Republic of Latvia

July 2020

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Key Strengths Underpinning Latvia's Credit Profile

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

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

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

Small number of Covid-19 cases did not caused significant direct expenditures and a serious impact on the health care sector. The Covid-19 pandemic has effect on economic growth but it is expected to rebound in 2021.

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

Latvia Belongs to Core Europe

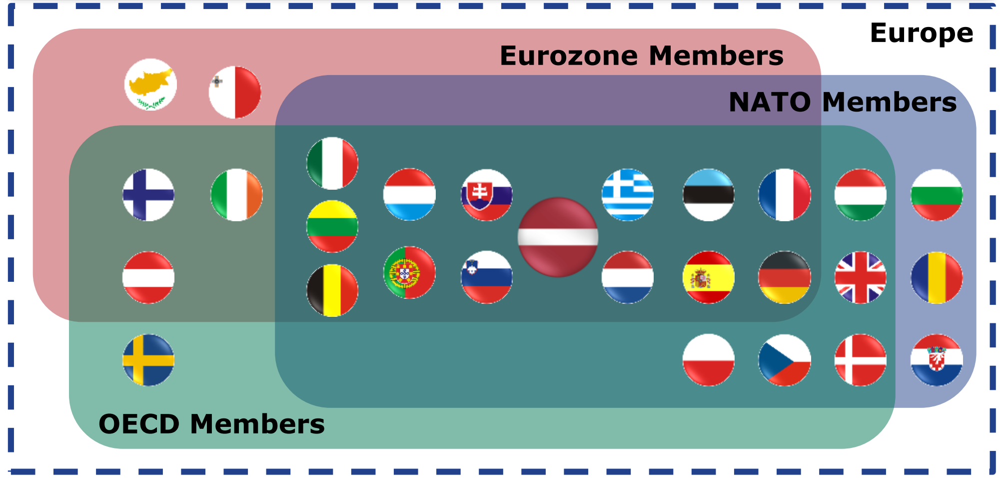
Latvia belongs to core Europe. The country is also deeply integrated in the international community and committed to high standards in terms of the quality of economic policies and governance.

Key Facts

Territory	**64 573 sq. km[1]**
Borders	**Estonia, Lithuania, Belarus and Russia**
Capital	**Riga**
Population$_{2020}$	**1.91 million[1]**
Currency	**Euro**
GDP per capita $_{2019}$	**EUR 15.93[1]**
Nominal GDP$_{2019}$	**EUR 30.48 billion[1]**
Main economic sectors 1Q/2020	**Services (66%[1]) and Manufacturing (11.%[1])**

Source: [1]Central Statistical Bureau of Latvia

Latvia is a Member of the Eurozone, NATO and OECD

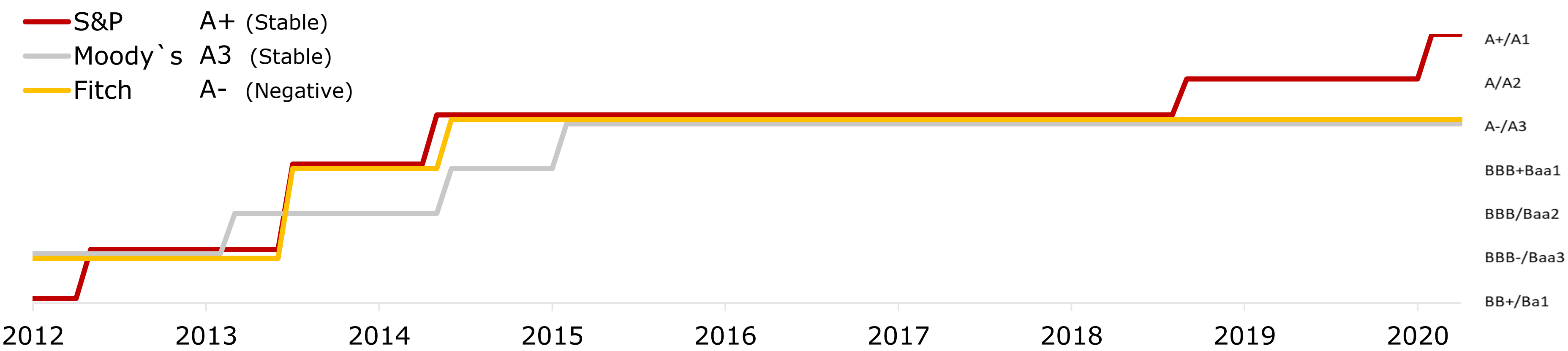


Aug 1991	Latvia Regains Independence
Sep 1991	Latvia Becomes UN Member
Mar 2004	Latvia Admitted to NATO
May 2004	Latvia Enters EU
Dec 2008	Approval of Loan Programme with IMF, EC and Bilateral Lenders
Dec 2011 - Jan 2012	International Loan Programme with IMF/EC Closed Successfully
Jan 2014	Latvia joins Eurozone/ Economic and Monetary Union
Jan – Jun 2015	Latvia's Presidency of EU Council
Jul 2016	Latvia Becomes OECD Member

Latvia’s Credit Ratings are stable in A category

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

Long-term Foreign Currency Rating Development



Key Strengths of Latvia’s Sovereign Credit Profile

- **Prudent fiscal policy and contained vulnerabilities of financial system**
- **The Felxibility and dynamisms of the economy**
- **A low level of government debt relative to GDP**
- **Record of fiscal consolidation and implementation of structural reforms**
- **Membership of large international organiationa and unions (EU, NATO, OECD, etc.)**
- **Strong banking sector, with markeable acccomplishmets in field of figthing money laudering and financig terrorism**

Key Risk Factors of Latvia’s Sovereign Credit Profile

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

Source: S&P, Fitch and Moody’s

Key Events in 2019/2020

1. **On December 2, 2019 R&I upgraded foreign currency issuer rating from A- to A with outlook: Stable**

2. **On February 21, 2020 S&P upgraded foreign currency issuer rating to the historically highest level - from A to A+ with outlook: Stable**

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

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

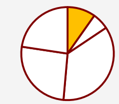
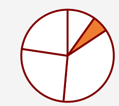
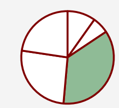
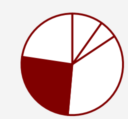
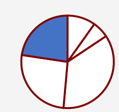
5. **From March 19, 2020 number of measurements to limit the spread of Covid-19 and to mitigate consequences have been adopted by the Government**

6. **On April 10, 2020 Fitch affirmed foreign currency issuer rating to the 'A-' level changing outlook to negative.**

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

Strong and coordinated response to economic challenge

Approved support measures for the Covid-19 crisis

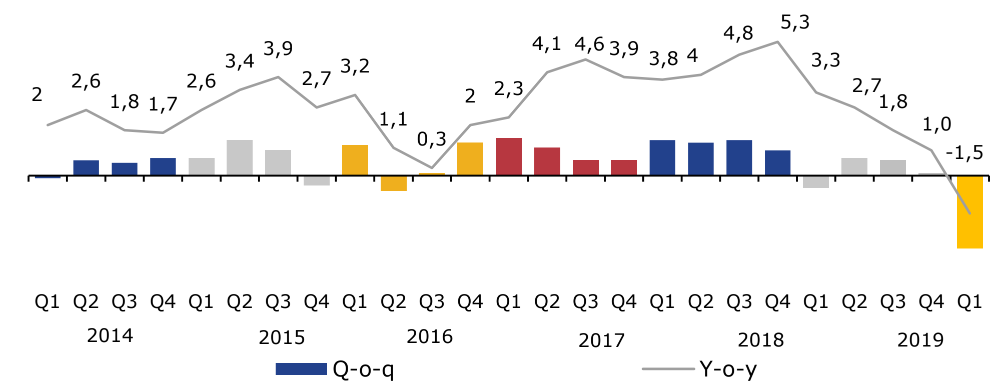
Total amount of support	EUR billion	% of GDP	Share of the total package
	3.4	12.0	
Support to the field of taxation Extensions of tax payment periods, cancellation of PIT advance payments, refund of overpaid VAT within 30 days, extension of real estate payment terms	0.3	1.2	
Aid in the field of benefits Benefit for families (person) in a crisis situation, supplement to a crisis allowance of EUR 50 for a dependent child, payment of sickness benefit from the state budget from the 2nd day, compensation for idle workers, workers bonus to "Compensation for idle workers" for children, entitlement to unemployment status for patent and micro-enterprise taxpayers, the deadline for receiving parental benefits has been extended, unemployment benefit, downtime allowance, childcare allowance and supplement, guardian's allowance for child support, supplement to the state family benefit for a disabled child, downtime benefits, Subsidized jobs, including support for the tourism sector	0.2	0.7	
Aid in the field of loans and guarantees Working capital loans, credit guarantees, portfolio guarantees, increasing the local governments borrowing limit, Investment fund, financial Instrument for the support of large enterprises	1.2	4.3	
Sectoral support Support to the air transport industry, health care support, support for distance learning, support for media and public information, exemption from or reduction of rent, to alleviate financial difficulties in the agricultural, forestry, fisheries and food production sectors, aallowances for interior sector employees for work in conditions of increased risk and workload, for construction of state roads and repairs of bridges, Funding for the establishment of a national research program to combat the consequences of COVID-19, for education and science, support for religious organizations, Latvian Council of Sworn Notaries for the purchase of a server, allowances for prison administration staff, building insulation, human capital, support for passenger and freight carriers, support for the sports sector, demography, Institutions and officials subordinate to the Ministry of the Interior, support for the cultural sector	0.9	3.1	
Support related to EU fund Short - term loans to farmers, redistribution of EU funds, support for the fisheries sector, over - commitments of EU funds, over - commitments for agricultural funds	0.8	2.7	

Source: Ministry of Finance; Data on 16th June 2020

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

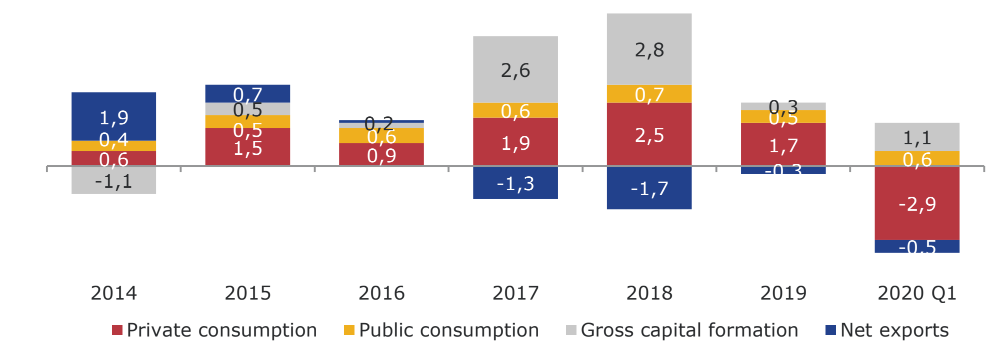
Private consumption has the largest negative impact, however investment, export and public consumtion in the first quarter of 2020 remained solid. In accordance with credit rating agencies GDP will grow already in 2021.

Real GDP Growth (%)



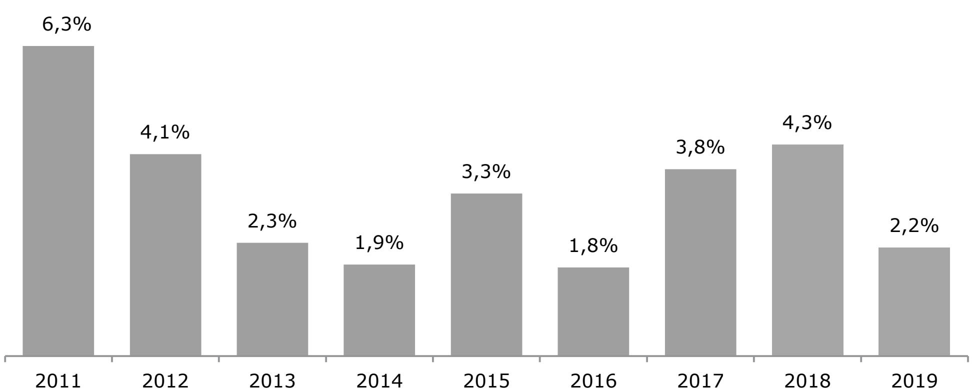
Source: Central Statistical Bureau of Latvia

GDP Growth Composition (%)



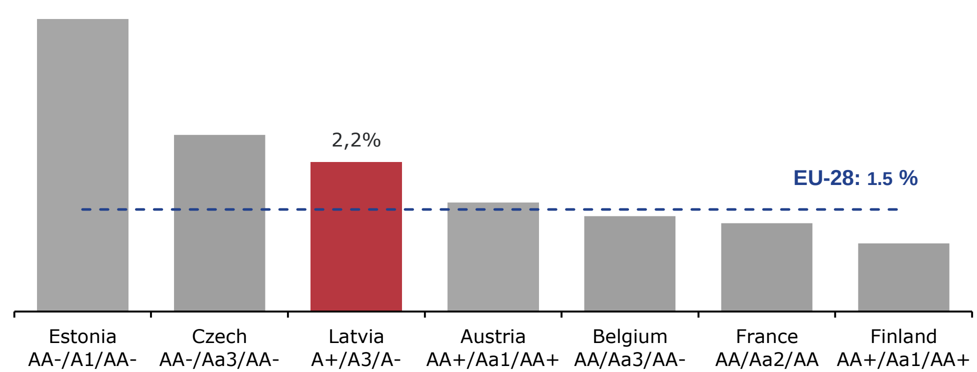
Source: Central Statistical Bureau of Latvia (29.05.2020.)

Real GDP Growth (%)



Source: *Eurostat*, Ministry of Finance

GDP Growth (2019, %)

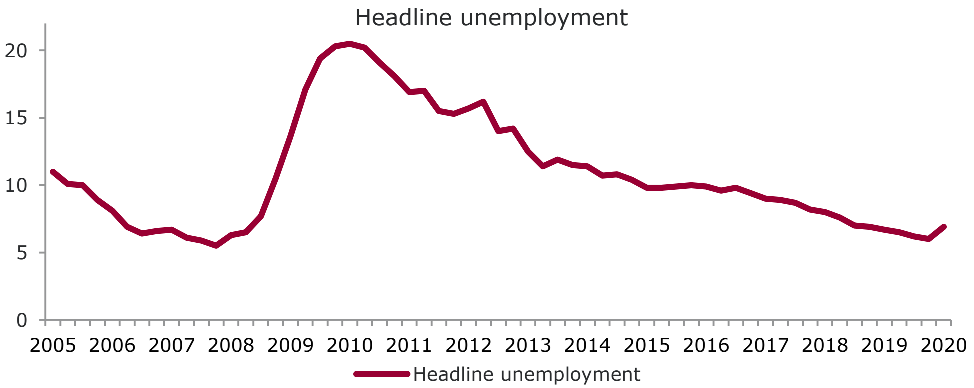


Source: Eurostat (19.05.2020.)

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

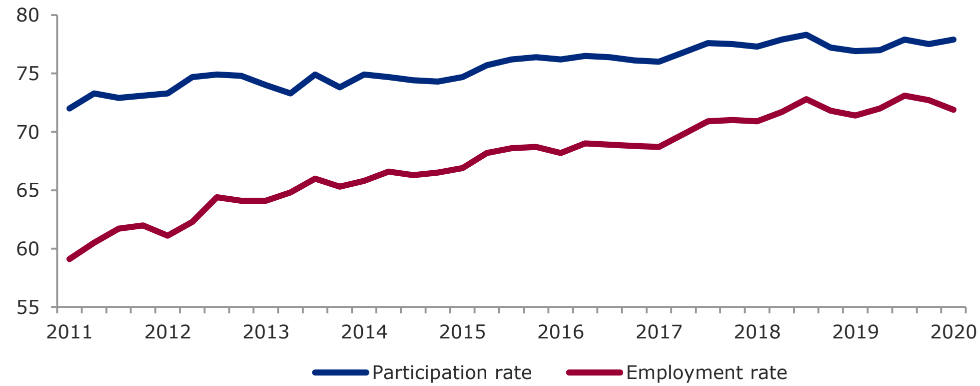
The government took swift actions to mitigate the unemployment growth during Covid-19 crisis; productivity growth is on the rise.

Unemployment: Headline Rates



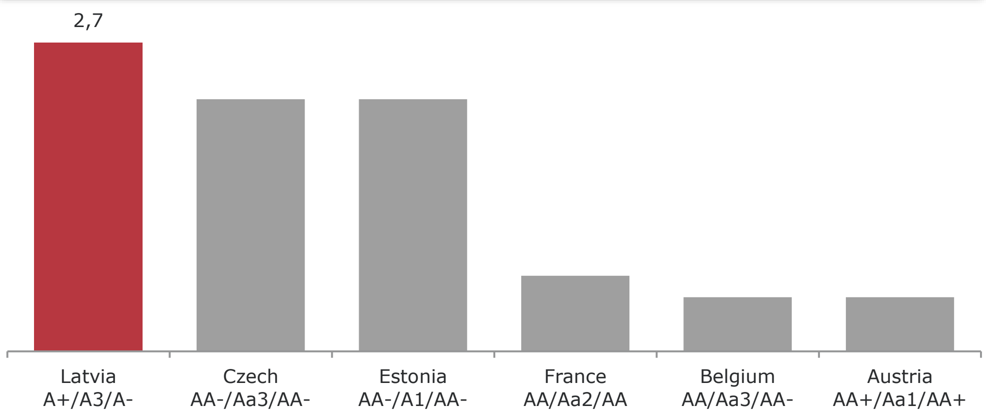
Source: Eurostat (19.05.2020.)

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



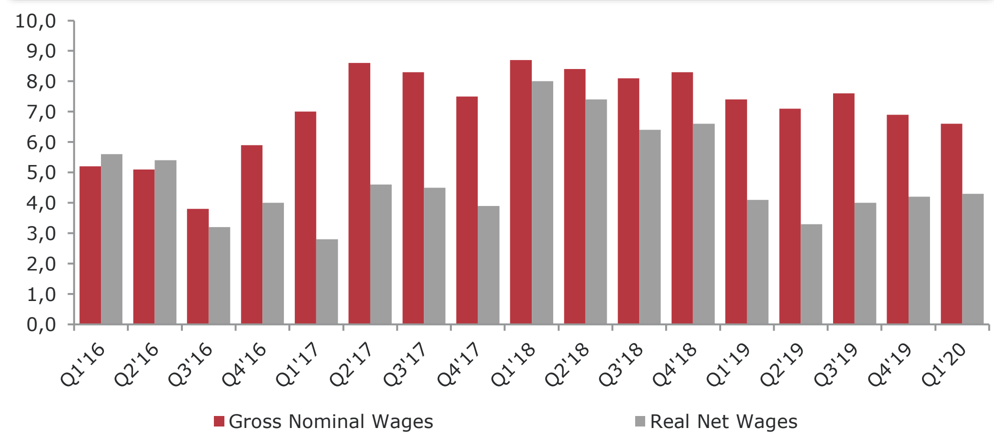
Source: Central Statistical Bureau of Latvia data (25.05.2020.)

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



Source: Eurostat (20.04.2020.)

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

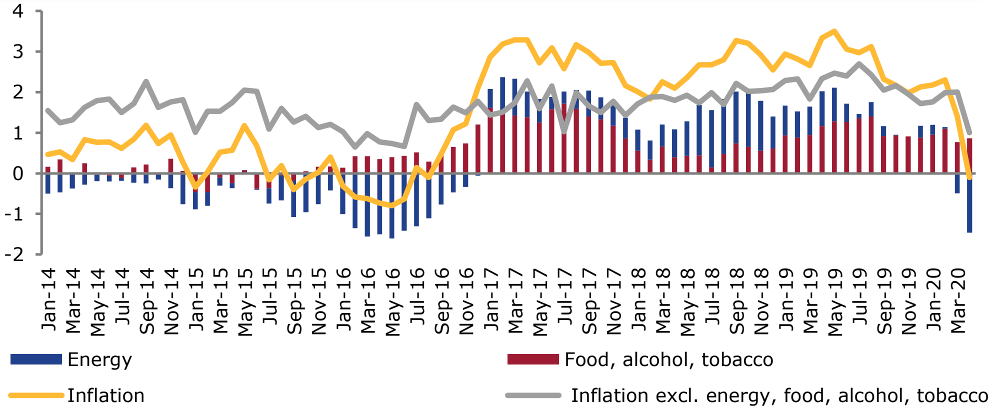


Source: Central Statistical Bureau of Latvia data

Due to economic challanges inflation has dropped bellow 2%

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

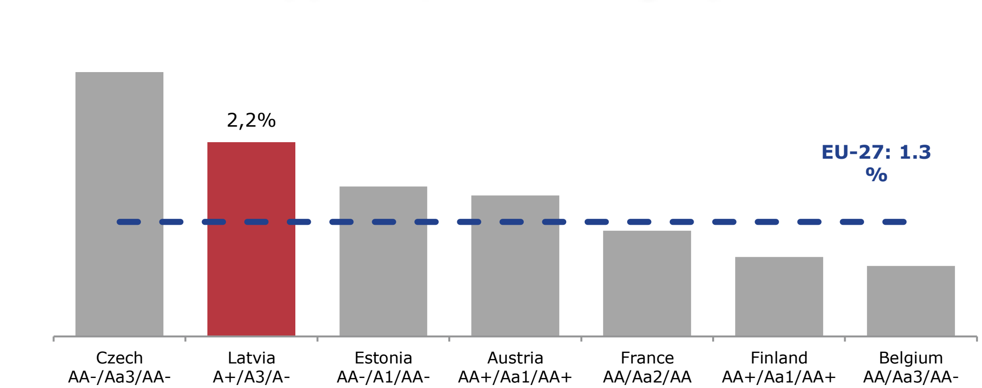
Inflation (HICP, %)



Source: Eurostat (26.05.2020.)

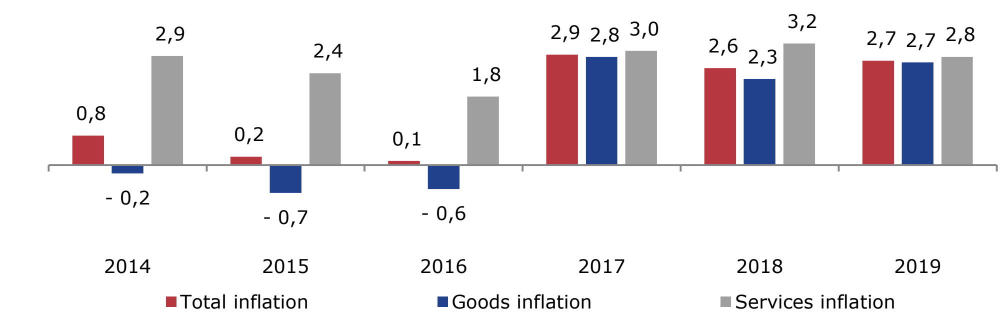
Harmonised Index of Consumer Prices

(April 2020, 12 months average %)



Source: Eurostat (25.05.2020.)

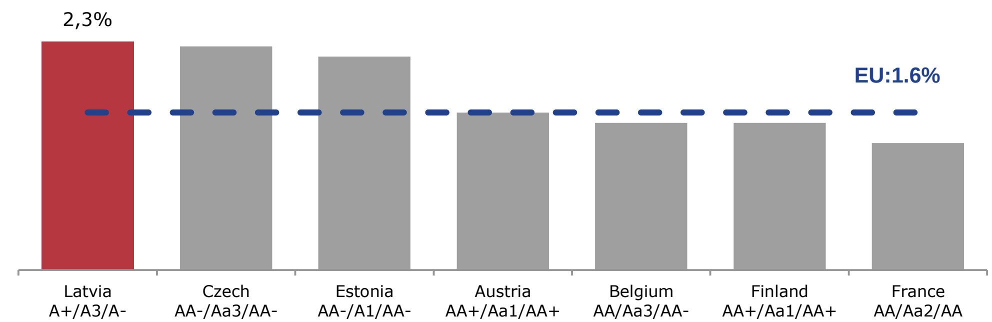
Inflation In Latvia (HICP, %)



Source: Eurostat

Harmonised Index of Consumer Prices Projection

(2020-2021, %)

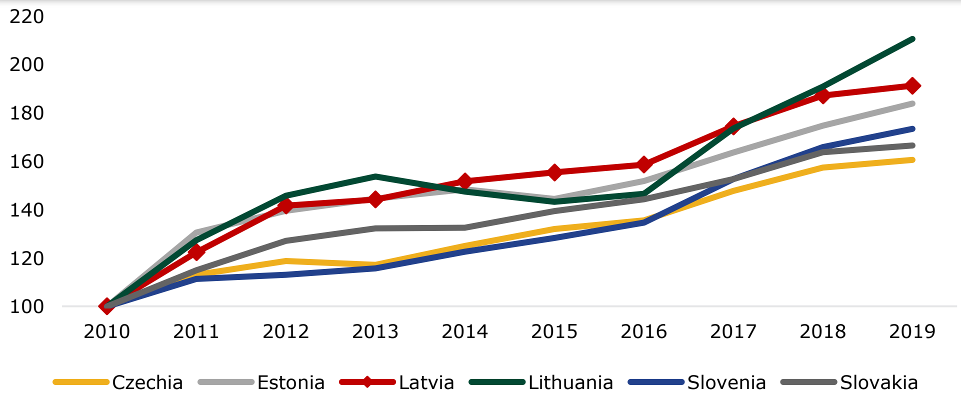


Source: European Commission, Winter 2019

Exports of goods in 2020 Q1 continue to grow

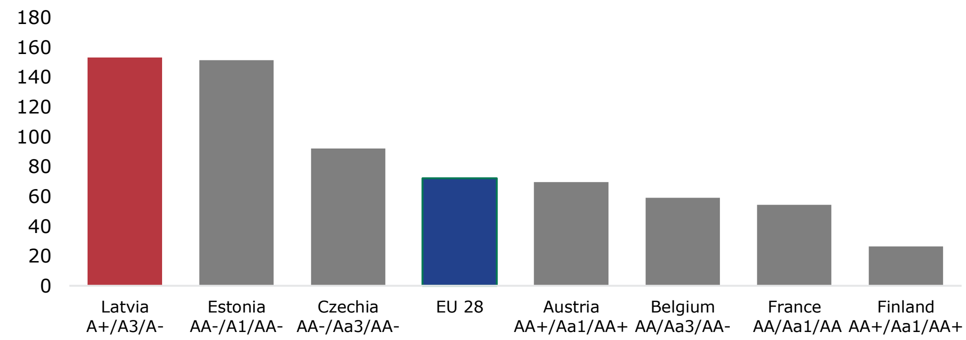
Exports continue to grow despite the delays in raw material supply chains impacted by Covid-19.

Export of Goods and Services (2010=100)



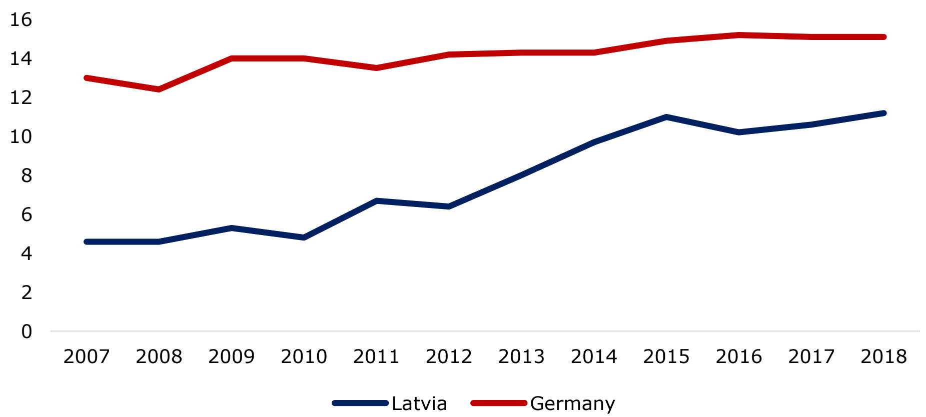
Source: Eurostat

Goods Exports Growth (% growth between 2009 and 2019)



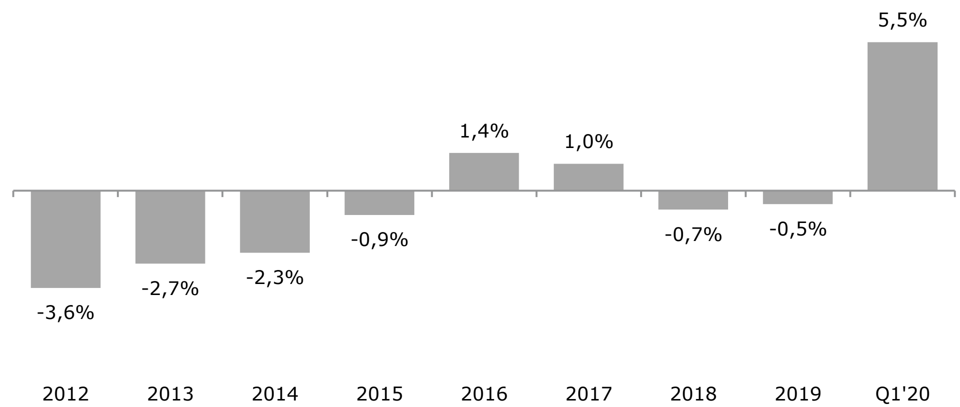
Source: Eurostat

High – Tech Exports (% Of Total Exports)



Source: Eurostat

Current Account Balance (% GDP)



Source: Bank of Latvia

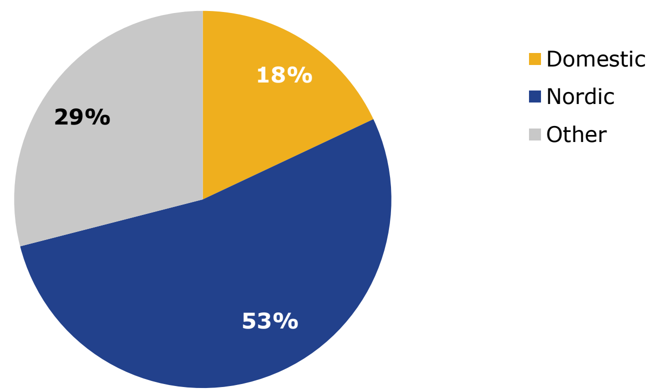
Well capitalised and liquid banking sector

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

Key Highlights

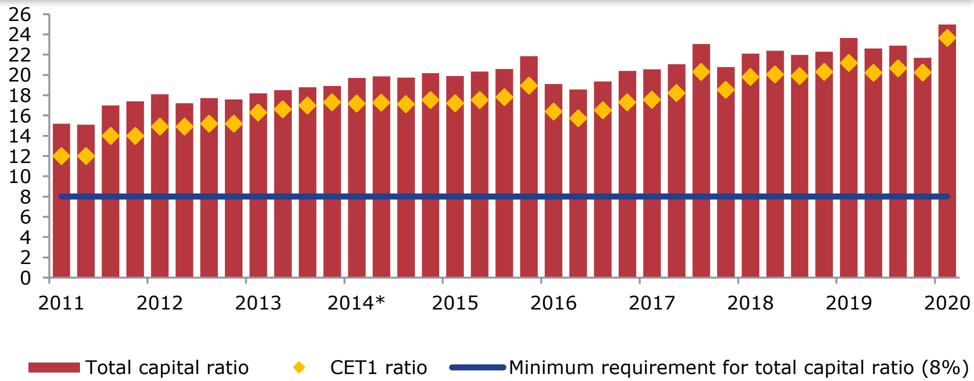
- The Latvian banking sector is dominated by subsidiaries and branches of banks from the European Economic Area, mostly from Nordic countries
- Capitalization and liquidity ratios are well above minimum requirements
- Since Latvia is a part of the European Banking Union, two banks are directly supervised by the ECB and three banks - under the remit of the SRB
- In the short term negative effects of Covid-19 outbreak on the financial stability are mitigated by the government support package for businesses (incl. loan guarantees and subsidized loans) and households, ultra-accommodative monetary policy and greater regulatory flexibility
- A private moratorium signed by major lenders allows bank clients who are experiencing temporary financial difficulties due to Covid-19 to defer their mortgage principal payments for up to 6 months (businesses) or 12 months (individuals).

Capital Ownership of the Banking System (1Q 2020)



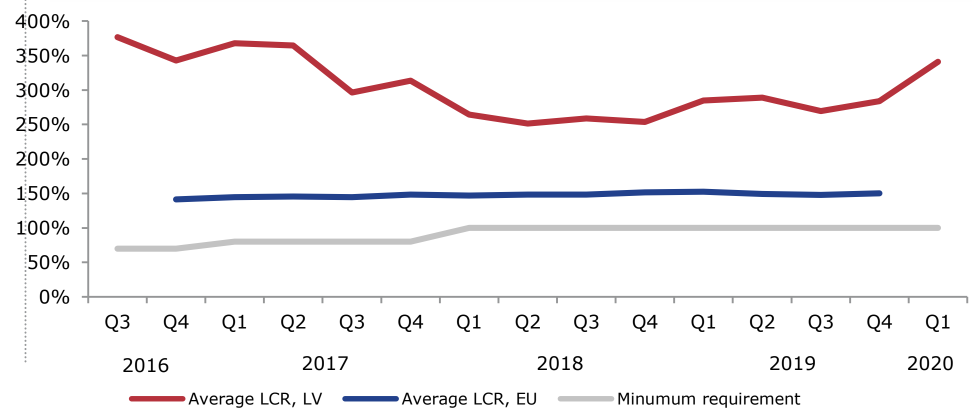
Source: Bank of Latvia

Capital Adequacy (%)



Source: FCMF | Note: As of Q1 2014 capital adequacy is calculated according to the CRDIV/CRR requirements and is not directly comparable with the data until Q1 2014 due to differences in methodology. Tier 1 ratio matches CET 1 ratio. The Pillar 1 minimum Total capital ratio is 8%. Since 28 May 2014 the FCMC also applies a 2.5% capital conservation buffer.

Liquidity Coverage Ratio



Source: FCMC, EBA

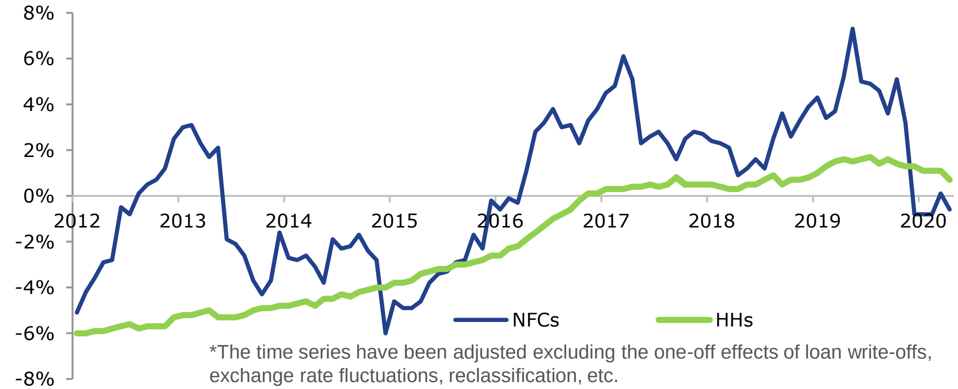
Lending remains subdued

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

Key Highlights

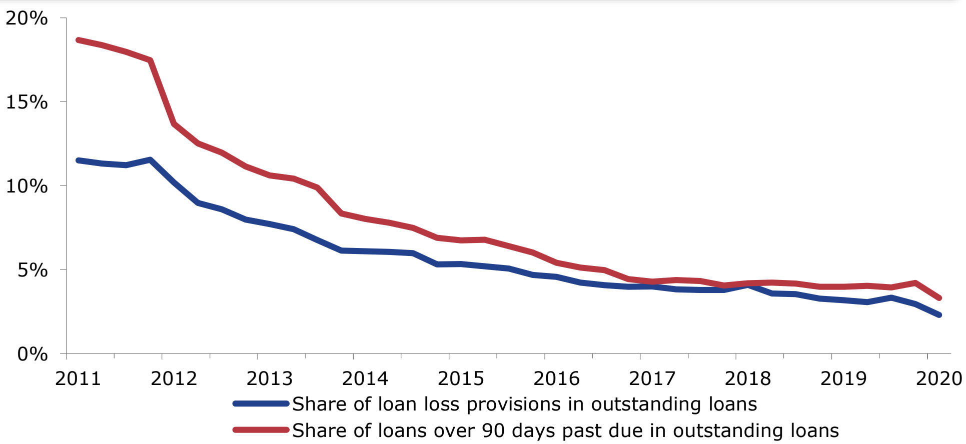
- Loans to domestic households and NFCs stood at 34% of GDP in December 2019, down from almost 100% at the outset of the global financial crisis
- Lending had been subdued before Covid-19 outbreak and is expected to remain in negative territory
- The quality of the loan portfolio improved in 20201Q, and the coverage ratio of 90 days overdue loans remained high. Government support measures and the private loan moratorium are expected to limit growth in credit risk in the short term
- To facilitate continuation of prudent consumer and mortgage lending practice by banks in the longer term, the overall LTV restrictions of 90% (95% for participants of guarantee program) are supplemented with a DTI x6, DSTI 40%, maturity cap for mortgage 30Y and for other loans 7Y, LTV 70% for buy-to-let mortgages (effective from July 2020)

Loans to Domestic Clients (yoy)



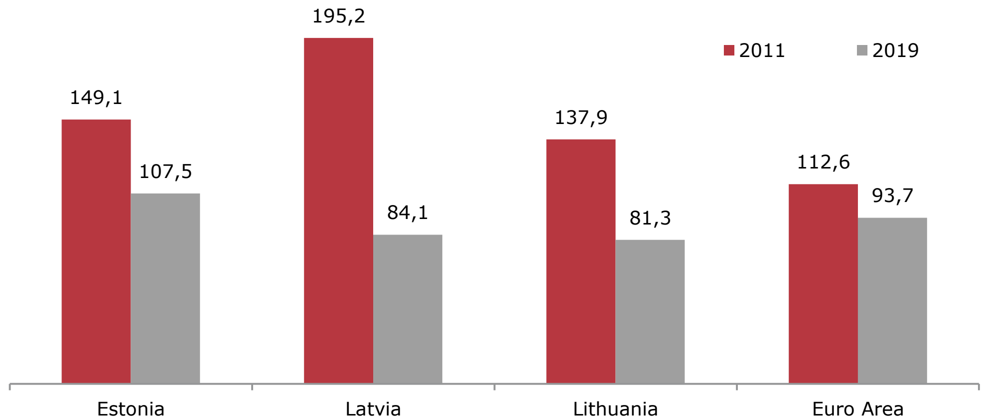
Source: ECB

Total Loan Portfolio Quality



Source: FCMC, Credit Register

Domestic Loan-to-Deposit Ratio (%)

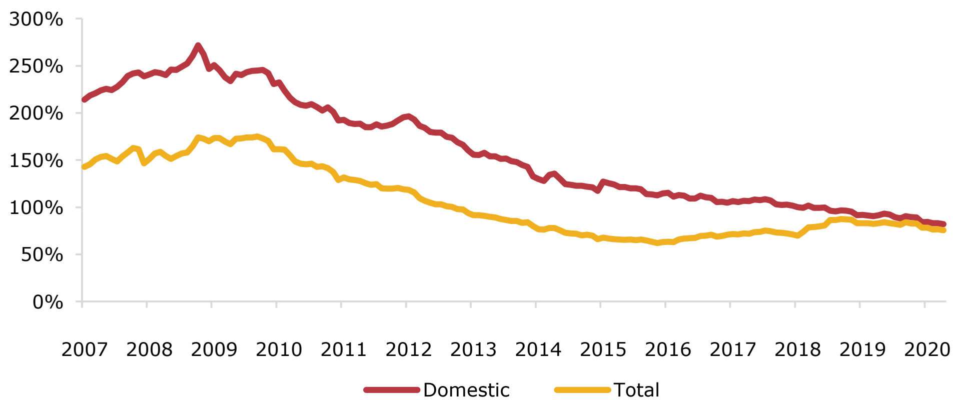


Source: ECB

Domestic loans are mainly funded by domestic deposits

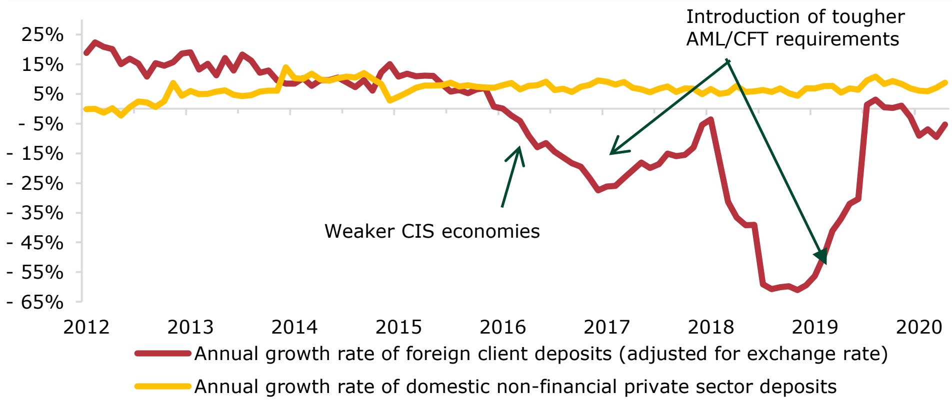
Lending is the core banking product in the domestic market. Parent bank funding has been replaced with domestic deposits

Loan-to-deposit ratio



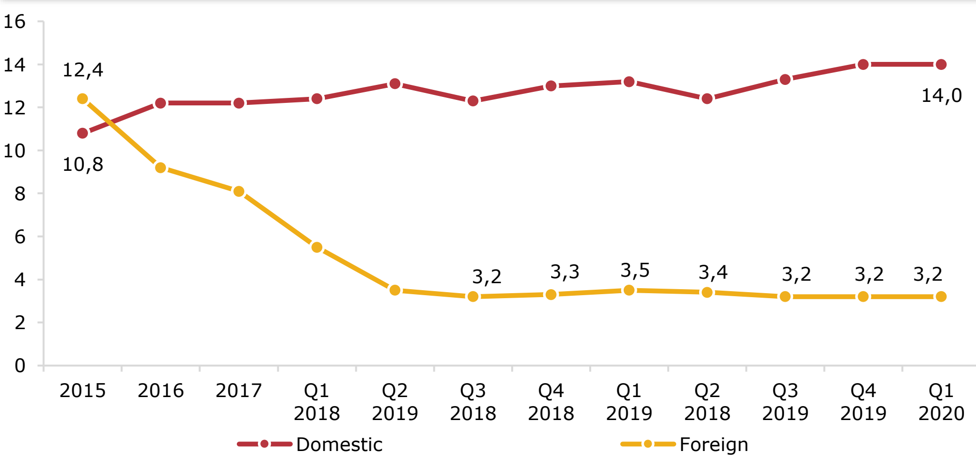
Source: Bank of Latvia

Growth Rates of Domestic and Foreign Client Deposits



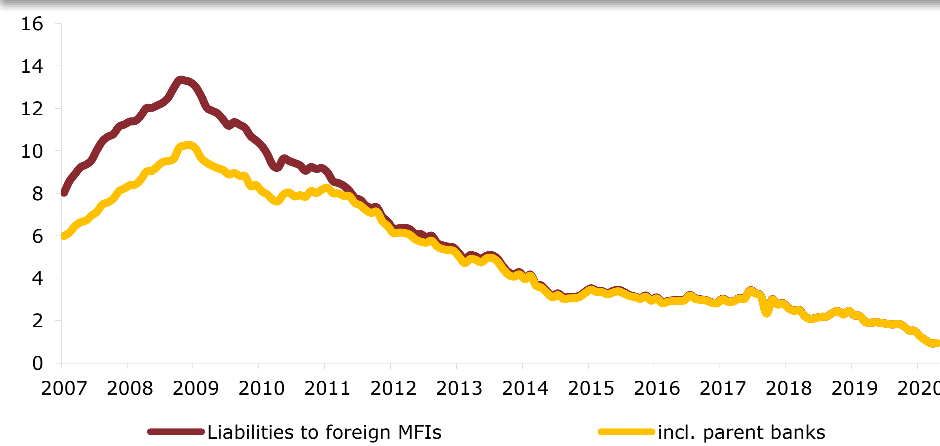
Source: Bank of Latvia

Deposits (EUR bn)



Source: Bank of Latvia

Liabilities to foreign MFIs (EUR bn)



Source: Bank of Latvia

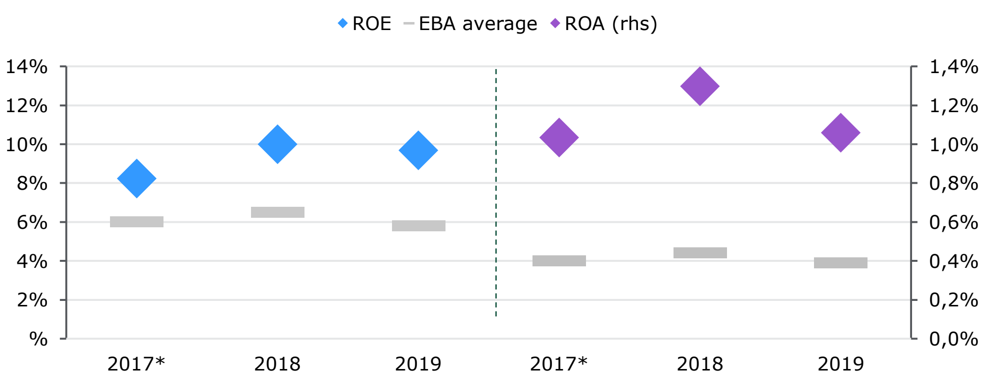
Banking sector profitability challenged by the pandemic

Ability to generate profits in the short-term subdued due to effects of COVID-19. According to preliminary data, in the first four months of 2020, banks' total profit decreased due to COVID-19 related provisions and revaluations of securities

Key Highlights

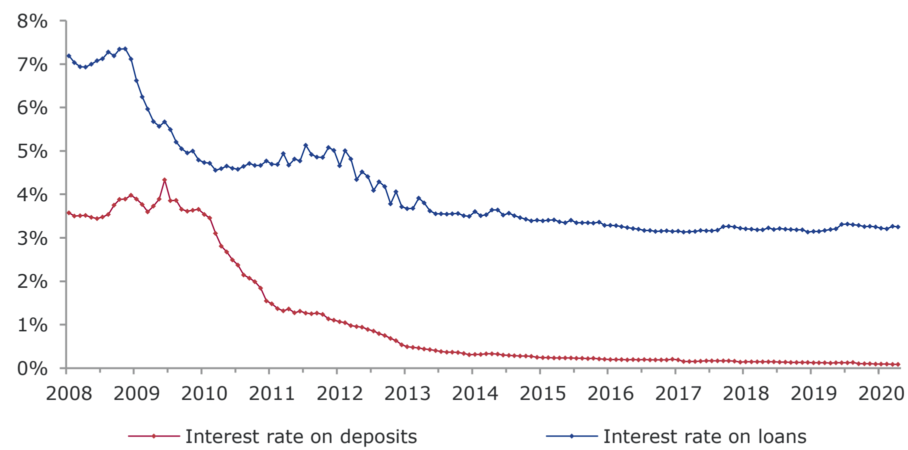
- Largest lenders entered the COVID-19 crisis with sound profitability
- Average Return on Equity (ROE) of the Latvian credit institutions was relatively high and exceeded the EU average. In 2019, the average ROE was 9.7%; EU average – 5.8% (EBA Risk Dashboard Q4 2019)
- However, as the ongoing pandemic impairs the financial situation of borrowers, banks are starting to face effects on their profitability. Decrease in banks' net interest income and net commission fee income has been moderate in the first four months of 2020, while the largest part of impact on banks' profitability resulted from COVID-19 related expenses on provisions and revaluation of securities portfolios.
- Largest domestic lenders publicly announced that they would refrain from dividend pay-out

ROE ROA



Source: FKTK (FINREP, consolidated), EBA | Note: Excluding the insolvent PNB Banka AS, *One-off adjusted data,

Interest Spread on Outstanding Loan Amounts



Source: Bank of Latvia

Parent Banks are financially sound and profitable

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

Key Highlights

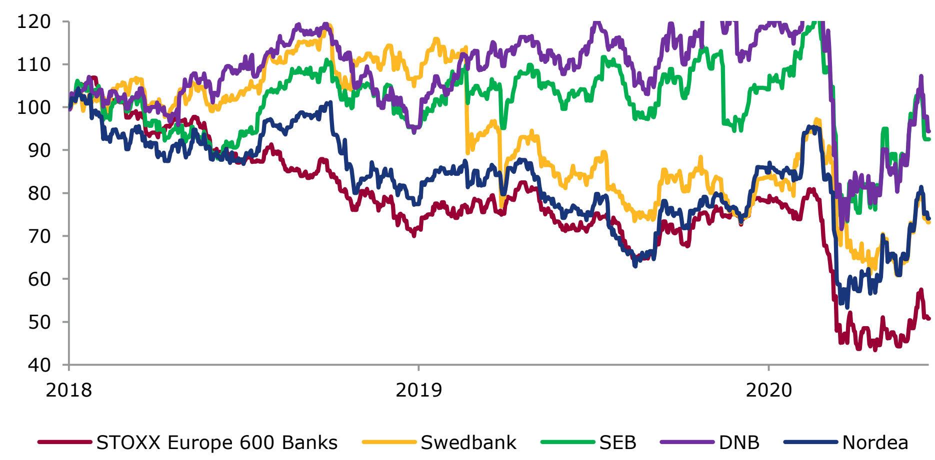
- Financial performance and capitalization level of the parent banks is strong
- Nordic banking groups' profitability is higher than the EU average
- The ability and proven willingness to support subsidiaries in Baltics by the largest mother banks in Nordic countries enhance risk absorption capacity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

Banks Financial Information

	Swedbank	SEB	Luminor Latvia branch*	
			DNB	Nordea
Assets (EUR mil)*	6,284	3,865	3,738	
CAR (%)*	31.2	21.2	-	
ROE (%)*	12.1	7.5	-	
S&P Global long-term rating	A+	A+	*	
Moody`s long-term rating	Aa3	Aa2	Baa2	
Fitch long-term rating	A+	AA-	*	

Source: Association of Latvian Commercial Banks – financial reports, 1st quarter 2020
Banks' investor relations (ratings at group level)
In January 2019 Luminor Bank Latvia became a branch of Estonian Luminor Bank. Bank ratings (at Group level)

Banking Groups' Equity Prices (01.01.2018 = 100, local currency)



Pension Reform Underpins Stability of Public Finances

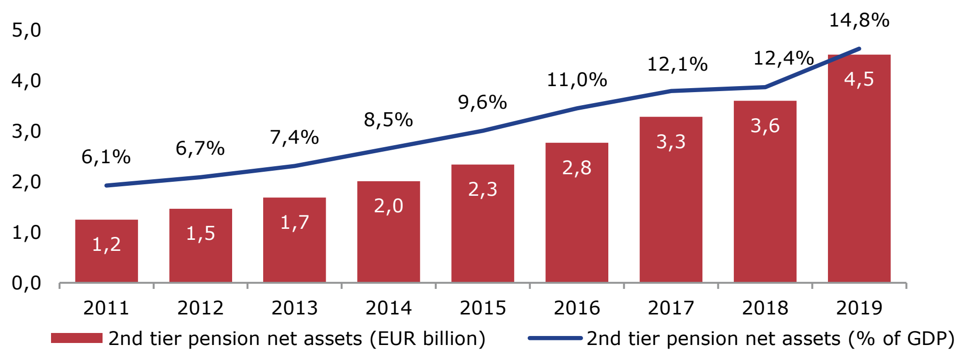
Latvia is well positioned to withstand fiscal challenges arising from an ageing population.

Latvia's Pension System And Recent Reforms

- Latvia's reformed pension system consists of three tiers:
- state compulsory unfunded pension scheme (the 1st tier)
- state funded pension scheme (the 2nd tier)
- private voluntary pension scheme (the 3rd tier)
- In 2019, measures were introduced to address long-term sustainability:
- in case of death of a pension recipient, the surviving spouse shall receive the benefit in the amount of 50% of the pension granted to the deceased spouse and they shall be entitled to receive the benefit for the period of 12 months from the day of death of the pension recipient
- amount of supplement per each year of insurance period accrued up to 31 December 1995 (1.50 euro for pensions granted up to 1996 and 1 euro for pensions granted from 1997), will be revised, considering the actual CPI and 50% of the real growth percentage of the amount of wages of security (insurance) contributions
- the actual CPI and 80% (previously - 70%) of the real growth percentage of the amount of wages of security (insurance) contributions will be applied in pension indexation for the old-age pensions calculated for 45 and more years of insurance period

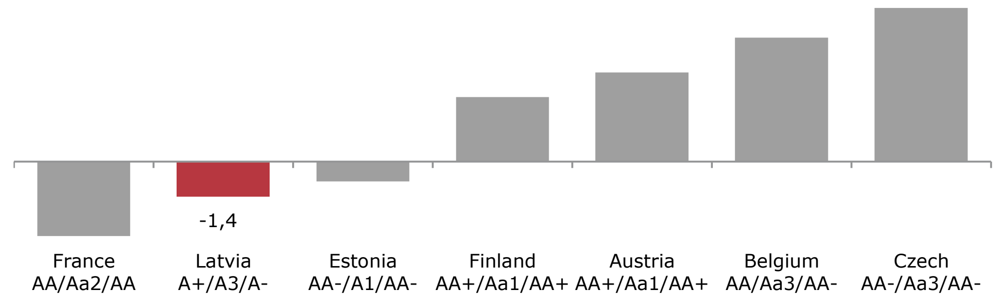
Source: The State Social Insurance Agency

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



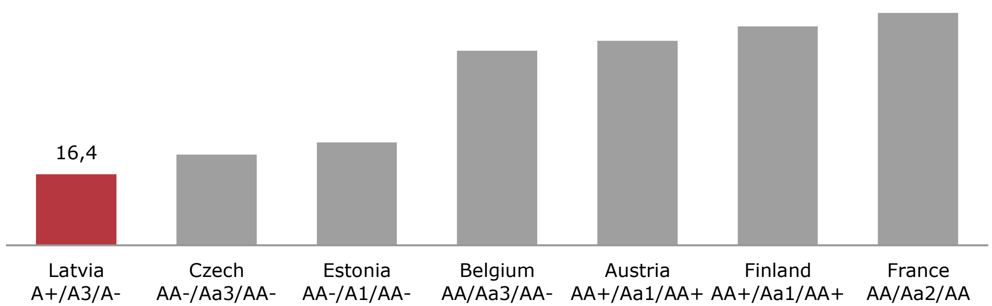
Source: Financial and Capital Markets Commission, Central Statistical Bureau of Latvia

Age-related Spending, Projected Change (2016-2070 , % GDP)



Source: European Commission Ageing Report, May 2018

Latvia's age-related spending is among the lowest in EU (2016, % GDP)

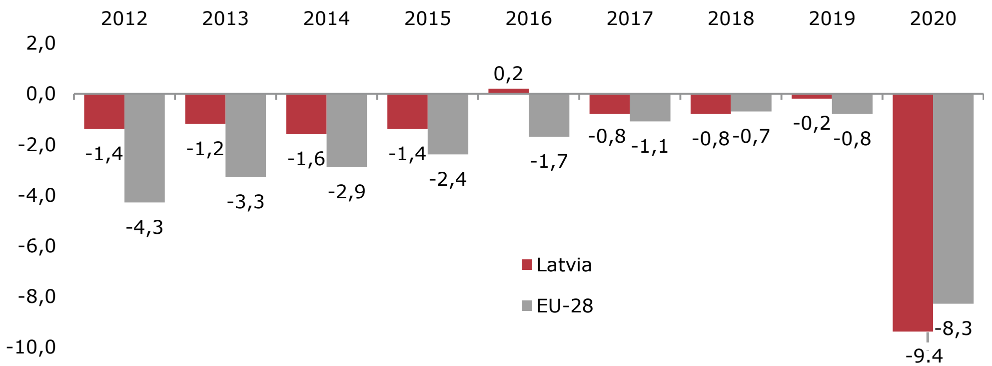


Source: European Commission Ageing Report, May 2018

Fiscal Sustainability Remains Top Priority

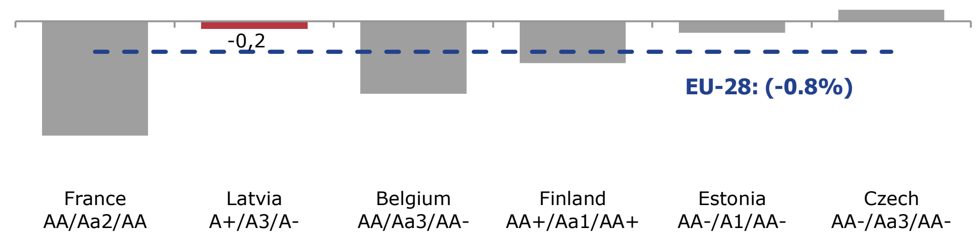
Prudent fiscal management has produced small budget deficits well below the EU-28 average over the past 8 years. The spread of Covid-19 and the restrictions for mitigating the consequences thereof are expected to significantly impact the economy and fiscal indicators of Latvia.

General Government Budget Balance (% of GDP)



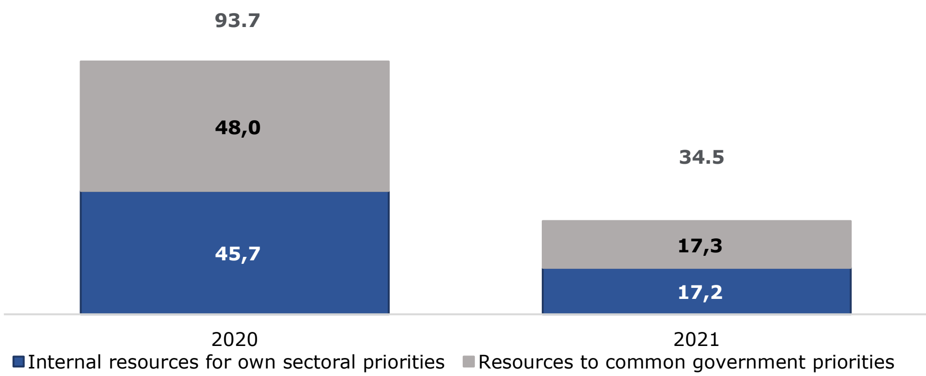
Source: Eurostat, AMECO Spring forecast 2020, Latvia's Stability Programme Covid-19 impact scenario

Budget Balance (2019, % GDP)



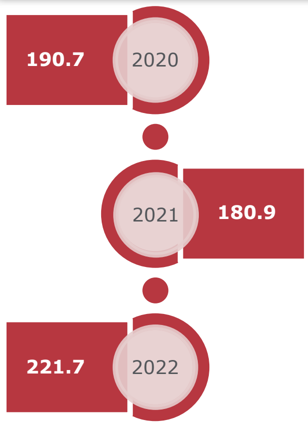
Source: Eurostat

Spending Review Results (EUR, Million)



Source: Ministry of Finance

2020 Budget: Expenditure for priorities (EUR million)



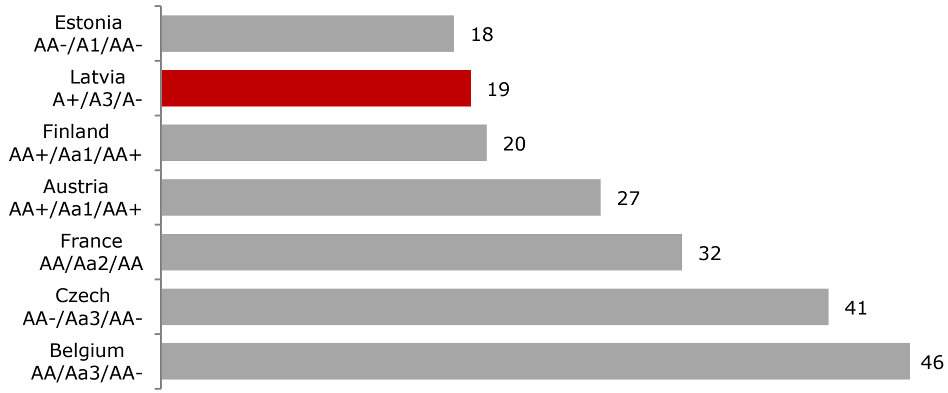
- Salary increase for medical personnel, teachers, home affairs sector officials, cultural workers, officials of the justice system
- Support for the minimum income level increase
- Demography
- Provision of the General Data Protection Regulation and its functions
- Implementation of the administrative-territorial reform
- Withdrawal of the social media from the advertising market
- Road maintenance programme

Source: Ministry of Finance

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

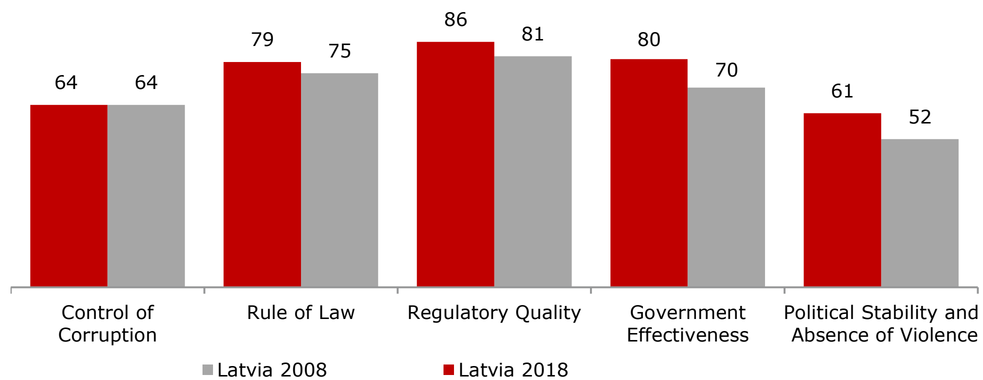
Expanded structural reforms build on existing high institutional strengths and favourable business environment.

World Bank "Ease of Doing Business" Ranking



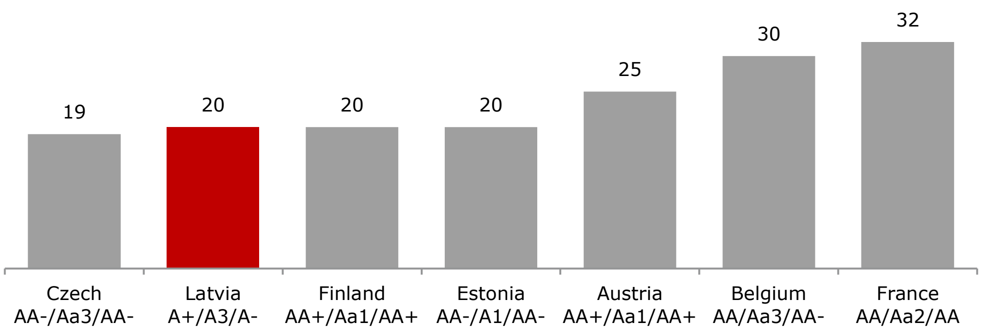
Source: World Bank, Doing Business 2020

World Bank Worldwide Governance Rankings



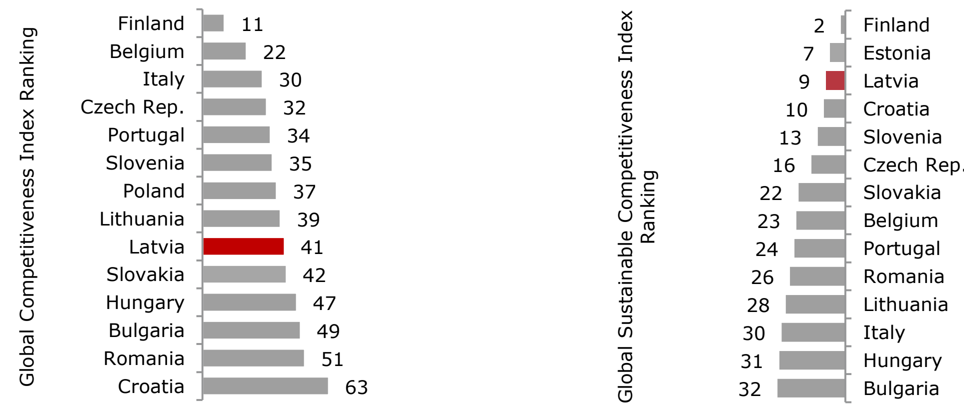
Source: World Bank, 2018 Rankings

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



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

The Global Competitiveness Index Rankings



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

Reform Policies Laying Foundation for New Growth Model

Structural reforms help strengthening Latvia's growth potential.

Labour Market, Social Policy and Healthcare

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

- Decrease of the tax burden on labour, increase of the untaxed minimum, etc.
- Activation of unemployed through active labour market policy measures
- Strengthening vocational education and introduction of the work-based learning principle
- Comprehensive healthcare reform (new healthcare financing model, increase in remuneration of healthcare personnel, etc.)

Business Environment

SME access to financing, export oriented programmes, reduction of administrative burden

- Support programmes of the Latvian Investment and Development Agency and ALTUM are being implemented (business incubators, credit guarantees, loans, etc.)
- Annual Action Plan on Improvement of the Business Environment is being implemented, etc.

Education, Research and Innovations

Increasing the quality of education and research, fostering investments in R&D and innovations

- Smart Specialization Strategy is being implemented
- Support programmes are being implemented (support in introduction of new products, Innovation Motivation Programme, wider involvement of SOEs in research, development and innovation activities is being ensured, support for start-ups, etc.)

Public Administration and Judiciary

Increasing efficiency of public administration, strengthening the conflict of interest prevention regime, improving tax compliance; improving the insolvency regime and accountability of insolvency administrators

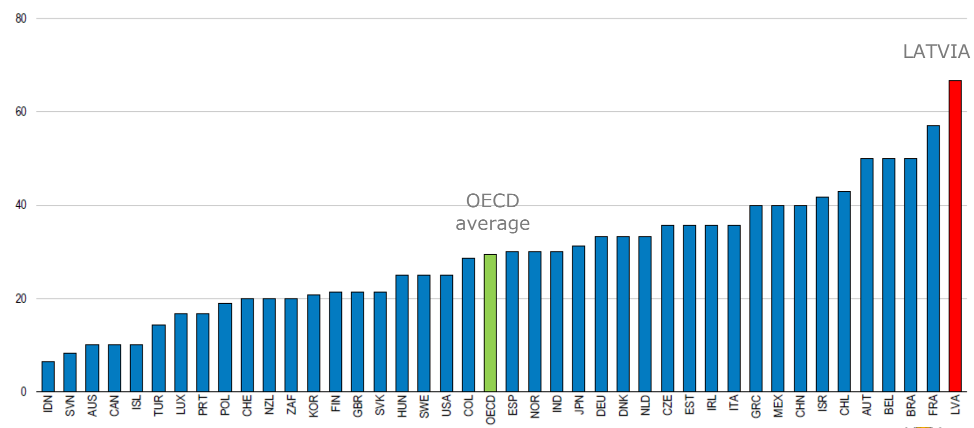
- Public sector reform is being implemented
- Whistleblower protection law in force since 1 May 2019
- Improvement in the insolvency process and tax compliance is being observed

Administrative Territorial Reform

Bringing together municipalities in more sustainable and economically stronger units that are able to ensure the performance of autonomous functions of local governments in comparable quality and accessibility

- The new model is planned to be introduced starting from 2021

2017 OECD Reform Responsiveness Index, %

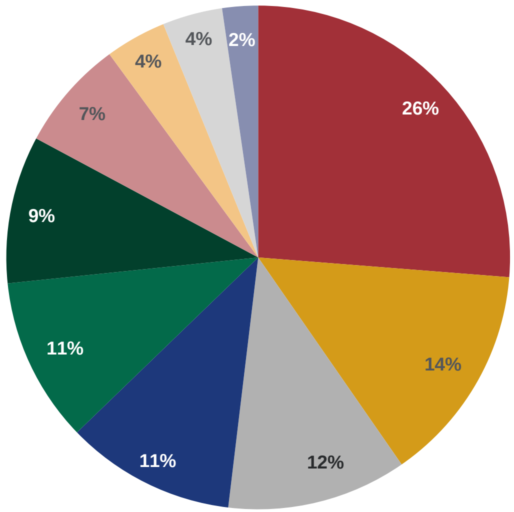


Source: 2019 National Reform Programme; European Commission's Country Report Latvia 2019; EU Council's recommendations 2019; OECD Economic Survey on Latvia 2017, 2019

EU Playing Key Role in Funding Structural Change in Latvia

Efficient and well targeted absorption and use of EU funds will promote competitiveness and stimulate economic growth as well as support necessary structural reforms.

Allocation Of EU Funds For 2014-2020 By Priority Axes



- Promoting sustainable transport and removing bottlenecks in key network infrastructures
- Protecting the environment and promoting resource efficiency
- Investing in education, skills and lifelong learning
- Supporting the shift towards a low-carbon economy in all sectors
- Strengthening research, technological development and innovation
- Promoting social inclusion and combating poverty
- Enhancing the competitiveness of small and medium-sized enterprises
- Enhancing access to, and use and quality of, information and communication technologies
- Promoting employment and supporting labour mobility
- Technical assistance

Source: Ministry of Finance

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

EU Cohesion Policy Accompanies Structural Reforms

- The Latvian economy and the goals envisaged by the National Development Plan are strongly supported by well targeted and smart EU cohesion policy funds (EU funds like Structural funds and Cohesion Fund) and investments.
- EUR 4.4 billion EU funds are available for targeted and smart investments in Latvia within the 2014 - 2020 programming period across major nine priority areas with the general aim to enhance competitiveness of Latvia’s economy and reinforce the country’s solid foundation for sustained and smart growth.
- EUR 3.5 billion EU funds are already contracted for investment projects.

Source: Ministry of Finance

EU Funds After 2020

- The European Commission has published a proposal for the new multiannual financial framework after 2020 in May 2018 **and updated it in May 2020 with addition of Recovery package (Next Generation EU).**
- European Commission’s proposal for Latvia’s Cohesion policy allocation **together with grant allocations from new instruments (Recovery and Resilience Facility, REACT EU, Just Transition Fund of NextGen package** is **more than 6 billion** EUR (in 2018 prices). All allocation**s are** a subject **to** negotiations.
- **As regards to Cohesion policy,** Latvia will remain eligible to receive support from all three Cohesion policy funds (Cohesion Fund, European Regional and Development Fund, European Social Fund).

Measures to mitigate effects of the COVID-19 crisis

- As a result of CRII and CRII plus regulation flexibility, on 19 May 2020, the government approved the proposals for reallocating nearly €500 million of EU fun ds to mitigate the consequences of the Covid-19 crisis.
- REACT-EU envisages allocation of a top-up of € 268 million of EU funds to Latvia as part of European Commission’s proposal for Recovery Plan for Europe.
- Proposal for Recovery and Resiliance Facility indicates additional € 2,17 billion funding in form of grants for recovery and stretghening of the economy.

Pro-growth Tax Reform in Line with Balanced Budget Mandate

Key goals: improve competitiveness, promote exports, reduce inequality and raise revenue to one-third of GDP.

Strategy framework

- Tax structures and rates review
- Improving tax administration
- The fight against the shadow economy

Principles

- Predictability and a long-term vision
- Regional competitiveness, at least in the Baltic region
- Tax motivation for improvement
- A similar tax burden on similar types of revenue
- Lending and capitalization improvement
- Reducing the cost of tax administration

Positive impact on economy

- Raise disposable income of employees and induce private consumption
- More competitive entrepreneurs on regional and global scene as well as stimulation of own investment
- Better capitalized businesses, more opportunities to raise additional funds for development
- Increased prospects to raise production capacity of goods and services, more effective and efficient production process
- More equality between different income groups and types of income
- Higher tax revenue resulting from increased economic activity and less tax avoidance

Main changes

- ✓ **Non-taxable minimum – EUR 300**
  Differenced depending on income level from EUR 0 / month to EUR 300 per month
- ✓ **Allowance for dependents**
  EUR 250 per month
- ✓ **Minimum salary**
  from EUR 380 to EUR 430 (500 EUR in 2021)
- ✓ **Social contribution**
  increase by 1% directed to health care
- ✓ **Reform of Solidarity tax**
- ✓ **PIT rate smoothing**
- ✓ **Progressive Personal Income Tax**
  Decrease from 23% to 20% for year's salary up to EUR 20,004, 23% for EUR 20,004 – 62,800, 31,4% for above EUR 62,800
- ✓ **Corporate Income Tax**
  20% on distributed profit; no CIT is payable on undistributed profits

Source: Ministry of Finance

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

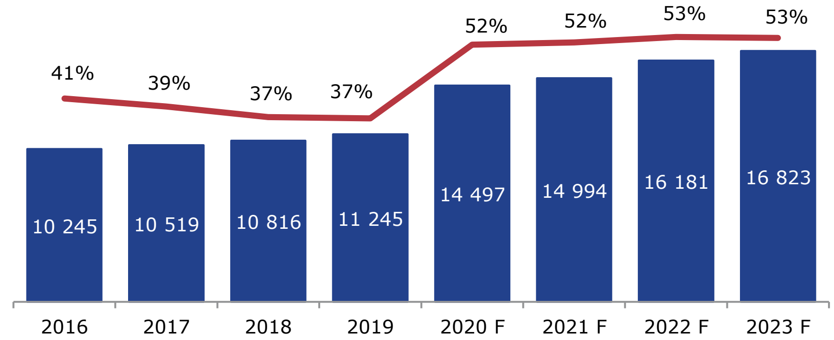
Despite the projected debt increase in the medium term it is expected to be in line with Maastricht criteria

Key Characteristics of Latvia's Government Debt

- General government debt is amongst the lowest in the EU at 36.9 % of GDP at the end of 2019. It is the 4th lowest in the Eurozone and the 9th lowest in the EU
- Latvia enjoys one of the lowest debt servicing costs across the region, significantly lower than the EU and Eurozone averages
- Since March 2014 Latvia participates in the European Stability Mechanism, which provides additional financial stability to its members

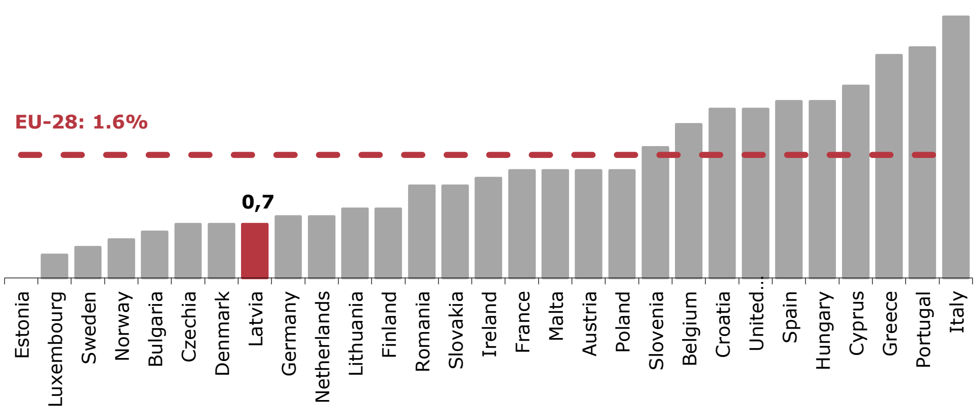
General Government Debt Year End

(EUR million, % GDP, ESA methodology)



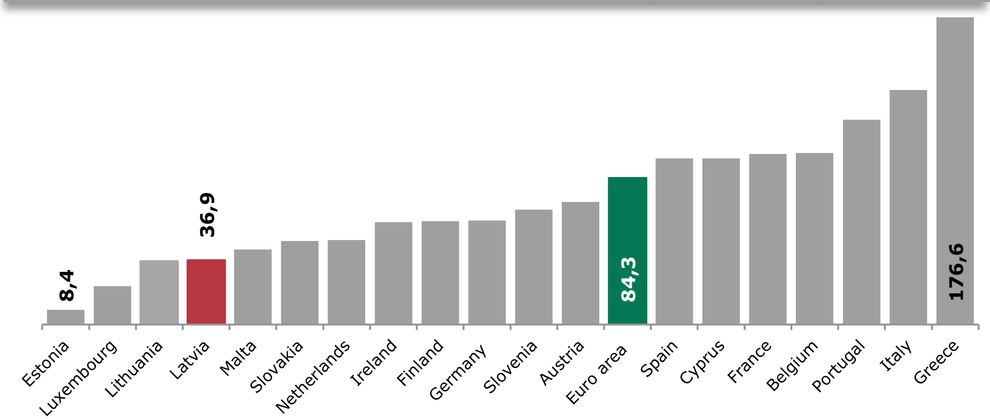
Source: Eurostat (actual data 2016-2019), the Stability Programme 2020-2023 of the Republic of Latvia (Covid-19 impact scenario 2020-2023)

Government revenue, expenditure and main aggregates 2019, % GDP



Source: Eurostat

General Government Debt (Eurozone countries 2019, % GDP)

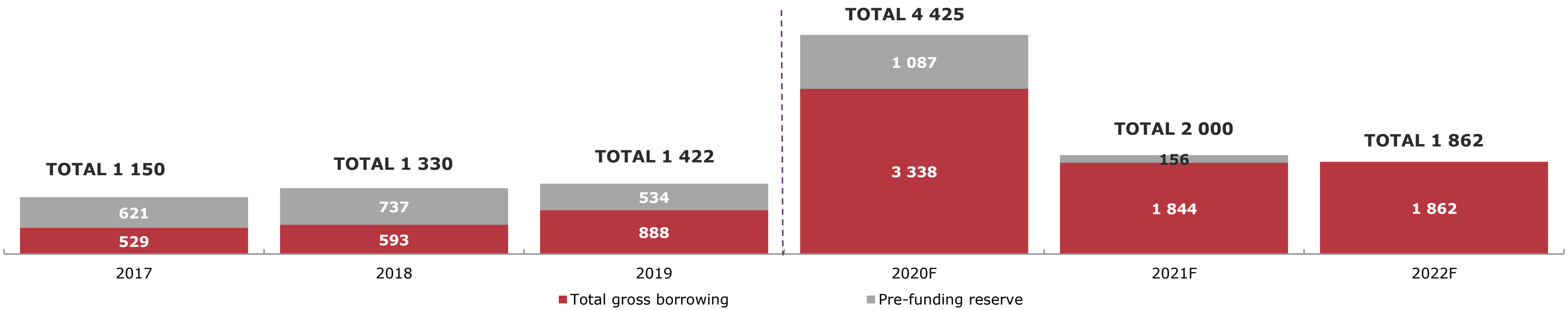


Source: Eurostat (12.06.2020.)

Borrowing Strategy focused on prefunding and refinancing

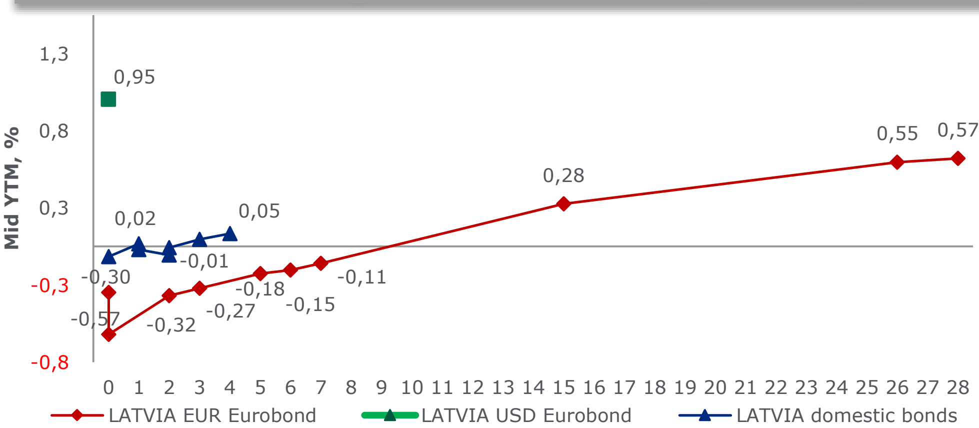
Budget deficit and debt repayments make the most part of borrowing requirement in medium term.

Government Gross Borrowing (EUR million)



Source: The Treasury

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



Source: Data as of 29 June 2020, *Bloomberg*

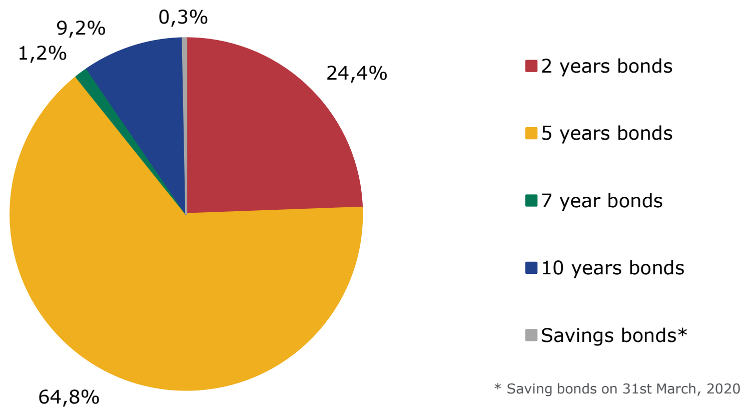
Borrowing activities in international capital markets in 2020

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

Domestic Market Continues to Perform Strongly and is reliable

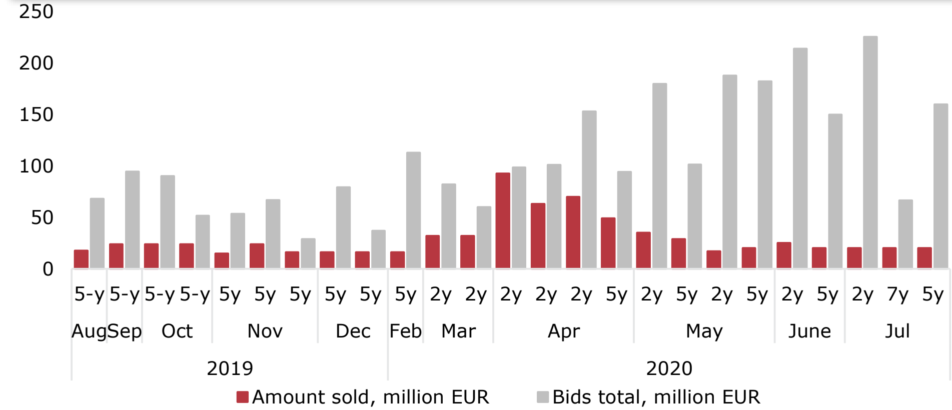
Demand in domestic market is very supportive trought challanging times and grew during Covid-19 crisis.

Domestic Securities Outstanding by Original Maturity (as on July 15, 2020, %)



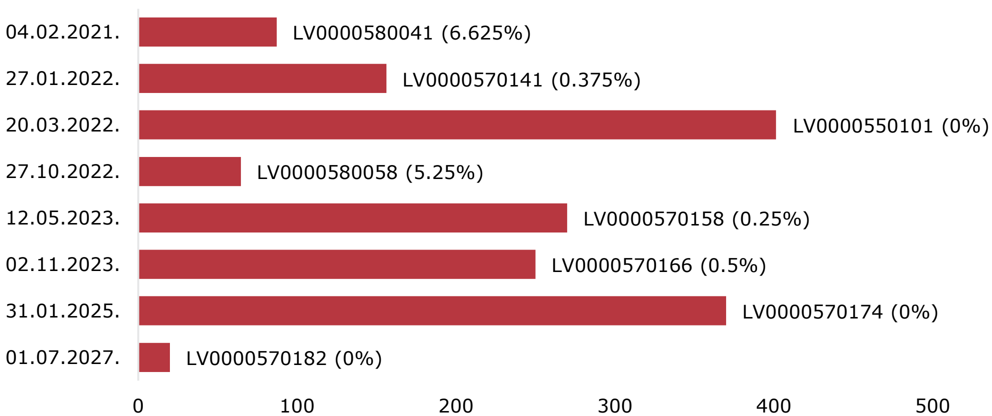
Source: The Treasury

Domestic T-Bond Competitive Multi-Price Auctions



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

Government domestic securities outstanding by maturity (as on July 1, 2020, millinon EUR)



Source: The Treasury

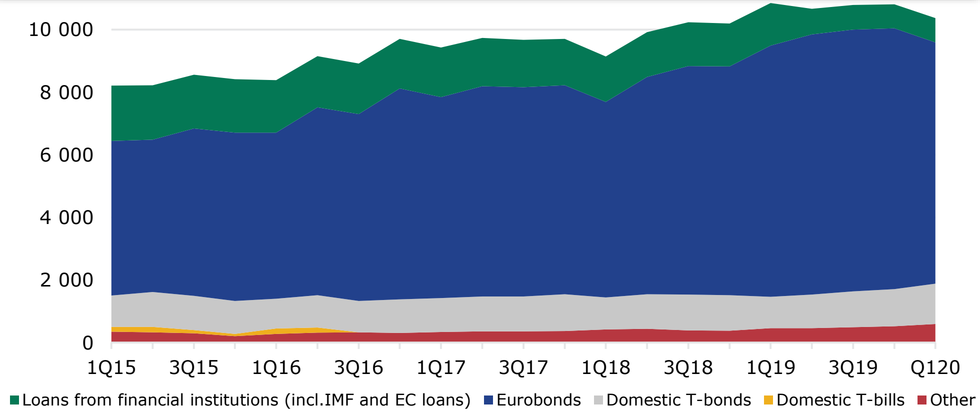
T-Bond auctions

- Primary dealer system operates since 11 February 2013. Domestic debt securities outstanding constituted EUR 1 639,3 million as of 15 July, 2020.
- The Treasury maintains regular domestic debt securities auctions in 2020 offering medium and long term T-bonds. Long term segment overall is covered by international issues.
- For several years Latvia has concentrated domestic supply mainly in 5-year segment and focuses on increasing the liquidity.
- A new 7 year T-bond program was opened in the July 1, 2020. Coupon was fixed at the 0.000%.
- 2 year T-Bond programme was taaped on regular basis, with rising demand. Currently 2 year T-Bond Programme is one of the most liquid programms.

Central Government Debt Profile

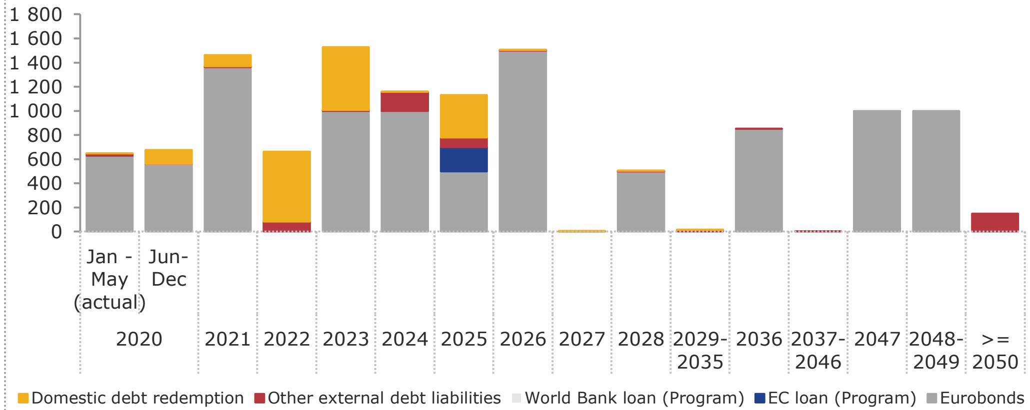
International Loan Programme has been largely refinanced in international capital markets, while government debt redemptions remain moderate.

Debt structure by Instruments (milion EUR)



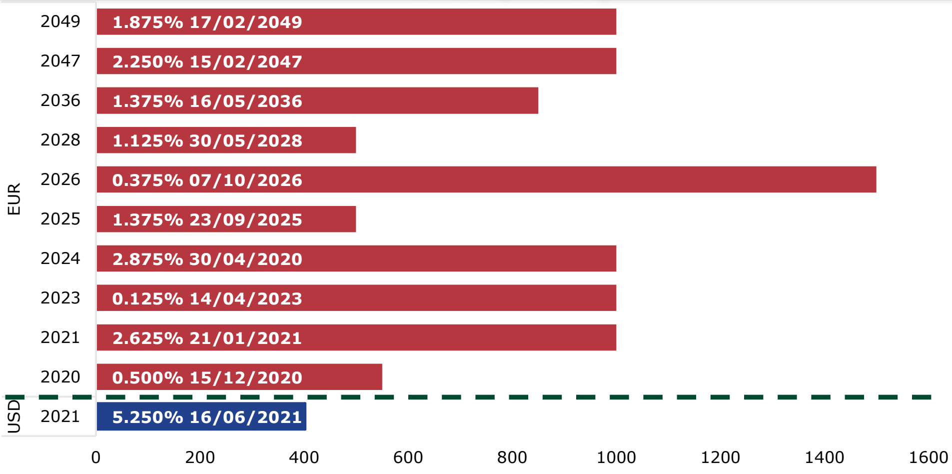
Source: The Treasury, March 2019

Debt Redemption Profile (EUR million)



Source: The Treasury, May 2020

Outstanding Bonds in the International Markets (nominal amount, million)



Source: The Treasury

Debt Portfolio Management

Parameters	Strategy	31/12/2019	31/03/2020
Maturity profile (%)			
• up to 1 year	≤ 25%	17.1%	23.0%
• up to 3 year	≤ 50%	33.5%	30.4%
Share of fixed rate[1]	≥ 60%	86.2%	80.5%
Macaulay duration (years)	5.00 – 9.00	7.61	7.77
Net debt[2] currency composition	100% EUR with a deviation of +/- 5%	100.08%	100.03%

Source: The Treasury | [1]Fixed rate central government debt with a maturity over one year; [2]Central government debt at the end of the period less the amount of loans and receivables, where impairment loss of guarantees are not taken in account (including Treasury's cash accounts, investments in deposits and fixed income securities, loans, receivables (including receivables of derivative financial instruments which are not classified as risky from credit risk perspective)), and increased by provisions of guarantees as well as liabilities of derivative financial instruments which are not classified as risky from credit risk perspective.

Medium Term Funding Requirement and Borrowing Strategy

External borrowing instruments will represent the most significant share of the overall borrowing volume.

Medium Term Borrowing Strategy

Goal	Ensure timely and full availability of financial resources for covering the financing requirement, by maintaining continuous borrowing opportunities in the international and domestic financial markets on optimal terms and conditions
Principles	• Flexibility (towards timing, maturities and currencies) • Achieve balance between risks and costs • Consistency and transparency to markets

General Financing Requirement

- Central Government Budget Balance
- Net Lending
- Other Flows at the Treasury`s Accounts
- Outstanding Central Government Debt Redemptions (domestic and external)

Pre-funding Strategy For Refinancing Debt

Borrowing Instruments (BASE scenario)

- Benchmark issuances in global capital markets
- Continuing issuances in domestic market

Alternative Instruments

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

Central Government financing estimation

(2020-2022, EUR million)

31-May-2020	2020 Jan-May	2020 Jun- Dec	2020	2021	2022
Central government budget balance, net lending and other flows	176	-3 261	-3 085	-1 621	-1 408
Outstanding central government debt redemption	-641	-674	-1 315	-1 443	-687
Of which:					
Domestic debt repayment	-1	-113	-114	-92	-604
External debt repayment	-641	-561	-1 201	-1351	-83
Total	-466	-3 935	-4 400	-3 064	-2 096
Gross borrowing	2 025	2 400	4 425	2 000	1 862
Of which:					
International issuance	1 550	1 550	3 100	1 700	1 300

Note: Indicative in the planned period

The borrowing volume could be increased in case of:

Budget execution	**Possible restructuring of the government guaranteed commitments (loans) of several hospitals by refinancing / early repayment**	**Necessity to cover additional expenses in relation to the Covid – 19 impact**

Investment Highlights

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

Flexible and Resilient Economy

→ investment and exports grows

→ government swift actions to stablise the economy

Sustainable Debt Levels and Prudent Fiscal Management

→ Investor attractiveness

Resilient towards external shocks

→ Proven track record in overcoming economic crisis in the past

Belongs to the Core of Europe

→ EZ membership

→ Member of all the important international organizations

Predictable public policies and outstanding track record of successful structural reforms

Banks Well Capitalised, Profitable and Liquid

→ Predominately foreign owned, resident-serving banking sector

→Comprehensive financial sector reforms

Stable Credit Ratings

Investors confidence boosted by institutional, fiscal and macroeconomic strength

Diversified Export

→ Strong ICT and business services export growth

→continued growth in wood and wood products.