

Republic of Latvia

Investor Presentation



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Overview and Key Investment Highlights



Latvia at a Glance

Strategically situated in north-eastern Europe with a coastline along the Baltic Sea, Latvia is an open economy which since 2004 has been a member of the European Union and NATO

<p> Capital Riga</p>	<p> Official Currency EUR</p>
<p> Population 1.9mn⁽¹⁾</p>	<p> Government System Democratic republic with a multiparty political system</p>
<p> Nominal GDP EUR 40.3bn⁽¹⁾</p>	<p> GDP per Capita EUR 21,444⁽¹⁾</p>
<p> Credit ratings⁽²⁾ S&P: A+ Fitch: A- Moody's: A3 R&I: A</p>	<p> Main Economic Sectors 2023⁽¹⁾ ★ Wholesale, retail trade, transport, accommodation and food services (21%) ★ Public administration, defence, education, human health and social work activities (17%) ★ Industry (18%)</p>



Milestones



Sources: (1) data for 2023 Central Statistics Bureau of Latvia; (2) Rating Agencies as of April 2024 - S&P, Fitch, Moody's, R&I

Key Investment Highlights

Resilient Economy

- Latvia has demonstrated resilience throughout macroeconomic and geopolitical headwinds
- Lower growth in Europe has impacted growth of Latvia's economy in 2023
- Economy is expected to rebound in 2024 driven by recovery of private consumption, increased public investments, strong labour market and low inflation

Diversified Export Sector

- Main trading partners are EU Member States. Trade ties with Russia have weakened substantially since 2014
- Latvia's export sector is both competitive and diversified
- Small current account deficit, largely covered by FDI and EU related capital transfers

Prudent Fiscal Policy

- Track record of prudent fiscal policy in previous years provided fiscal space to support corporates and citizens throughout recent twin shock crises
- EU funds and RRF funds are supporting the Government reform agenda
- Defence spendings remain one of the priorities

Moderate Debt Levels

- Latvia benefits from moderate and affordable debt levels, considerably below most of European peers
- Latvia's ratings firmly in the 'A' rating category
- Latvia has access to diversified funding sources

Energy/Military Security

- The country has been a member of NATO since 2004 and continues to invest in its military defence capabilities
- Latvia reacted swiftly to the Russian military invasion of Ukraine, having diversified many aspects of its economy away from Russia including energy

Solid Banking System

- Latvian banks remain well capitalized, profitable and cost-efficient
- Banks with healthy liquidity levels and mainly focused on domestic economy



Fiscal Policy

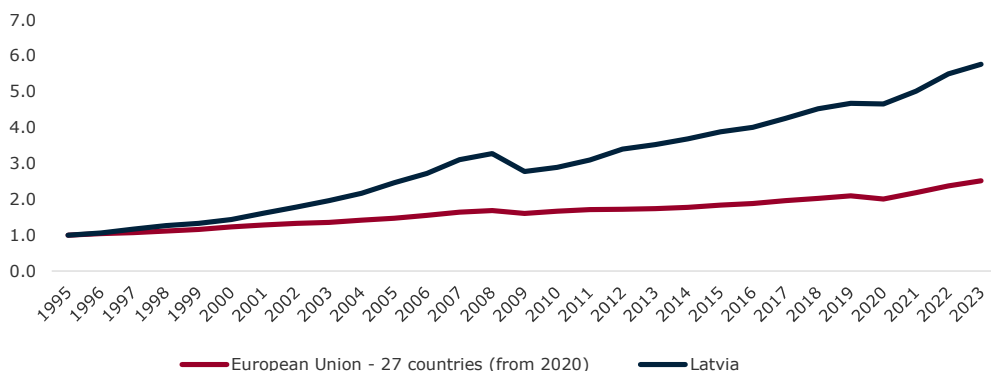


Latvia's Track Record of Prudent Fiscal Policy

Moderate deficit in years prior the twin crisis contributed to building fiscal buffer

Increase of Latvia GDP per capita has been significant

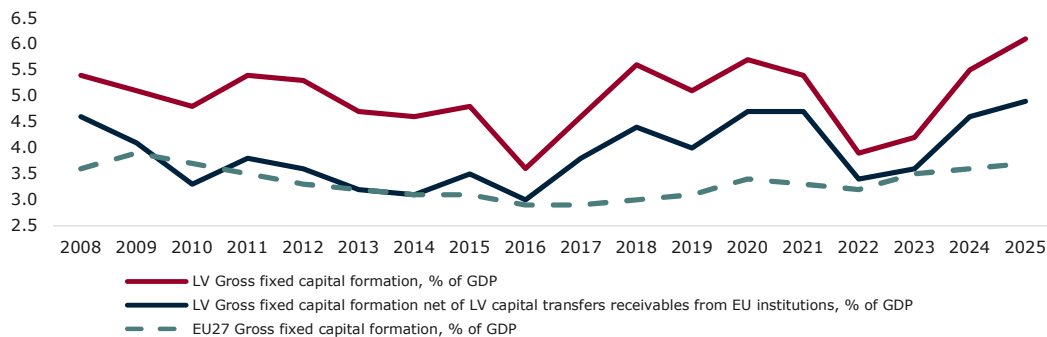
Change in GDP per capita (1995=1) current prices, purchasing power standard (PPS, EU27 from 2020) (% of GDP)



Source: Eurostat

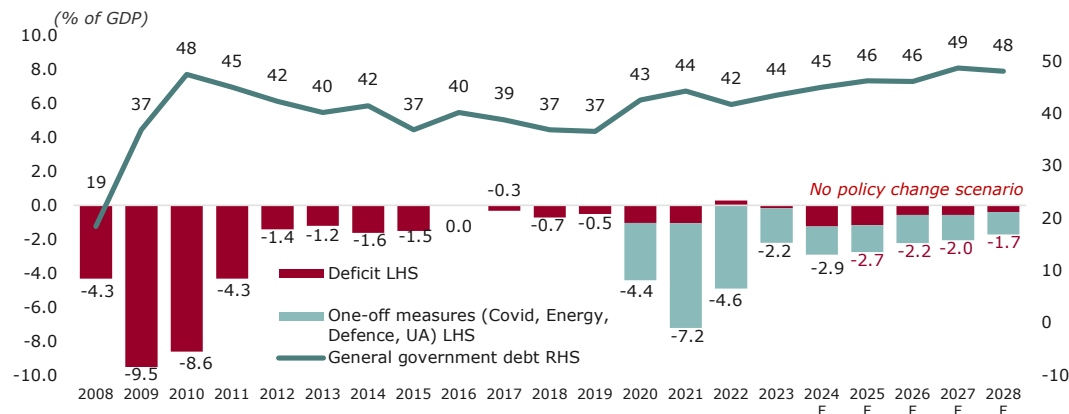
High public investments will continue to support economic growth further

(% of GDP)



Source: Ameco, European Spring 2024 Economic Forecast, and MoF calculation for LV Gross fixed capital formation net of LV capital transfers receivables from EU institutions (Eurostat and Stability Programme 2024-2028)

Low debt level and fiscal position allowed to provide necessary fiscal stimulus during previous years



Source: Eurostat for 2008-2023; F - Ministry of Finance forecast for Stability Programme 2024-2028







Commitment to maintain prudent fiscal policy within the framework of reformed EU fiscal rules

- Projected general government deficit for 2024 is 2.9% of GDP (April 2024), meanwhile the EC Spring 2024 forecast for 2024 is 2.8% of GDP (May 2024)
- Latvia's Stability Programme for 2024-2028 was approved at the Government on 30 April 2024. Global uncertainties and risks remain high. Updated macroeconomic forecast and actual budget revenue and expenditure trends result in increased deficit and debt ratios for coming years, but still below the Treaty' reference values.
- Reformed EU Fiscal rules that entered into force since May 2024 are less strict than national fiscal framework. EU fiscal rules move away from balance rule to expenditure rule.
- To align Fiscal Discipline Law with EU fiscal rules the maximum allowable structural deficit will be increased from 0.5% of GDP to 1.0% of GDP with a view to maintain prudent fiscal policy and sustainable general government debt in the long term.
- In September 2024 Latvia will elaborate 4-year Fiscal structural plan (FSP) that will replace Stability Programme and will determine the binding limits for primary expenditure growth for the following 4 years. FSP will be based on updated macroeconomic forecast from June, 2024 and fiscal forecast will be updated accordingly in August, 2024. The defence spending to address geopolitical circumstances remain a priority.

Continued Ambitious, Competitive, Growth-Friendly Investment

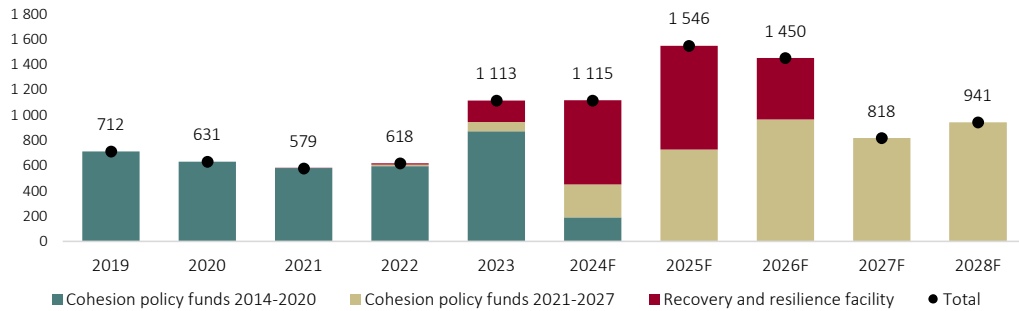
With the support of RRF and EU funds, investment will continue into specific reform measures to support long term sustainable growth

RRF reforms

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

RRF and Cohesion Policy EU Funds investments for supporting reform agenda

Budget expenditure (EUR mn)

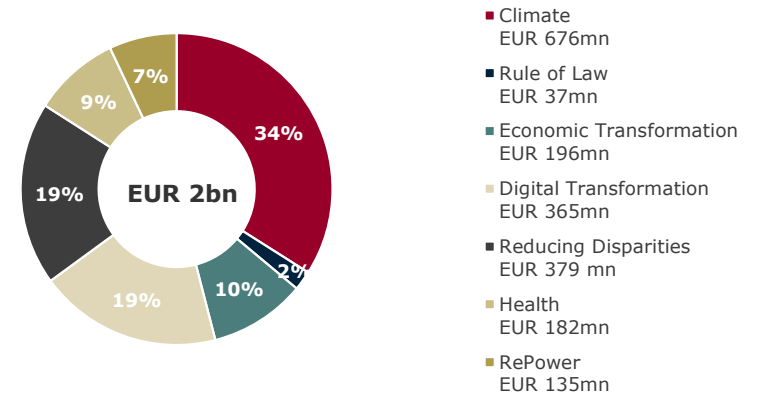


■ Cohesion policy funds 2014-2020 ■ Cohesion policy funds 2021-2027 ■ Recovery and resilience facility ● Total

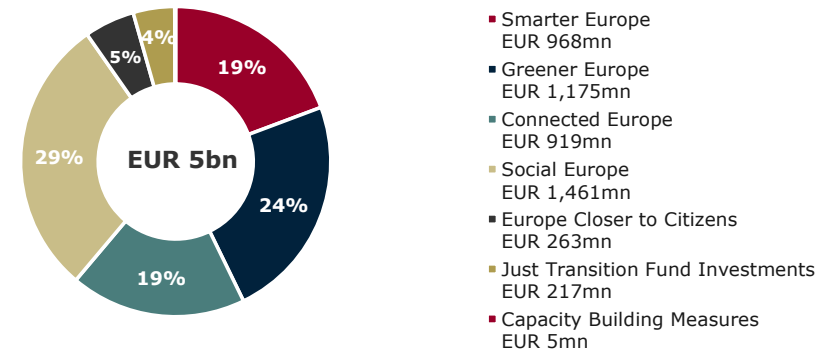
Source: Ministry of Finance

Recovery and Resilience plan (RRF)

(Amendments adopted by the Council on December 8, 2023)



EU Funds 2021-2027



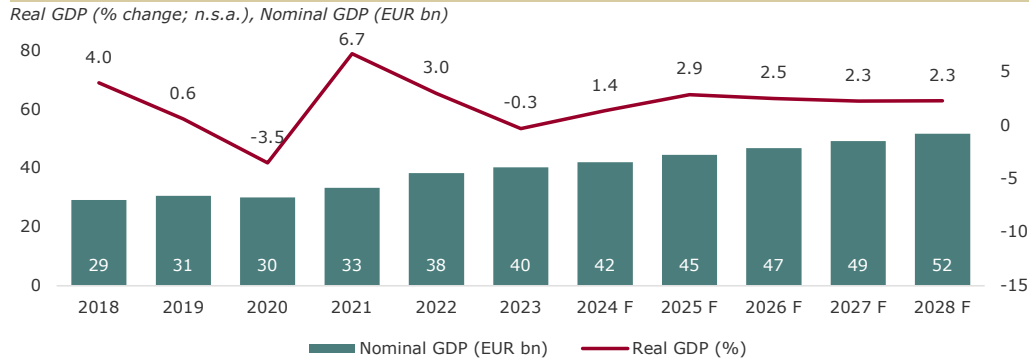


The Economy, External Sector and Banking Sector

Economy to Rebound as Inflation Declines and External Demand Recovers

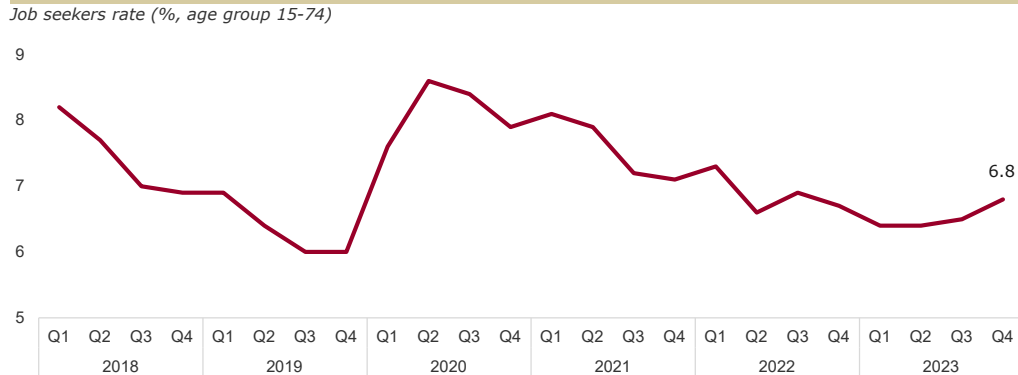
Strong labour market and low inflation will underpin private consumption, while external demand recovery and reforms financed by RRF and EU funds expected to support exports and investment

The economy has showcased resilience during the twin crisis



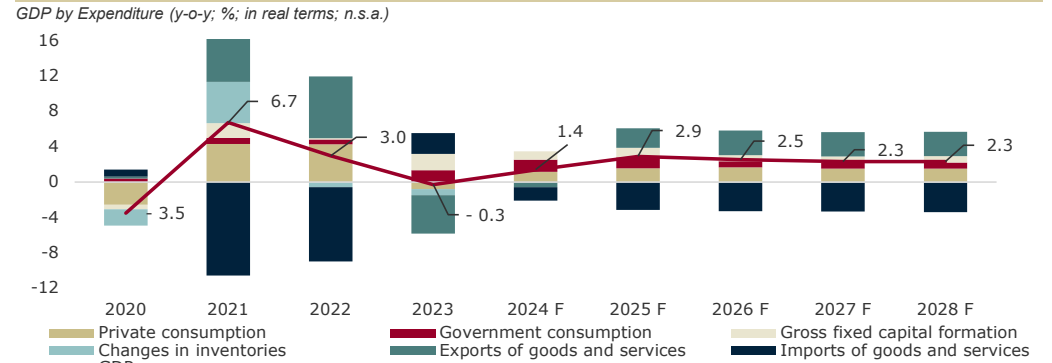
Source: Central Statistical Bureau of Latvia, F – Ministry of Finance forecast for Stability Programme 2024-2028

Unemployment has declined to pre-pandemic level



Source: Central Statistical Bureau of Latvia

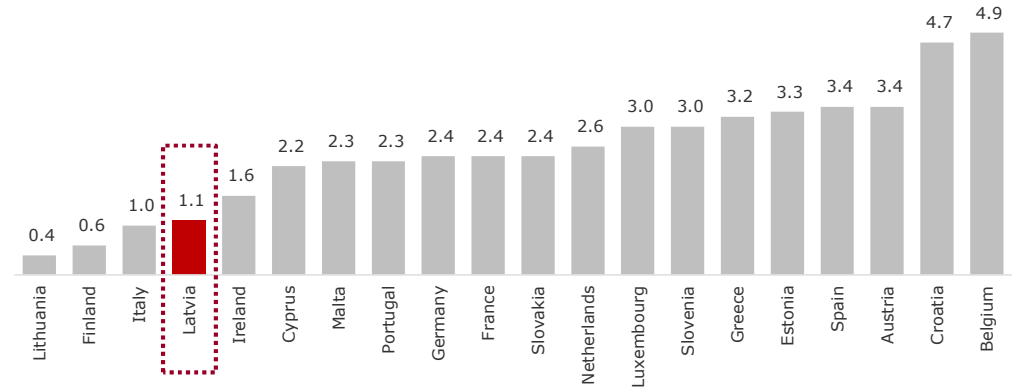
Exports and Private Consumption have contributed to accelerated growth



Source: Central Statistical Bureau of Latvia, F – Ministry of Finance forecast for Stability Programme 2024-2028

Inflation

Harmonised Index of Consumer Prices (% chg, yoy), Apr-2024

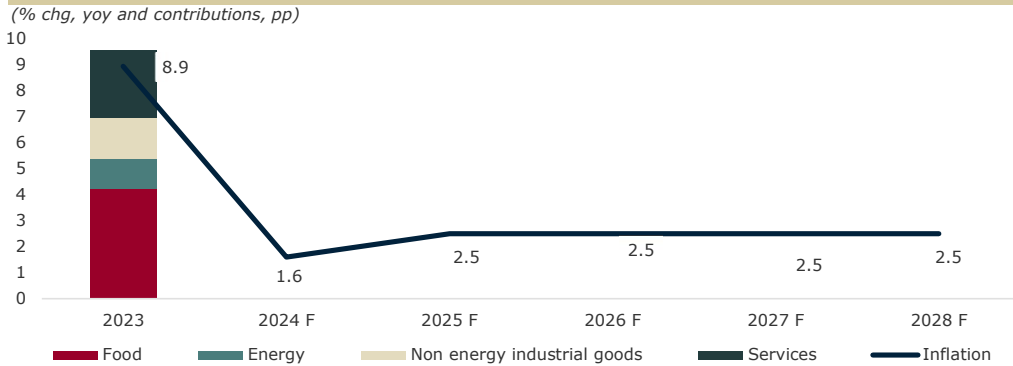


Source: Eurostat

Broad Based Decline of Inflation Reduces Pressures on Cost Competitiveness

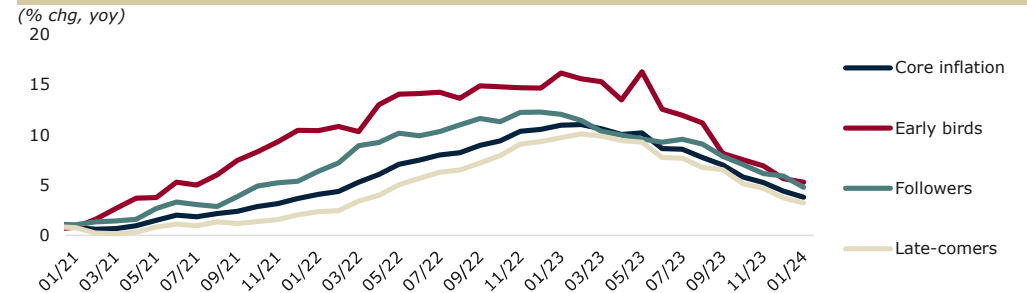
Inflation has receded quickly driven by restrictive monetary policy and a reduction in energy and food pressures, leaving no material harm on Latvia's cost competitiveness

Inflation and its contribution, core inflation



Source: Eurostat, F – Ministry of Finance forecast for Stability Programme 2024-2028

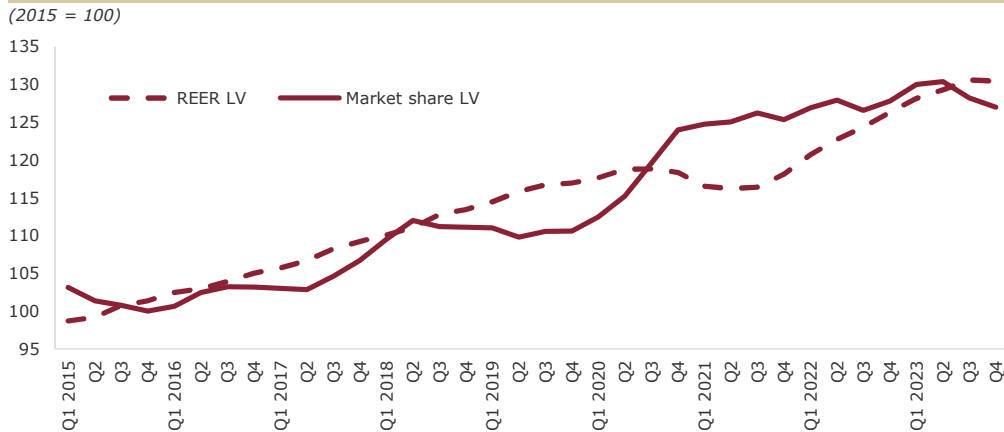
Core inflation components by speed of price increases



Source: Eurostat, Latvijas Banka calculations.

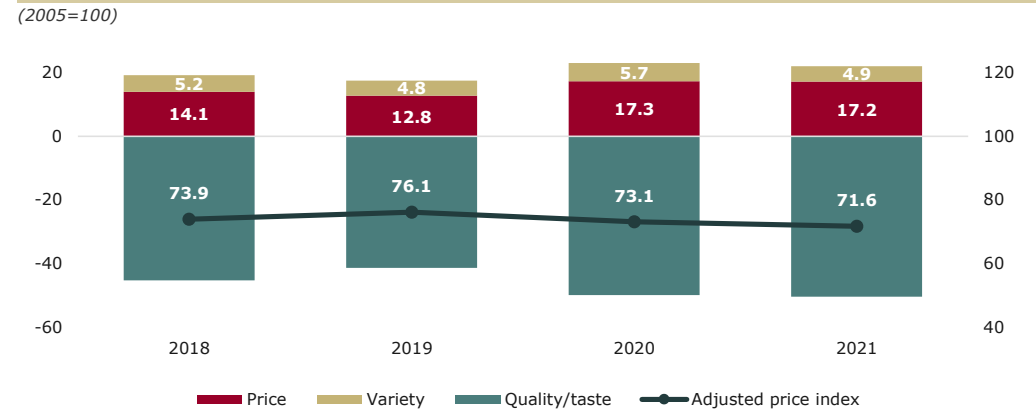
Note: "Early birds" are SPCIX indexes with top 90th percentile increase during period August – December 2021. "Followers" are indexes with increase from 50th to 90th percentile and "Late-comers" are all other indexes. Core inflation – inflation excluding food and energy prices. More can be read here: Macroeconomic Developments Report March 2024

REER deflated by ULC and goods export market share in world imports



11 Source: European Commission, WTO

Quality adjusted relative export price index and component contributions (pp)

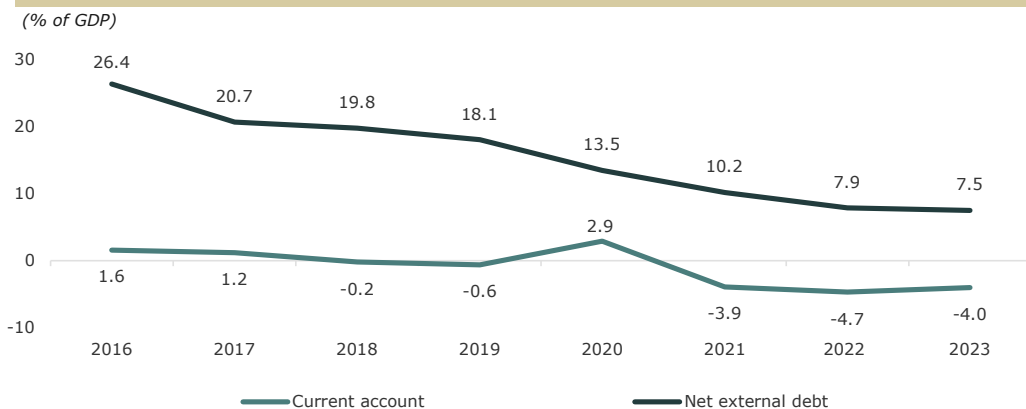


Source: UN Comtrade and Latvijas Banka calculations. More can be read here: Macroeconomic Developments Report September 2023 (latvijaskbanka.lv)

External Sector Risks Are Limited

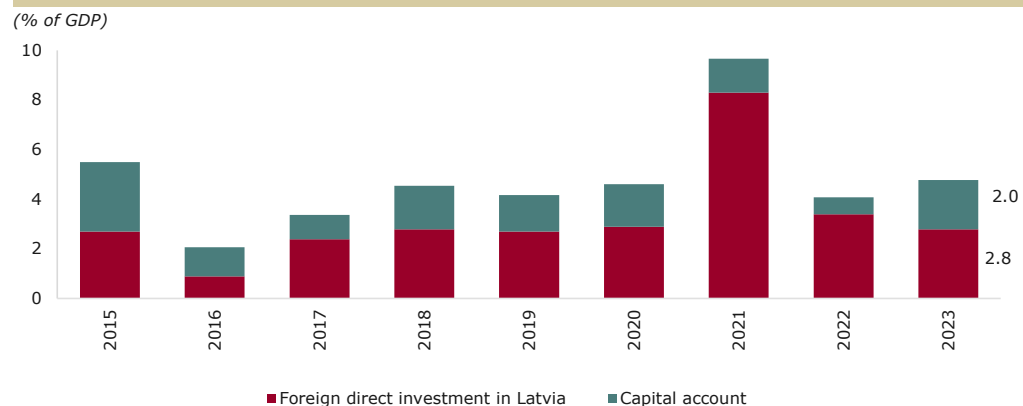
Small and manageable current account deficit, low net external debt, diversified and increasingly sophisticated export base, and stable funding flows render external sector risks rather limited

External sector indicators



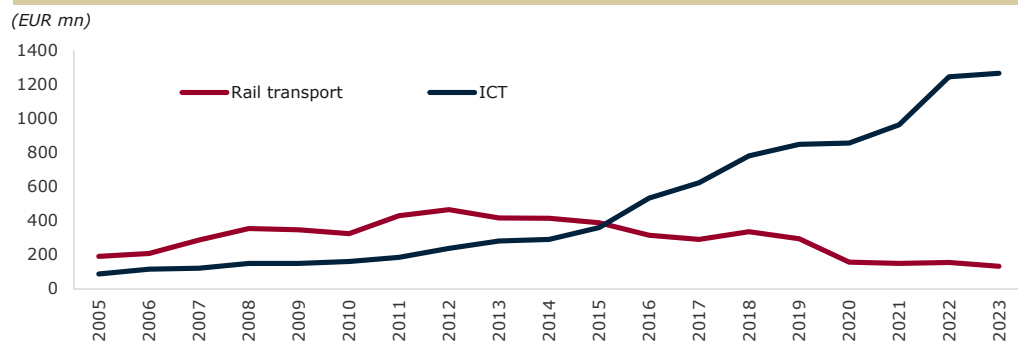
Source: Latvijas Banka

Investment inflows



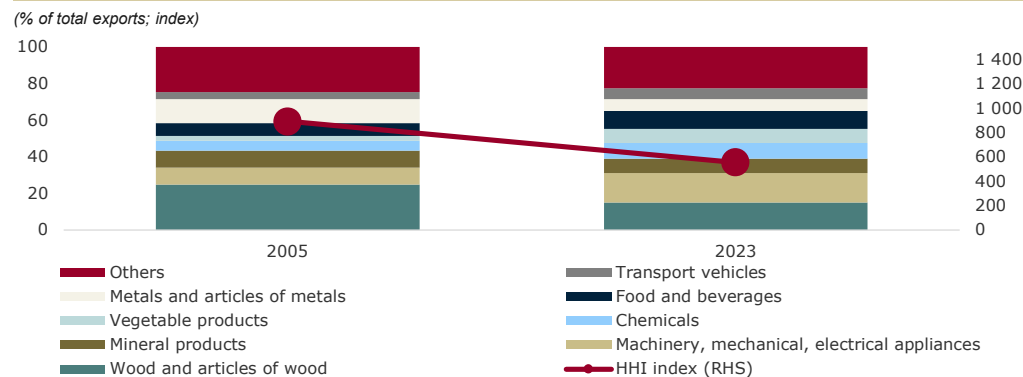
Source: Latvijas Banka

Export income of rail transport and Information and Communication Technology (ICT) services



Source: Latvijas Banka

Export structure by commodity groups and Herfindahl-Hirschman index for commodity group concentration

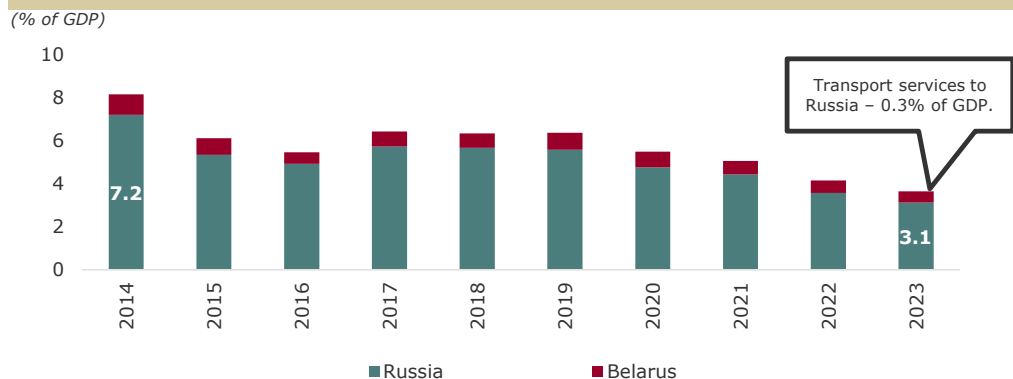


Source: Central Statistical Bureau of Latvia, Latvijas Bankas calculation

Trade Ties with Russia Have Weakened Substantially since 2014

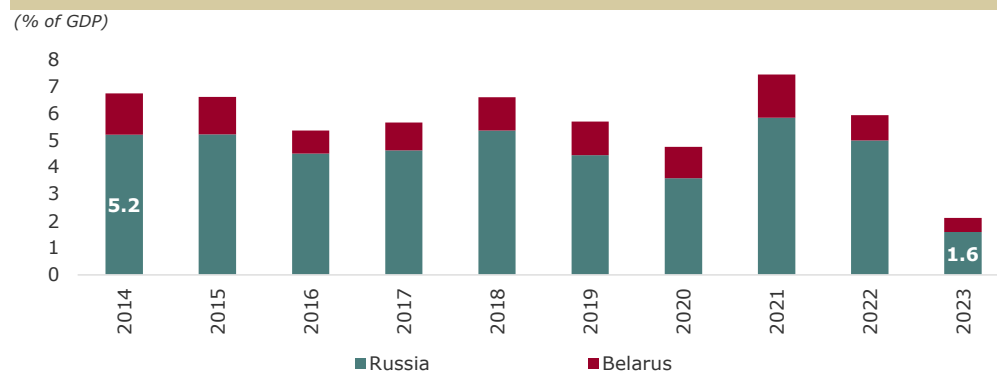
Supply chains related to imported materials have been successfully substituted. Large part of merchandise exports to Russia constitutes transit trade (beverages)

Exports of goods and services to Russia and Belarus



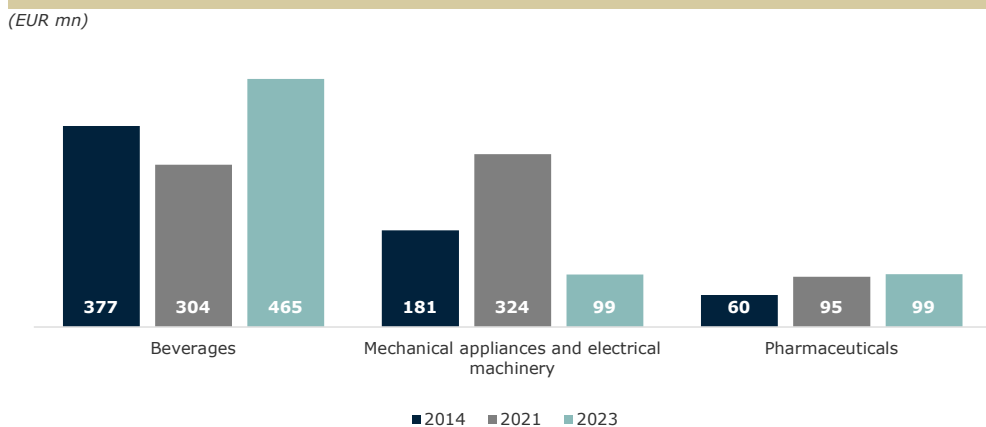
Source: Latvijas Banka and Central Statistical Bureau of Latvia

Imports of goods and services from Russia and Belarus

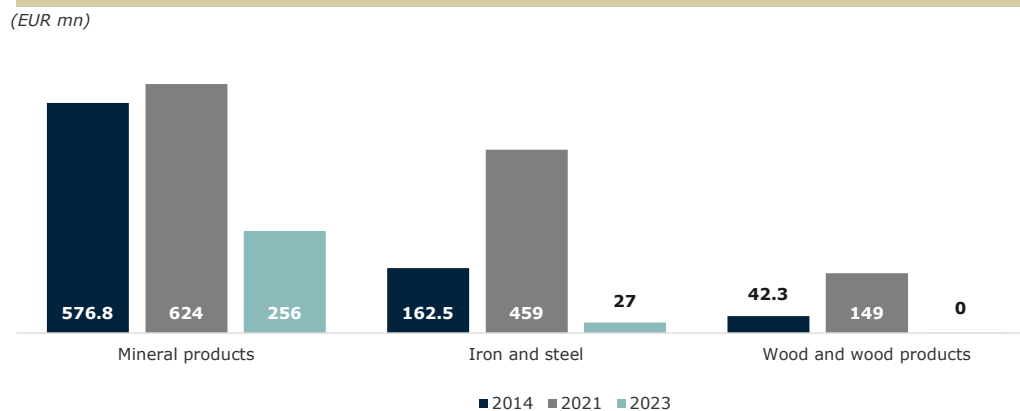


Source: Latvijas Banka and Central Statistical Bureau of Latvia

Exports of major product groups to Russia in 2014, 2021 and 2023



Imports of major product groups from Russia in 2014, 2021 and 2023

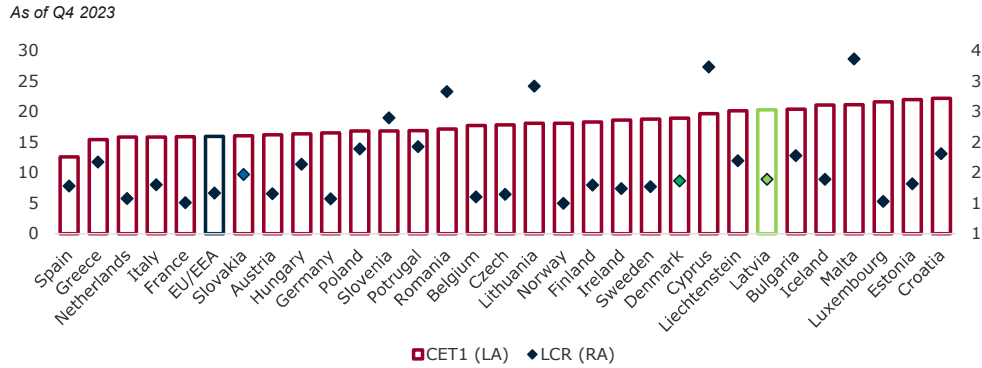


Source: Central Statistical Bureau of Latvia

Well-Capitalized and Profitable Banking Sector

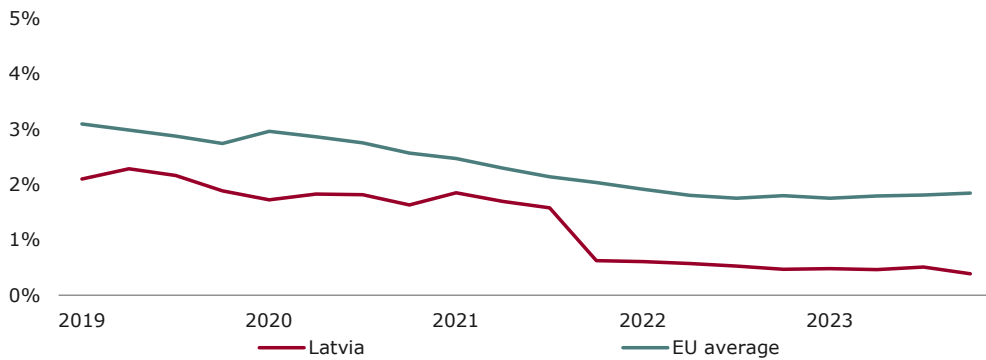
Prudent lending, ample capital buffers and low corporate and household debt provide strong shock absorption capacity

Total Tier 1 Capital Ratio and Liquidity Coverage Ratio



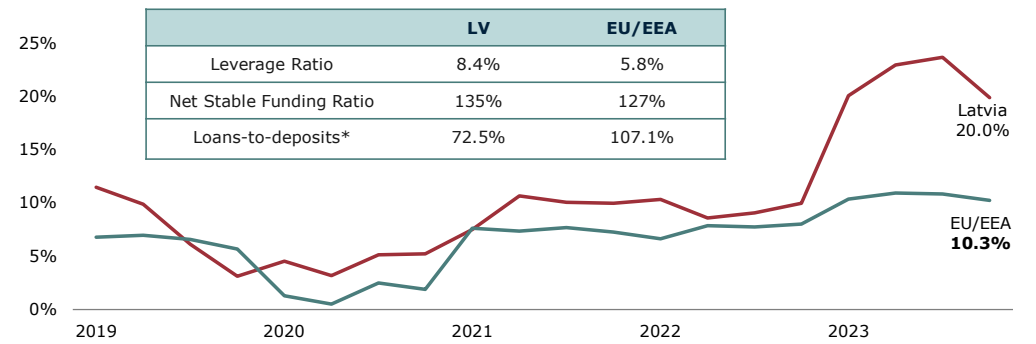
Source: European Banking Authority Risk Dashboard

Share of NPLs in total loans



Source: European Banking Authority Risk Dashboard

Return on Equity

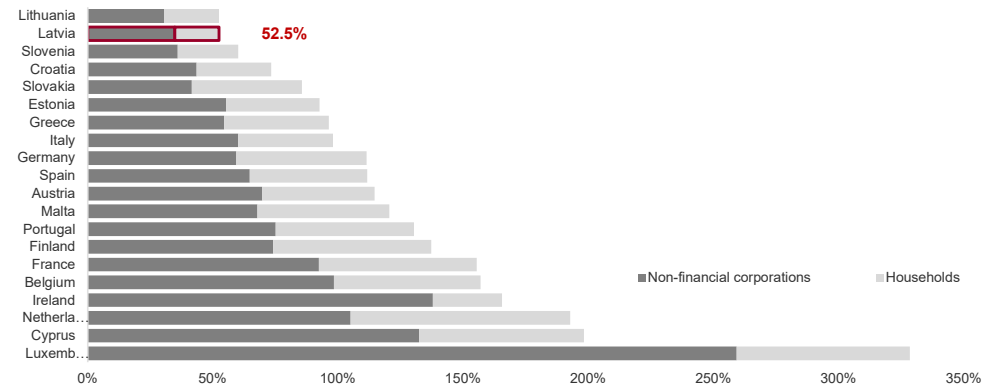


Note: LR – leverage ratio; NSFR – net stable funding ratio; *for non-financial corporations and households

Source: Latvijas Banka, European Banking Authority Risk Dashboard

Total debt*-to-GDP

Total consolidated debt vis-a-vis rest of the economy in 2023 Q3, (% of GDP)



Note: Total consolidated debt vis-a-vis rest of the economy in 2023 Q4

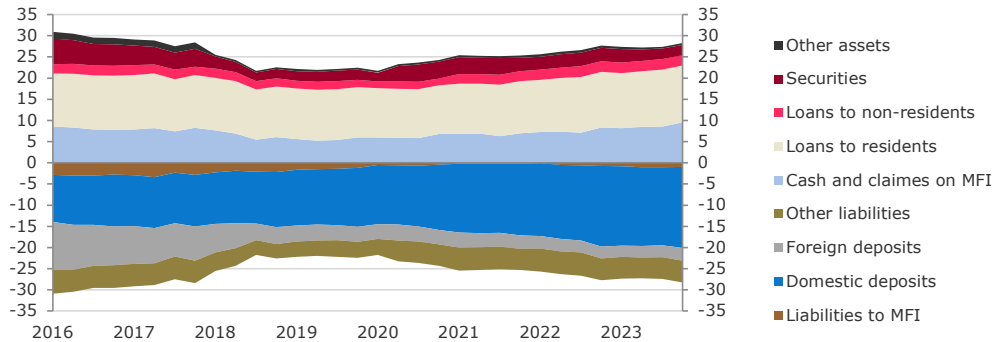
Source: ECB SDW

Domestic banking has outgrown once considerable foreign banking activities

Exposures to Russia or Belarus are low

Banking sector balance sheet

(EUR bn)



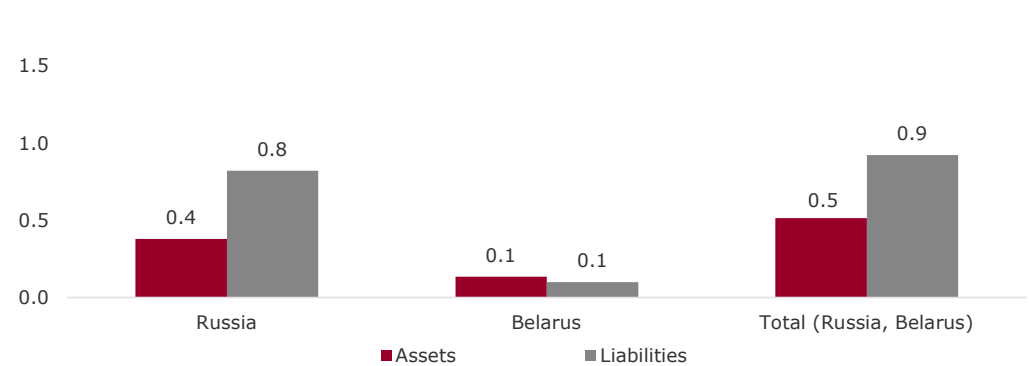
Source: Latvijas Banka, Latvijas Banka's calculations

Improvement in AML

- Over the past years, the risk level of money laundering and terrorism and proliferation financing (ML/TPF) has decreased substantially at Latvian banks
- Cooperation between all stakeholders has to lead to proportionate application of the AML regulation at Latvian banks without hindering the availability of financial services, investment attraction and Latvia's economic growth
- Internal control systems of Latvian financial institutions have been improved substantially

Banking sector exposure to Russia is low and mostly limited to a few smaller banks

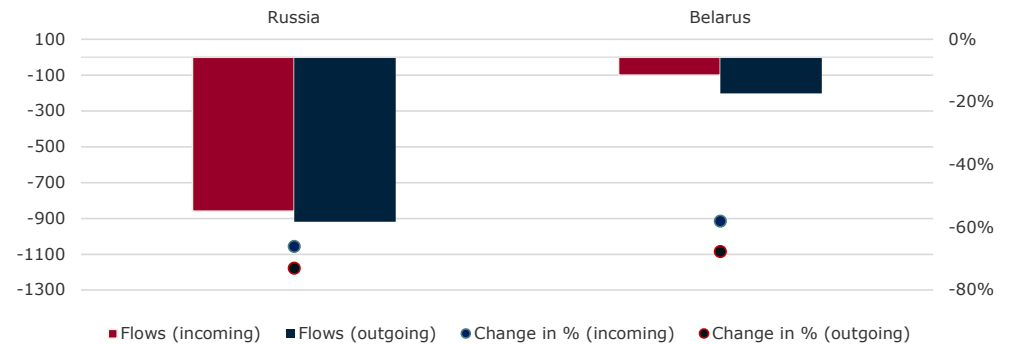
Banking sector exposure, % of total assets, March 2022



Source: Latvijas Banka FINANCIAL STABILITY REPORT 2022

Cross border transactions with Russia have decreased significantly since Russia's war in Ukraine

Changes in bank customer cross border payments EUR mn (2022 H2 vs 2021 H2)



Source: Latvijas Banka FINANCIAL STABILITY REPORT 2023



Security and Energy



Latvia – Member of the World’s Strongest Military Alliance

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

Latvia is part of the NATO Eastern flank

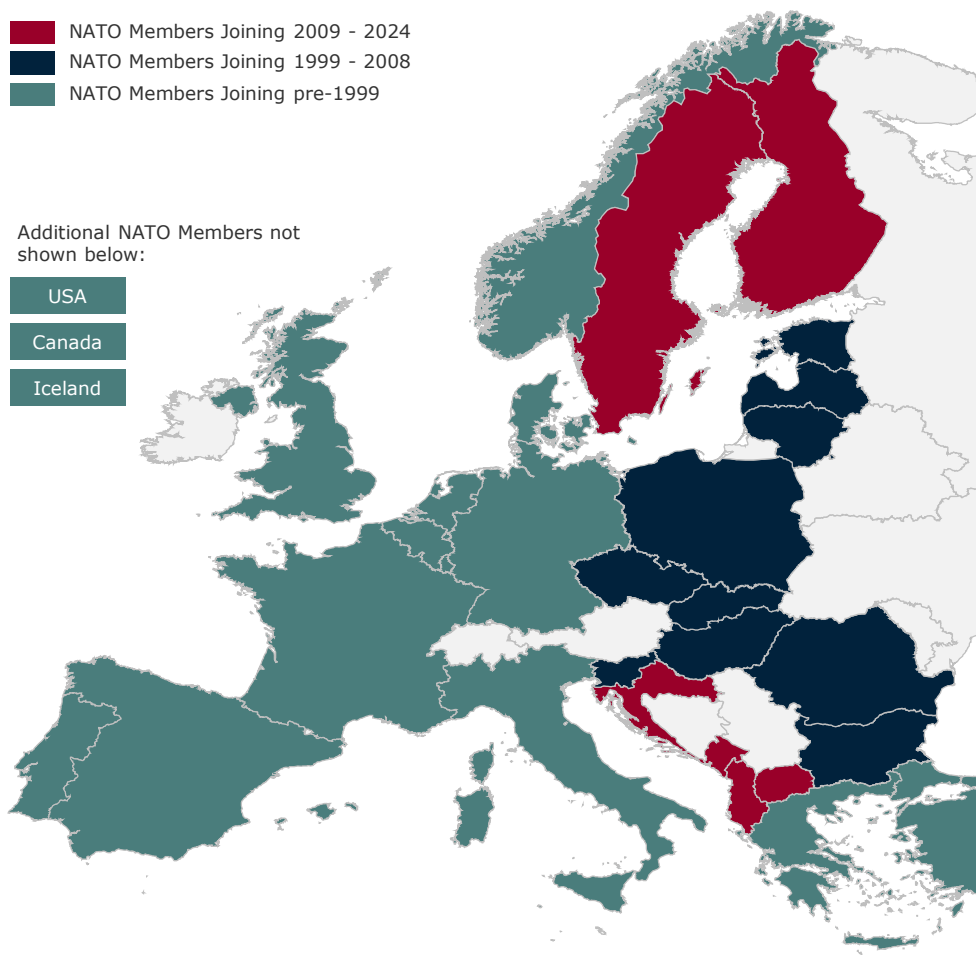
- NATO Members Joining 2009 - 2024
- NATO Members Joining 1999 - 2008
- NATO Members Joining pre-1999

Additional NATO Members not shown below:

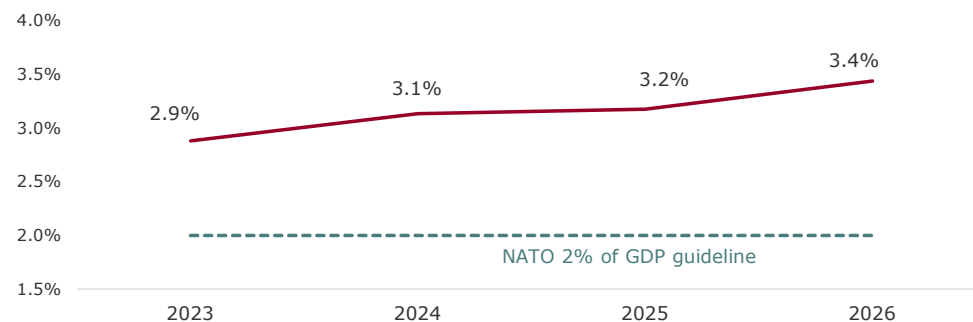
USA

Canada

Iceland



Defence spendings



Source: Defence spendings according to Budget Law of 2024 and medium-term framework 2024-2026 and separate decisions of the Government, MoF forecasts for GDP

National and Allied contribution to Latvia's security

Currently 21 NATO nations are represented in Latvia

- Developing Forward Land Forces Brigade (led by Canada)
- Developing Multinational Division "North" (Latvia and Denmark as Framework Nations)
- U.S. ensures the presence of rotational units
- Air Policing (Germany - on the basis of a rotation)

Latvia is boosting military strength with additional personnel, new military systems and infrastructure

- Introduction of Comprehensive defence system
- Fortification of Eastern border
- Re-introducing conscription
- Building biggest training area in the Baltics
- Air defence, coastal defence and artillery rocket systems, as well as infantry fighting vehicles

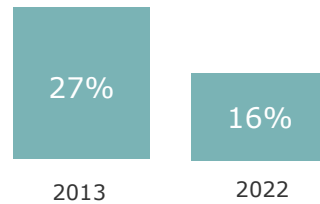
Latvia's Green Transition Enhancing National Energy Independence and Security

Becoming the 32nd IEA member is a testament to Latvia's ability to diversify its energy mix and ensure energy security

No natural gas from Russia as of January 2023



Natural gas in Energy Mix



Source: Central Statistical Bureau

Gas supply from Russia replaced with LNG Klaipeda (Lithuania)

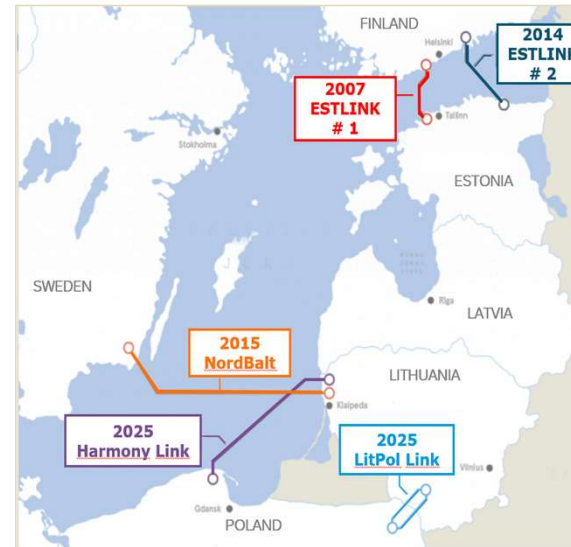
Additional supply channels:

- The Gas Interconnection Poland-Lithuania (GIPL) gas pipeline
- A floating LNG terminal in Finland
- MoU with Estonia (Pakrineeme LNG terminal)

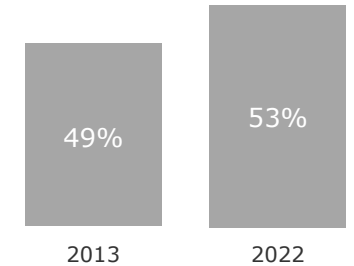
Latvia has 3rd largest underground gas storage in Europe (Inčukalns)

- Inčukalns' total technical capacity for period 2023/2024 was 22.6 TWh, which served the total Baltic region's annual needs

Synchronization of Baltics with European electric power networks in February 2025



Renewable energy sources in electricity



Source: Eurostat

Security of supply and independence

- Zero imports from Russia since June 2022
- Strong, diversified interconnection system with the Nordic and Continental Europe power systems
- Strong integration with the common European electricity market
- Constant 24/7 readiness for emergency disconnection from the Russian power system
- Permanent disconnection from the Russian power system as of February 2025
- Strong growth of renewable generation in the Baltic region



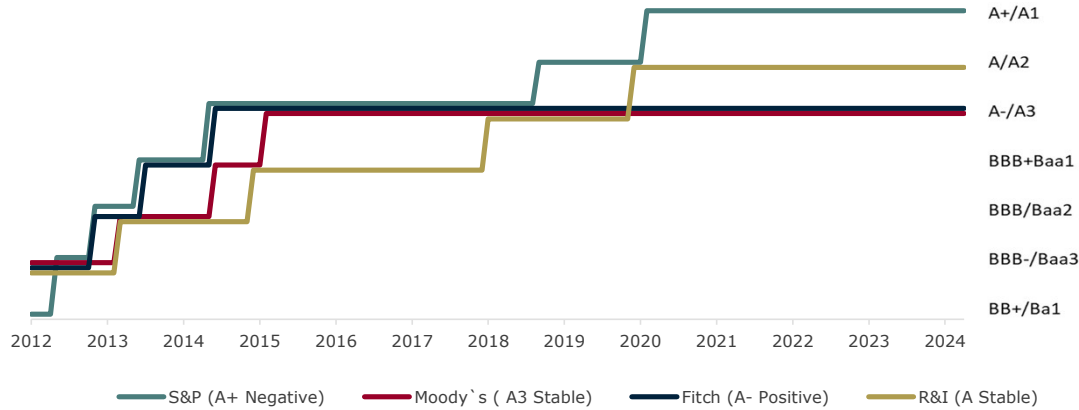
Debt Management



Latvia's Ratings Firmly Consolidated in the 'A' Rating Category

The Latvian economy presents a strong credit, a theme echoed by rating agencies

Long-term foreign currency rating developments



R&I A / Stable

On December 18, 2023, R&I affirmed long-term foreign currency sovereign credit ratings at the A level with a Stable outlook (contained rating action)

Credit Strengths:

- Strength of economic fundamentals
- Stable economic growth in the medium term, supported by strength of economy
- Diversification away from Russia
- Investments from EU
- Low government debt

Fitch Ratings A- / Positive

On January 12, 2024, Fitch Ratings affirmed long-term foreign currency sovereign credit ratings at the A- level with a Positive outlook (contained rating action)

Credit Strengths:

- Relatively lower government debt levels
- Lower debt servicing costs than rating peers
- Credible economic policy framework
- EU and Eurozone membership supporting policies
- Moderate private sector indebtedness

Moody's A3 / Stable

On January 30, 2024, Moody's provided an update following the recently affirmed long-term foreign currency sovereign credit ratings at the A3 level with a Stable outlook (did not contain rating action)

Credit Strengths:

- Track record of prudent fiscal policy
- High debt affordability and moderate government debt relative to GDP
- Flexibility and dynamism of the Latvian economy
- Track record of solid institutions

S&P Global Ratings A+ / Negative

On December 15, 2023, S&P Global affirmed long-term foreign currency sovereign credit ratings at the A+ level with a Negative outlook (contained rating action)

Credit Strengths:

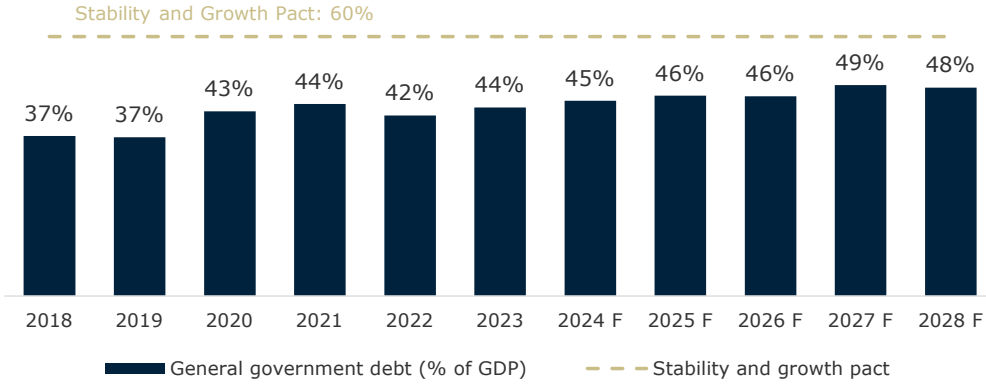
- Strong domestic demand
- Security supported by NATO membership and Eurozone membership
- Effective economic policymaking and diversification away from Russia
- Moderate government debt

General Government Debt Remains Low and Manageable

General government debt has been one of the lowest in Eurozone and is expected to remain below 60% in medium term

Low debt level provides effective buffer for additional funding needs

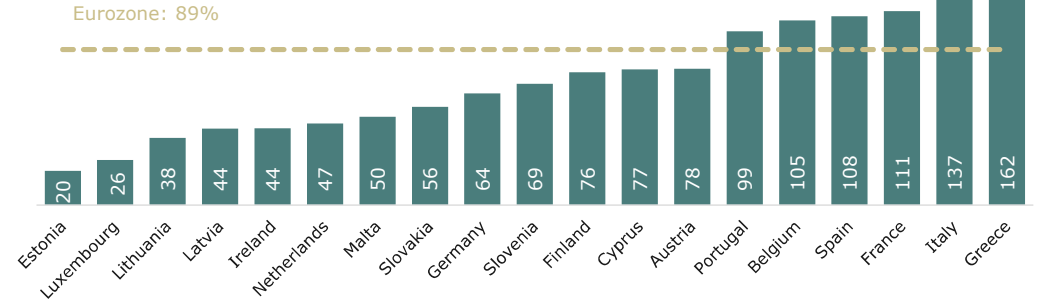
General Government Debt (% of GDP)



Source: Eurostat for data till 2023; F - Stability Programme 2024-2028

One of the lowest general government debt levels in the Eurozone

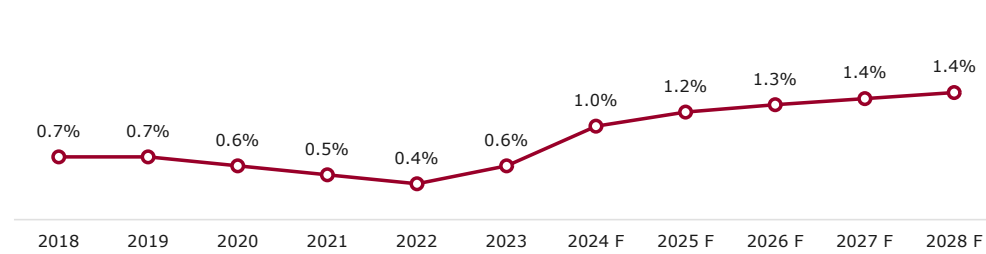
General Government Debt (% of GDP), 2023



Source: Eurostat

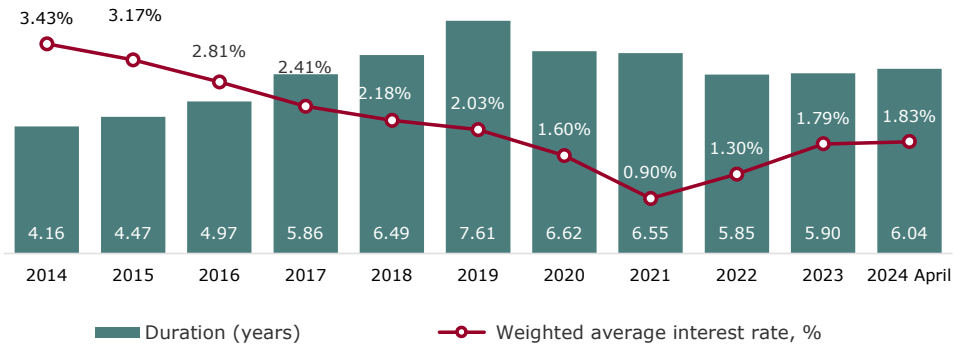
Moderate increase of debt servicing costs in the medium term

General Government Interest Payments (% of GDP)



Source: Eurostat, F - Stability Programme 2024-2028

Large proportion of fixed rate debt in the portfolio



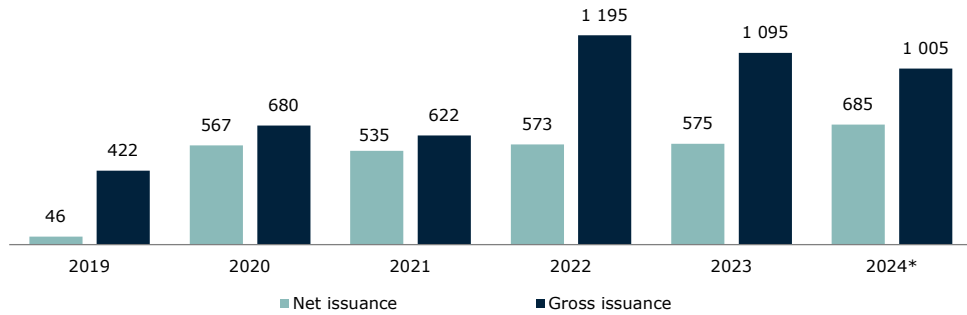
Source: Treasury, Data as of 15 May 2024

Demand in the Domestic Auctions Continues to be Supportive

Liquidity of the outstanding Eurobonds is facilitated by regular TAPs in auctions via Primary Dealers

In the 1st half of 2024 the emphasis has been on the Eurobond TAP auctions by borrowing largest volumes ever in relatively short period

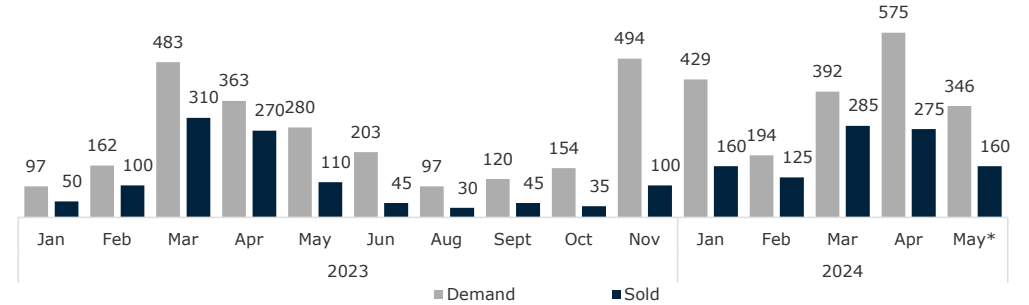
(EUR mn)



Source: * The Treasury as of 15 May, 2024, including previous most recently completed auction before the settlement of the Notes

Demand in Eurobond TAP auctions remains high and supportive

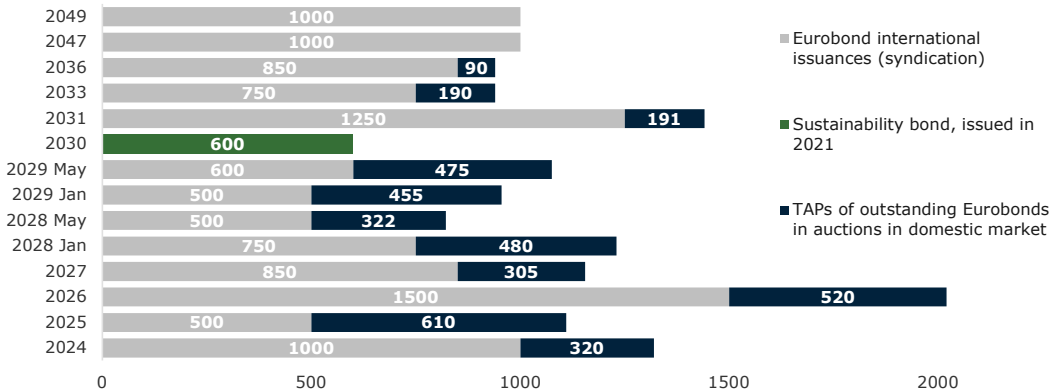
(EUR mn)



Source: * The Treasury as of 15 May, 2024, including previous most recently completed auction before the settlement of the Notes

Liquidity of outstanding Eurobonds increased by regular TAPs in auctions via Primary Dealers

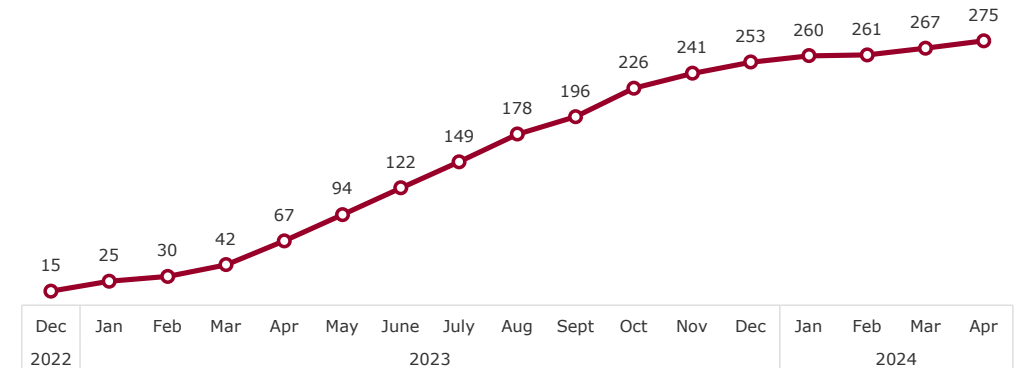
Latvia Eurobonds Outstanding (EUR mn)



Source: * The Treasury as of 15 May, 2024, including previous most recently completed auction before the settlement of the Notes

Savings Bonds: record demand from retail investors in 2023

(EUR mn)



Source: The Treasury as of 30 April 2024

Flexibility is Embedded in Latvia's Funding Strategy

Main funding instruments are government debt securities issued in the international and domestic capital markets, amidst diversified funding tools

Borrowings in 2023

International capital market syndications 3 transactions totalling EUR 2.1bn

- ✓ EUR 750mn bond maturing in January 2028
- ✓ EUR 600mn bond maturing in May 2029
- ✓ EUR 750mn bond maturing in July 2033

Domestic auctions

- ✓ Re-opening of bonds from 2026 up to 2033 maturity in total amount of EUR 1,095mn

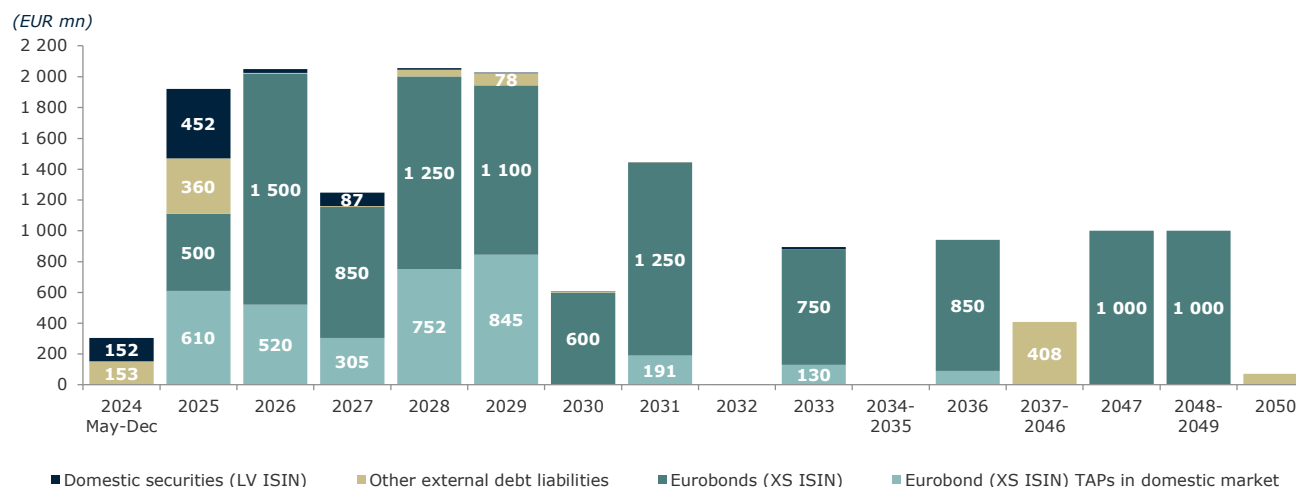
Savings Bonds

- ✓ Outstanding saving bonds reached EUR 253mn raised as of December 2023 across different maturities from 12 month up to 10Y

European Investment Bank

- ✓ Disbursement of EUR 200mn under EIB facility for co-financing EU fund projects

Debt redemption profile



Source: The Treasury, as of 30 April, 2024

Estimated central government borrowing volumes in 2023-2026 (including international and domestic market)

	Actual end-2023	Estimation 2024	Estimation 2025	Estimation 2026
Gross Borrowing volumes¹ (nominal amount)	3.65 bnEUR	3.0 bnEUR	3.6 bnEUR	3.1 bnEUR
Cash buffer	3.7 % of GDP	2.6 % of GDP	1.5 % of GDP	1.6 % of GDP

Note: 1. The estimated gross borrowing volume is indicative, subject to actual budget execution, macroeconomic situation and may change due to number of contingencies and external factors, as well as the further fiscal policy decisions

Source: The Treasury, May 2024

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