riga airport (*thousand tonnes*)	32.8	53.2	32.8	18.8	19.5
Passenger turnover in Riga airport (*million passengers*)	4.8	4.8	4.8	5.2	5.4
Sea					
Outward cargo handled (*million tonnes*)	66.1	62.4	65.1	62.55	56.2
Inward cargo handled (*million tonnes*)	9.1	8.1	9.1	7.02	6.9
Telecommunications					
Fixed lines (*per 100 inhabitants*)	22.4	21.1	20.1	19.9	19.0
Mobile subscribers (*per 100 inhabitants*)	103.4	127.7	119.0	129.9	115.0
Estimated internet users (*per 100 inhabitants*)	74.0	77.9	79.4	82.0	82.6

Source: Central Statistical Bureau; Public Utilities Commission (Regulator)

Road

The number of registered passenger cars in Latvia increased to approximately 635 thousand at 31 December 2013, approximately 658 thousand at 31 December 2014 and approximately 679 thousand at 31 December 2015. As of 1 July 2016, paragraph 71.2 of the Cabinet Regulation No.1080 "Vehicle Registration Regulations" of 30 November 2010 came into force, stipulating that a vehicle is to be removed from the Register of Vehicles if the respective vehicle has not gone through a state technical inspection in the previous three years or if the respective vehicle has not been presented for the comparison of its identification numbers in the previous three years. This resulted in a reduction of the number of registered passenger cars in Latvia to approximately 664 thousand.

Road transport freight has increased since 2012 from 52.6 million tonnes to 63.4 million tonnes in 2016.

Two significant road transport links in Latvia are the Via Baltica, a motorway linking the Baltic States to Germany through Poland, and the east-west road transport corridor, which links Latvia's three major ports with Russia and which is being upgraded using EU funding.

Rail

Latvia had 1,826 km of broad gauge railways at 31 December 2016, linking it with the other Baltic States, Russia and Belarus, as well as Poland and Western Europe. The main rail corridor connects Moscow with Latvia's three ports (Riga, Ventspils and Liepaja). In October 2008, the Government created an independent state-owned company to manage the passenger component of the State-owned Latvian Railways with a view to promoting passenger rail travel and relieving road congestion.

During the period from 2009 to 2016, the number of rail and bus passengers has decreased by 20.1 per cent. and 11.6 per cent., respectively. This is due in part to the decrease in the population of Latvia during this period. Overall freight carried by rail was 59.2 million tonnes in 2011 and 60.6 million tonnes in 2012. In 2013, the volume of freight carried by rail decreased to 55.8 million tonnes, increased to 57.0 million tonnes in 2014 and then decreased to 55.7 million tonnes in 2015 and to 47.8 million tonnes in 2016.

Rail Baltica is a project to establish a new 1,435 mm gauge electrified railway with the design speed of 240 km/h from Tallinn through Pärnu, Riga, Panevezys and Kaunas to the Lithuanian - Polish border as a part of the trans-European transport network. The Rail Baltica project is designed to be a North-South railway corridor that will be interoperable with the TEN-T Network in the rest of Europe and be competitive in terms of quality with other modes of transport; it is projected to be completed by 2025.

A joint stock company, RB Rail AS, was established in 2014 by the three Baltic States and it submitted a joint Baltic States Connecting Europe Facility (**CEF**) application in February 2015. The guaranteed "national envelope" under the CEF for Latvia during the 2014 to 2020 investment period is €240 million with an aid intensity of 85 per cent.

During 2016, the location of the Rail Baltica route in the Republic of Latvia was determined and an agreement was signed between the relevant ministries responsible for transport in each of the Baltic States and RB Rail AS. This agreement provides for the arrangements for the financing and reporting of Rail Baltica in respect of the implementation of the first phase of the project.

A multilateral agreement was also signed between the responsible ministries, authorities and companies of the three Baltic States based on a project financing and implementation model, which is a prerequisite for the project to be eligible for the CEF's second co-financing component.

Further steps in the implementation of the Rail Baltica project will include the organisation of the international procurement under the supervision of RB Rail AS and the technical designs for the project.

Air

At present Latvia has two international airports, Riga International Airport and Liepaja International Airport. Riga International Airport is the largest international airport and the main air traffic centre in the three Baltic states. Between 2012 and 2016, Riga International Airport had an average of 5.0 million passengers. As at the beginning of 2017, there were flights to 79 destinations from Riga International Airport.

Latvia's national airline is airBaltic which has a fleet of 25 aircraft and flies to more than 60 destinations. Most of the flights are operated from Riga, but in 2014 airBaltic commenced flights from Tallinn and Vilnius. The Government currently holds 80.1 per cent. of the share capital of airBaltic, with the remaining share capital being held by a private investor. The Government is in the process of attracting a strategic investor for the airline. The Government's intention is to maintain substantial ownership and effective control of airBaltic by retaining more than 50 per cent. of the shares.

Sea

Latvia has three major ports, Ventspils, Riga and Liepaja, which are central to the country's transit trade. Riga accounted for approximately 58 per cent., Ventspils for approximately 30 per cent. and Liepaja for approximately 9 per cent. of total sea cargo loaded in 2016. In terms of cargo unloaded in 2016, Riga accounted for approximately 61 per cent., Ventspils for approximately 28 per cent. and Liepaja for approximately 8 per cent. The total cargo handled in Latvia's ports each year has averaged 70.5 million tonnes in the period between 2012 and 2016.

Telecommunications

The expansion of mobile telephone services has caused a decline in the number of fixed lines in Latvia from 501,000 in 2012 to 368,096 in 2016, resulting in a penetration rate (defined as the number of lines per 100 inhabitants) of 19.0 per cent. in 2016 (according to the Latvian Public Utilities

Commission statistics). Over the same period, the number of mobile subscribers decreased from 2,310,000 to 2,249,051, resulting in a penetration rate of 115.0 per cent. in 2016, (according to Public Utilities Commission statistics). According to the same source, the estimated number of internet users per 100 inhabitants in Latvia in November 2015 was 82.0.

The number of telecommunications operators in Latvia has grown significantly since the fixed line market opened to competition in 2003 although Lattelecom, which is 51 per cent. owned by the State, remains the dominant fixed line operator.

Energy

Both imported (natural gas, electricity, petroleum products, coal and coke) and local (hydropower, fuel-wood, charcoal, straw, biogas, bioethanol, biodiesel, peat, used tyres, municipal waste for heating and wind power) energy resources are used in Latvia to supply fuel, electricity and heat to commercial and residential consumers. Electricity is generated in Latvia by hydro power plants (**HPPs**), combined heat and power plants, biomass, biogas and wind power plants (**WPPs**) and is also imported. Heat is generated in Latvia using both local (fuel-wood) and imported fuels (including natural gas and fuel oil). In 2015, the total consumption of primary energy resources in Latvia amounted to 183.9 petajoules (**PJ**), and self-sufficiency in the total consumption of primary energy resources was 48.9 per cent. Fuel-wood was the most widely used local energy resource (52.6 PJ), and natural gas was the principal imported energy resource, in the total consumption of primary energy sources. Electricity generated by HPPs and WPPs accounted for 7.2 PJ, or 3.9 per cent., of total energy consumption in Latvia in 2015.

Latvia is on track to meet its 2020 renewable energy target (40 per cent.) set by the EU Renewable Energy Directive. In 2015, the share of energy from renewable sources in Latvia's gross final consumption of energy was 37.6 per cent. In 2015, the proportion of renewables used in transport in Latvia was 3.9 per cent of the total amount of energy used in the transport sector.

Latvia constantly seeks to improve its energy efficiency in buildings and heating systems, as well as to increase its use of renewable energy. Many of these projects have been supported by EU funds and, in the 2014 to 2020 planning period, more than €333 million of EU funds has been allocated for this purpose.

The volume of electricity generation in Latvia depends directly on the flow in the Daugava River. After the closure of the Ignalina Nuclear Power Plant in Lithuania at the end of 2009, Latvia no longer imports nuclear energy from Lithuania and now imports electricity only from Estonia and Russia.

In 2015, 6.56 PJ of Latvia's electricity requirements were net imported (electricity imports and electricity exports were 18.89 PJ and 12.33 PJ, respectively).

The consumption structure of Latvia's centralised heat supply has remained relatively constant in past years, with central heating comprising between 65 and 70 per cent. and hot water accounting for between 30 and 35 per cent. of total supplies. In 2015, 6.9 per cent. of the total final amount of centralised heat sold was sold to industrial users, 66.8 per cent. was sold to residential users and 26.3 per cent. was sold to other consumers. Centralised heat is produced in 618 boiler houses and 183 co-generation stations, and 7.07 terawatt hours of centralised heat were produced in 2015. The principal fuel source for heat production is natural gas which accounted for 62.9 per cent. of total centralised heat production in 2015.

Cogeneration is steadily increasing in Latvia, with renewable energy playing a growing role in powering the country's combined heat and power (**CHP**) generation plants. In 2015, Latvia's CHP plants produced 63.7 per cent. of the total electricity generated in the country (3.5 TWh of electricity) and 74.5 per cent. of the total heat produced in the country (5.3 TWh).

Energy Policy

Latvia's energy policy is aimed at improving the security of the country's energy supply by diversifying energy supply sources and by creating conditions for increasing Latvia's own electricity generation. In addition, Latvia is seeking to increase competition in the energy market, promote the use of renewable and local energy resources, and ensure environmental protection. In May 2013, the Cabinet of Ministers approved a new energy strategy (titled "Latvian Energy Strategy 2030") which sets out the main goal of promoting a competitive national economy through developing an energy policy that is well-balanced; effective; economically, socially and ecologically reasonable; and based on market principles. The strategy also has two additional goals of orientation towards sustainable energy (through promoting energy efficiency measures and seeking to achieve EU sustainability targets) and increasing security of energy supply through diversification of supply routes, developing energy infrastructure, establishing reserves and seeking improved international regulation.

Latvia's Energy development guidelines for 2016 to 2020 set out the main principles of Latvia's energy policy, the main goals to be achieved and the courses of action. These guidelines focus on an aim of a competitive, secure and sustainable energy policy, while highlighting the sector's long-term development trends. The main actions to achieve the goals are the diversification of primary energy resources, the creation of an efficient energy market, including the heating market, the development of sufficient energy infrastructure, the growth of renewable energy's share of the energy sector, the improvement of energy efficiency and the strengthening of international and regional cooperation.

In January 2015, the Ministers responsible for energy policy in the three Baltic States signed a Declaration on Energy Security of Supply of the Baltic States. By signing this declaration, the Baltic States assure their commitment to strengthening regional cooperation. In June 2015 the eight EU Baltic Sea region countries signed the Memorandum of Understanding on the reinforced Baltic Energy Market Interconnection Plan and the EU Strategy for the Baltic Sea Region (including the related Action Plan).

The Baltic energy market is currently connected to the European energy market through two sea cables between Estonia and Finland (Estlink I with transmission capacity of 350 MW and Estlink II with transmission capacity of 650 MW) and a sea cable between Lithuania and Sweden (NordBalt with transmission capacity of 700 MW and ramping restriction of 600 MW). The NordBalt sea cable was officially inaugurated on 14 December 2015.

Although Estonia typically has surplus electricity generation whereas Latvia and Lithuania are net importers of electricity, electricity trading between the Baltic States is limited by an insufficient transfer capacity in the Estonian-Latvian interconnection. Before the opening of the NordBalt interconnection, the average electricity prices in Latvia and Lithuania were almost always higher than in Estonia and Scandinavia. However, the NordBalt sea cable has considerably improved the situation and reduced the electricity price differentiation in the region.

The Kurzeme Ring project, which is a part of the Lithuanian-Swedish interconnection NordBalt with a transmission capacity of 700 MW, is currently being developed. The project foresees the construction of a 330 kV overhead line in the western part of Latvia. The first two stages of the project have been completed with the final stage due to be completed by the end of 2018. Another important energy supply project is the third Latvian-Estonian interconnection. Currently, an environmental impact assessment of this interconnection is being carried out and the route is being researched. The construction of the interconnection is scheduled to become operational in 2020. Both the third stage of the Kurzeme Ring and the third interconnection project are being funded under the EU CEF.

Latvia's household electricity market was opened on 1 January 2015, with households being able to choose their electricity supplier.

Natural gas is an important resource in the Latvian economy. Natural gas forms 24.4 per cent. of Latvia's primary energy consumption and in 2015 the demand for natural gas was approximately 53.08 PJ (1318 million cubic metres).

Until 3 April 2017, the major gas supplier in Latvia was JSC Gazprom. In 2015 a liquefied natural gas terminal in the Lithuanian port city of Klaipėda officially commenced commercial operations, which provides Latvia with an alternative to Russian gas

The Government liberalised its gas market in April 2017, and 21 traders have applied to register as a gas trader. The objectives of the liberalisation of the gas market are to increase Latvia's energy security, provide free gas market competition and ensure a steady supply. Under the legislative amendments to the Energy Law as part of the process of liberalisation, JSC Latvijas Gāze (**Latvia Gas**) has been split up into two companies, with one company to be responsible for operating the gas transmission and storage system (JSC Conexus Baltic Grid) and the other to be responsible for dealing with natural gas distribution and sale (Latvia Gas). In order to comply with the requirements relating to the independence of the transmission and storage system operator (as set out in Directive 2009/73/EC concerning common rules for the internal market in natural gas), the three current shareholders of JSC Conexus Baltic Grid (JSC Gazprom, Itera Latvija and Uniper Ruhrgas International GmbH) must dispose of their shareholdings. The Government is currently evaluating the possible acquisition of shares from these shareholders, and its decision regarding the shares will be based on economic considerations. The process of separating the shareholding of JSC Conexus Baltic Grid and Latvia Gas is expected to be completed (with the necessary shareholder changes) by 31 December 2017.

Currently, Latvia Gas carries out natural gas distribution and sale activities in Latvia in compliance with licences issued by the Public Utilities Commission. Since the beginning of 2017, JSC Conexus Baltic Grid has carried out natural gas transmission and storage activities in Latvia. Latvia Gas is now in the process of dividing its storage activities from its trading activities.

In December 2016, during the Baltic Minister Council meeting, the prime ministers of Latvia, Lithuania and Estonia signed a declaration with the aim of establishing a regional Baltic gas market by 2020. There are also further plans for connecting the Baltic gas market to Finland (through a new Estonian – Finnish gas pipe interconnection) in 2020 and then Poland (though a new Lithuania – Poland pipeline) by 2021. For a discussion of risks related to Latvia's imports of energy from Russia, see "*Risk Factors—Any deterioration in Latvia's relations with its major energy suppliers may adversely affect the supply of energy resources and therefore have a negative effect on the Latvian economy*".

In February 2009, Latvia Gas signed new gas supply contracts with Gazprom and Itera Latvija which provide for the supply of Latvia's forecasted gas requirements until 2030. The pricing is subject to adjustments on an annual basis.

Geological conditions in Latvia are favourable for creating underground storage facilities for natural gas and Latvia has been using its Incukalns gas storage facility, with an active capacity of 2.32 billion m^3, since 1968. A project to modernise this storage facility by 2020 has been identified as a regional project of common interest.

Latvia is seeking to increase the proportion of energy produced from renewable resources in the total final gross consumption of energy from 32.6 per cent. in 2005 to 40 per cent. by 2020 and, according to the new energy strategy, to at least 50 per cent. by 2030 (such targets being indicative). To reach these targets, Latvia believes that it will be necessary to establish an effective long-term state support scheme for renewable energy technologies. A feed-in support scheme for renewable electricity and highly efficient cogeneration in Latvia has been developed and is being revised to provide a stable, transparent and predictable investment environment for renewable energy and other industries and to reduce the burden of the support scheme on Latvian electricity end-consumers. The basic principle of the new support mechanism is that renewable energy should become competitive and exposed to market prices as soon as possible by eliminating subsidies and creating a level playing field for all low emission energy sources.

Over the nine years from 2007 to 2015, the penetration of renewable energy sources increased significantly: in 2007 the electrical capacity produced by cogeneration plants from biogas and fuel-wood was 10 MW. By 2015, this indicator had reached 126 MW.

Privatisation

A Privatisation Completion Law was introduced in Latvia in September 2005. The law determines how, and the suggested timescale for, the completion of the privatisation process (which is substantially complete) and land reform in Latvia. The law also deals with how any remaining privatisation certificates may be utilised pending their expiry and provides that certain state companies (including the Latvian post office, the Latvian railways, Latvian air traffic control, the Latvian state forestry company, Riga International Airport and JSC Latvenergo, the State-owned electricity utility) will not be privatised. One of the significant privatisations yet to be completed by the State is the privatisation of Lattelecom, which is 51 per cent. owned by the State. The State may also sell its remaining 28 per cent. direct and indirect shareholding in Latvia Mobile Telephone.

Environment

Environmental protection in Latvia is primarily the responsibility of the Ministry of Environmental Protection and Regional Development.

Within the National Sustainable Development Strategy 2030, the strategic goals are to create an attractive living environment for the citizens and to preserve the natural ecosystems, to become an EU leader in the area of nature conservation, to increase sustainable use of nature capital and to fully strengthen Latvia's position in the EU as well as to efficiently exploit the local renewable energy potential.

The overall purpose of the environmental policy, set out in the Environment Policy Strategy 2014-2020 in 2014, is to provide the public with the opportunity to live in a clean and well-arranged environment through sustainable development, preservation of environmental quality and biological diversity, and sustainable use of natural resources, as well as to encourage participation by the public in environmental decision-making and to increase their awareness of the environmental situation.

Latvia's relatively underdeveloped national economy and tradition of environmental protection have contributed to the conservation of many species and habitats in Latvia which no longer exist in other parts of Western Europe. There are 683 specially protected nature territories (**SPNT**) in Latvia, which include nature reserves and parks, national parks, nature monuments, protected marine territories and one biosphere reserve. Approximately, 17 and 15 per cent. of Latvia's land and sea area, respectively, is considered to be SPNT.

In general the air quality in Latvia is considered to be good, although some local air quality problems exist in Riga city centre as a result of traffic and fuel combustion (household and industrial). Pursuant to the requirements of the UN Economic Commission for Europe and the EU, Latvia has established limits for total emissions of sulphur dioxide, nitrogen dioxide, volatile organic compounds and ammonia.

Latvia is a water-rich country, where land drainage is more of a priority than irrigation. Water scarcity is not typical. The quality of Latvian groundwater is assessed as good by the Latvian Environment, Geology and Meteorology Centre. Coastal waters, the water of the Gulf of Riga and inland surface waters still require some improvements in order to reduce the impact of nutrient pollution and hydrological and morphological alterations. However, their current status does not impair water use. Due to long-term investment programmes to improve the collection and treatment of sewage, the amount of pollution discharged to surface waters has decreased significantly since the 1990s. Some improvements in agricultural practices are also taking place. For example, the construction of new manure storage facilities and limitations on the use of fertilisers.

In 1991, the Natural Resources Tax Law came into force (which was then substantially revised in 2005) to encourage the economically efficient use of natural resources, promote energy efficient technology, restrict pollution and reduce damage to the environment. For example, a tax has been levied on industries involved in the extraction of natural resources and the pumping and storage of gases in subterranean structures.

Since EU accession, Latvia has been investing in improving its environment infrastructure with the help of EU funds. A number of waste water treatment and drinking water quality improvement projects have been implemented and the country's waste management infrastructure has been gradually improved.

Latvia established an Emission Allowances Auctioning Instrument (**EAAI**) to administer and manage revenues from the auctioning of emission allowances. All revenues obtained from the auctioning of EU emission allowances should be used for climate related measures, by investing in areas such as energy efficiency, promoting the use of renewable energy, promoting climate change adaptation, as well as the raising of public awareness regarding the importance of and possibilities for greenhouse gas emission reduction. Financing was given to projects selected through open tenders for project applications. By the end of 2016, 2 different EAAI open tenders had been organised and 16 projects are in the implementation stage within the framework of the EAAI. New open tenders will be organised over the coming years.

BALANCE OF PAYMENTS AND FOREIGN TRADE

BALANCE OF PAYMENTS

Current Account

Latvia’s imports and exports both increased in each of 2012 and 2013 as an increase in exports and industrial production, driven more by competitiveness gains than by external demand, took place requiring more intermediate and capital goods. Exports continued to increase in 2014, 2015 and 2016. However, imports decreased in 2014, increased in 2015 and decreased in 2016, reflecting weaker external demand, falling global prices and a reduction in capital investment in the domestic economy.

Along with the increase in economic activity in 2012, there was an increase in the goods trade deficit to €2.5 billion, as imports increased faster than exports. As a percentage of GDP, Latvia’s goods trade deficit was 12.0 per cent. in 2012. In 2013 the goods trade deficit was €2.6 billion and in 2014 this narrowed to €2.2 billion, as the rate of growth in the economy slowed. As a percentage of GDP, Latvia’s goods trade deficit was 11.5 per cent. in 2013 and 9.3 per cent. in 2014. In 2015 and in 2016 the goods trade deficit continued to contract and decreased to 8.4 per cent. and 7.0 per cent., respectively, principally due to the decrease in goods imports.

Latvia’s services balance has been positive in all periods since 2012. In 2012, exports of services grew strongly leading to an increase in the services balance. In addition, in 2013, the services balance increased compared with 2012 as a result of an increase in exports of travel services and several smaller services sectors such as communication, construction and computer and information services. Latvia’s services balance decreased slightly in 2014 compared to 2013 principally as a result of falling prices of transport services reflecting increased competition resulting from Russia-related geopolitical conditions. Latvia’s services balance remained at a similar level in 2015 (€1.77 billion, or 7.2 per cent. of GDP) as compared to 2014 (€1.75 billion, or 7.4 per cent. of GDP). In 2015, service imports increased by 8.2 per cent., which was mainly due to an increase in air transport services. In 2016, Latvia’s service balance increased to €1.88 billion as a result of growth in exports of services, principally telecommunications and computer and information services (which offset a decline in transportation services). As a percentage of nominal GDP, Latvia’s services balance was 7.4 per cent. in 2012, 7.8 per cent. in 2013, 7.4 per cent in 2014, 7.2 per cent. in 2015 and 7.5 per cent. in 2016.

In 2012, 2013, 2014 and 2015, Latvia’s primary income account was negative, principally as a result of the increased profitability of foreign-owned enterprises reflected in dividend payments and reinvested earnings. In 2014, a slight contraction in inflows of EU funds and increased payments into the EU budget also contributed to the negative primary income balance. In 2015, the negative primary income balance increased, reaching 0.3 per cent. of GDP, as a result of an increase in costs associated with dividend payments due to larger FDI in Latvia and an increase in profits reinvested by foreign direct investors. In 2016, Latvia had a positive primary income account balance of €58.0 million (0.2 per cent. of GDP), primarily as a result of inflows of EU funds.

Latvia’s secondary income account (reflecting remittances from Latvians working abroad and including certain fiscal transfers from the EU) has remained positive since 2012. In 2012, 2013, 2014, 2015 and 2016, the secondary income account was equal to 1.9 per cent., 1.6 per cent., 1.3 per cent., 0.1 per cent., 0.6 per cent. and 0.7 per cent. of nominal GDP, respectively.

Latvia’s current account balance showed deficits in each of 2012, 2013, 2014 and 2015, primarily driven by the trade balance. The deficit for 2012 to 2015 reflected both the increased trade deficit and an increasing profitability in foreign-owned enterprises (including, in particular, banks) which increased the deficit on the primary income account through dividend payments and retained earnings. In 2012, 2013, 2014 and 2015, Latvia’s current account deficits equalled 2.6 per cent., 2.7 per cent., 2.0 per cent. and 0.8 per cent. of nominal GDP, respectively. In 2016, Latvia's current account balance showed a surplus equal to 1.5 per cent. of GDP, largely as a result of the balance of goods and services, where exports of goods and services exceeded the value of imports for the first time since 2000.

Capital and Financial Account

Latvia's capital account has been positive in each period since 2012. Latvia's financial account since 2011 has been affected by both the private and public sector. In 2012 and 2013, there was a stable inflow of FDI. In 2014, the inflows of investment slowed compared to 2013 as a result of geopolitical turmoil and the slow recovery of the Eurozone economy. In 2015, the major cross-border financing flows related to the purchase of debt securities under the European Central Bank's (**ECB**) expanded asset purchase programme (**APP**), reflecting Eurozone monetary policy. Credit institution investment in debt securities increased significantly, although there was an even more significant decrease in the deposits of credit institutions with foreign banks. In 2015, the greatest flows in the government sector were related both to the repayment of part of the international loan provided by the EC and the issuance of bonds in the international capital markets. The APP continued in 2016, contributing to a growth of foreign assets. The most notable factor affecting liabilities was a decrease in foreign customer deposits with Latvian credit institutions, although this was partly offset by the issuance of bonds by the Treasury.

Latvia saw significant funding inflows covering the current account deficit until late 2008 when the full effects of the global financial crisis on the country's large external imbalances (principally a lack of liquidity in international markets and a collapse of both external and domestic demand) became apparent. Latvia's funding inflows are principally in the form of equity investment and reinvested earnings and other investment, which, prior to 2008, were principally lending by non-Latvian banks to their subsidiaries in Latvia. For more information, see "*—Foreign Direct Investment*". In December 2008, the EC, the IMF, the World Bank, the EBRD and several Member States of the EU agreed to provide financial support to Latvia in an amount of €7.5 billion. See "*Indebtedness—Financial Assistance from International Lenders*". In 2008, Latvia received the first tranche of the IMF Stand-By Arrangement (in an amount of €600 million). In 2009, Latvia received €2,700 million in assistance, in 2010 it received €1,100 million and in 2011 it received €100 million. Reflecting financial assistance received from international lenders and the actions taken by Latvia to stabilise its banking system and ensure economic recovery in the aftermath of the global financial crisis, the confidence of foreign investors and other non-residents in Latvia increased. As a result, Latvia experienced an increase in both foreign deposits and net FDI in 2010, both of which contributed to a reduction in the financial account deficit. In 2011 and 2012, Latvia raised U.S.$500 million and U.S.$2.25 billion, respectively, in the international capital markets and, in 2012, it repaid foreign financial assistance in an amount of €1,153.8 million. In 2015, Latvia repaid €1.2 billion of the international loan provided by the EC using funds raised in the international capital markets. In 2016 Latvia raised €1.3 billion in the international capital markets.

Reflecting the above, Latvia's capital and financial account balance was equal to 0.9 per cent., 1.0 per cent., 2.7 per cent., 0.8 per cent. and 2.1 per cent. of nominal GDP in each of 2012, 2013, 2014, 2015 and 2016, respectively.

The table below sets out Latvia's balance of payments for the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	2013	2014	2015	2016
			(€ millions)		
Current account	(793.58)	(621.97)	(463.15)	(188.85)	369.53
Trade balance	(2,636.97)	(2,619.98)	(2,199.37)	(2,041.55)	(1,741.62)
Exports	9,645.41	9,809.89	10,214.72	10,321.70	10,266.22
Imports	12,282.37	12,429.84	12,414.09	12,363.25	12,007.84
Services balance	1,622.35	1,773.19	1,751.75	1,765.94	1,878.44
Exports	3,767.45	3,900.49	3,853.07	4,038.94	4,243.68
Imports	2,145.11	2,127.28	2,101.31	2,273.01	2,365.23
Primary income balance	(129.10)	(74.22)	(30.75)	(58.31)	57.97
Credit	1,258.34	1,236.23	1,229.08	1,390.60	1,483.79
Debit	1,387.43	1,310.44	1,259.82	1,448.91	1,425.82
Secondary income balance	350.12	299.02	15.21	145.06	174.74
Credit	1,051.75	1,083.85	812.93	902.99	899.35
Debit	701.63	784.83	797.71	757.93	724.61
Capital and financial account	856.75	804.53	1,400.63	489.88	784.39
Capital account	652.61	573.01	753.68	684.37	249.68
Financial account	204.14	231.52	646.95	(194.49)	534.71
Direct investment	863.19	680.19	589.51	600.18	114.05
Portfolio investment	(988.86)	193.68	(79.11)	2,059.19	939.48
Financial derivatives..............................	(2.79)	(207.60)	149.08	176.91	196.15
Other investment....................................	1,117.88	223.06	1,064.86	(2,170.05)	(772.60)
Reserve assets..	791.39	392.67	(116.36)	310.66	124.36
Errors and omissions	345.12	280.47	356.45	(690.00)	(84.50)

Source: Bank of Latvia

The table below sets out Latvia's balance of payments as a percentage of nominal GDP for the relevant period for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	2013	2014	2015	2016
			(as a percentage of GDP)		
Current account..	(3.6)	(2.7)	(2.0)	(0.8)	1.5
Trade balance	(12.0)	(11.5)	(9.3)	(8.4)	(7.0)
Services balance	7.4	7.8	7.4	7.2	7.5
Primary income balance	(0.6)	(0.3)	(0.1)	(0.2)	0.2
Secondary income balance	1.6	1.3	0.1	0.6	0.7
Capital and financial account...................	3.9	3.5	5.9	2.0	3.1
Capital account...	3.0	2.5	3.2	2.8	1.0
Financial account..	0.9	1.0	2.7	(0.8)	2.1
Reserve assets...	3.6	1.7	(0.5)	1.3	0.5
Errors and omissions	1.6	1.2	1.5	(2.8)	(0.3)

Source: Bank of Latvia

FOREIGN TRADE

Introduction

Increased foreign demand, price increases in foreign markets and competitiveness gains by Latvian producers all contributed to export growth in nearly all types of goods exported in all of Latvia's main export markets in the period from March 2010 to 2015, although the rate of growth in exports slowed in 2015 as external demand weakened. This weakening then resulted in a decrease in exports in 2016. The real annual growth rates of exports in 2012, 2013, 2014, 2015 and 2016 were 15.7 per cent., 1.5 per cent., 2.3 per cent., 1.1 per cent. and minus 0.2 per cent., respectively. Latvia's imports increased from March 2010 to 2014, although they decreased in 2015 and 2016. The real annual growth rates of imports in 2012, 2013, 2014, 2015 and 2016 were 13.9 per cent., 1.0 per cent., 0.2 per cent., minus 1.3 per cent. and minus 1.4 per cent., respectively. The increases in imports from March 2010 to 2014 were generally closely related to export growth as reflected in the strong growth in imports of intermediate goods since mid-2009 and, to a lesser extent, capital goods used in export-oriented manufacturing expansion and investment activities. Accordingly, the recent slowing down of the rate of growth in exports also impacted on imports and contributed to the decrease in imports in 2015 and 2016.

Geographical Breakdown of Trade

Latvia's main trading partners are the EU Member States, which accounted for between 70 and 74 per cent. of Latvia's exports and for between 78 and 80 per cent. of its imports for each year in the period between 2012 and 2016. Within the EU Member States, the principal export destinations for Latvia's goods in 2016 were Lithuania (which accounted for 18.3 per cent. of Latvia's total exports in that year), Estonia (12.1 per cent.) and Germany (6.6 per cent.). In terms of imports, the principal EU sources of imports for Latvia in 2015 were Lithuania (which accounted for 17.5 per cent. of Latvia's total imports in that year), Germany (7.2 per cent.) and Poland (10.7 per cent.). Outside the EU, the share of the states comprising the CIS in Latvia's exports was 11.5 per cent. in 2016. Within the CIS states, Russia is the principal export market for Latvian goods, accounting for 66.4 per cent. of Latvian exports to the CIS states in 2016. In terms of imports, the CIS states accounted for 10.4 per cent. of Latvia's imports in 2016. As with exports, within the CIS, Russia is the principal source of Latvia's imports, accounting for 74.0 per cent. of CIS imports to Latvia in 2016.

Other countries accounted for 14.5 per cent. of Latvian exports and 9.8 per cent. of its imports in 2016. Outside the EU and the CIS states, Latvia primarily trades with countries in Asia and the Americas. Asia accounted for 8.6 per cent. of Latvia's exports and 6.9 per cent. of its imports in 2016. The Americas accounted for 2.1 per cent. of Latvia's exports and 1.2 per cent. of its imports in 2016.

The tables below set out the geographic distribution of Latvian exports of goods for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December			
	2012		2013	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*
EU				
Germany	782.6	7.9	742.2	7.4
UK	321.1	3.3	367.6	3.7
Sweden	511.3	5.2	503.1	5.0
Denmark	388.7	3.9	410.3	4.1
Lithuania	1,575.6	16.0	1,724.3	17.2
Estonia	1,285.6	13.0	1,275.6	12.7
Poland	593.5	6.0	672.7	6.7
Other EU	1,405.2	14.2	1,425.6	14.2
Total	**6,863.5**	**69.5**	**7,121.5**	**71.1**
CIS				
Russia	1,125.8	11.4	1,163.1	11.6
Ukraine	97.7	1.0	91.7	0.9
Belarus	180.8	1.8	186.9	1.9
Other CIS	117.5	1.2	161.5	1.6
Total	**1,521.8**	**15.4**	**1,603.2**	**16.0**
Other	1,485.7	54.1	1,296.6	12.9
Total	**9,871.1**	**100.0**	**10,021.3**	**100.0**

	Year ended 31 December					
	2014		2015		2016	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
EU						
Germany	702.6	6.9	658.9	6.4	747.4	7.2
UK	510.9	5.0	542.9	5.2	598.3	5.8
Sweden	550.6	5.4	538.5	5.2	618.2	6.0
Denmark	386.8	3.8	417.3	4.0	480.0	4.6
Lithuania	1,915.7	18.7	1,989.0	19.2	1,891.2	18.3
Estonia	1,216.9	11.9	1,207.5	11.7	1,249.5	12.1
Poland	664.1	6.5	615.9	5.9	539.7	5.2
Other EU	1,501.4	14.7	1,563.0	15.1	1,524.8	14.7
Total	**7,449.0**	**72.7**	**7,533.1**	**72.7**	**7,649.1**	**74.0**
CIS						
Russia	1,097.5	10.7	836.8	8.1	787.5	7.6
Ukraine	76.5	0.7	70.9	0.7	88.3	0.9
Belarus	177.6	1.7	151.6	1.5	106.8	1.0
Other CIS	170.8	1.7	174.9	1.7	203.4	2.0
Total	**1,522.4**	**14.9**	**1,234.1**	**11.9**	**1,186.0**	**11.5**
Other	1,277.2	12.5	1,596.0	15.4	1,502.9	14.5
Total	**10,248.6**	**100.0**	**10,363.2**	**100.0**	**10,338.0**	**100.0**

Source: Central Statistical Bureau

The tables below set out the geographic distribution of Latvian imports of goods for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December			
	2012		2013	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*
EU				
Germany	1,444.7	11.5	1,463.4	11.6
Finland	569.0	4.5	585.5	4.6
Sweden	421.7	3.4	437.9	3.5
Denmark	282.4	2.3	277.4	2.2
Lithuania	2,482.0	19.8	2,571.7	20.4
Estonia	969.3	7.7	1,031.5	8.2
Poland	1,077.2	8.6	1,246.1	9.9
Other EU	2,434.1	19.5	2,460.7	19.5
Total	**9,680.5**	**77.4**	**10,074.3**	**79.7**
CIS				
Russia	1,177.8	9.4	1,057.7	8.4
Belarus	447.3	3.6	310.3	2.5
Other CIS(1)	253.8	2.0	185.7	1.5
Total	**1,878.8**	**15.0**	**1,553.7**	**12.3**
Other	952.9	7.6	1,007.2	8.0
Total	**12,512.3**	**100.0**	**12,635.1**	**100.0**

	Year ended 31 December					
	2014		2015		2016	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
EU						
Germany	1,442.0	11.4	1,404.4	11.2	1,471.8	11.9
Finland	759.8	6.0	658.7	5.3	560.4	4.5
Sweden	395.9	3.1	414.0	3.3	442.3	3.6
Denmark	282.8	2.2	269.2	2.2	270.1	2.2
Lithuania	2,224.6	17.6	2,166.4	17.3	2,159.8	17.5
Estonia	973.6	7.7	933.7	7.5	982.5	8.0
Poland	1,435.8	11.3	1,378.7	11.0	1,322.0	10.7
Other EU	2,582.4	20.4	2,606.8	20.9	2,626.6	21.3
Total	**10,096.8**	**79.8**	**9,831.9**	**78.7**	**9,835.5**	**79.8**
CIS						
Russia	1,021.2	8.1	1,075.2	8.6	949.1	7.7
Belarus	319.1	2.5	300.1	2.4	191.7	1.6
Other CIS(1)	163.1	1.3	129.9	1.0	142.1	1.1
Total	**1,503.4**	**11.9**	**1,505.1**	**12.0**	**1,282.0**	**10.4**
Other	1,054.1	8.3	1,155.1	9.2	1,203.7	9.8
Total	**12,654.3**	**100.0**	**12,492.1**	**100.0**	**12,321.1**	**100.0**

Source: Central Statistical Bureau

Composition of Trade

In 2016, the principal product groups exported by Latvia were agricultural and food products (comprising live animals, prepared foodstuffs, principally fish products, dairy products and vegetable products), machinery (principally appliances and electronic equipment), wood products (principally sawn wood, fuel wood and round wood), and chemical products (principally pharmaceuticals). Over the period from 2012 to 2016 and as a percentage of exports:

- agricultural and food product exports fluctuated between a low of 18.6 per cent. in 2015 and a high of 20.5 per cent. in 2012;
- machinery product exports fluctuated between a low of 13.7 per cent. in 2012 and a high of 19.1 per cent. in 2015;
- wood product exports fluctuated between a low of 14.9 per cent. in 2012 and a high of 17.3 per cent. in 2016; and
- chemical product exports fluctuated between a low of 9.5 per cent. in 2012 and a high of 11.2 per cent. in 2016.

In 2016, the principal product groups imported by Latvia were machinery (principally machine parts, electrical equipment, office equipment, cables and wires), agricultural and food products (comprising live animals, prepared foodstuffs, principally fish products, dairy products and vegetable products), chemical products (principally pharmaceuticals), and transport vehicles (principally land vehicles other than railway or tramway rolling stock). Over the period from 2012 to 2016 and as a percentage of imports:

- machinery product imports fluctuated between a low of 18.3 per cent. in 2012 and a high of 22.0 per cent. in 2015;
- agricultural and food product imports fluctuated between a low of 15.3 per cent. in 2015 and a high of 16.5 per cent. in 2016;
- chemical product imports fluctuated between a low of 14.0 per cent. in 2012 and a high of 16.5 per cent. in 2016; and
- transport vehicle imports fluctuated between a low of 7.7 per cent. in 2013 and a high of 9.8 per cent. in 2016.

The tables below set out the composition of Latvia's exports of goods for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December			
	2012		**2013**	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*
Live animals and animal products	430.9	4.4	499.7	5.0
Vegetable products	721.4	7.3	574.7	5.7
Fats and oils	31.6	0.3	35.5	0.4
Prepared foodstuffs	841.0	8.5	937.8	9.4
Mineral products	858.8	8.7	873.0	8.7
Products of the chemical and allied industries	636.9	6.5	673.6	6.7
Plastics, rubber and articles thereof	299.6	3.0	303.7	3.0
Raw hides, leather, furskins and articles thereof	33.7	0.3	32.9	0.3
Wood and articles of wood	1,466.8	14.9	1,594.0	15.9
Pulp of wood, paper and paperboard	197.0	2.0	218.9	2.2
Textiles and textile articles	386.6	3.9	430.2	4.3
Footwear, headgear, umbrellas and other articles	42.1	0.4	31.4	0.3
Articles of stone, plaster, cement, glassware and ceramic products	187.8	1.9	216.8	2.2
Precious and semi- precious stones and metals and articles thereof	51.3	0.5	69.3	0.7
Base metals and articles of base metals	1,381.0	14.0	1,051.7	10.5
Machinery and mechanical appliances; electrical equipment	1,352.6	13.7	1,561.0	15.6
Transport vehicles	534.0	5.4	452.4	4.5
Optical instruments and apparatus	102.1	1.0	129.3	1.3
Arms and ammunition	0.3	0.0	0.7	0.0
Miscellaneous manufactured articles	260.8	2.6	295.9	3.0
Works of art collectors' pieces and antiques	0.3	0.0	0.4	0.0
Other goods	54.3	0.5	38.3	0.4
Total	**9,871.1**	**100.0**	**10,021.3**	**100.0**

	Year ended 31 December					
	2014		2015		2016	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Live animals and animal products	439.1	4.3	378.6	3.7	413.6	4.0
Vegetable products	556.7	5.4	722.7	7.0	724.6	7.0
Fats and oils	34.2	0.3	24.4	0.2	23.3	0.2
Prepared foodstuffs	951.1	9.3	798.1	7.7	840.0	8.1
Mineral products	849.1	8.3	702.7	6.8	520.2	5.0
Products of the chemical and allied industries	699.7	6.8	732.6	7.1	812.6	7.9
Plastics, rubber and articles thereof	320.4	3.1	319.1	3.1	339.7	3.3
Raw hides, leather, furskins and articles thereof	29.5	0.3	35.9	0.3	31.0	0.3
Wood and articles of wood	1,700.0	16.6	1,710.1	16.5	1,794.8	17.4
Pulp of wood, paper and paperboard	214.2	2.1	232.0	2.2	234.1	2.3
Textiles and textile articles	421.8	4.1	379.8	3.7	314.8	3.0
Footwear, headgear, umbrellas and other articles	32.4	0.3	22.4	0.2	29.5	0.3
Articles of stone, plaster, cement, glassware and ceramic products	228.3	2.2	239.2	2.3	297.2	2.9
Precious and semi- precious stones and metals and articles thereof	84.3	0.8	80.8	0.8	87.5	0.8
Base metals and articles of base metals	925.2	9.0	890.3	8.6	835.1	8.1
Machinery and mechanical appliances; electrical equipment	1,724.5	16.8	1,983.0	19.1	1,811.2	17.5
Transport vehicles	528.3	5.2	544.2	5.3	656.0	6.3
Optical instruments and apparatus	150.9	1.5	197.3	1.9	176.2	1.7
Arms and ammunition	1.0	0.0	0.5	0.0	0.7	0.0
Miscellaneous manufactured articles	321.3	3.1	339.6	3.3	367.0	3.5
Works of art collectors' pieces and antiques	0.8	0.0	0.6	0.0	1.0	0.0
Other goods	35.8	0.3	29.7	0.3	22.2	0.2
Total	**10,248.6**	**100.0**	**10,363.2**	**100.0**	**10,332.4**	**100.0**

Source: Central Statistical Bureau

The tables below set out the composition of Latvia's imports of goods for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December			
	2012		2013	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*
Live animals and animal products	430.4	3.4	486.3	3.8
Vegetable products	511.8	4.1	462.5	3.7
Fats and oils	130.1	1.0	111.0	0.9
Prepared foodstuffs	857.4	6.9	943.6	7.5
Mineral products	2,209.6	17.7	2,170.8	17.2
Products of the chemical and allied industries	1,109.8	8.9	1,187.9	9.4
Plastics and articles thereof; rubber and articles thereof	645.9	5.2	698.6	5.5
Raw hides, leather, furskins and articles thereof	45.2	0.4	53.0	0.4
Wood and articles of wood	198.7	1.6	248.0	2.0
Pulp of wood; paper and paperboard	267.1	2.1	299.7	2.4
Textiles and textile articles	527.0	4.2	601.1	4.8
Footwear, headgear, umbrellas and other articles	110.7	0.9	111.7	0.9
Articles of stone, plaster, cement, glassware, ceramic	197.7	1.6	213.5	1.7
Precious and semi- precious stones and metals and articles thereof	60.5	0.5	81.6	0.6
Base metals and articles of base metals	1,303.6	10.4	1,093.5	8.7
Machinery and mechanical appliances; electrical equipment	2,284.2	18.3	2,326.9	18.4
Transport vehicles	1,078.3	8.6	967.8	7.7
Optical instruments and apparatus	221.1	1.8	236.1	1.9
Arms and ammunition	9.9	0.1	11.4	0.1
Miscellaneous manufactured articles	312.5	2.5	329.2	2.6
Works of art collectors' pieces and antiques	0.7	0.0	1.0	0.0
Total	**12,512.3**	**100.0**	**12,635.1**	**100.0**

	Year ended 31 December					
	2014		2015		2016	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Live animals and animal products	423.8	3.3	373.9	3.0	411.0	3.3
Vegetable products	499.9	4.0	522.7	4.2	535.2	4.4
Fats and oils......................................	92.2	0.7	77.0	0.6	61.6	0.5
Prepared foodstuffs...........................	979.9	7.7	932.7	7.5	1,039.1	8.4
Mineral products...............................	1,841.0	14.5	1,507.4	12.1	1,109.8	9.0
Products of the chemical and allied industries	1,196.3	9.5	1,244.3	10.0	1,323.4	10.8
Plastics and articles thereof; rubber and articles thereof..........................	733.9	5.8	693.5	5.6	698.8	5.7
Raw hides, leather, furskins and articles thereof	49.9	0.4	41.4	0.3	41.8	0.3
Wood and articles of wood	330.5	2.6	358.9	2.9	410.4	3.3
Pulp of wood; paper and paperboard .	305.3	2.4	281.4	2.3	291.1	2.4
Textiles and textile articles	587.0	4.6	520.1	4.2	483.4	3.9
Footwear, headgear, umbrellas and other articles	118.0	0.9	105.0	0.8	116.6	0.9
Articles of stone, plaster, cement, glassware, ceramic..........................	236.4	1.9	223.9	1.8	239.9	2.0
Precious and semi- precious stones and metals and articles thereof	101.5	0.8	85.3	0.7	101.6	0.8
Base metals and articles of base metals	1,044.4	8.3	988.9	7.9	935.9	7.6
Machinery and mechanical appliances; electrical equipment.....	2,538.9	20.1	2,749.0	22.0	2,602.4	21.2
Transport vehicles.............................	975.1	7.7	1,143.5	9.2	1,209.5	9.8
Optical instruments and apparatus	241.3	1.9	278.8	2.2	262.7	2.1
Arms and ammunition	6.5	0.1	8.2	0.1	14.8	0.1
Miscellaneous manufactured articles .	351.3	2.8	355.0	2.8	345.6	2.8
Works of art collectors' pieces and antiques..	1.2	0.0	1.1	0.0	1.08	0.0
Other goods.......................................	0.0	0.0	0.0	0.0	42.8	0.3
Total..	**12,654.3**	**100.0**	**12,492.1**	**100.0**	**12,279.2**	**100.0**

Source: Central Statistical Bureau

Trade Policy

The main legal framework for trade is set by Latvia’s commitments as a member of the EU and the WTO. Trade policy is a common policy of the EU, and since Latvia’s accession to the EU, its domestic customs regime has been harmonised with EU legislation.

Latvia’s trading relations with other non-EU countries are regulated under agreements concluded and negotiated by the EU. The European Commission negotiates trade agreements on behalf of the EU Member States and the common position of the Member states is co-ordinated within the Trade Policy Committee of the Council of the European Union.

The priorities of EU common trade policy are set out in the EU’s mid-term trade policy strategy titled “Trade for All – Towards a more responsible trade and investment policy”. Supporting the negotiation of new WTO compatible free trade agreements, the effective implementation and negotiation of the

EU's bilateral free trade agreements and promoting trade in services, digital trade, sustainability, environment, labour and human rights, access to raw materials and investment policy are set out as key EU common trade policy issues.

The EU has recently concluded negotiations on trade agreements with Canada, Singapore and Vietnam which will enter into force in the coming years, as well as an agreement with Ukraine which entered into force on 1 January 2016 and agreements with Georgia and Moldova which entered into force on 1 July 2016. Negotiations with the United States of America and Japan are currently ongoing. The EU is also considering opening new negotiations on free trade agreements with Australia, New Zealand, ASEAN countries, resuming negotiations with Mercosur, as well as modernising existing agreements with Mexico, Chile and Turkey.

Latvia has concluded bilateral economic cooperation agreements with the Republic of Armenia, the Republic of Azerbaijan, the Republic of Belarus, the People's Republic of China, Georgia, the Republic of Kazakhstan, the Republic of Kyrgyzstan, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, the Republic of Turkey, Turkmenistan, Ukraine, the United Arab Emirates and the Republic of Uzbekistan. These agreements are aimed at enhancing bilateral economic cooperation between Latvia and countries outside the EU in industry, transport, pharmaceuticals, agriculture, financial services, communications, tourism, professional training, promoting investment, technologies and innovation, among other fields. The agreements also provide for an Intergovernmental Commission or a Joint Committee to be established. Meetings of these bodies enable regular supervision of the implementation of these agreements and provide a platform to discuss matters of common interest to enhance economic cooperation at both governmental and entrepreneurial levels.

During 2011, Latvia conducted an assessment of its competitiveness which identified a number of principal challenges, including reducing the size of the shadow economy, improving the education system, addressing the inequalities between different parts of Latvian society and increasing the share of manufacturing in GDP. In June 2013, the Guidelines on the National Industrial Policy for 2014-2020 (the **NIP**) were announced. The objective of the NIP is to promote structural changes in the economy in favour of the manufacture of products and services with higher value added, principally by increasing the role of, and modernising, industry and services and through expanding exports of these more sophisticated goods and services. In support of the NIP, the Guidelines for Export Promotion of Latvian Goods and Services and Attraction of Foreign Investment in 2013-2019 (the **Guidelines for Export Promotion**) were approved in June 2013. Further to the NIP and the Guidelines for Export Promotion, a number of concrete steps have been taken to foster the promotion of exports including measures designed to improve Latvian exporters' access to foreign markets, such as enhanced export marketing measures, improving public-private co-ordination of export promotion activities, making available short-term export guarantees and extending Latvia's network of Foreign Economic Representative Offices.

Latvia currently has 21 Foreign Economic Representative Offices in 20 countries, located in Azerbaijan, Belarus, China (Beijing and Shanghai), Denmark, Finland, France, Germany, Italy, Japan, Kazakhstan, Lithuania, Netherlands, Norway, Poland, Russia, Singapore, Sweden, Ukraine, United Arab Emirates, and the United Kingdom, which provide an important contribution to Latvia's export promotion and attraction of FDI.

FOREIGN DIRECT INVESTMENT

At 31 December 2016, the sectors with the largest accumulated FDI inflows in Latvia were financial intermediation, trade, real estate and manufacturing which together accounted for 64.6 per cent. of accumulated FDI.

Prior to the global financial crisis, FDI inflows were more concentrated in the financial intermediation and real estate sectors. However, with an improvement in the business climate and gains in competitiveness as Latvia emerged from recession, investors' interest in Latvia's manufacturing sector has revived. In 2014 and 2015, FDI inflows in manufacturing were the third largest FDI inflows in Latvia. In 2012 net FDI inflows to Latvia were 3.9 per cent. of its nominal GDP, in 2013 net FDI inflows to Latvia were 3.0 per cent. of its nominal GDP, in 2014 and 2015, net FDI inflows to Latvia were 2.5 per cent. of its nominal GDP and in 2016 net FDI inflows to Latvia were 0.5 per cent. of its nominal GDP. The declining trend between 2012 to 2014 reflected prevailing weak economic conditions in the Eurozone as well as increased geopolitical uncertainty, particularly in 2014. However, in 2015 FDI inflows increased, with the most significant FDI inflows increase being in respect of the financial, trade, construction and professional, scientific and technical activities sectors. In 2016, FDI inflows decreased, largely as a result of lower levels of accumulated FDI in the financial intermediation sector (which resulted principally from the capital structure optimisation of the Swedbank Group, whereby part of A/S Swedbank's capital was transferred to its parent company, Swedbank AB (publ)).

In 2012, 2013, 2014 and 2015, cumulative FDI in the financial intermediation sector grew by 9.8 per cent., 3.2 per cent., 17.1 per cent. and 9.2 per cent., respectively. In 2016, cumulative FDI in the financial intermediation sector decreased by 9.6 per cent., principally as a result of the above mentioned capital structure optimisation of the Swedbank Group.

Cumulative FDI in the trade sector grew by 7.1 per cent. in 2012, by 3.2 per cent. in 2013 and by 13.3 percent. in 2014. The increase in 2014 resulted from an increase in FDI from Germany, Sweden, Denmark and Poland. In 2015, cumulative FDI in the trade sector increased by 6.5 per cent. and in 2016 by 20.4 per cent. The increase in 2016 was mainly a result of inflows from Russia, Luxembourg and the U.S. In 2012, cumulative FDI in the manufacturing sector increased by 7.8 per cent. and in 2013 it increased by 16.8 per cent.. In 2014 and 2015, cumulative FDI in the manufacturing sector grew by 10.9 per cent. and by 6.2 per cent., respectively. In 2016, cumulative FDI in the manufacturing sector decreased by 0.1 per cent.

In 2016, with the assistance of the Investment and Development Agency of Latvia (**LIAA**), 21 foreign entities announced their intentions to invest more than €81 million in 12 new and nine existing business structures in Latvia. It is expected that these investment projects will create at least 717 new jobs. The entities involved include Tele 2 SSC (Sweden, shared service centre expansion), Kvist Industries (Denmark, design furniture production expansion) Lindstrom (Finland, textile production expansion), Containerships (Finland, new shared service centre), Aquaculture Management (UK, new food processing plant) and Green Ocean (Israel, new greentech plant). During 2016, LIAA representative offices abroad and the Investment Promotion Division in Riga worked with 271 investment projects. Latvia's aim is to attract investments that create long-term, sustainable and value added jobs and significant export share.

In order to improve the quality of services offered to investors, in 2010 LIAA developed a single, dynamic cooperation-based investment attraction methodology known as the Polaris Process. It is based on the alliance between seven stakeholders - the public sector (including national and local governments), the private sector (including national and international companies and investors willing to invest in Latvia) and major Latvian academic institutions (including the main universities and research institutions). Eight target sectors were identified based on the comparative advantages of Latvia that LIAA particularly focuses on and views as offering potential investment opportunities for foreign investments: wood processing; metal processing, machine building and electronics; transport and logistics; information technology (including global business services); green technologies; health-care; life sciences; and food processing.

As part of the Polaris Process, the Large-scale and Strategic Investment Project Coordination Council (the **LSIPCC**) was established in August 2010 under the auspices of the Prime Minister of Latvia. The aims of the LSIPCC are to ensure the highest governmental level support for investment projects, as well as to establish incentives for foreign investors and eliminate and prevent any administrative and regulatory barriers. In August 2011, the LSIPCC approved an Investment Attraction Strategy (the **Strategy**) which aims to change the structure of the national economy of Latvia by developing external demand and innovation as well as attracting FDI in export-oriented sectors in order to achieve the highest productivity level among the Baltic countries.

The principal source of FDI into Latvia is from EU countries which, at the end of 2014, accounted for 68.5 per cent. of cumulative Latvian FDI. Apart from EU member states, Norway, Russia and the

United States have each been important sources of FDI for Latvia, accounting for 5.5 per cent., 6.9 per cent. and 1.1 per cent., respectively, of cumulative FDI into Latvia at the end of 2014.

The table below sets out the cumulative FDI stock as at 31 December 2012, 2013, 2014, 2015 and 2016.

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(*€ millions*)		
Foreign investment stock in Latvia	10,257.9	11,569.6	12,311.3	13,545.5	13,521.1
in equity capital	7,940.7	8,772.3	9,742.4	10,887.7	10,481.9
in other capital	2,317.2	2,797.3	2,568.9	2,657.7	3,039.3

Source: Bank of Latvia

The tables below set out the distribution of cumulative FDI by sector and as a percentage of total FDI in enterprises as at 31 December 2012, 2013, 2014, 2015 and 2016.

	2012		**2013**	
	(€millions)	*(per cent.)*	*(€millions)*	*(per cent.)*
Financial and insurance activities	2,824.9	27.5	2,914.4	25.2
Wholesale and retail trade; Repair of motor vehicles and motorcycles	1,350.8	13.2	1,393.5	12.0
Real estate activities	1,147.6	11.2	1,298.2	11.2
Manufacturing	1,200.3	11.7	1,402.5	12.1
Agriculture, forestry and fishing	294.6	2.9	300.2	2.6
Construction	467.9	4.6	498.5	4.3
Transportation and storage	449.1	4.4	407.8	3.5
Electricity, gas, steam and air conditionaing supply	407.3	4.0	504.8	4.4
Professional, scientific and technical activities	135.6	1.3	148.1	1.3
Information and communication	329.7	3.2	328.3	2.8
Other sectors	1,650.1	16.0	2,373.5	20.6
Total	**10,257.9**	**100.0**	**11,569.6**	**100.0**

	2014		**2015**		**2016**	
	(€millions)	*(per cent.)*	*(€millions)*	*(per cent.)*	*(€millions)*	*(per cent.)*
Financial and insurance activities	3,414.0	27.7	3,729.0	27.5	3,370.9	24.9
Wholesale and retail trade; Repair of motor vehicles and motorcycles	1,579.4	12.8	1,681.6	12.4	2,025.4	15.0
Real estate activities	1,688.9	13.7	1,704.4	12.6	1,691.0	12.5
Manufacturing	1,555.4	12.6	1,652.5	12.2	1,651.3	12.2
Agriculture, forestry and fishing	521.6	4.2	618.5	4.6	592.5	4.4
Construction	421.7	3.4	548.1	4.0	575.0	4.3
Transportation and storage	479.8	3.9	495.0	3.7	532.4	3.9
Electricity, gas, steam and air conditioning supply	506.3	4.1	502.3	3.7	463.7	3.4
Professional, scientific and technical activities	220.9	1.8	454.8	3.4	450.5	3.3
Information and communication	363.0	3.0	416.3	3.1	443.2	3.3
Other sectors	1,560.2	12.8	1,742.9	12.8	1,725.5	12.8
Total	**12,311.3**	**100.0**	**13,545.5**	**100.0**	**13,521.1**	**100.0**

Source: Bank of Latvia

The tables below set out the distribution of cumulative FDI by country and as a percentage of total cumulative FDI as at 31 December 2012, 2013, 2014, 2015 and 2016.

	2012		2013	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*
Sweden	2,405.4	23.5	2,465.0	21.3
Cyprus	653.8	6.4	813.9	7.0
Netherlands	816.4	8.0	991.3	8.6
Estonia	554.6	5.4	597.4	5.2
Lithuania	265.3	2.6	407.9	3.5
Denmark	440.0	4.3	459.4	4.0
Luxembourg	220.2	2.2	223.7	1.9
Germany	495.3	4.8	546.6	4.7
United Kingdom	294.6	2.9	335.5	2.9
Finland	370.8	3.6	353.9	3.1
Other EU	876.2	8.5	870.4	7.5
Total EU	7,392.6	72.1	8,065.1	69.7
World not allocated geographically, excl. domestic country	941.5	9.2	1,429.2	12.4
Russian Federation	484.1	4.7	565.3	4.9
Norway	548.7	5.4	588.6	5.1
Switzerland	162.4	1.6	137.6	1.2
United States	254.1	2.5	157.6	1.4
Ukraine	76.4	0.7	90.2	0.8
Iceland	107.4	1.1	102.7	0.9
Belarus	17.5	0.2	22.5	0.2
China	0.5	0.0	3.0	0.0
Other countries	272.9	2.5	407.8	3.4
Total	**10,257.9**	**100.0**	**11,569.6**	**100.0**

	As at 31 December					
	2014		**2015**		**2016**	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Sweden	2,632.4	21.4	2,626.9	19.4	2,121.0	15.7
Cyprus	989.5	8.1	1,266.3	9.4	1,307.0	9.7
Netherlands......................	1,000.4	8.1	1,041.4	7.7	981.9	7.3
Estonia	658.5	5.4	913.3	6.7	937.2	6.9
Lithuania..........................	475.3	3.9	585.3	4.3	744.7	5.5
Denmark	580.5	4.7	586.3	4.3	633.5	4.7
Luxembourg	317.3	2.6	436.1	3.2	624.3	4.6
Germany	728.5	5.9	719.7	5.3	585.6	4.3
United Kingdom	405.1	3.3	523.6	3.9	479.4	3.5
Finland.............................	343.1	2.8	391.3	2.9	401.6	3.0
Other EU	958.6	7.7	987.1	7.3	1,134.8	8.4
Total EU	9,089.1	73.8	10,077.2	74.4	9,951.0	73.6
World not allocated geographically, excl. domestic country	228.2	1.9	263.2	1.9	107.0	0.8
Russian Federation	1,058.0	8.6	1,181.0	8.7	1,323.5	9.8
Norway	749.3	6.1	736.7	5.4	702.9	5.2
Switzerland......................	169.1	1.4	180.3	1.3	211.5	1.6
United States....................	149.3	1.2	152.6	1.1	187.4	1.4
Ukraine	119.4	1.0	134.1	1.0	140.8	1.0
Iceland	64.8	0.5	57.3	0.4	95.2	0.7
Belarus.............................	58.5	0.5	63.0	0.5	93.2	0.7
China	59.9	0.5	69.5	0.5	76.7	0.6
Other countries	565.8	4.5	630.5	4.8	631.9	4.6
Total	**12,311.3**	**100.0**	**13,545.5**	**100.0**	**13,521.1**	**100.0**

Source: Bank of Latvia

MONETARY AND FINANCIAL SYSTEM

THE BANK OF LATVIA

The Bank of Latvia was established as the central bank of Latvia on 7 September 1922, following the proclamation of the Republic of Latvia in 1918. The Bank of Latvia operated as a central bank and a commercial bank until June 1940 when Latvia was occupied by the Soviet Union. The Bank of Latvia was liquidated in October 1940 following the annexation of Latvia to the Soviet Union in August of that year.

After regaining independence in 1991, the Bank of Latvia once again became Latvia's central bank with the right to issue the lawful currency. The Bank of Latvia took over and incorporated into its structure the Latvian Republican Bank of the State Bank of the Soviet Union present in Latvia and other state credit institutions present in Latvia. The legal status of the Bank of Latvia, and its role as an independent central bank, were reinforced by legislation passed in May 1992. Following the introduction of this legislation, the Bank of Latvia was divested of its commercial operations through the restructuring and privatisation of its 49 branches. The Bank of Latvia may grant loans to the banking sector but is prohibited by law from issuing credits to the Government or purchasing Government securities in the primary market.

The law regulating the Bank of Latvia sets out its role and confers authority on it to operate as an independent institution which is solely responsible to the Saeima. The Bank of Latvia is administered by its Council and its Board. The Council consists of six members: the Governor (who is also the Chairman of the Council), the Deputy Governor and four other members. The Council makes decisions on behalf of the Bank of Latvia. The Board, which is nominated by the Council and also consists of six members, is responsible for the management and day-to-day functions of the Bank of Latvia. The Governor and the members of the Council are appointed by the Saeima for a six-year term and can only be removed by the Saeima in limited circumstances.

Following EU accession in May 2004, the Bank of Latvia has become a part of the European System of Central Banks. Latvia joined ERM II in May 2005 and adopted the euro as its lawful currency on 1 January 2014.

MONETARY POLICY

Prior to the adoption of the euro, the main task of the Bank of Latvia was to maintain price stability. To achieve this, the Bank of Latvia's monetary policy aimed to maintain exchange rate stability and to control the amount of bank reserves. The exchange rate policy of the Bank of Latvia was similar to that of a currency board, and the monetary base was backed by gold and foreign currency reserves.

Following the adoption of the euro on 1 January 2014, the Bank of Latvia became a member of the Eurosystem and the Governor of the Bank of Latvia became a member of the Governing Council of the European Central Bank (**ECB**). In addition, Latvian monetary financial institutions have been integrated into the euro area banking system and are able to participate in ECB open market operations.

In order to achieve its price stability objective, the Eurosystem uses a set of monetary policy instruments and procedures. These form the operational framework for the implementation of monetary policy decisions. Basic operational principles and policy strategy have a special role in monetary policy implementation. The strategy targets the level of money market interest rates required to maintain price stability in the medium term, while the operational principles outline the means of achieving the particular interest rate level by applying the available monetary policy instruments and procedures.

The monetary policy strategy pursued by the ECB is based on two pillars: a broad-based economic analysis of both the euro area and global financial markets and monetary analysis. The first pillar includes an analysis of many economic and financial variables with potential short-term or medium-term price stability implications. The second pillar includes an analysis of monetary aggregates pointing to the leading role of money supply in maintaining price stability and focussed on a longer-term perspective.

Both strategy pillars are designed to ensure analysis of the monetary, economic and financial developments in the euro area. This analysis enables the ECB to set key ECB rates at a level best suited to promote overall euro area price stability. Thus both the quantitative definition of price stability and the above-mentioned two-pillar approach form the key monetary policy strategy elements of the ECB.

In recent years, the ECB's regular monetary operations have been complemented by long-term refinancing operations and asset purchase programmes. In June 2014, the ECB announced that it would conduct a series of targeted longer-term refinancing operations aimed at improving bank lending to the Eurozone non-financial private sector, excluding loans to households for house purchase, over a window of two years. In March 2016, the ECB announced a second series of targeted longer-term refinancing operations to reinforce the ECB's accommodative monetary policy stance and to foster new lending. Counterparties will be able to repay the amounts borrowed under the operations at a quarterly frequency starting two years from the settlement of each operation. Counterparties exceeding the lending benchmark will borrow at a rate that can be as low as the rate on the deposit facility at the time of allotment. On 22 January 2015, the Governing Council of the ECB announced an expanded asset purchase programme, encompassing the purchase of sovereign bonds, asset-backed securities and covered bonds, with the aim of fulfilling the ECB's price stability mandate. The ECB also announced on 10 March 2016 that it was adding a corporate sector purchase programme to the asset purchase programme. The ECB stated that from April 2017 the combined monthly purchases under the asset purchase programme would be reduced from a combined monthly amount of €80 billion to €60 billion. The purchases are intended to be carried out until at least the end of 2017 and in any case until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its aim of achieving inflation rates below, but close to, 2 per cent. over the medium term.

MONEY SUPPLY

Along with real economy indicators, the growth in money supply also marked the end of the recession in Latvia and overall domestic liquidity (**M3**) increased by 2.8 per cent. in 2012 and by 2.8 per cent. in 2013. Following the final decision on Latvia joining the Eurozone, significant shifts were registered in money supply in the second half of 2013. Starting from July 2013, when Latvia received the invitation to join the Eurozone from the EC, the demand for cash contracted notably month by month. At the same time, deposits with credit institutions grew considerably. In 2012, the base money aggregate (**M0**) increased by 23.0 per cent., and M1 (which comprises overnight deposits and currency in circulation) increased by 10.9 per cent., reflecting increased use of cash payments and greater overnight cash deposits driven by growth in industrial sectors. In contrast to these developments, the demand for longer-term monetary components included in M2 decreased. Partly reflecting low interest rates, time deposits up to two years decreased by 12.0 per cent. in 2012. M1 as a percentage of M3 was 70.6 per cent. at 31 December 2012.

At 31 December 2013, M0 was €4,493.9 million, up from €3,795.8 million at 31 December 2012. At the same date, M1 was €7,425.9 million, up from €6,874.9 million at 31 December 2012 and M2 was €9,723.2 million, up from €9,541.9 million at 31 December 2012. At 31 December 2013, M1 as a percentage of M3 was 74.2 per cent. due to substantial growth in more liquid overnight deposits which reflected the cautious attitude to longer-term accruals. Meanwhile, reflecting Latvia's decision to adopt the euro, there was a drop in the demand for cash currency in 2013, which promoted a rise in financial means in current accounts with banks.

With the adoption of the euro from 1 January 2014, the calculation of the monetary indicators M1, M2, M3 and M0 for Latvia were discontinued. Instead, Latvia's contribution to the Eurozone monetary aggregate M3 is analysed. In 2014 and 2015, deposits with an agreed maturity of up to two years made by residents of the Eurozone with Latvian credit institutions fell by 19.7 per cent. and by 17.1 per cent., respectively, as households typically chose to keep money in more liquid investments rather than term savings accounts at low rates. However, in 2016 deposits with an agreed maturity stabilised and showed a slight increase of 1.2 per cent. In 2014, overnight deposits fell by 0.8 per cent., principally due to the high base level driven by the surge in demand deposits. In 2015 and 2016, overnight deposits increased by 13.9 per cent. and by 7.4 per cent., respectively, reflecting the demand for more liquid investments as a result of low interest rates. Deposits redeemable at notice increased in 2014, 2015 and 2016 by 52.5 per cent., 13.3 per cent. and 10.9 per cent., respectively, principally reflecting the adoption of the euro as Latvia's national currency at the start of 2014.

Loans to domestic enterprises (including financial institutions and public non-financial corporations) and households in Latvia (**private sector credit**), fell in each of 2012, 2013, 2014 and 2015, reflecting gradual deleveraging in many of the heavily indebted sectors of the economy. In 2012, 2013, 2014 and 2015 private sector credit in Latvia declined by 10.6 per cent., 6.4 per cent., 7.1 per cent. and 1.8 per cent., respectively. In each year, the loan portfolio shrank on account of a fall in lending to households and non-financial corporations, although private sector credit to non-financial enterprises improved in several months, reflecting stronger credit supply and demand in the domestic enterprise sector. In 2016, there was a gradual recovery in lending to households and non-financial corporations, which resulted in an increase in private sector credit of 3.0 per cent.

On the liability side of the Latvian banking sector's balance sheet, deposits from private domestic enterprises (excluding public non-financial corporations and financial institutions) and households (**private sector deposits**) grew by 4.3 per cent., 14.1 per cent., 4.7 per cent., 7.8 per cent. and 9.4 per cent., respectively, in 2012, 2013, 2014, 2015 and 2016. This was due to moderate but steady economic growth, which enabled households and entrepreneurs to place increased savings in their bank accounts.

In 2012, 2013, 2014, 2015 and 2016, the negative net foreign assets of Latvian banks (excluding the Bank of Latvia) declined by €2.7 billion, reflecting a €3.8 billion fall in liabilities to non-resident credit institutions, of which the fall in liabilities to parent banks was €3.6 billion as these entities stabilised the availability of funding to their subsidiaries. Over the same period, the growth in foreign assets of Latvian banks (excluding the Bank of Latvia) was €1.3 billion.

The table below sets out certain Latvian liquidity indicators as at 31 December 2012 and 2013. With effect from 1 January 2014, the money supply of Latvia is aggregated in the euro area monetary indicators and Latvian national monetary aggregates are no longer published.

	As at 31 December	
	2012	**2013**
	(€ millions)	
Currency in circulation	1,756.0	897.5
Overnight deposits at the Bank of Latvia	2,039.7	3,596.4
Base money (M0)	3,795.8	4,493.9
Currency in circulation (less vault cash balances)	1,540.1	667.8
Overnight deposits	5,334.8	6,786.6
Money supply (M1)	6,874.9	7,425.9
Deposits with agreed maturity of up to 2 years	2,360.0	1,849.9
Deposits redeemable at notice of up to 3 months	306.9	447.4
Private domestic liquidity (M2)	9,541.9	9,723.2
Debt securities issued with maturity of up to 2 years	110.6	220.1
Money market fund shares and units	86.8	66.3
Overall domestic liquidity (M3)	9,740.6	10,009.6
Broad money (M2) to nominal GDP (*per cent.*)	43.7	42.7
Private sector credit	14,464.1	13,537.8
Private sector credit to nominal GDP (*per cent.*)	66.3	59.5
Private sector deposits	6,928.8	7,906.2

Source: Bank of Latvia

With effect from 1 January 2014, the Bank of Latvia publishes data on Latvia's contribution to Eurozone M3 (overnight deposits, deposits with an agreed maturity of up to two years, deposits redeemable at notice of up to three months, repurchase agreements, money market fund shares/units and debt securities issued with a maturity of up to two years). M3 published by the Bank of Latvia no longer includes cash circulating in the economy, since it is no longer possible to establish that indicator due to the implementation of the single currency.

The table below sets out certain Latvian liquidity indicators as at 31 December 2014, 2015 and 2016.

	As at 31 December		
	2014	**2015**	**2016**
		(€ millions)	
National contribution to the euro area monetary base ...	6,381.1	8,964.8	8,453.7
Current account holdings of credit institutions with Latvijas Banka	2,073.4	4,784.4	4,191.1
National contribution to the euro area M1 - overnight deposits	8,301.7	9,457.2	10,158.5
Deposits with agreed maturity of up to 2 years	1,532.4	1,270.0	1,285.2
Deposits redeemable at notice of up to 3 months	687.9	779.4	864.1
National contribution to the euro area M2	10,522.0	11,506.6	12,307.8
Money market fund shares/units	40.6	0	0
Debt securities issued with maturity of up to 2 years	36.8	65.1	67.8
National contribution to the euro area M3	10,599.4	11,571.7	12,375.6
Private sector credit	12,570.1	12,342.1	12,709.9
Private sector credit to nominal GDP (*per cent.*)	53.3	50.6	50.8
Private sector deposits	8,281.3	8,928.6	9,772.2

Source: Bank of Latvia

FOREIGN ASSETS

The tables below set out a breakdown of the foreign assets held by the Bank of Latvia as at 31 December 2012 and 2013 and as at 31 December 2014, 2015 and 2016, respectively. Since 1 January 2014, Latvia's foreign assets have been calculated in a different way reflecting its accession to the Eurozone.

	As at 31 December	
	2012	**2013**
	(€ millions, except for months of imports of goods)	
Gold	311.3	218.0
Convertible foreign currencies	5,254.2	5,429.0
Net foreign assets	5,728.2	5,796.5
Reserve assets (in months of imports of goods)	5.2	5.5

Source: Bank of Latvia

In 2012, as a result of U.S.$2.25 billion in bond issues by the Treasury and net purchases by the Bank of Latvia of foreign currency, the net foreign assets of the Bank of Latvia grew to €5,728.2 million at 31 December 2012. Latvia's bond issues enabled it to make early repayment of the international financial assistance received from the IMF during 2012. In 2013, the net foreign assets of the Bank of Latvia remained stable and amounted to €5,796.5 million at 31 December 2013. As part of the Bank of Latvia's monetary policy prior to 1 January 2014, it maintained net foreign assets in excess of the monetary base to ensure that the credibility of the exchange rate was preserved and, at 31 December 2013, net foreign assets amounted to approximately 130 per cent. of the monetary base.

Latvia's reserve assets were equal to around five months of imports of goods at 31 December 2011, 31 December 2012 and 31 December 2013.

Latvia's foreign assets balance declined following 1 January 2014, in part reflecting the fact that some of Latvia's foreign reserve assets have been transferred to the ECB following Latvia's adoption of the euro. Since 1 January 2014, the Bank of Latvia's net international reserves have comprised the gross international reserves minus the foreign currency deposits of the Government, credit institutions and other institutions with the Bank of Latvia. The Bank of Latvia's net external assets outside the euro area grew by €474.5 million in 2015 to €3,317.6 million (an increase of 16.7 per cent. as compared to 31 December 2014) and grew by €135.4 million in 2016 to €3,453.0 million (an increase of 4.1 per cent. as compared to 31 December 2015). These increases principally resulted from investment activities carried out in line with the liquidity management principles set by the ECB's Governing Council.

The table below sets out a breakdown of the foreign assets held by the Bank of Latvia as at 31 December 2014, 2015 and 2016.

	As at 31 December		
	2014	**2015**	**2016**
		(€ millions)	
Gold	210.8	207.7	234.3
Claims denominated in foreign currency and investments in euro (net)	4,279.3	4,922.4	5,589.9
Net external assets outside euro area	2,843.1	3,317.6	3,453.0

Source: Bank of Latvia

INTEREST RATES

The table below sets out weighted average interest rates on domestic inter-bank loans in national currency in December in each of 2012, 2013, 2014, 2015 and 2016.

	2012	**2013**	**2014**	**2015**	**2016**
Overnight(1)	0.10	0.05	0.00	—	-0.42
Up to one month	0.17	0.07	0.01	-0.20	-0.40
One to three months(2)	—	—	—	—	—

Source: Bank of Latvia
Note:

(1) There were no domestic inter-bank loans in national currency with these maturities in 2015

(2) There were no domestic inter-bank loans in national currency with these maturities in 2012, 2013, 2014, 2015 or 2016.

Monetary Financial Institution (**MFI**) interest rates on euro-denominated loans and deposits in Latvia have generally declined, at a decreasing rate, since 2010 as a result of the ECB's expansionary monetary policy as well as a decline in risk premium as Latvia's financial and economic situation improved.

In 2015, the fall in lending rates was comparatively more pronounced for large euro-denominated loans to non-financial corporations and euro-denominated loans to households. During the period from December 2011 to December 2016, the weighted average interest rate on loans in euro to domestic enterprises and households decreased by 1.3 percentage points to 3.2 per cent. for new transactions with floating interest rates and interest rates with an initial fixed period of less than one year.

Trends in euro money market rates were reflected in MFI interest rates on short-term time deposits, demand deposits and savings accounts relatively quickly. In a low interest rate environment, Latvian households placed their savings mostly in demand deposits. After a prolonged period of decline, the interest rate on euro demand deposits for households and non-financial corporations stood at a level of zero in December 2016. The weighted average interest rate for short-term time deposits in euro from resident households and non-financial enterprises decreased from 1.2 per cent. in December 2011 to 0.2 per cent. in December 2016. The weighted average interest rate for long-term time deposits denominated in euro was 3.4 per cent. in December 2011 and 1.2 per cent. in December 2016.

FINANCIAL SECTOR SUPERVISION

The Financial and Capital Market Commission (the **FCMC**) is an autonomous public institution and the sole supervisory authority for the financial sector in Latvia. As of November 2014, after the introduction of the Single Supervisory Mechanism for the euro area banking sector, the ECB, in close cooperation with the FCMC, exercises supervision of three largest credit institutions in Latvia (A/S Swedbank, A/S SEB banka and A/S ABLV Bank). The FCMC's purpose is to promote the protection of the interests of investors, depositors and insured persons as well as the development and stability of the financial and capital markets. To this end, the FCMC regulates and supervises the financial and capital markets and the activities of participants in those markets. In addition, the FCMC administers the Latvian Deposit Guarantee Fund, the Fund for the Protection of the Insured, the Investor Protection Scheme and operates as the National Resolution Authority. The FCMC's objectives and responsibilities are stipulated by law.

The FCMC has been involved in the work of the ECB Banking Supervision (Supervisory Board), the European Systemic Risk Board, the Single Resolution Board and the European Supervisory Authorities and it also closely follows discussions on further developments in the regulatory framework proposed by the EC and international organisations. The FCMC is committed to ensuring the effective implementation of the regulatory framework for the financial sector.

Reflecting the risks assumed by certain Latvian banks which rely significantly on non-resident deposits as a funding tool, the FCMC has introduced enhanced capital requirements and individual minimum liquidity requirements which are to be calculated annually, monitored on a regular basis and adjusted where relevant, for example when there are material changes in a bank's business model.

As part of the restructuring process of Parex Bank, which was acquired by the Government in November 2008, on 1 August 2010, Parex Bank was split into two banks, with the performing assets being transferred to the newly established Citadele Bank and the non-performing assets remaining in Parex Bank. The EBRD, which became a shareholder in Parex Bank in September 2009, became a shareholder of Citadele Bank as part of the restructuring of Parex Bank, and currently owns 25 per cent. less one share in Citadele Bank. On 5 November 2014, the Government agreed to sell its shareholding in Citadele Bank to Ripplewood Advisors and a group of 12 other international investors. The transaction closed in April 2015.

On 15 March 2012, the FCMC approved a request by Parex Bank to have its banking licence cancelled. Since 8 May 2012, Parex Bank has operated as a distressed asset management company, under the new brand Reverta. Reverta continues to manage its assets with a view to maximising recovery, although it will not originate any new business and so is expected to be gradually run down. On 7 March 2017, the EBRD exercised its put option and sold its entire shareholding (of 12.74 per cent.) in Reverta to the Latvian Privatisation Agency for a nominal amount of €1. As a result, Reverta is now 96.89 per cent. owned by the Latvian Privatisation Agency and 3.11 per cent. owned by other shareholders.

The Government's exposure (in the form of equity and debt) to Reverta as at 31 December 2016 was €678 million. In accordance with the recent European Commission decisions, state aid to Reverta will be terminated and the operations of the company will cease by 31 December 2017. On 22 June 2017, Reverta signed an agreement to sell its Baltic loan portfolios and on 1 July 2017 the liquidation process for Reverta was launched. Reverta will continue to recover funds from the remaining problematic assets and will use these funds to pay the Treasury.

The state-owned Mortgage and Land Bank (**MLB**), which was recapitalised in 2009 and 2010, is being transformed into a pure development institution. The commercial segment of MLB was split into six bundles which were sold during 2012 and 2013. Most of the bundles were sold to private investors, with the non-performing loans and part of the real-estate corporate loan bundle being sold to the Latvian Privatisation Agency for gradual workout (which is expected to be completed by the end of 2018). On 17 July 2013, the EC approved the state aid granted to the commercial segment of MLB. The banking license of the non-commercial segment of MLB was revoked in December 2013. Hiponia, a fully owned subsidiary of the Latvian Privatisation Agency, is responsible for the workout of the non-performing loans and the real estate portfolio acquired from MLB. The Government's exposure (in the form of a direct loan) to Hiponia was €52 million as at 31 December 2016.

During 2014, the shares of three development institutions: MLB, the Latvian Guarantee Agency and the Rural Development Fund, were transferred to a new institution to allow the integration of the development companies following a change in law. The new institution's responsibilities include designing and implementing future state support and development programmes.

MONEY LAUNDERING AND TERRORIST FINANCING REGULATIONS

The money laundering prevention framework in Latvia is based on the Law on the prevention of Money Laundering and Terrorist Financing (the **AML/ATF Law**) which in turn forms the basis for regulations promulgated by the Cabinet of Ministers, regulations approved by the FCMC and regulations made by the Bank of Latvia in respect of licensed foreign exchange dealers. The AML/ATF Law was adopted in July 2008 and the latest amendments to it were adopted in June 2016.

Several significant amendments to laws in the money laundering and terrorist financing area were adopted during 2016. These amendments included:

- expanding the definition of politically exposed persons (**PEP**) to cover domestic PEP, the management bodies of international organisations and grandparents;
- requiring banks and other financial institutions to develop policies and procedures for officers and board members responsible for compliance with money laundering and terrorist financing laws;
- empowering the FCMC to adopt regulatory requirements on various money laundering and terrorist financing areas;
- increasing monetary fines for banks which breach regulatory requirements in relation to money laundering, terrorist financing or sanctions; and
- empowering the FCMC to require any financial and capital market participant to carry out an independent review of its activities.

The law follows international standards and complies with applicable EU directives.

On 31st December 2015, the FCMC "*Regulatory provisions for credit institutions and licensed payment and electronic money institutions on enhanced customer due diligence*" (the **Customer Due Diligence Regulatory Provisions**) came into force, providing substantially more detailed requirements in respect of customer due diligence. The Customer Due Diligence Regulatory Provisions require a classification of the customer base according to a number of pre-defined criteria and a customer risk scoring system to be implemented to provide for an adequate and efficient assessment of the money laundering and terrorist financing risk associated with services provided to particular customers. The Customer Due Diligence Regulatory Provisions also prescribe minimum requirements for enhanced customer due diligence and enhanced monitoring and supervision of high risk customers and transactions, including requirements for the establishment of an automated IT system to ensure adequate and precise customer risk scoring. The regulations also specify requirements for the establishment of an adequate internal control system. Credit institutions are also required to maintain an electronic database of additional information relating to customers subject to enhanced due diligence so that, in the future, the FCMC will have direct access to this information for supervisory purposes.

During 2016, the FCMC approved several regulations relating to money laundering and terrorist financing. These regulations related to the collection of customer information, the provision of information technology, staff resources and training and minimum requirements for managing the overall money laundering and terrorist financing risk of credit institutions.

In order to increase the supervision capacity and efficiency of its anti-money laundering and counter-terrorist financing (**AML/CTF**) operations, in 2016 the FCMC restructured its Financial Integrity Division into a Compliance Control Department consisting of five divisions and increased the number of staff in the Compliance Control Department to 17 (previously there were five members of staff). A further increase in the number of staff in the Compliance Control Department, to 20 employees, is planned during 2017. In order to increase the efficiency of supervisory functions relating to AML/CTF operations, the FCMC has undertaken action to improve the IT support relating to the AML/CTF data analysis and transaction monitoring functions. In addition, the new principles relating to the supervision of AML/CTF compliance by the FCMC of credit institutions and other participants in the Latvia financial markets envisage a risk-based approach. This approach uses both on-line and off-line examination options and includes the right of the FCMC (as recently provided by the latest amendments to legislation) to require the independent external inspection of the AMC/CTF internal control systems of a credit institution. The Compliance Control Department is also ensuring on-going control over the implementation process and progress of remediation activities and corrective measures in relation to a number of banks.

BANKING SECTOR DEVELOPMENT

Credit institutions in Latvia are principally regulated by the Credit Institutions Law, which implements the fourth Capital Requirements Directive (on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms) and the related Capital Requirements Regulation (on prudential requirements for credit institutions and investment firms) in Latvia. The Recovery and Resolution Directive and the Directive on Deposit Guarantee Schemes have also been implemented in Latvia through the Law on Recovery and Resolution of Credit Institutions and Investment Firms and the Law on Deposit Guarantees, respectively.

Banks account for about 90 per cent. of the total assets of the Latvian financial sector. At 31 December 2016, there were 16 Latvian licensed banks operating in Latvia as well as seven additional banks licensed in other EU Member States which only have a branch presence in Latvia. All of the Latvian-licensed banks have been licensed as universal banks and can provide a full range of financial and investment services.

Currently, approximately 82 per cent. of the Latvian banking share capital is owned by foreign investors. Three subsidiaries of EEA banks (Skandinaviska Enskilda Banken AB (publ), Swedbank AB (publ) and DNB Bank ASA) and seven branches of EU banks (Nordea Bank AB plc, Svenska Handelsbanken AB (publ), Danske Bank A/S, BIGBANK plc, Scania Finans Aktiebolag, AS Eesti Krediidipank and OP Corporate Bank plc) accounted for approximately 51 per cent. of total banking sector assets and approximately 81 per cent. of the total domestic loan portfolio at 31 December 2016.

The Latvian banking sector's development is in line with the global trend in the banking industry. In 2016, the annual growth rate of the total loan portfolio of the Latvian banking sector increased to 3.1 per cent., which was the first increase in the annual growth rate since the global financial crisis.

Since mid-2010, the quality of the banking sector's total loan portfolio has been gradually improving in line with improvements in the domestic economic environment. After peaking at 19.4 per cent. in July 2010, the share of loans overdue for more than 90 days in the total loan portfolio decreased to 4.4 per cent. at 31 December 2016. The domestic corporate sector contributed the most to this improvement in loan quality, with the proportion of loans overdue for more than 90 days in that sector falling to 2.3 per cent. at 31 December 2016 from a peak of 22.3 per cent. in May 2010.

Loan restructuring declined in 2016 as compared to 2015. At 31 December 2016, the share of restructured loans in the total banking sector loan portfolio was 7.9 per cent. (compared to 8.7 per cent. at 31 December 2015). Loans in a work-out process are declining and comprised 3.7 per cent. of the total banking sector loan portfolio at 31 December 2016 (compared to 5.3 per cent. at 31 December 2015). At 31 December 2016, the total amount of restructured loans and loans in a work-out process was €1.8 billion, 14.7 per cent. less than at 31 December 2015.

The total amount of loan loss provisions has gradually decreased since July 2010 as banks have released previous provisions as their loan quality improves. Loan loss provisions were 4.0 per cent. of the total banking sector loan portfolio at 31 December 2016. The provisioning level for loans overdue for more than 90 days improved to 89.3 per cent. at 31 December 2016.

After experiencing large losses from 2009 to 2011, the Latvian banking sector has been profitable, driven principally by improved fee income, significantly reduced charges for loan loss provisions and a decrease in administrative expenses. In 2016, the Latvian banking sector recorded a profit of €453.8 million (compared to a profit of €415.9 million in 2015), principally due to the acquisition of Visa Europe Ltd. by Visa Inc. (as banks servicing Visa credit cards, who had previously been obliged to purchase and hold a specific proportion of Visa Europe Ltd. shares, were able to sell their relevant shareholdings following the acquisition by Visa Inc.). Excluding the one-off effect of the Visa Europe Ltd. acquisition, it is expected that the profit of the Latvian banking sector in 2016 would have decreased as compared to 2015 due to a decline in business activities related to the servicing of foreign clients and increased administrative expenses relating mainly to enhanced AML/CFT requirements.

Despite a significant share of demand deposits, liquidity risk in the Latvian banking sector remains limited due to a high volume of liquid assets (predominantly claims on central bank and debt securities). The liquidity ratio of the banking sector remains high; it was 61.9 per cent. at 31 December 2016 and is well above the minimum requirements. Banks are required to maintain liquid assets in amounts of not less than 30 per cent. of liabilities with a maturity of up to 30 days.

The banking sector is well capitalised. Following ongoing capital strengthening and reduction in risk weighted assets, the total capital adequacy ratio of the Latvian banking sector reached 21.5 per cent. at 31 December 2016 compared to the regulatory minimum of 8 per cent. at that date. Since 28 May 2014, a 2.5 per cent. capital conservation buffer has been applied in addition to the 8 per cent. minimum regulatory capital requirement, bringing the total capital adequacy requirement to 10.5 per cent. The Tier I ratio, which predominantly consists of top quality own funds (common equity tier 1), was 18.2 per cent. as at 31 December 2016. At 31 December 2016, the banking sector's total capital and reserves was €3.0 billion.

After strong growth in the volume of client deposits in previous years, the volume of deposits in the Latvian banking sector has been declining since the end of 2015. The total volume of deposits decreased by €1.9 billion or 8.2 per cent. to €21.4 billion as at 31 December 2016 (as compared to €23.3 billion as at 31 December 2015). Whilst the amount of domestic deposits increased in 2016 by €1.9 billion (or 12.6 per cent.) as compared to 2015, the amount of non-resident client or foreign deposits decreased by €3.3 billion (or 26.3 per cent.) as compared to 2016. The decrease in the amount of foreign deposits was principally due to deteriorating macroeconomic conditions in CIS countries, the withdrawal of the banking license of JSK Trasta Komercbanka and stricter AML/CTF requirements. As a result, the share of foreign deposits has decreased from 53.4 per cent. at the end of 2015 at to 42.8 per cent. at the end of 2016.

Risks relating to the significant share of foreign deposits in the Latvian banking system are mitigated by ensuring an appropriate structure of assets and maintaining high liquidity ratios. Liquid assets are mostly comprised of claims against central bank, foreign banks (predominantly EU banks) and debt securities issued by central governments. In line with the decrease of foreign deposits, the Latvian banking sector has experienced a reduction in liquid assets thus preserving high liquidity ratios.

In addition, banks that are focused on serving foreign clients under their business model and structure are required to maintain higher capital and liquidity ratios based on pre-defined quantitative criteria. These criteria take into account both the share of foreign deposits and loans to non-resident clients within the bank's balance sheets as well as their growth rate.

The FCMC reviews the additional prudential requirements relating to banks which service non-resident clients on a regular basis in order to ensure that any increase in risks is adequately reflected in the relevant capital and liquidity requirements. See "*Risk Factors—Latvia's economy and its banking* *sector may be adversely affected by a range of factors, including major regional or global economic downturns and difficulties experienced by its major regional trading partners*".

All statistical data under the heading "—*Banking Sector Development*" in this section has been derived from FCMC reports.

The tables below sets out certain performance indicators of the Latvian banking sector and the quality of its loan portfolio as at the last day of each quarter from 1 January 2012 to 31 December 2015.

	2012				**2013**			
	31 Mar	*30 Jun*	*30 Sep*	*31 Dec*	*31 Mar*	*30 Jun*	*30 Sep*	*31 Dec*
Liquidity (per cent.)								
Liquidity ratio	63.2	59.3	59.4	59.7	58.9	64.9	64.7	64.4
Loans issued to non-banks/total assets	60.9	60.4	60.5	58.03	57.6	55.7	55.0	53.5
Loans to non-banks/deposits	109.5	103.0	100.5	94.08	90.9	87.5	85.5	80.1
Long-term loans to non-banks/total loans	63.2	63.3	62.4	62.08	61.7	61.0	59.7	59.8
Demand deposits/total deposits	66.0	67.7	68.7	71.5	71.9	74.0	74.9	76.6
Capital adequacy (per cent.)								
Capital adequacy	18.1	17.2	17.7	17.6	18.3	18.6	18.8	18.9
Total risk exposure amount /total assets	54.3	55.9	55.7	53.7	53.6	52.4	52.1	56.8
Profitability (per cent.)								
Return on equity	10.9	8.4	7.7	5.6	8.8	7.9	8.6	8.6
Return on assets	1.0	0.8	0.8	0.6	0.9	0.8	0.9	0.9
Net interest rate margin	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.7
Quality of the loan portfolio (per cent. of principal amount)								
Not yet due for repayment	77.8	80.4	80.2	82.6	82.1	81.8	83.0	85.4
Up to 30 days overdue	5.6	5.2	5.9	4.6	5.2	5.9	5.6	4.5
31 – 90 days overdue	2.9	1.9	1.9	1.7	2.1	1.9	1.6	1.7
91 – 180 days overdue	1.8	1.1	1.0	1.0	0.7	1.1	1.1	0.7
More than 180 days overdue	11.9	11.4	11.0	10.2	10.0	9.4	8.8	7.7

	2014				2015				2016			
	31 Mar	*30 Jun*	*30 Sep*	*31 Dec*	*31 Mar*	*30 June*	*30 Sep*	*31 Dec*	*31 Mar*	*30 June*	*30 Sep*	*31 Dec*
Liquidity (per cent.)												
Liquidity ratio	63.5	61.5	64.4	63.1	63.7	65.9	66.9	66.7	64.7	62.9	61.9	61.9
Loans issued to non-banks/total assets	53.4	51.7	50.3	47.6	47.4	46.9	46.9	46.0	47.5	49.4	51.1	51.3
Loans to non-banks/deposits	78.1	73.1	70.3	66.1	66.3	65.9	64.8	63.1	65.7	67.5	70.8	70.8
Long-term loans to non-banks/total loans	60.1	60.5	59.4	60.2	59.4	59.2	59.5	60.3	61.4	60.6	60.9	61.4
Demand deposits/total deposits	77.7	76.1	77.0	79.6	83.1	82.8	82.8	84.5	83.8	84.0	82.8	81.8
Capital adequacy (per cent.)												
Capital adequacy	20.6	20.8	20.6	20.85	20.7	21.3	21.6	22.8	20.1	19.5	20.4	21.5
Total risk exposure amount /total assets	50.4	49.4	55.6	53.4	54.6	53.0	51.5	48.8	51.3	53.3	53.8	53.4
Profitability (per cent.)												
Return on equity	13.1	13.2	11.9	11.1	12.2	13.3	12.6	12.5	11.5	16.9	15.7	14.3
Return on assets	0.6	1.3	1.2	1.1	1.4	1.4	1.3	1.3	1.4	1.7	1.6	1.5
Net interest rate margin	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.7
Quality of the loan portfolio (per cent. of principal amount)												
Not yet due for repayment	85.1	85.1	85.8	87.7	86.9	86.8	87.1	89.1	89.1	88.9	89.2	91.9
Up to 30 days overdue	4.9	5.6	5.2	4.1	4.9	5.1	4.8	3.7	4.1	4.4	4.5	2.9
31 – 90 days overdue	2.0	1.5	1.5	1.3	1.5	1.3	1.6	1.1	1.4	1.6	1.3	0.8
91 – 180 days overdue	0.6	0.7	0.7	0.8	0.8	0.9	0.5	0.7	0.5	0.7	0.7	0.6
More than 180 days overdue	7.4	7.1	6.8	6.1	5.9	5.9	5.9	5.3	4.9	4.4	4.3	3.8

Source: Financial and Capital Market Commission

NASDAQ RIGA

Nasdaq Riga is the only licensed stock exchange in Latvia. It was established in 1993 and commenced trading in 1995. Nasdaq Riga also owns the Latvian Central Depository (the **LCD**). The LCD is the national depository for public securities responsible for custody and settlement of all public securities issued in Latvia.

Nasdaq Nordic Ltd is the major shareholder of Nasdaq Riga, with a 92.98 per cent. ownership interest.

Only licensed Nasdaq Riga members, being banks and brokerage companies, may trade on the exchange. As at 31 December 2016, Nasdaq Riga had 22 trading members. Nasdaq Riga operates five lists: the Main List, the Secondary List, the Bond List, the Funds List and the First North (Alternative Market) List.

As at 31 December 2016, 26 Latvian companies' equity securities, 48 corporate debt securities, 12 Government Treasury bill and bond issues and five investment funds were listed on Nasdaq Riga.

The table below sets out certain information relating to Nasdaq Riga as at 31 December 2012, 2013, 2014, 2015 and 2016.

	2012	2013	2014	2015	2016
			(€ millions)		
Equity market capitalisation	842.3	948.0	860.32	1,272.1	802.7
Debt market capitalisation	1,143.5	1,467.4	1,811.8	2,096.5	2,178.1
Total market turnover	52.3	133.7	160.7	176.0	166.1
Equity market turnover	16.5	21.6	17.3	45.5	13.8
Debt market turnover	35.8	112.1	143.4	130.5	152.3

Source: Nasdaq Riga

During each trading session, online price information is distributed via Thomson Reuters, Bloomberg, FT Interactive Data, Infront, SIX Financial Information and other market data customers.

Nasdaq Riga has established a guarantee fund (the **Guarantee Fund**) to guarantee the execution of financial instrument transactions conducted on the market. The Guarantee Fund comprises contributions paid by Members. Nasdaq Riga may use the assets of the Guarantee Fund to settle transactions which are non-executable due to the insolvency of a member or where delayed settlement may endanger the regular and reliable continuous and safe operation of the market.

The LCD is the sole central securities depository in Latvia. The LCD provides safe-custody of all publicly issued securities in Latvia, clearing and settlement services for securities trading on Nasdaq Riga and also manages corporate actions related to securities. The proprietary accounts of the LCD's intermediaries and custodians are segregated from their client accounts, thus reducing risk in case of a default by a bank or a brokerage company. The LCD is a member of ANNA (the Association of National Numbering Agencies) and has obtained National Numbering Agency status in Latvia. As a result, the LCD assigns ISIN codes and CFI codes for all issues registered with the LCD. The LCD also administers the State funded pension (the second pillar of the pension system), see "*Economy of Latvia—Social Security System—Pension System*". The LCD has established relationships with the Estonian and Lithuanian central depositories and also with Clearstream Banking S.A., allowing LCD's participants to act as custodians of financial instruments registered with those depositories. Furthermore, the Baltic central securities depositories (the **Baltic CSDs**) (consisting of the Latvian, Lithuanian and Estonian central securities depositaries) have launched a common initiative, which pursues the consolidation of the three existing Baltic CSDs into a single central securities depository, the reauthorisation of the new entity under the European Central Securities Depositories Regulation (the **CSDR**), the full IT re-platforming and connection to the TARGET 2 System as well as the launch of the new central securities depository operating model by the end of the third quarter of 2017. The cross-border merger of the Baltic CSDs into a single central securities depository involves the creation of a regulated legal entity Societas Europaea, domiciled in Latvia, with branches in Lithuania and Estonia and a pension company in Estonia. The consolidated entity will be licensed under the CSDR to operate three Securities Settlement Systems in the Baltic countries and provide cross-border central securities depository services.

CAPITAL MARKETS

The Financial Instruments Markets Law governs the procedure whereby securities are publicly offered in Latvia, the provision of investment services and ancillary (non-core) investment services, the licensing and supervision of participants in the capital market and also establishes the rights and obligations of those participants and liability for any infringement of the requirements of the law.

UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES (UCITS) AND ALTERNATIVE INVESTMENT FUNDS (AIFS)

Activities related to investment fund management in Latvia are regulated by the Law on Investment Management Companies.

Alternative investment funds and their managers are regulated by separate legislation.

At 31 December 2016, 12 investment management companies managed 27 UCITS funds in Latvia. At 31 December 2016, the total assets of these UCITS funds amounted to €218.4 million (as compared to €217.1 million at 31 December 2015) of which 78 per cent. was invested in debt securities, 4 per cent. was invested in shares and other variable-yield securities, 10 per cent. was invested in fund shares and 8 per cent. was held in demand deposits with credit institutions.

At 31 December 2016, there were five licensed alternative investment fund managers and seven registered alternative investment fund managers in Latvia. The total assets of alternative funds amounted to €143.3 million at 31 December 2016 (as compared to €88.6 million at 31 December 2015).

INSURANCE SECTOR

Activities related to insurance and reinsurance in the Republic of Latvia are regulated by the Insurance and Reinsurance Law, which entered into force on 1 January 2016 and implements the requirements of the Solvency II Directive and the Omnibus II Directive. The Insurance and Reinsurance Law governs the procedure for the commencement and pursuing of insurance and reinsurance activities, the supervision of insurance and reinsurance activities, the supervision of insurance and reinsurance groups and the reorganisation measures and winding-up of insurance companies and the branches of non-Member State insurers. The Activities of Insurance and Reinsurance Intermediaries Law governs the legal status of insurance and reinsurance intermediaries, and regulates the activities and supervision thereof.

The insurance market is supervised by the FCMC. The Motor Third Party Liability Compulsory Insurance is supervised by the Motor Insurers' Bureau of Latvia.

Seven insurance companies (two of which are engaged in life insurance and five of which are engaged in the non-life insurance business) and 12 branches of EU insurance companies are operating in Latvia.

In 2016, gross premiums written by insurers (insurance companies and branches of foreign insurance companies) rose by €1.3 million, or 0.2 per cent., and totalled €532 million (life insurance companies accounted for €48 million, non-life insurance companies for €316 million and branches of foreign insurance companies accounted for €168 million). Insurance companies continued to provide their business outside Latvia, and premiums written abroad amounted to 32 per cent. of total premiums written by insurers. In 2016, the gross amount of claims paid grew by €3 million, or 1 per cent., and amounted to €314 million (life insurance companies accounted for €34 million and non-life insurance companies for €181 million and branches of foreign insurance companies accounted for €99 million).

At 31 December 2016, the solvency ratio for life insurance companies was 173 per cent. and that for non-life insurance companies was 143 per cent.

Total investments by insurance companies at 31 December 2016 amounted to €545 million. These investments are predominantly in securities (49 per cent. of total investments) and in demand deposits with credit institutions (24 per cent.).

In 2016, the profit of insurance companies was €105 million, of which profit in respect of non-life insurance companies amounted to €103 million and profit in respect of life insurance companies amounted to €2 million.

PUBLIC FINANCE

INTRODUCTION

The general Government budget consists of central Government budgets and local government budgets. The central Government budget is made up of a basic budget and the social security budget, which is a special central Government budget. The consolidated general Government budget is prepared on a cash flow basis but is also determined according to the European System of National and Regional Accounts (**ESA**), which differs significantly from the cash flow-basis, for EU reporting purposes. Unless specifically stated otherwise, all budget information in this section, is presented on a cash flow basis.

PREPARATION AND APPROVAL OF THE CENTRAL GOVERNMENT BUDGET

The fiscal discipline framework in Latvia was strengthened in 2013 through the introduction of a Fiscal Discipline Law (**FDL**). This law aims to ensure a balanced budget over the economic cycle, in accordance with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The primary operational tool under the FDL is the Medium-term Budget Framework Law (the **Medium-term Budget Law**), which is prepared annually with a three-year duration.

The Fiscal Discipline Council, established by the FDL, ensures that the fiscal conditions required by the FDL are observed in the planning and execution phases of the Medium-term Budget Framework Law and the Annual State Budget Law (the **State Budget Law**). The six members of the Fiscal Discipline Council, comprising experts in fiscal policy from Latvia and other EU Member States, were appointed by the Saeima for the first time in December 2013.

The FDL also establishes a general management system for fiscal risks with the twin aims of ensuring stability in fiscal indicators over the medium term irrespective of changes caused by external factors and reducing the impact of changes caused by external factors on fiscal indicators. The general management of fiscal risks includes identification of risks, evaluation of their potential to occur and fiscal impact if they do occur and the development of measures that will reduce or prevent the impact of any occurrence of fiscal risks.

On 1 January 2014, Latvia became the 18th Eurozone member state and it submitted its draft budgetary plan to the EC for the first time in 2015. According to the EC's assessment, Latvia's draft budgetary plan for 2017 is broadly compliant with the provisions of the Stability and Growth Pact.

The annual budget formulation process involves the Cabinet of Ministers, the Ministry of Finance, the State Chancellery, the Cross-Sectoral Coordination Centre, other Government ministries and the Latvian Association of Local and Regional Governments. Until the end of 2011, the IMF and the EC also exerted substantial influence over budgetary decisions through their influence on structural reforms to various sectors, including the public sector, the education sector and the social sector, as part of the financial assistance package. See "*Indebtedness—Financial Assistance from International Lenders*".

Prior to the 2012 budget, annual budgets were submitted to the Saeima together with a framework for medium-term macroeconomic development and fiscal policy for the next three financial years (the **Medium-term Framework**). On 15 December 2011, amendments to the Law on Budget and Financial Management (the **Budget Management Law**) were adopted which substituted the Medium-term Framework with a requirement to prepare and submit with the annual budget a Medium-term Budget Law. The first Medium-term Budget Law was submitted to the Saeima on 28 September 2012 together with the 2013 State Budget Law and covered the period 2013 to 2015.

By 1 March in each year, the Minister of Finance submits to the Cabinet of Ministers a draft schedule for the preparation and submission of the State Budget Law and the Medium-term Budget Law during the following year. If, in accordance with the latest macroeconomic forecasts, funds for new policy initiatives are expected to be required, the ministries and other central State bodies prepare and submit their new policy initiatives on the basis of priorities and goals envisaged by the National Development Plan and the State Defence Concept. The National Development Plan targets economic growth through full utilisation of EU funds, tax policy measures and additional funding for highway maintenance; human resilience through the implementation of demographic policy measures and measures to promote social unity and integration; and promoting regional growth, particularly in Latgale and through the utilisation of EU rural funds.

Under the Budget Management Law, the Cabinet of Ministers must submit to the Saeima by 15 October of each year a draft of the Medium-term Budget Law for the following three years and a draft of the State Budget Law for the following year, together with appropriate explanations and proposals for amendments to laws to conform them with budgetary requests.

The Medium-term Budget Law for the period 2017 to 2019 has been prepared in accordance with the fiscal policy principles set out in the Fiscal Discipline Law with a view to ensuring a transparent and responsible fiscal policy. The Medium-term Budget Law sets out the maximum permitted amount of expenditures for ministries and other central state institutions for the following three years. The Medium-term Budget Law also includes medium-term budget goals and priorities, expected macroeconomic developments, fiscal policy goals, budget revenue forecasts and other medium-term budgetary issues. According to the Budget Management Law, the Ministry of Finance may suspend or reduce the expenditure of budget institutions in any of the following cases:

- actual revenues are lower than budgeted by an amount equal to at least 0.5 per cent. of nominal GDP for a three-month period;
- the actual deficit is higher than budgeted by an amount equal to at least 0.5 per cent. of nominal GDP for a three-month period; or
- there are insufficient resources in the Treasury's accounts to meet the following month's due payments in full.

If any suspension or reduction of expenditure exceeds three months, the Cabinet of Ministers is required to submit a supplementary budget.

Ministries and other state central institutions prepare budget requests according to the scope of the maximum permitted expenditure amount. Budget requests are reviewed and collated by the Budget Department of the Ministry of Finance and the Cross-Sectoral Coordination Centre. The Minister of Finance seeks to obtain agreement on these draft budgets with the heads of ministries and other central institutions. Should agreement not be obtained, the Cabinet of Ministers may resolve the dispute by a majority vote.

The Saeima is authorised to amend the draft State Budget Law proposed by the Cabinet of Ministers. However, the Constitution restricts the amendment powers of the Saeima by providing that decisions involving additional expenditures must allocate funds to cover such expenditures. The budget adopted by the Saeima enters into force at the beginning of the year in respect of which the law has been prepared. If a budget has not come into force in due time, the Minister of Finance approves the State budget expenditures, provided that the monthly amount of expenditures cannot exceed one-twelfth of the appropriations of the previous year until the relevant State Budget Law has been passed.

EXECUTION OF THE CENTRAL GOVERNMENT BUDGET

The Budget Management Law authorises the Treasury to organise the execution and financial accounting of the central Government budget. The Treasury grants spending allocations to all entities financed from the budget and ensures that payments executed by those entities comply with the limits set out in the central Government budget.

As part of its implementation of the central Government budget, the Treasury opens budget accounts for budget executors, grants allocations based on financial plans, ensures payments made by entities financed from the budget and maintains records of budget execution transactions effected by entities financed from the budget.

The Treasury prepares monthly, quarterly and annual reports on the execution of the central Government budget and local government budgets as well as daily reports on the execution of the central Government budget. Reports on budget execution are compiled and submitted by the central

Government budget entities and local governments in accordance with the Budget Management Law and other relevant laws and regulations.

According to procedures specified by the Cabinet of Ministers, local governments prepare and submit to the Treasury monthly and annual reports regarding the implementation of their budgets, financing and the amount of their borrowings and guarantees, and the Ministry of Finance prepares a financial year report which is submitted to the Cabinet by the Minister for Finance (the **Annual Report**). The submission of the Annual Report is accompanied by an opinion of the State Audit Office (the **SAO**) as required by law. The Cabinet then submits the Annual Report and the opinion of the SAO to the Saeima by 15 October of the financial year following the relevant budget year.

The Annual Report is prepared in accordance with the requirements and structure stipulated in Article 31 of the Budget Management Law and associated Cabinet Regulations. Article 31 and the regulations also govern the form of the financial and budget execution information to be included in the Annual Report, as well as the explanations to be provided for significant changes in the accounting year.

The SAO conducts a financial audit and renders an opinion on the correctness of the preparation of the Annual Report according to the Budget Management Law and the Law on the State Audit Office. The audit is conducted in accordance with international auditing standards as recognised by the Republic of Latvia. The SAO inspects the preparation of the Annual Report and the correspondence of transactions with regulatory requirements. The audit also assesses the accounting principles applied.

The SAO sends draft audit reports relating to the Ministry of Finance for review to the units and subordinated institutions of the Ministry of Finance which are responsible for the evaluation of audit proposals and problematic issues. The Internal Audit Department of the Ministry of Finance supervises the implementation of the SAO recommendations related to the Ministry of Finance and its subordinated institutions.

RELATIONSHIP BETWEEN CENTRAL GOVERNMENT AND LOCAL GOVERNMENT BUDGETS

Local governments prepare, approve and execute their budgets independently. The central Government budget is consolidated with local government budgets in the general Government budget.

An Equalisation Fund for Local Government Finance, formed from local government payments and grants from the central Government budget, focuses on providing equal conditions for the execution of local government functions by transferring financial resources from certain local governments with higher socio-economic conditions to local governments with lower socio-economic conditions.

During the initial phases of the budget preparation process, the Ministry of Finance, together with local governments, determines the amount of equalisation grants to be provided to local governments and the total amount of central Government budget financing as well as its distribution to local governments for the next financial year. Local governments are represented by The Latvian Association of Local and Regional Governments. The Cabinet of Ministers, when submitting the draft State Budget Law to the Saeima, adds a protocol detailing the results of any negotiations between The Cabinet of Ministers and the Latvian Association of Local and Regional Governments.

The State Budget Law may provide for grants and subsidies from the central Government budget to ensure the execution of State functions.

Local governments are empowered to borrow and provide guarantees according to the procedures specified by the Cabinet of Ministers. The annual State Budget Law sets a maximum amount for the total increase in borrowings and guarantees and prescribes the purposes for which local governments are allowed to borrow and issue guarantees. In order to control and supervise the financial activity of local governments in respect of borrowings and guarantees, the Minister of Finance has established the Local Government Borrowing and Guarantee Control and Supervision Council and local governments are required to obtain the permission of this council in respect of borrowings and guarantees.

SUMMARY OF LATVIA'S BUDGETS SINCE 2012

The 2012 budget was submitted to the Saeima on 6 December 2011 and was approved by the Saeima on 15 December 2011. The 2012 budget targeted a central Government deficit of 0.8 per cent. of projected nominal GDP (calculated according to cash flow methodology) and a consolidated general Government deficit of 2.5 per cent., of projected nominal GDP (calculated according to ESA methodology) and assumed an average inflation rate of 2.4 per cent., continued economic growth throughout the year and an unemployment rate of 14.6 per cent. The 2012 budget included measures to raise revenue (including changes in the real estate tax base), for tax support and measures to strengthen the capacity of tax administration. On the expenditure side, the expenditure of certain ministries (Transport, Health, Defence, Agriculture, Welfare, Interior, Culture, Education and Science) was reduced as were borrowing allowances for local authorities.

Reflecting a better than expected macroeconomic performance in the first half of 2012, a supplementary budget based on updated macroeconomic assumptions was submitted to the Saeima on 13 September 2012. The supplementary budget proposed modest expenditure increases for areas that had adjusted the most in the period following the global financial crisis. Accordingly, additional financing was provided for social integration, demography, investment in public infrastructure and healthcare. The supplementary budget targeted a consolidated general Government deficit for 2012 of 0.9 per cent. of nominal GDP according to cash flow methodology and 1.9 per cent. of nominal GDP according to ESA methodology. In comparison to the initial budget for 2012, the supplementary budget envisaged an increase in revenue of €440.38 million and an increase in expenditure of €447.78 million.

The 2013 budget was submitted to the Saeima on 28 September 2012 and was approved by the Saeima on 15 November 2012. The 2013 budget targeted a central Government deficit of 0.8 per cent., and a consolidated general Government deficit of 1.0 per cent. of projected nominal GDP and assumed an average inflation rate of 2.0 per cent., continued economic growth throughout the year and a job seeker rate of 14.3 per cent. According to ESA methodology, the consolidated general Government budget deficit was projected to be 1.4 per cent. of projected nominal GDP. The 2013 budget included priority measures for which additional financing was provided, principally in the areas of healthcare, transport and the implementation of demographic policy. The 2013 budget reflected the Government's commitment to move towards a balanced budget during the economic cycle and its obligations to comply with fiscal policy conditions set out in the EU Stability and Growth Pact.

The 2014 budget was approved by the Saeima on 6 November 2013. The 2014 budget targeted a central Government deficit of 0.6 per cent., and a consolidated general Government deficit of 0.7 per cent., of projected nominal GDP and assumed an average inflation rate of 2.3 per cent., continued economic growth throughout the year and a job seeker rate of 10.6 per cent. According to ESA methodology, the consolidated general Government budget deficit was projected at 0.9 per cent. of projected nominal GDP. The 2014 budget aimed to implement a fiscal policy that would provide stability in public finances and serve as the basis for sustainable economic growth. The 2014 budget proposed specific actions in a number of areas important to the Latvian National Development Plan, including competitiveness and productivity; business environment; research and innovation; energy efficiency; and health. In the 2014 budget, substantial additional funds were allocated to transport, health, defence and culture. In addition, funding was allocated for public sector wage increases.

The 2015 budget was submitted to the Saeima on 10 December 2014 and was approved by the Saeima on 17 December 2014. The 2015 budget targeted central Government deficit of 0.9 per cent., and a consolidated general Government deficit of 1.1 per cent., of projected nominal GDP and assumes an average inflation rate of 2.4 per cent., continued economic growth throughout the year and a job seeker rate of 10.1 per cent. According to ESA methodology, the general Government budget deficit was projected to be 1.0 per cent. of projected nominal GDP. The 2015 budget reflected the Government's commitment to increase its national defence capability, by raising state defence funding by 2 per cent. of projected nominal GDP by 2020; however, due to the deterioration of the regional security situation the Government provided new projections in Latvia's Stability Programme for

2015-2018 requiring the increase in defence funding to be achieved by 2018. The 2015 budget included the implementation of strategic objectives identified in the Latvian National Development Plan, and additional funds were allocated to the health, transport and agriculture sectors, in addition to defence.

The 2016 budget was submitted to the Saeima on 30 September 2015 and was approved by the Saeima on 30 December 2015. According to ESA methodology, the general Government budget deficit target for 2016 was the same as for 2015 and was projected to be 1.0 per cent. of projected nominal GDP. The 2016 budget reflected the Government's commitment to strengthen internal and external national security, increase health care accessibility and improve the quality of education. In order to provide the necessary financing for expenditures in 2016, the baseline expenditures of line ministries were revised and cut by 3 per cent. Accordingly, line ministries have been required to optimise their spending and obtain efficiency gains. The timeline of investment projects was revised.

On 30 September 2015 amendments to the Law on Budget and Financial Management were submitted to the Saeima and were approved by the Saeima on 30 November 2015. Pursuant to the amendments, the Cabinet of Ministers ensures a permanent and systematic public spending review. As of 1 January 2016, the Law on Budget and Financial Management requires the Government to ensure the constant and systematic revision of the State budget expenditures, allowing for a more efficient and economic implementation of State policy, as well as optimising the budget expenditures and evaluating the conformity thereof to the priorities and objectives set in the development planning documents. Accordingly, on an annual basis the Minister of Finance will submit to the Government for its approval the proposed revisions to State budget expenditures based on the results of a public spending review and the proposals for the application of these revisions within the draft Medium Term Budget Framework Law and the draft annual State Budget Law.

The 2017 budget was submitted to the Saeima on 14 October 2016 and was approved by the Saeima on 24 November 2016. According to ESA methodology, the general Government budget deficit target for 2017 is projected to be 1.1 per cent. of projected nominal GDP.

The outcome of Latvia’s first spending review was adopted by the Cabinet of Ministers on 31 May 2016. In fiscal terms, efficiency gains of €61.3 million for 2017 were identified, which provided additional funds for both ministry priorities and general Government priorities (€28.7 million being allocated for ministry priorities and €32.6 million being allocated for general Government priorities).

For 2017, the Cabinet of Ministers approved the allocation of €188.7 million of funding for new policy initiatives and priority measures of line ministries. The biggest amount of additional financing has been provided for the sectors which the Government has identified as priorities, in particular internal security, health and education. However, additional resources were also provided to other significant issues of concern, including demography, road infrastructure, support for farmers and the Latvian centenary events.

In view of the considerable changes in geopolitical risks, expenditure by the Ministry of Defence is projected to be 1.7 per cent. of GDP in 2017, 2.0 per cent. of GDP in 2018, and 2.0 per cent. of GDP in 2019.

CONSOLIDATED GENERAL GOVERNMENT BUDGET

The table below sets out a summary of the consolidated general Government budget outcome on a cash flow basis for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016 and a summary of the consolidated general Government budget for the year ended 31 December 2017.

		Year ended 31 December					
		2012	**2013**	**2014**	**2015**	**2016**	**2017[(1)]**
				(€ millions)			
General Government budget revenues		**8,175.0**	**8,364.4**	**8,532.7**	**8,814.6**	**9,069.9**	**9,886.91**
1.	Tax revenues	6,102.8	6,426.3	6,676.4	7,002.6	7,419.6	7,917.2
1.1	Direct taxes	3,638.2	3,849.0	3,907.5	4,065.8	4,299.0	4,577.0
	Corporate income tax	*347.0*	*362.5*	*354.8*	*383.1*	*419.7*	435.0
	Personal income tax	*1,240.2*	*1,333.0*	*1,385.2*	*1,436.9*	*1,528.7*	1,639.0
	Social security contributions (incl. the Solidarity tax)	*1,883.9*	*1,980.8*	*1,976.1*	*2,048.7*	*2,130.8*	2,277.6
	Property tax	*167.0*	*172.7*	*191.3*	*197.0*	*219.8*	225.4
1.2	Indirect taxes	2,419.3	2,529.0	2,718.6	2,883.4	3,068.3	3,273.3
	Value added tax	*1,588.8*	*1,666.8*	*1,803.7*	*1,903.6*	*2,018.9*	2,168.7
	Excise duty	*703.8*	*730.9*	*748.6*	*796.3*	*861.0*	909.2
	Car tax	*8.9*	*9.9*	*11.2*	*11.1*	*10.3*	-
	Customs duties	*31.9*	*27.6*	*35.6*	*40.0*	*42.6*	39.7
	Subsidised energy tax	—	—	*25.0*	*31.0*	*29.2*	32.1
	Vehicle tax	*67.8*	*72.0*	*73.5*	*79.4*	*83.7*	95.5
	Corporate vehicle tax	*16.7*	*20.8*	*19.2*	*20.3*	*21.6*	21.8
	Electricity tax	*1.3*	*1.0*	*1.7*	*1.6*	*0.9*	6.4
1.3	Other taxes[(2)]	45.4	48.3	50.3	53.4	52.3	66.9
2.	Non-tax revenues	560.8	522.2	485.0	498.4	563.0	510.2
3.	Grants and donations	8.4	6.1	8.6	4.9	4.5	2.5
4.	Self-earned revenues	299.2	299.7	292.0	303.0	332.2	328.1
5.	Foreign financial assistance	1,203.8	1,110.0	1,070.7	1,005.7	750.7	1,128.9
6.	Other local government payments	0.0	0.0	0.0	0.0	0.0	0.0
General Government budget expenditures		**8,136.6**	**8,492.0**	**8,930.0**	**9,188.1**	**9,171.6**	**10,138.8**
1.	Non-capital expenditure	7,302.0	7,628.3	8,052.9	8,268.3	8,508.1	9,424.2
2.	Capital expenditure	834.6	863.6	877.1	919.9	663.5	714.6
3.	Other expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Financial balance[(3)]		**38.4**	**(127.6)**	**(397.3)**	**(373.5)**	**(101.7)**	**(251.9)**
Financial balance (ESA 2010)[(4)]		**(223.7)**	**(228.8)**	**(372.6)**	**(305.4)**	**3.4**	**(206.9)**

Source: Ministry of Finance
Notes:
(1) Latvia's Stability Programme for 2017-2020.
(2) Including taxes on lotteries, gambling and nature resources tax.
(3) Calculated according to cash flow methodology.
(4) Calculated according to ESA methodology.

The table below summarises the outcome of the consolidated general Government budget for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016, and the projections for the general Government budgets for the year ended 31 December 2017, in each case as a percentage of nominal GDP (calculated on a cash flow basis).

	Year ended 31 December					
	2012	**2013**	**2014**	**2015**	**2016**	**2017(1)**
	(per cent.)					
General Government budget revenues	**37.4**	**36.7**	**36.1**	**36.2**	**36.2**	**37.6**
1. Tax revenues	27.9	28.2	28.3	28.7	29.7	30.1
1.1 Direct taxes	16.6	16.9	16.5	16.7	17.2	17.4
1.2 Indirect taxes	11.1	11.1	11.5	11.8	12.3	12.4
1.3 Other taxes	0.2	0.2	0.2	0.2	0.2	0.3
2. Non-tax revenues	2.6	2.3	2.1	2.0	2.3	1.9
3. Grants and donations	0.0	0.0	0.0	0.0	0.0	0.0
4. Self-earned revenues	1.4	1.3	1.2	1.2	1.3	1.2
5. Foreign financial assistance	5.5	4.9	4.5	4.1	3.0	4.3
6. Other local government payments	0.0	0.0	0.0	0.0	0.0	0.0
General Government budget expenditures	**37.2**	**37.3**	**37.8**	**37.7**	**36.7**	**38.5**
1. Non-capital expenditure	33.4	33.5	34.1	33.9	34.0	35.8
2. Capital expenditure	3.8	3.8	3.7	3.8	2.7	2.7
3. Other expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Financial balance(2)	**0.2**	**(0.6)**	**(1.7)**	**(1.5)**	**(0.4)**	**(1.0)**
Financial balance (ESA 2010)(3)	**(1.0)**	**(1.0)**	**(1.6)**	**(1.3)**	**0.0**	**(0.8)**

Source: Ministry of Finance
Notes:

(1) Budget figures. Based on an assumed nominal GDP number for 2016 of €25,424.3 million. (Latvia's Stability Programme for 2017 – 2020).
(2) Calculated according to cash flow methodology.
(3) Calculated according to ESA methodology.

Revenues

Latvia's general Government budget revenues comprise revenues from taxation and a limited number of other sources. The Government's tax revenues are described below. The Government's principal non-tax revenues are derived from a range of fees (such as licensing and land registration fees), dividends and interest income. The Government's self-earned revenues reflect income from services provided by budget institutions (for example, guarantee fees for guarantees provided by the Treasury). Foreign financial assistance reflects infrastructure funds from the EU and other similar assistance.

Since 2012, Latvia's general Government budget revenues have increased by 2.3 per cent. in 2013, by 2.0 per cent. in 2014 and by 3.3 per cent. in 2015. In 2016, Latvia's general Government budget revenues increased by 2.9 per cent. compared to 2015. In 2017, Latvia's general Government budget revenues are budgeted to increase by 9.0 per cent. compared to the 2016 budget.

Tax revenues

The majority of the Government's revenues are derived from taxes. As a percentage of total general Government revenues, tax revenues were 74.7 per cent. in 2012, 76.8 per cent. in 2013, 78.2 per cent. in 2014, 79.4 per cent. in 2015 and 81.8 per cent. in 2016. In 2017, tax revenues are budgeted to account for 80.1 per cent. of total general Government revenues.

Latvia's tax revenues are principally made up of direct taxes and indirect taxes. Direct taxes comprise social security contributions, personal income tax, corporate income tax and real estate tax. As a percentage of total general Government tax revenue, revenues from direct taxes were 59.6 per cent. in 2012, 59.9 per cent. in 2013, 58.5 per cent. in 2014,58.1 per cent. in 2015 and 57.9 per cent. in 2016.

In 2017 revenues from direct taxes are budgeted to equal 57.8 per cent. of total general Government tax revenue.

The tax rate for social security contributions represents employer and employee contributions which, in 2016, aggregated 34.09 per cent. of salary. These contributions are paid by the employer and recorded in a special budget (which is consolidated into the general Government budget). The special budget is used to pay a range of social benefits, including sickness benefit, unemployment benefit, incapacity benefit and maternity benefit. In 2016, a solidarity tax (which is a tax levied on income which exceeds the ceiling for mandatory state social contributions) was introduced, although it is proposed under the Tax Policy Principles (see "*Economy of Latvia – Tax Policy Principles*") that the solidarity tax will be transformed. The solidarity tax rate is the same as the rate of mandatory State social security contributions (i.e. 34.09 per cent.). Solidarity tax payments are currently included in the State special budget along with the mandatory State social security contributions. However, pursuant to the Tax Policy Principles (which will enter into force on 1 January 2018), instead of being paid into the central Government budget, the proceeds of the “solidarity tax” will be applied to social security, the healthcare financing budget and the personal income tax account. Social security contributions equalled 51.8 per cent. of direct tax revenue (excluding contributions to the State funded pension scheme) in 2012, 51.5 per cent. in 2013, 50.6 per cent. in 2014 and 50.4 per cent. in 2015. In 2016 social security contributions (excluding contributions to the State funded pension scheme, but including the solidarity tax from 2016) were 49.6 per cent. of direct tax revenue and are budgeted to equal 49.8 per cent. of direct tax revenue in 2017.

Personal income tax is levied on employees’ salaries and is deducted at source by employers and paid to the Treasury. In 2012, personal income tax was charged at a flat rate of 25 per cent. In the 2013 budget, the personal income tax rate was reduced to 24 per cent. and, in the 2015 budget, to 23 per cent. In 2016 personal income tax was charged at 23 per cent. Personal income tax equalled 34.1 per cent. of direct tax revenue, in 2012, 34.6 per cent. in 2013 and 35.5 per cent. in 2014. In 2015, personal income tax revenue was 35.3 per cent. of direct tax revenue and, in 2016, personal income tax revenue was equal to 35.6 per cent. of direct tax revenue. In 2017, personal income tax revenue is budgeted to equal 35.8 per cent. of direct tax revenue.

Corporate income tax is levied at a rate of 15 per cent. on company profits. Corporate income tax equalled 9.5 per cent. of direct tax revenue in 2012, 9.4 per cent. in 2013, 9.1 per cent. in 2014, 9.4 per cent. in 2015 and 9.8 per cent. in 2016. In 2017 revenue from corporate income tax is budgeted to equal 9.5 per cent. of direct tax revenue.

Real estate tax is levied on the value of land and buildings used for business purposes at a rate of 1.5 per cent. in each case. From 2011, the real estate tax rate for residential property was increased from between 0.1 and 0.3 per cent. to between 0.2 and 0.6 per cent., depending on cadastral value. From 2013, municipalities are permitted to determine their own tax rate within the scope of a tax rate corridor (0.2 to 3 per cent.) provided by law (the general rule being that the rate should be within 0.2 to 1.5 per cent. limits unless any real estate is not maintained in accordance with applicable law, in which case the rate should be within 1.5 to 3 per cent.). Revenue from real estate tax has been less than 5.0 per cent of direct tax revenue in each year since 2012, except for 2016 when real estate tax revenue was equal to 5.1 per cent. of direct tax revenue. In 2017, revenue from real estate tax is budgeted to equal 4.9 per cent. of direct tax revenue.

Indirect taxes principally comprise value added tax and excise duties. Customs duties, car and vehicle taxes and electricity and subsidised energy taxes also generate a small proportion of indirect tax revenue. As a percentage of total general Government tax revenue, revenues from indirect taxes was 39.6 per cent. in 2012, 39.4 per cent. in 2013, 40.7 per cent. in 2014, 41.2 per cent. in 2015 and 41.4 per cent. in 2016. In 2017, revenue from indirect taxes is budgeted to equal 41.3 per cent. of total general Government tax revenue.

VAT in Latvia is charged on a wide range of goods and services. In the first six months of 2012, VAT was charged at 22 per cent. with the reduced rate being increased to 12 per cent. From 1 July 2012, the VAT rate has been reduced to 21 per cent. VAT equalled 65.7 per cent. of indirect tax revenue in

2012, 65.9 per cent. in 2013, 66.3 per cent. in 2014, 66.0 per cent. in 2015, and 65.8 in 2016. In 2017, revenue from VAT is budgeted to equal 66.3 per cent. of indirect tax revenue.

Excise duty in Latvia is charged on alcoholic beverages (including beer), tobacco products, mineral oils, natural gas, non-alcoholic beverages and coffee. There is a wide range of different charges which have generally increased over the period since 2012. Revenue from excise duty equalled 29.1 per cent. in 2012, 28.9 per cent. in 2013, 27.5 per cent. in 2014, 27.6 per cent. in 2015 and 28.1 per cent. in 2016. In 2017 revenue from excise duty is budgeted to equal 27.8 per cent. of indirect tax revenue.

On 9 May 2017 the Government approved the Finance Ministry's Tax Policy Principles. Legislation in respect of the Tax Policy Principles and related bills were endorsed by the Saeima in the second reading on 27 and 28 July 2017 and will enter into force on 1 January 2018. The Tax Policy Principles include various tax reforms, as described further under "*Economy of Latvia – Tax Policy Principles*".

Expenditure

Under the Medium-term Budget Law, substantial additional funding for expenditure in the 2017 to 2019 period has been allocated to the defence sector (raising state defence funding to 2 per cent. of GDP in 2018), internal security, health and the education sector.

Additional, although less significant, increases in expenditure include increasing the minimum wage from €370 to €380, measures to combat the shadow economy, grant for municipalities and the restoration of the State budget grant to ensure scientific activity in higher educational institutions and colleges.

Latvia's general Government budget classifies expenditure as either capital expenditure or non-capital (or maintenance) expenditure. As a percentage of total expenditure, non-capital expenditure was 89.7 per cent. in 2012, 89.8 per cent. in 2013, 90.2 per cent. in 2014, 90.0 per cent. in 2015 and 92 per cent.in 2016. In 2017, non-capital expenditure is budgeted to equal 93.0 per cent. of total expenditure.

Non-capital expenditure principally comprises current expenditure and subsidies, grants and social support. Together, these two expenditure classifications made up 91.8 per cent. of total non-capital expenditure in 2012, 91.6 per cent. in 2013, 91.6 per cent. in 2014, 91.3 per cent. in 2015. and 92.9 per cent. in 2016. In 2017, current expenditure and subsidies, grants and social support were together budgeted to account for 93.6 per cent. of total non-capital expenditure. In addition, interest payments on Latvia's outstanding debt and international collaboration payments and Latvia's contributions to the EU budget make up the balance of non-capital expenditure. The increase in interest payments in 2012 through 2015 principally reflects the cost of foreign financial assistance received. Interest payments were lower in 2016 as Latvia started to refinance these obligations at lower rates at the end of 2013.

Non-capital expenditure increased by 4.0 per cent. in 2012, by 4.5 per cent. in 2013, by 5.6 per cent. in 2014, by 2.7 per cent. in 2015 and by 2.9 per cent. in 2016.

The table below provides a breakdown of non-capital expenditure in the consolidated general Government budget for each of the years ended 31 December 2012, 2013, 2014, 2015 and 2016.

		Year ended 31 December				
		2012	2013	2014	2015	2016
				(€ millions)		
1.	Current expenditure	2,680.1	2,874.7	2,987.0	3,165.2	3,301.9
1.1	Remuneration of which:	1,640.9	1,757.7	1,858.9	1,987.5	2,095.8
	Wages and salaries	*1,276.6*	*1,363.9*	*1,438.2*	*1,530.8*	*1,610.2*
	Employers' social security contributions	*364.3*	*393.8*	*420.6*	*456.6*	*485.6*
1.2	Goods and services	1,039.2	1,117.0	1,128.1	1,177.1	1,206.0
2.	Interest payments	334.0	329.1	350.6	435.6	308.6
3.	Subsidies, grants and social support	4,024.3	4,109.1	4,386.5	4,382.1	4,606.0
3.1	Subsidies and grants	1,733.2	1,708.9	1,940.0	1,794.9	1,903.5
3.2	Social support of which:	2,291.1	2,400.2	2,446.6	2,587.3	2,702.5
	Pensions	*1,763.5*	*1,816.5*	*1,816.3*	*1,832.8*	*1,863.2*
	Other social support	*527.7*	*583.8*	*630.3*	*754.4*	*839.3*
4.	International collaboration	39.0	46.1	41.1	38.8	33.0
5.	Payments to EU budget	220.8	269.3	285.6	246.3	258.6
	Total non-capital expenditure	**7,302.0**	**7,628.3**	**8,052.9**	**8,268.3**	**8,508.1**

Source: Ministry of Finance

Current expenditure

Current expenditure comprises remuneration of central and local government employees as well as payments for goods and services used by central and local government. As a percentage of total non-capital expenditure, current expenditure was 36.7 per cent. in 2012, 37.7 per cent. in 2013, 37.1 per cent. in 2014, 38.3 per cent. in 2015 and 38.8 per cent. in 2016. In 2017, current expenditure is budgeted to be 39.1 per cent. of total non-capital expenditure.

Remuneration includes both wages and employers' social security contributions. Remuneration increased by 2.0 per cent. in 2012, by 7.1 per cent. in 2013, by 5.8 per cent. in 2014, by 6.9 per cent. in 2015 and by 5.5 per cent. in 2016. In 2017 remuneration is budgeted to increase by 9.0 per cent. As a percentage of total current expenditure, remuneration was 61.2 per cent. in 2012, 61.1 per cent. in 2013, 62.2 per cent. in 2014, 62.8 per cent. in 2015 and 63.5 per cent. in 2016. In 2017, remuneration is budgeted to be 62.0 per cent. of total current expenditure.

In each of 2012, 2013, 2014, 2015 and 2016 payments for goods and services increased by 0.2 per cent., 7.5 per cent., 1.0 per cent., 4.4 per cent. and 2.4 per cent., respectively. These payments were budgeted to increase by 15.9 per cent. in 2017 reflecting additional spending on defence. As a percentage of total current expenditure, payments for goods and services were 38.8 per cent. in 2012, 38.9 per cent. in 2013, 37.8 per cent. in 2014, 37.2 per cent. in 2015 and 36.5 per cent. in 2016. In 2017 Latvia's payments for goods and services are budgeted to be 38.0 per cent. of total current expenditure.

Subsidies, grants and social support

As a percentage of total non-capital expenditure, subsidies, grants and social support was 55.1 per cent. in 2012, 53.9 per cent. in 2013, 54.5 per cent. in 2014, 53.0 per cent. in 2015 and 54.1 per cent. in 2016. Subsidies, grants and social support are budgeted to be 54.5 per cent. of total non-capital expenditure in 2017.

Subsidies and grants principally comprise payments by Government to enterprises for ensuring certain functions which are necessary to society (for example, subsidising the costs of mail delivery in rural areas). In addition, subsidies for agriculture and payments to non-Governmental organisations make up the balance of subsidies and grants expenditure. Subsidies and grants increased by 9.6 per cent in 2012. In 2013, subsidies and grants decreased by 1.4 per cent. Subsidies and grants increased by 13.5 per cent., reflecting increases in health grants as well as EU funded projects in transport and business and innovation in 2014 and, in 2015, subsidies and grants decreased by 7.5 per cent. In 2016, subsidies and grants increased by 6.1 per cent. As a percentage of total subsidies, grants and social support, subsidies and grants were 43.1 per cent. in 2012, 41.6 per cent. in 2013, 44.2 per cent. in 2014, and 41.0 per cent. in 2015. Subsidies and grants were 41.3 per cent. of total subsidies, grants and social support in 2016, and, in 2017, they are budgeted to be 44.3 per cent. of total subsidies, grants and social support.

Social support principally comprises pensions and other social insurance payments made from the Central Government Social Security Budget. Social support increased by 0.1 per cent. in 2012, by 4.8 per cent. in 2013, by 1.9 per cent. in 2014, by 5.8 per cent. in 2015 and by 4.5 per cent. in 2016. Social support is budgeted to increase by 5.8 per cent. in 2017.

As a percentage of total subsidies, grants and social support, social support was 56.9 per cent. in 2012, 58.4 per cent. in 2013, 55.8 per cent in 2014, 59.0 per cent. in 2015 and 58.7 per cent. in 2016. Social support is budgeted to be 55.7 per cent. of total subsidies, grants and social support in 2017.

BUDGET DEFICITS

Since its accession to the EU in 2004, Latvia has been obliged to observe the euro convergence criteria for Eurozone entry (the **Maastricht criteria**) which limit the general Government sector budget deficit to no more than 3.0 per cent. of nominal GDP (on an ESA basis).

Following Latvia’s acceptance of the financial assistance package, Latvia implemented significant budget consolidation measures as part of the conditions attached to that package. Reflecting these and a strong fiscal policy, the budget deficit was 3.4 per cent. of nominal GDP in 2011 on an ESA basis (down from 8.5 per cent. in 2010) and, in 2012, it was 1.0 per cent. of nominal GDP on an ESA basis. These steps contributed to the closure of Latvia’s international loan programme under the financial assistance package at 31 December 2011. In 2013, 2014 and 2015, the deficits were 1.0 per cent, 1.6 per cent. and 1.3 per cent. on an ESA basis, respectively, of nominal GDP, well within the 3.0 per cent. limit of the Maastricht criteria.

The General Government budget for 2016 was balanced, which reflects Latvia’s continued commitment to fiscal discipline and debt sustainability. According to Latvia’s Stability Programme 2017-2020, the General Government budget deficit for 2017 is budgeted to be 0.8 per cent. of nominal GDP on an ESA basis.

INDEBTEDNESS

All central Government debt and cash management activities (including the issuance of securities) are entrusted to the Treasury, an administrative institution which reports to the Minister of Finance. The main objective for central Government medium-term debt management is to ensure availability of financial resources and the refinancing of central government debt, central government budget execution and maintenance of the financial resources reserve at the lowest possible costs while hedging financial risks and taking into account the development of the Latvian economy and integration of the domestic financial market into the common financial market of the Eurozone. This latter objective is an important reason for the Government's issues of domestic debt securities. The Minister of Finance approves a medium-term funding plan prepared by the Treasury, which indicates the planned borrowing measures in the domestic and international capital markets.

Central Government debt comprises received and unpaid gross debt of central Government authorities, stated in accordance with the institutional sector classification (excluding merchants controlled and financed by central Government, port and free port authorities and special economic zones) in the following financial product categories:

- debt securities (excluding derivative financial instruments); and
- loans and deposits, including saving bonds, guarantee deposits, cash deposits and account balances of clients (excluding central Government authorities but including merchants controlled and financed by central Government, port and free port authorities and special economic zones) placed at the Treasury.

The ceiling on the total central Government debt (comprising both domestic and external debt) is set in the State Budget Law in terms of nominal value as at 31 December of each year. In 2016, the central Government debt ceiling was €10.1 billion (at nominal value, including derivatives attributed to external debt). In 2017 the central Government debt ceiling is set at €9.95 billion (at nominal value, including derivatives attributed to external debt).

The table below sets out Latvia's outstanding central Government debt in euro and as a percentage of nominal GDP as at 31 December 2012, 2013, 2014, 2015 and 2016.

	2012	**2013(1)**	**2014(1)**	**2015(1)**	**2016(1)**
			(€ millions)		
Central Government debt	**7,865.4**	**8,092.9**	**9,012.3**	**8,412.0**	**9,702.3**
External	6,896.9	6,805.8	7,628.0	7,052.7	8,297.9
Domestic	968.5	1,287.1	1,384.3	1,359.3	1,404.5
			(as a percentage of nominal GDP)		
Central Government debt	**35.9**	**35.5**	**38.1**	**34.5**	**38.8**
External	31.5	29.9	32.3	28.9	33.2
Domestic	4.4	5.6	5.8	5.6	5.6

Source: The Treasury

Note:

(1) From 1 January 2013, central Government borrowing, in line with ESA methodology, includes cash deposits placed at the Treasury.

Latvia has met all principal and interest obligations on its central Government debt since the renewal of its independence in 1991.

The table below sets outs Latvia's debt redemption profile (excluding interest amounts) in respect of its total outstanding central Government debt as at 30 June 2017, expressed in millions of euro, and as a percentage of the total amount outstanding at 30 June 2017, for each of the years indicated. The data contained in the table does not assume any refinancing of existing debt.

	2017	2018	2019	2020	2021	2022	2023	2024
				(*€ millions*)				
Total principal payments	416.8	892.7	984.6	1,306.5	1,452.9	245.5	9.3	1,160.8
Securities	0	765.3	383.1	1,276.1	1,443.4	161.7	1.3	1,002.8
Loans	53.4	110.4	599.6	30.0	9.1	83.4	7.6	157.6
On – demand and deposits	363.4	17.0	1.9	0.4	0.4	0.4	0.4	0.4
As percentage of total outstanding central Government debt as at 31 December 2016	4.3%	9.2%	10.1%	13.4%	14.9%	2.5%	0.1%	11.9%

	2025	2026	2027	2028	2029	2030	2031[(1)]	Total
				(*€ millions*)				
Total principal payments	780.6	955.4	5.3	5.0	5.0	5.0	1.5	9,729.0
Securities	500.3	950.0	0.0	0.0	0.0	0.0	1.3	7,834.2
Loans	280.0	5.0	5.0	5.0	5.0	5.0	0.2	1,509.6
On – demand and deposits	0.3	0.4	0.3	0.0	0.0	0.0	0.0	385.2
As percentage of total outstanding central Government debt as at 31 December 2016	8.0%	9.8%	0.1%	0.1%	0.1%	0.1%	15.5%	100.0%

Source: The Treasury
Note:
(1) Amount due to be repaid from and including 2031 onward.

As at 31 December 2016 and according to Government deficit/surplus and debt level data submitted to Eurostat in April 2017, Latvia's general Government debt was 40.1 per cent. of Latvia's GDP compared to 36.5 per cent as at 31 December 2015, 40.9 per cent as at 31 December 2014, 39.0 per cent. as at 31 December 2013 and 41.3 per cent. as at 31 December 2012. As at 31 December 2016 Latvia had the seventh lowest ratio of general Government debt to GDP among the 28 Member States of the EU.

CENTRAL GOVERNMENT EXTERNAL DEBT

Latvia's central Government external debt (the **External Debt**) comprises borrowings from the international financial markets and from international financial institutions. Latvia has outstanding ten series of international bonds, eight of which were denominated in euro and two in U.S. dollars.

The following issues are currently outstanding:

Aggregate Outstanding Principal Amount	**Original Issue Date**	**Maturity Date**	**Coupon**
			(per cent.)
€400 million......................................	5 March 2008	5 March 2018	5.500
U.S.$698,069* million.......................	12 December 2012	1 December 2020	2.750
€550 million......................................	15 December 2015	15 December 2020	0.500
€1.000 million...................................	21 January 2014	21 January 2021	2.625
U.S.$ 401,490* million......................	16 June 2011	16 June 2021	5.250
€1.000 million...................................	30 April 2014	30 April 2024	2.875
€500 million......................................	23 September 2015	23 September 2025	1.375
€950 million**..................................	7 October 2016	7 October 2026	0.375
€850 million***.................................	16 May 2016	16 May 2036	1.375
€500 million......................................	15 February 2017	15 February 2047	2.250

Note: * outstanding amount following buyback transaction in December 2015

** including second and third tranches, each of €150 million, issued on 15 February 2017 and 7 June 2017, respectively

*** including a second tranche of €200 million issued on 7 June 2017

At 30 June 2017, central Government debt outstanding consisted of issues in international capital markets (69 per cent.), domestic market (15 per cent.), loans from the EC (7 per cent.) and the World Bank (2 per cent.) received under the financial assistance programme and loans from the European Investment Bank (4 per cent.), the Nordic Investment Bank (1 per cent.) and other lenders (2 per cent.).

The table below sets out the External Debt broken down by currency (excluding derivatives), calculated based on the issue value plus amortisation of discount (+)/premium (-) as at 31 December 2012 and calculated based on the nominal value as at 31 December 2013, 2014, 2015 and 2016.

	As at 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(€ millions)		
CHF	0.68	0.59	0.52	0.49	0.40
€	4,658.91	4,639.22	5,205.09	4,958.53	6,143.17
USD	2,096.72	2,029.79	2,278.01	1,939.78	2,000.24
XDR(1)..	140,63	136.16	144.37	153.89	154.03
Total	**6,896.93**	**6,805.76**	**7,627.99**	**7,052.70**	**8,297.85**

Source: The Treasury
Note:
(1) IMF special drawing rights.

FINANCIAL ASSISTANCE FROM INTERNATIONAL LENDERS

In the second half of 2008, due to the global financial crisis, Latvia's limited financial resource availability and the liquidity support provided by the Government to stabilise the banking sector, the Government sought financial assistance from the IMF and other members of the international community. At the end of December 2008, the IMF, the EU, the World Bank, the EBRD and certain Nordic countries and certain EU Member States agreed to provide a package of support to Latvia in an amount of up to approximately €7.5 billion.

At the end of 2011, loans amounting to €4.5 billion had been made by international lenders within the scope of the financial assistance programme. The funds received were principally used to finance deficits, make State loans and finance debt repayment. In addition, a portion of the funds received was used to support Parex Bank and ensure the stability of the Latvian banking sector. Latvia decided not to make any further borrowings after 1 November 2011 following its return to the international capital markets in June 2011. The programme facility lapsed at the beginning of 2012.

The table below sets out total committed, distributed and outstanding financing at 31 December 2016 provided by the international lenders under the financial assistance package.

	Total		
	Committed(1)	**Disbursed**	**Outstanding**(2)
		(€ billions)	
EC	3.1	2.9	0.7
Nordic countries	1.9	0	—
IMF	1.7	1.1	—
World Bank	0.4	0.4	0.26
Other countries, EBRD	0.4	0.1	0
Total	**7.5**	**4.5**	**0.96**

Source: The Treasury
Notes:
(1) Financing committed at the start of the programme.
(2) Amount outstanding at 31 December 2016.

During 2012, Latvia repaid early the full €1.1 billion of monies disbursed to it by the IMF. In March 2014 and at the beginning of 2015, Latvia repaid €2.2 billion of the EC loan in accordance with that loan's repayment schedule. The remaining amounts of the EC loan are scheduled to be repaid in 2019 (€500 million) and 2025 (€200 million) and amounts to the World Bank are scheduled to be repaid between 2017 and 2020 (in total €260 million). See also, "*Risk Factors—Latvia has significant central Government debt repayment obligations and any inability to obtain funding to meet these obligations could adversely affect Latvia in a number of ways*".

Certain international lenders, including the World Bank, assert preferred creditor status in relation to loans that they make to sovereign borrowers. At the same time as it adopted the euro, Latvia also joined the European Stability Mechanism, which also asserts preferred creditor status in respect of loans made by it to its members. Although preferred creditor status is not a clearly defined concept, in practice it means that lenders who assert such status generally do not participate in debt rescheduling agreements between states and their external creditors and instead seek to be repaid in full.

CENTRAL GOVERNMENT DOMESTIC DEBT

As at 31 December 2016, central Government domestic debt (**Domestic Debt**) amounted to €1,404.5 million. Domestic Debt stood at €1,359.3 million, €1,384.3 million, €1,287.2 million and €968.4 million as at 31 December 2015, 2014, 2013 and 2012, respectively.

Domestic Debt principally comprises tradable Government securities, a retail borrowing instrument in the form of a non-tradable savings bond, deposit facilities and other borrowings (which are used for liquidity management purposes). Domestic Government securities are used both as a financing instrument and with a view to the development of a domestic securities market in Latvia as well as to serve for benchmarking to other issuers in the domestic capital market.

As at 31 December 2016, in the domestic market the Government had outstanding:

- medium-term Treasury bonds (three year bonds, five year bonds (original maturity));
- long-term Treasury bonds (10 year bonds, 11 year bonds (original maturity)); and
- retail instrument for private individuals (savings bonds and interest-free bonds).

The medium-term bonds are issued at a discount or premium (in the case of negative rates) and redeemed at par on maturity. In 2016 the Government continued to benefit from low interest rates and a fixed negative yield in domestic three year (original maturity) bond issuances, and, therefore, issued bonds with a premium. The medium- and long-term bonds are issued with a fixed interest rate, which is paid annually, and are redeemed at par on maturity.

The Government's domestic debt securities are issued in dematerialised form and sold through NASDAQ Riga's Genium INET trading system at competitive multi-price and non-competitive uniform price auctions at par for both bills and bonds. All auctioned Government domestic debt securities are registered with the Latvian Central Depository and are listed on NASDAQ Riga. Since February 2013, five banks act as primary dealers of Domestic Debt securities. Primary dealers have certain rights and obligations with regard to participation in the domestic security auctions, as well as the provision of liquidity and price transparency of Domestic Debt securities in the secondary market.

Savings bonds are financial instruments for private individuals. The project was launched in the middle of 2013 using internet applications and subsequently, in 2014, the distribution of savings bonds was started through Latvian post office branches. The savings bonds are offered with six and twelve month as well as five and ten year maturities. During 2014 -2015 the coupons of savings bonds for all tenors were continuously decreasing, following the market rates of Latvian central government auctioned domestic securities and general trends in the international financial markets.

In 2016, the Treasury continued to issue a new type of government securities, interest-free bonds (the programme was started in 2015). The Immigration Law prescribes that a foreigner has the right to request a residence permit in the Republic of Latvia for a period of time not exceeding five years if that person purchases interest-free government securities dedicated to a specific purpose with a nominal value of €250,000.

The table below sets out the structure of the outstanding Domestic Debt securities (original maturities) as at 31 December 2016.

	31 December 2016	
	nominal (€millions)	*(per cent.)*
3 year bonds	427.7	39.9
5 year bonds	457.0	42.6
10 year bonds	151.6	14.1
11 year bonds	24.4	2.3
Savings bonds	5.1	0.5
Interest-free bonds	6.00	0.6
Total	**1,071.08**	**100.0**

Source: The Treasury.

During 2016, the Treasury successfully completed 16 competitive multi-price auctions of treasury bills and of three-year and five-year bonds.

During 2016 all Treasury bills issued in 2015 and 2016 matured leaving only Treasury bonds outstanding. During 2016, all competitive multi-price auctions were fully subscribed with minimum and maximum bid to cover ratios ranging between 2.5 and 7.7, and an average bid to cover ratio of 4.

In 2016, the weighted average yields of all securities in the domestic primary market reached new historical lows: for the first time the rates of Government bonds were fixed at a negative yield (minus 0.040 per cent.) on 14 September 2016 and continued to have negative yields until the end of 2016. In order to stimulate liquidity, Government Treasury bonds with an original maturity of three years and five years were re-opened by tap issues. In 2016, the coupon of the new three-year Government bond programme was set at 0.000 per cent. on 10 February 2016 and the five-year Government bond programme was set at minus 0.375 per cent. on 25 May 2016.

DEBT MANAGEMENT STRATEGY

Latvia pursues a strategy of central Government debt management through a dual framework of central Government debt portfolio management and central Government borrowing management (the **Debt Management Strategy**). Central Government debt portfolio management is aimed at optimising central Government debt service costs over the long-term while hedging and preventing financial risks in relation to the central Government debt portfolio. Central Government borrowing management is aimed at ensuring borrowing opportunities, on favourable terms and conditions, focusing on the long-term development of the financial market and promoting relationships with financial market participants.

The Debt Management Strategy targets a number of key parameters, including the following:

- *Outstanding amount of domestic debt securities at the end of the year.* The Debt Management Strategy envisages that the outstanding amount of domestic debt securities (securities issued under Latvian law) at the end of each year should not be less than outstanding amount of domestic debt securities at the end of preceding year (the parameter is measured annually at the end of each year). Deviation is acceptable if, where there is a negative net issuance in the current year this is offset by increased planned borrowings in the domestic market in the next year;

- *The maturity profile of the portfolio*. The Debt Management Strategy envisages that not more than 25 per cent. of the central Government debt portfolio should mature within one year and that not more than 50 per cent. should mature within three years;

- *The fixed rate proportion*. The Debt Management Strategy envisages that not less than 60 per cent. of the central Government debt portfolio should have fixed interest rates with a maturity of more than one year;

- *The Macaulay Duration of the portfolio* (which, in relation to each borrowing, is determined as the weighted average maturity of the borrowing where the weights are the relative discounted cash flows in each period). The Debt Management Strategy envisages that the Macaulay Duration should be within a corridor of between 4.70 and 6.25 years; and

- *The net debt currency composition*. The Debt Management Strategy envisages that the net debt (central Government debt at the end of the period less the amount of loans and receivables, where impairment loss of guarantees are not taken into 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 a credit risk perspective)), and increased by provisions of guarantees as well as liabilities of derivative financial instruments which are not classified as risky from a credit risk perspective) should be 100 per cent. in euro plus or minus 5 per cent. in total and for each single currency.

The Treasury typically uses hedging instruments in order to achieve the below parameters. The Treasury has developed and applies a cost-at-risk model the outputs of which, along with the Treasury’s expert assessment, financial market analysis, results of econometric modelling and other factors, are used to evaluate the parameters set and to determine whether the defined performance levels are optimal and financially justified over time. The strategy itself is reviewed at least annually. The current strategy was approved by the Minister of Finance on 31 October 2016.

The table below sets out the key parameters for the central Government overall debt portfolio discussed above and the actual parameters achieved as of 31 December 2016.

Parameters	31 December 2016		Strategy	
Outstanding amount of domestic debt securities at the end of the year..............	€1,060.76 million[1]		Not less than outstanding amount of domestic debt securities at the end of preceding year	
	1 year or less	3 years or less	1 year or less	3 years or less
Maturity profile (%) of central Government debt	14.6%	33.6%	≤25%	≤50%
Minimum share of fixed rate [2]	88.7%		≥60%	
Macaulay Duration (years) [3]	4.96 years		from 4.70 to 6.25 years	
Net debt currency composition [4]...........	€ 100.44%		€ 100% +/- 5%	

Source: The Treasury
Notes:
(1) The parameter is measured annually as of end of year and the outstanding amount of domestic debt securities as of 31 December 2015 was € 1,116.23 million.
(2) Fixed rate debt with a maturity in excess of one year. Takes into account applied derivatives.
(3) The Macaulay Duration in relation to each borrowing is determined as the weighted average maturity of the security where the weights are the relative discounted cash flows in each period. Takes into account applied derivatives.

RATINGS

Since January 2010, the following rating actions have occurred:

- Standard & Poor's Credit Market Services Europe Limited upgraded Latvia's rating to BB+ in December 2010, to BBB- (stable outlook) in May 2012, to BBB (positive outlook) in November 2012, to BBB+ (stable outlook) in June 2013, to BBB+ (positive outlook) in December 2013 and to A- (stable outlook) on May 2014;
- Moody's Investors Service Ltd. upgraded Latvia's rating from Baa3 to Baa2 with a positive outlook in March 2013, to Baa1 (stable outlook) in June 2014 and to A3 (stable outlook) in February 2015;
- Fitch Ratings Ltd upgraded Latvia's rating from BB+ to BBB- with a positive outlook in March 2011, to BBB with a positive outlook in November 2012, to BBB+ (stable outlook) in July 2013 and to A- (stable outlook) in June 2014;
- Rating and Investment Information Inc upgraded Latvia's rating from BB+ to BBB- in January 2012, to BBB with a stable outlook in February 2013 and to BBB+ (stable outlook) in December 2014.

FINANCING

Taking into consideration the medium-term Central Government's financing requirement (forecast to be €4.3 billion for 2017 to 2019) funds are expected to be raised in a timely manner in order to reduce government debt refinancing risk. Borrowings in the international markets will represent the most significant share of overall borrowing volumes, with regular issues of securities in the domestic financial market being carried out for the purpose of refinancing domestic debt liabilities.

CASH MANAGEMENT STRATEGY

The Cash Management Strategy prescribes the goals, basic principles, tasks and liability of the Treasury, ensures timely liquidity for the performance of Latvia's financial liabilities, as well as the safe and efficient investment of cash.

The goal of the Cash Management Strategy is to ensure efficient liquidity to cover the overall financial needs and the efficient and safe investment of cash by limiting the financial risks and considering the possible impact of transactions on the state macroeconomic indices and financial market development.

Due to the current negative interest rate environment, the Treasury aims to maintain a minimum liquidity reserve in Treasury accounts with the exception of prefunding operations set by the Debt Management Strategy. As a result, in 2016 the Treasury introduced a new short-term borrowing instrument consisting of treasury bills that are issued with a maturity of 21 days, designed according to the typical budget execution cycle of a month. In addition to this instrument, short-term borrowings were undertaken in the money markets.

STATE GUARANTEES AND LOANS GRANTED BY THE STATE

Each State Budget Law sets a limit on the amount of the net increase of loans granted by the State for the year. Under the 2017 State Budget Law, the net increase of state loans granted is planned to be €361.4 million (including the state loan limit for municipalities in an amount of €118.1 million). In addition, under the Budget Management Law, the Minister of Finance is authorised to issue state loans in accordance with a separate decision of the Saeima, provided that the loans are borrowed for the purposes specified in the Budget Management Law and do not exceed 10 per cent. of nominal GDP, as specified in the annual State Budget Law.

Under the State Budget Law, the State may make loans to local governments, special state budget executors, certain state or local government-owned companies, scientific institutes and higher education establishments that have been assigned the status of a derived public entity and port authorities. The limit on such loans in 2017 is €437.4 million.

Each State Budget Law also lists the state guarantees planned for the relevant year. In 2017, the authorised amount of these guarantees is €41.8 million. Under current law, State guarantees may only be issued for commitments made by companies which are partially or wholly owned by the state or local governments and are classified as non-financial sector companies according to the institutional sector classification, for realisation of commercial programme activities approved by legislation, for commercial bank financing advanced to students, to reduce general economic risks, to avoid a social-economic crisis or to mitigate its effects and to ensure the availability of financial resources in an emergency situation.

On 31 December 2016, the total amount of State guarantees issued and outstanding was €432.9 million.

The table below shows the cumulative amount of State guarantees outstanding and the amount of State loans outstanding as at 31 December in each of 2012, 2013, 2014, 2015 and 2016.

	2012	**2013**	**2014**	**2015**	**2016**
			(€ millions)		
State guarantees outstanding........	757.0	662.0	592.6	426.3	432.9
As a percentage of GDP	3.5	2.9	2.4	1.8	1.8
State loans outstanding	952.1	1,188.4	1,225.0	1,269.6	1,211.5
As a percentage of GDP	4.4	5.2	4.9	5.2	5.2

Source: The Treasury

LOCAL GOVERNMENT DEBT

Local authorities in Latvia have the right to borrow and issue guarantees only in amounts provided for in the annual State Budget Law. Any borrowing or guarantee by a local authority can only be made after having been approved by the Council for the Control and Surveillance of Local Government Borrowing and Guarantees (the **Council**) (with the exception of guarantees for student loans). Before approving a proposed borrowing or guarantee, the Council evaluates the relevant proposal and assesses the financial capacity of the local government concerned to repay any loans received or comply with the terms of the relevant guarantee.

The table below sets out Latvian local government borrowing by principal source as at 31 December 2012, 2013, 2014, 2015 and 2016.

	2012	2013	2014	2015	2016
			(€ millions)		
Total local government debt	816.6	917.9	1,003.3	1,065.7	1,076.2
From the Treasury	645.1	756.0	853.4	916.4	933.2
From other lenders	171.5	161.9	149.9	149.3	143.0

Source: The Treasury

The Treasury is the main lender to local governments. Local governments may borrow from other lenders only if the financial terms of the other lender are more advantageous than those of the Treasury and after receiving permission from the Minister of Finance.

Under the 2017 State Budget Law, local governments may only borrow in limited circumstances, including to:

- implement projects co-financed by the EU and other providers of financial assistance;
- stabilise the finances of the local government;
- fund social programmes, boarding-school investment projects and priority investment projects;
- fund transport projects;
- fund fuel purchases; and
- fund the construction of roads, streets and bridges.

GROSS EXTERNAL DEBT

Latvia’s gross external debt is determined, in accordance with IMF methodology, as the total of all direct liabilities (including debt securities, loans, deposits and trade credits) of Latvia’s residents to non- residents requiring future principal and/or interest payments based on a prior agreement.

The table below sets out certain information with respect to Latvia's gross external debt as at 31 December 2012, 2013, 2014, 2015 and 2016.

	2012	2013	2014	2015	2016
			(€ millions)		
General Government	7,250.9	6,975.3	8,078.8	6,907.4	7,775.8
Short-term	85.9	90.7	6.1	0.3	0.8
Long-term	7,165.0	6,884.6	8072.7	6,907.1	7,775.0
Bank of Latvia	36.3	25.5	1,065.8	1,991.2	6,382.9
Short-term	36.3	25.5	1,065.8	1,991.2	6,382.9
Long-term	0.0	0.0	0.0	0.0	0.0
MFIs (excluding Bank of Latvia)	13,974.7	13,911.5	15,195.0	15,803.0	12,457.6
Short-term	8,952.7	10,334.7	12,235.0	13,571.0	10,375.4
Long-term	5,022.0	3,576.8	2,960.0	2,232.0	2,082.2
Other sectors	5,996.8	6,031.0	5,883.1	6,085.2	6,159.5
Short-term	1,948.5	1,991.2	2,227.3	2,514.6	2,944.8
Long-term	4,048.3	4,039.8	3,655.8	3,570.6	3,214.7
Direct investment	2,995.2	3,557.7	3,571.6	3,718.6	4,077.5
Debt liabilities to affiliated enterprises	32.9	26.8	162.5	139.4	114.1
Debt liabilities to direct investors	2,478.7	2,860.6	2,588.7	2,775.1	3,064.5
Other sectors	483.6	670.3	820.4	804.1	898.9
Gross external debt	**30,253.9**	**30,501.2**	**33,794.2**	**34,505.4**	**36,853.3**
As a percentage of GDP	138.2	133.9	143.0	141.6	147.3

Source: Bank of Latvia

As at 31 December 2016, Latvia's gross external debt was €36.9 billion accounting for 147.3 per cent. of GDP. At 31 December 2015, 31 December 2014, 31 December 2013 and 31 December 2012, the gross external debt-to-GDP ratios were 141.6 per cent., 143.0 per cent., 133.9 per cent. and 138.2 per cent., respectively. As at 31 December 2016, the contribution of the Government sector to Latvia's gross external debt was 21.1 per cent., the contribution of the financial sector was 33.8 per cent. and the debt of other sectors contributed 45.1 per cent. (of which the contribution of direct investment liabilities (debts owed by domestic and foreign enterprises to each other) was 11.1 per cent.).

As at 31 December 2016, Latvia's net external debt (calculated as its gross external debt less its external debt assets) was €7.2 billion, representing 28.6 per cent. of nominal GDP.