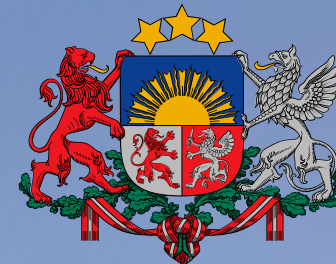
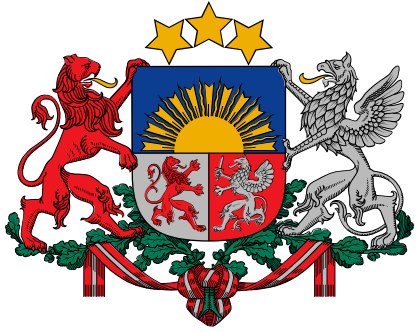


Republic of Latvia

Investor Presentation



<u>OVERVIEW AND KEY INVESTMENT HIGHLIGHTS.....</u>	<u>3</u>
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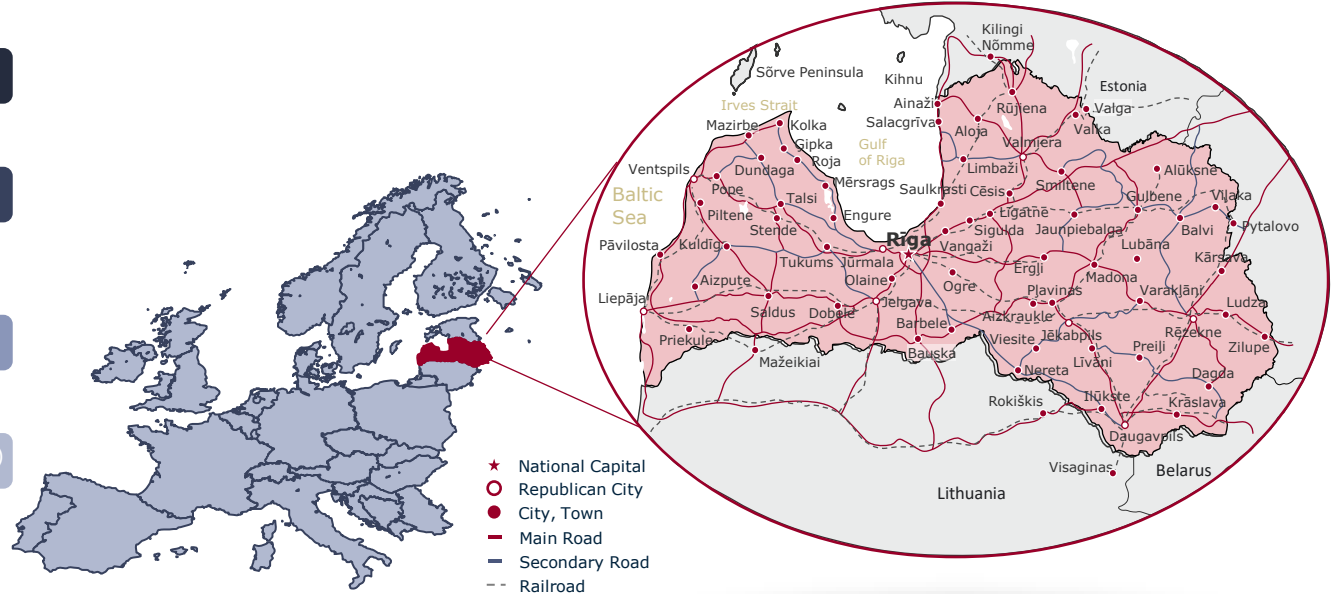
Overview and Key Investment Highlights



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

 Capital Riga	 Official Currency EUR
 Population 1.9mn ⁽¹⁾	 Government System Democratic republic with a multiparty political system
 Nominal GDP EUR 39.1 bn ⁽¹⁾	 GDP per Capita EUR 20,766 ⁽²⁾
 Credit ratings⁽³⁾ S&P: A Fitch: A- Moody's: A3 R&I: A	 Main Economic Sectors 2024 Q3⁽⁴⁾ ★ Wholesale, retail trade, transport, accommodation and food services (19.02%) ★ Industry (15.05%) ★ Public administration, defence, education, human health and social work activities (18.85%)



Milestones



Sources: (1) Central Statistics Bureau of Latvia data about 2023 on 28 December 2024; (2) data for 2023 Central Statistics Bureau of Latvia on 28 December 2024; (3) Rating Agencies as of September 2024 - S&P, Fitch, Moody's, R&I; (4) Central Statistic Bureau of Latvia data on 2024 Q3

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 on a track for a 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 and Latvia is back on track to respect fiscal rules as from 2023 onwards
- EU funds and RRF funds are supporting the Government reform agenda
- Defence spendings remain the main priority and increase in financing is budgeted



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



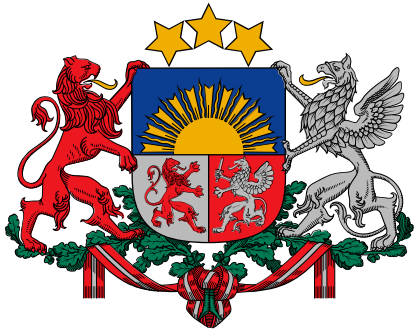
Energy/Military Security

- 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

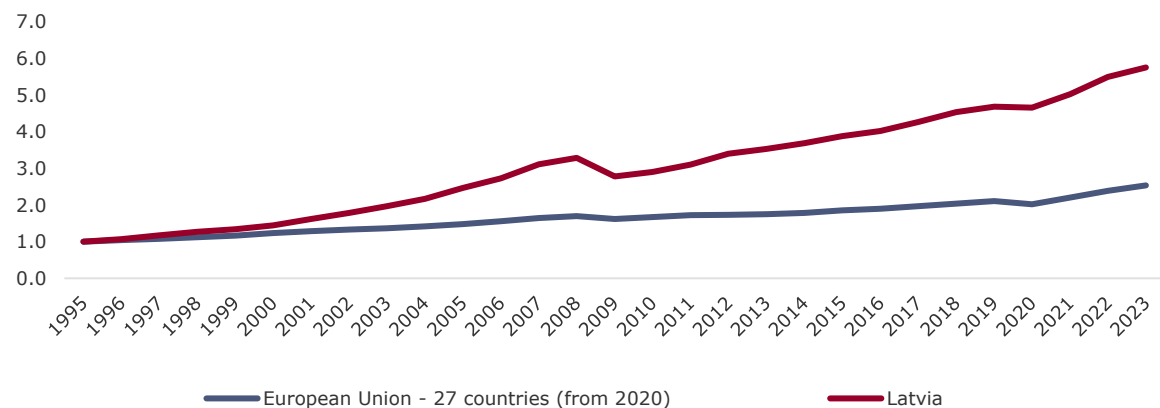


Latvia's Track Record of Prudent Fiscal Policy

Moderate deficit in years prior the twin crisis contributed to building fiscal buffer, no change in the course of fiscal policy

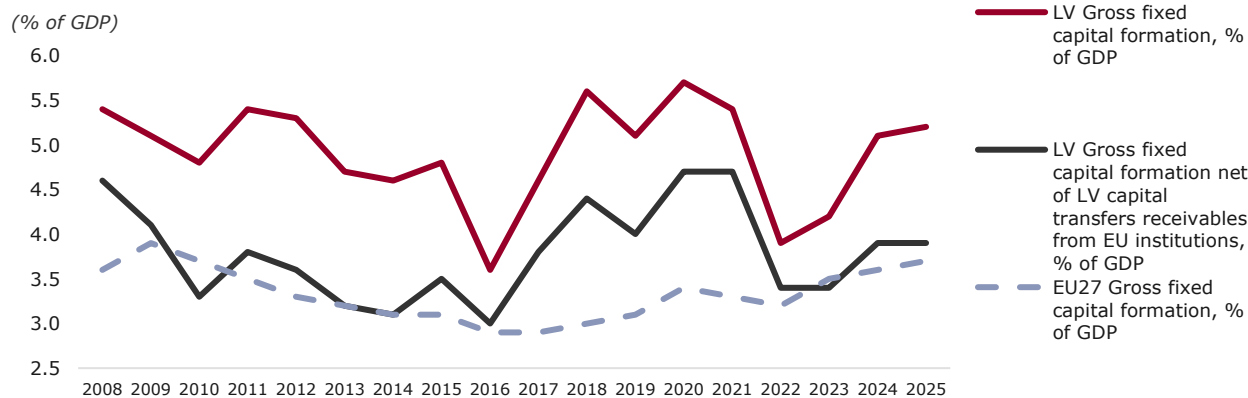
Increase of Latvia GDP per capita has been significant

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



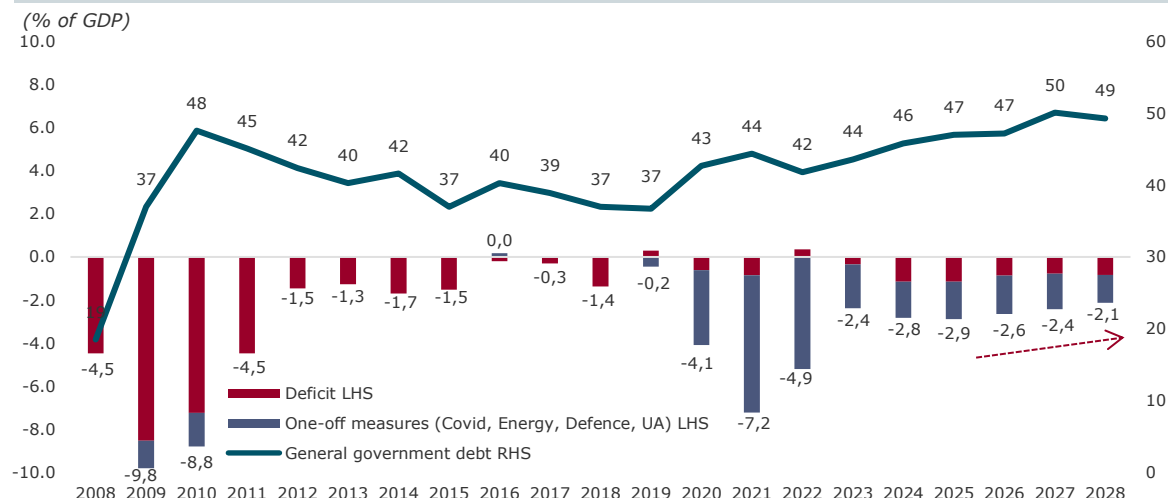
Source: Eurostat

High public investments will continue to support economic growth further



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 DBP 2025)

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



Source: Data 2019-2023 according to Eurostat; Deficit 2024 according to the Ministry of Finance forecast as on November 2024; Deficit forecast 2025-2028 and debt forecast 2024-2028 according to the approved budget 2025-2027 and Ministry of Finance forecasts (GDP forecast as of June 2024)








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

- Macroeconomic forecasts 2025-2028 for budgetary procedure 2025 were updated in June 2024.
- In October 2024 Latvia submitted **Fiscal structural plan 2025-2028** to European Commission and received **positive assessment**. In January 2025 European Council will endorse limits for primary expenditure growth that will be binding for the annual budgetary procedure for the following 4 years.
- The budget package 2025-2027 approved by the Parliament with a view to respect fiscal rules, ensure long-term sustainability of public debt and with an **objective to start deficit decline every year from 2026** (until it reaches 2.1% of GDP in 2028).
- **The defence spendings to address geopolitical circumstances remain the main priority**. Other pressing needs are covered through redistribution of available funding thus **stimulating more efficient use of funds**.
- The Budget 2025 package includes the **tax reform** that continues to reduce tax burden on labour to make it **competitive** with the other Baltic countries **and stimulate GDP growth**.

Continued Ambitious, Competitive, Growth-Friendly Investments

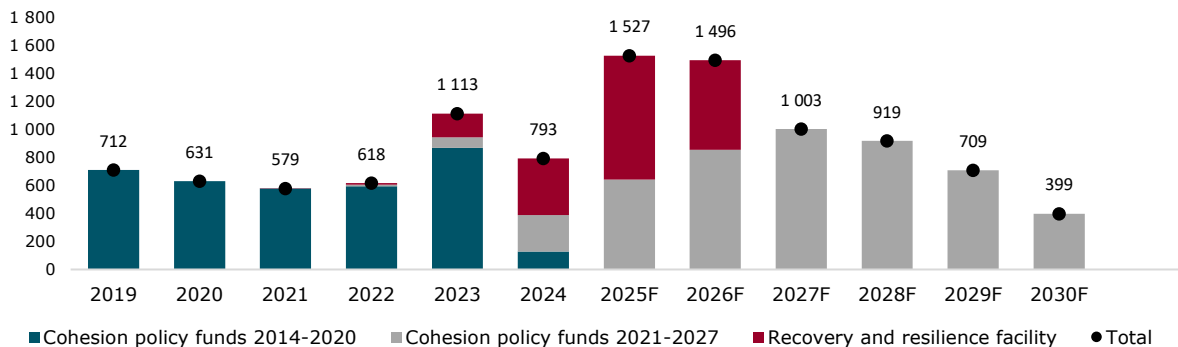
With the support of RRF and EU funds, investments will continue into specific reform measures to support long term sustainable growth

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

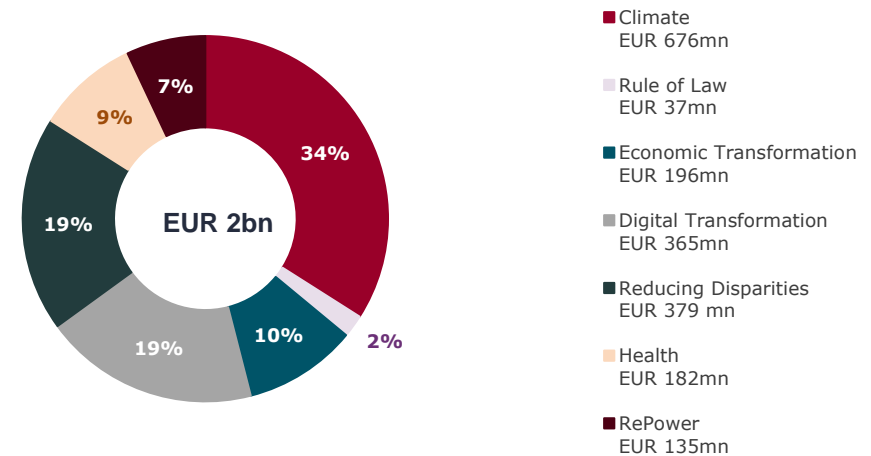
RRF and Cohesion Policy EU Funds investments for supporting reform agenda

Budget expenditure (EUR mn)

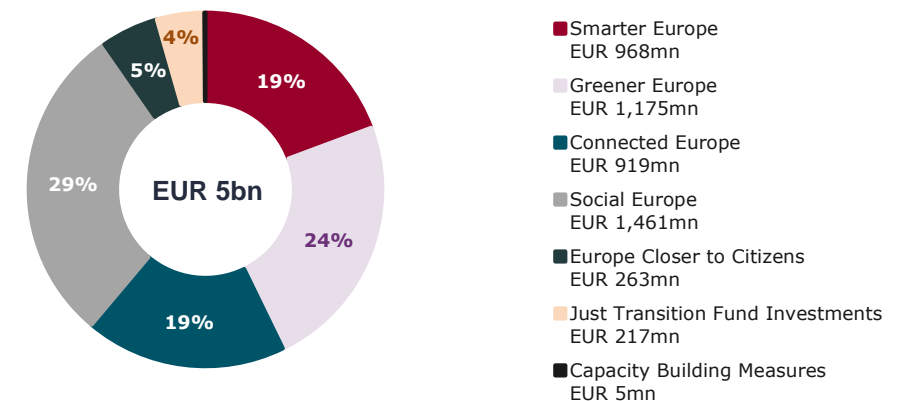


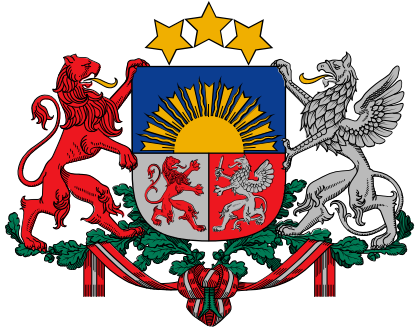
Recovery and Resilience plan (RRF)

(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

Real GDP (% change; n.s.a.), Nominal GDP (EUR bn)



Source: Central Statistical Bureau of Latvia after revision of September 30, 2024, F – Ministry of Finance June 2024 forecast

Unemployment has declined to pre-pandemic level

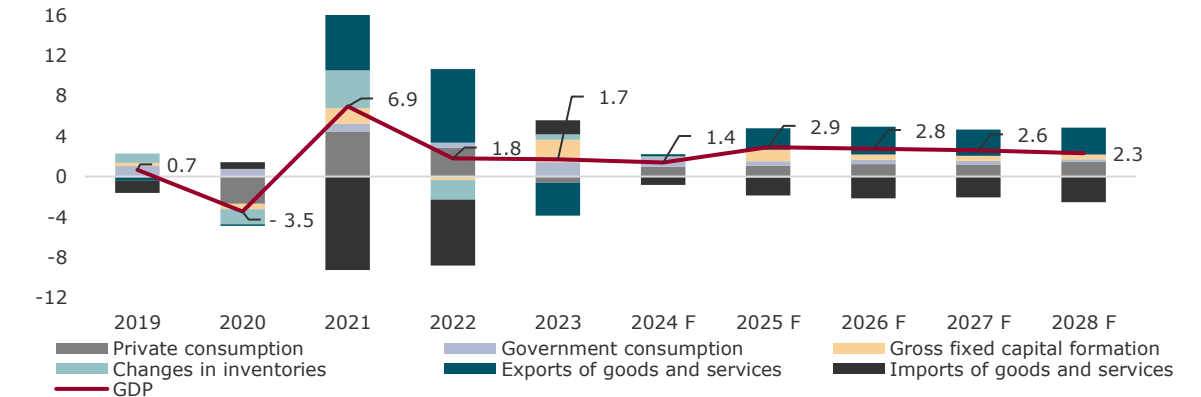
Job seekers rate (%; age group 15-74)



Source: Central Statistical Bureau of Latvia

Exports and Private Consumption have contributed to accelerated growth

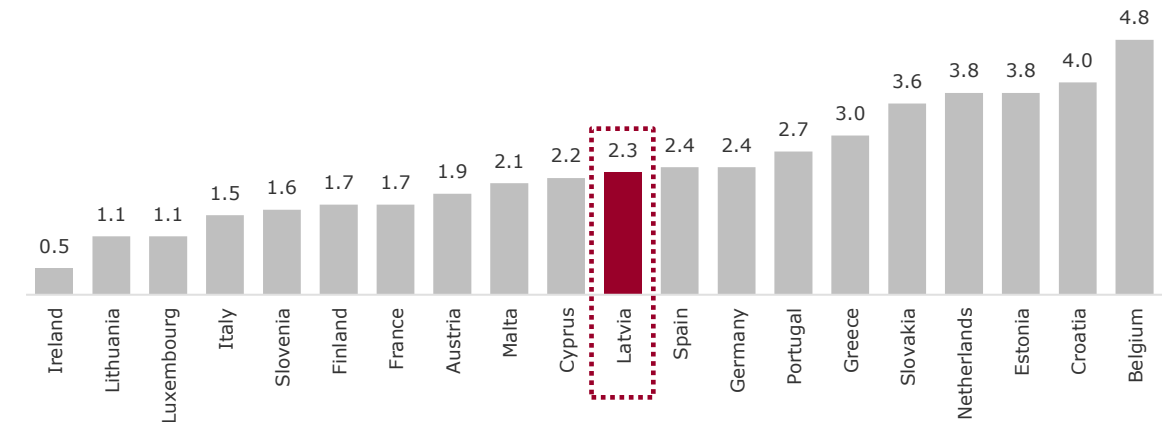
GDP by Expenditure (y-o-y; %; in real terms; n.s.a.)



Source: Central Statistical Bureau of Latvia after revision of September 30, 2024, F – Ministry of Finance June 2024 forecast

Inflation

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

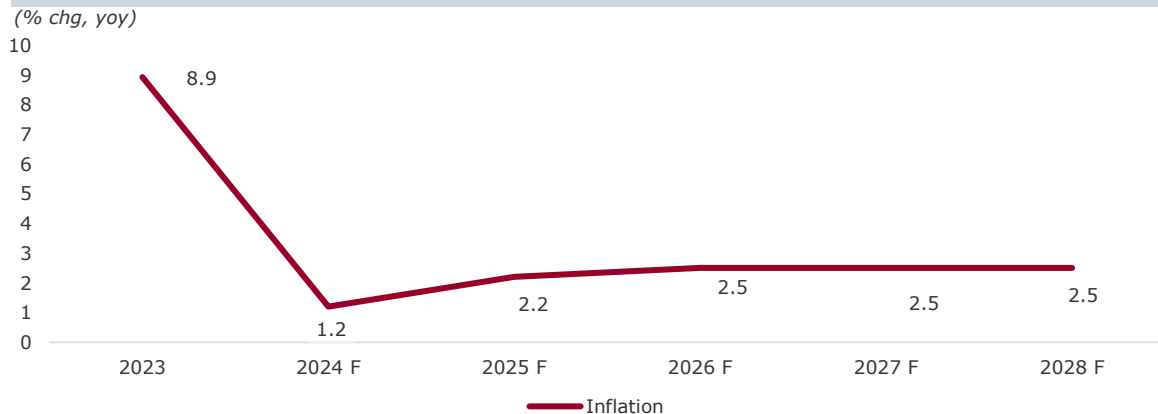


Source: Eurostat

Broad Based Decline of Inflation Reduces Pressures on Cost Competitiveness

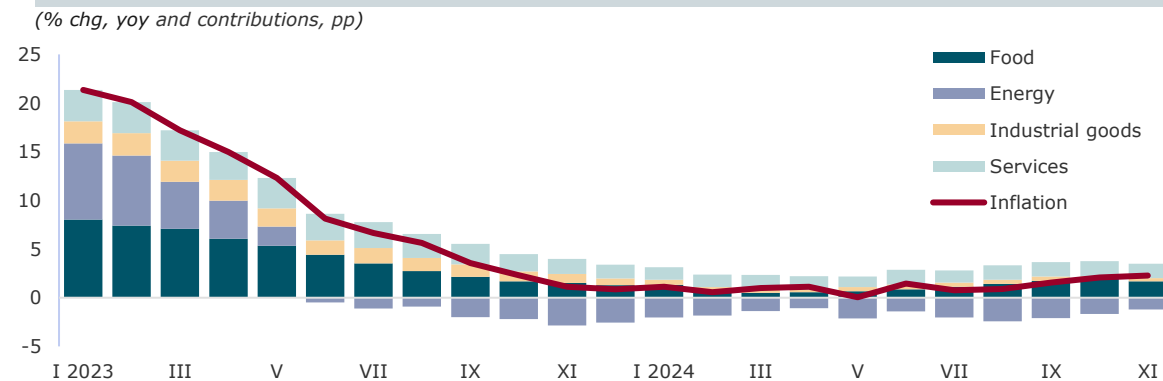
Inflation has receded quickly driven by restrictive monetary policy and a reduction in energy and food pressures, leaving no material harm on Latvia's cost competitiveness

Inflation and its forecast



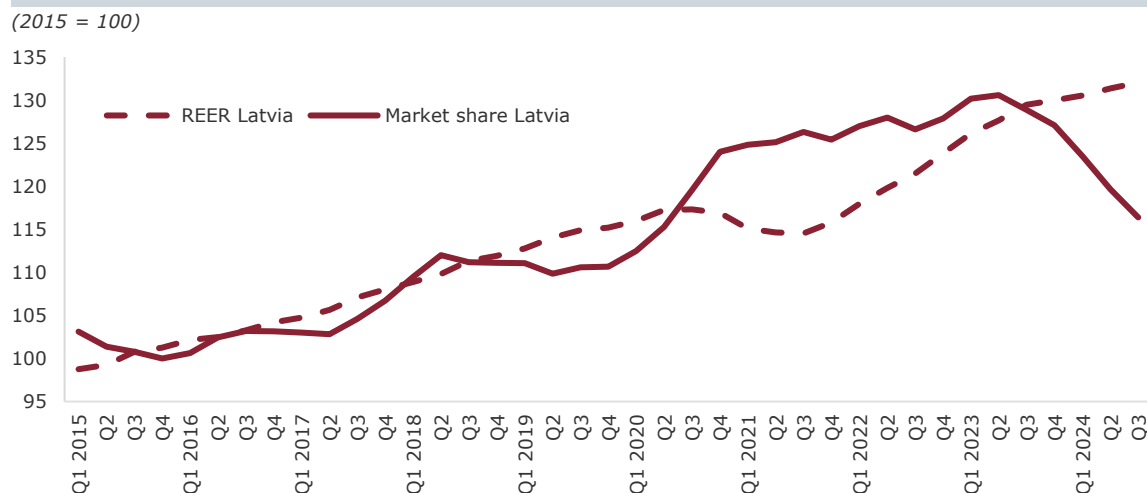
Source: Eurostat, F – Ministry of Finance Fiscal structural plan 2025-2028

Inflation and its contribution



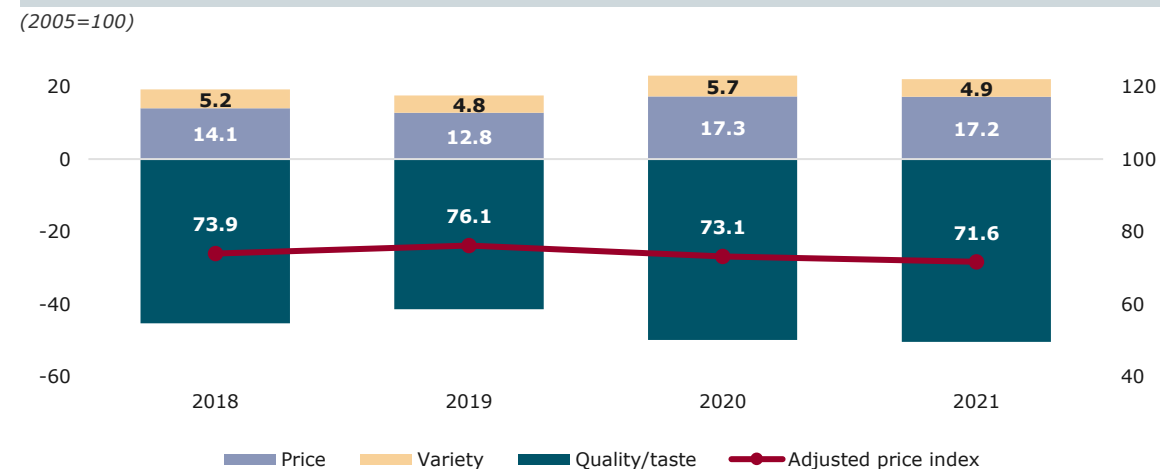
Source: Eurostat and Latvijas Banka calculations

REER deflated by unit labour costs and goods export market share in world imports



11 Source: European Commission, WTO

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

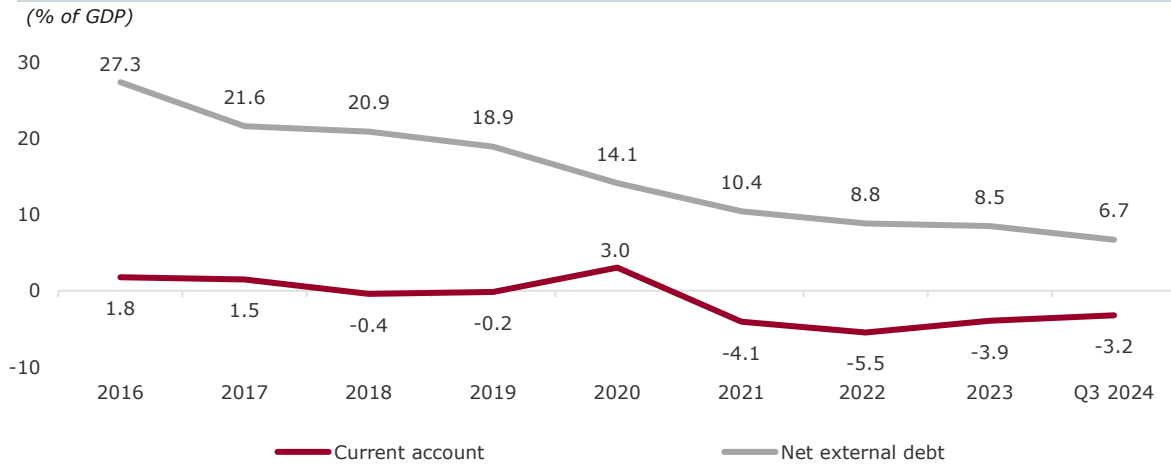


Source: UN Comtrade and Latvijas Banka calculations. More can be read here: Macroeconomic Developments Report September 2023 (latvijabanka.lv)

External Sector Risks Are Limited

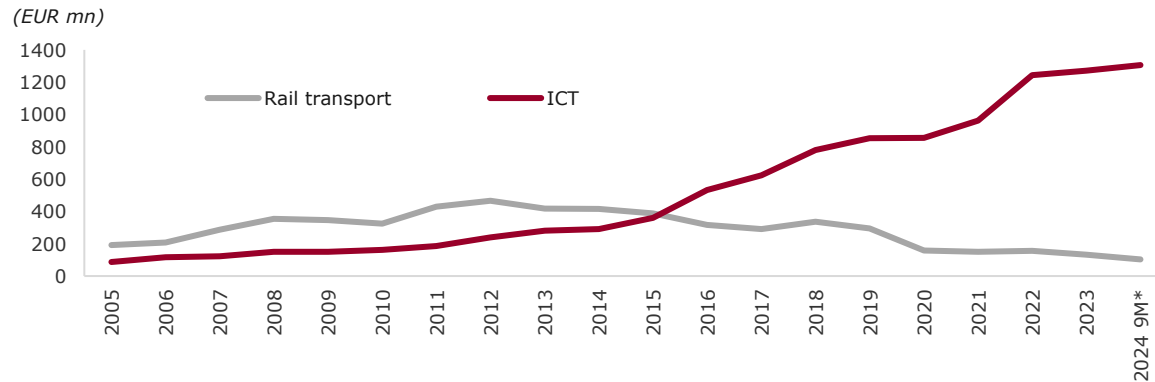
Small and manageable current account deficit, low net external debt, diversified and increasingly sophisticated export base, and stable funding flows render external sector risks rather limited

External sector indicators



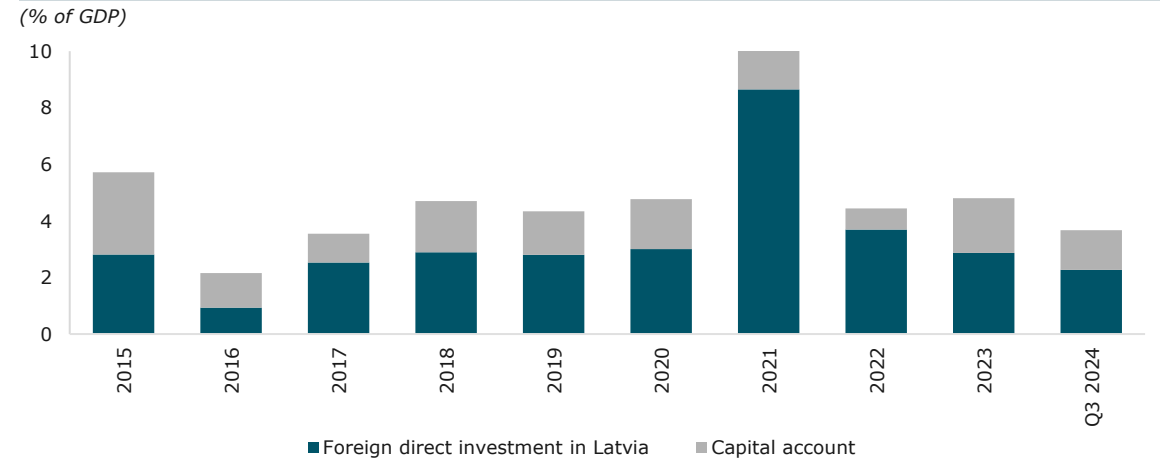
Source: Latvijas Banka

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



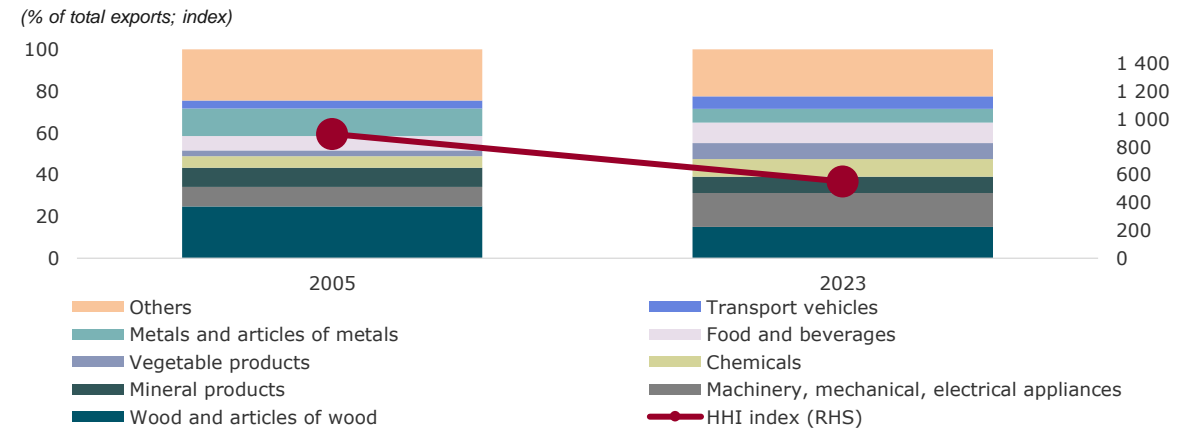
Source: Latvijas Banka
*12 months up to September 2024.

Investment inflows



Source: Latvijas Banka

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

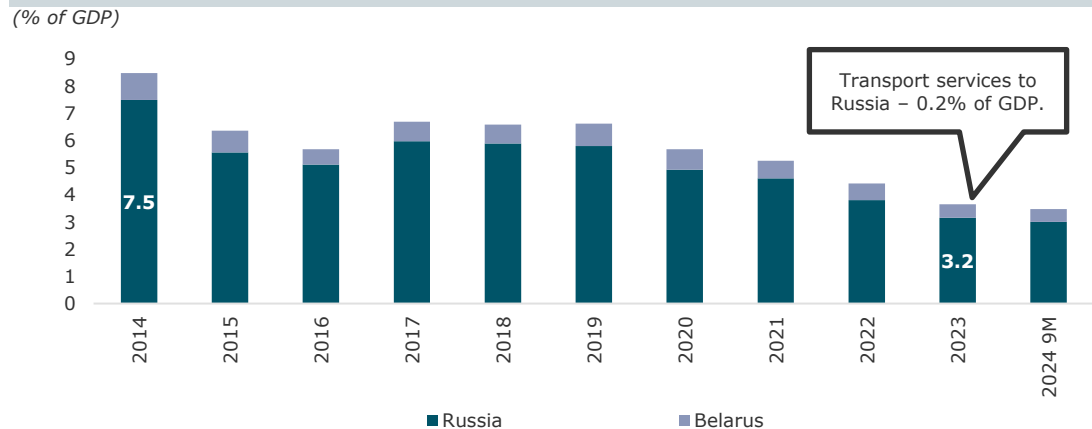


Source: Central Statistical Bureau of Latvia, Latvijas Bankas calculation

Trade Ties with Russia Have Weakened Substantially since 2014

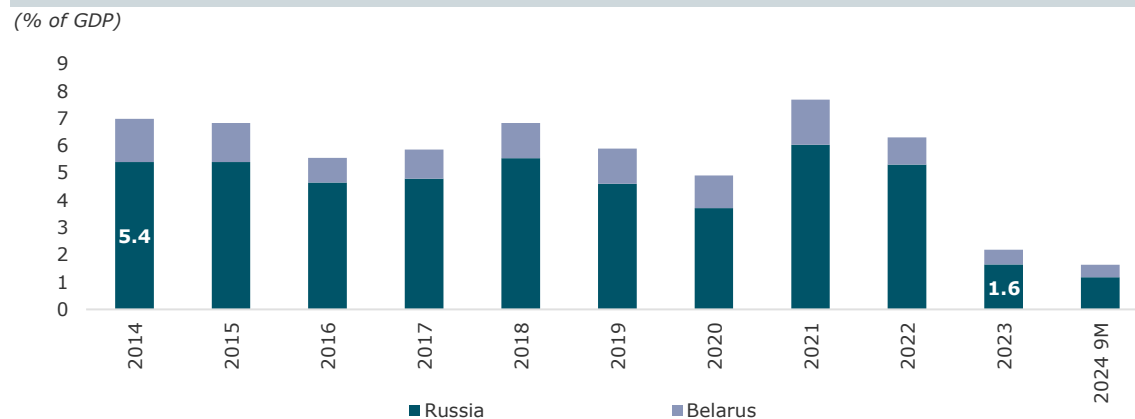
Supply chains related to imported materials have been successfully substituted. Large part of merchandise exports to Russia constitutes transit trade (beverages)

Exports of goods and services to Russia and Belarus



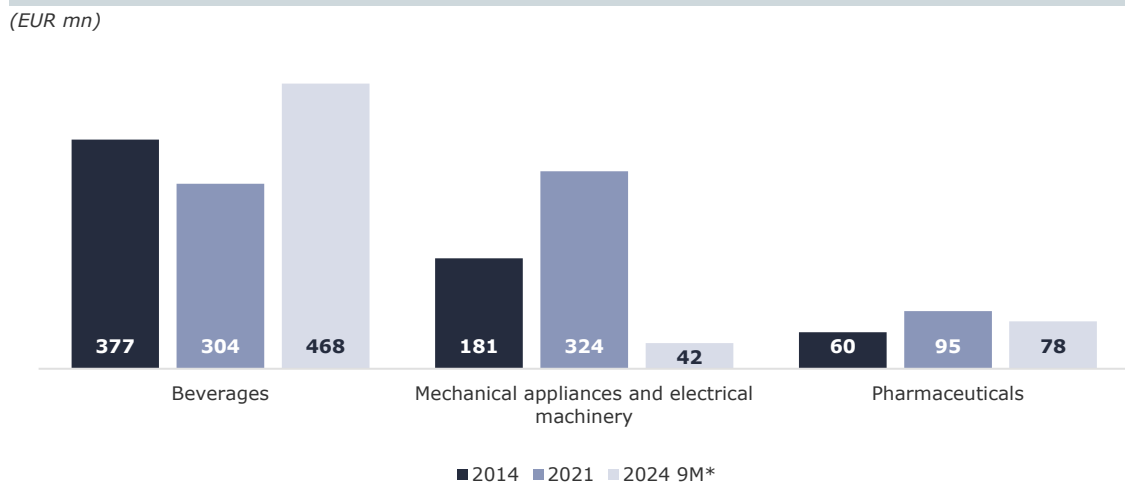
Source: Latvijas Banka and Central Statistical Bureau of Latvia

Imports of goods and services from Russia and Belarus

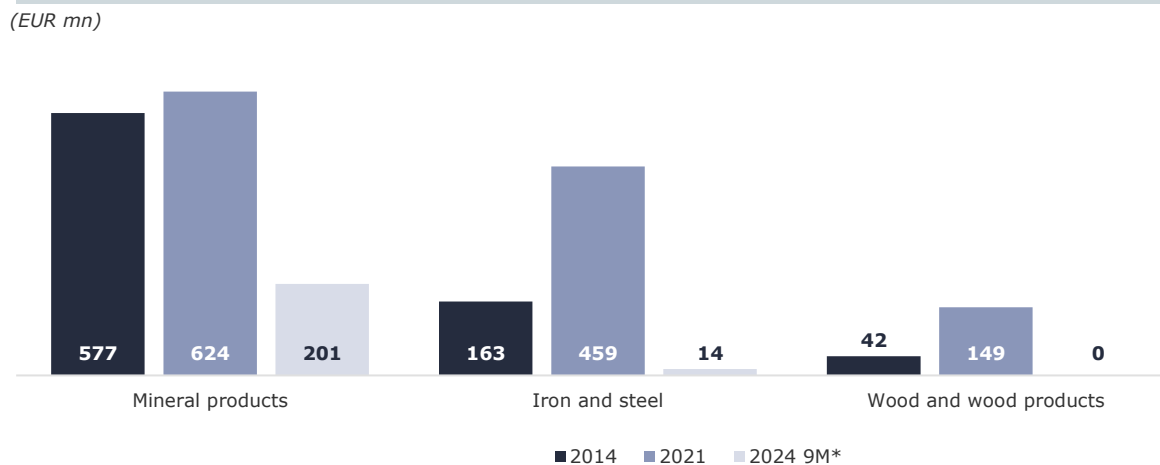


Source: Latvijas Banka and Central Statistical Bureau of Latvia

Exports of major product groups to Russia in 2014, 2021 and 2024



Imports of major product groups from Russia in 2014, 2021 and 2024

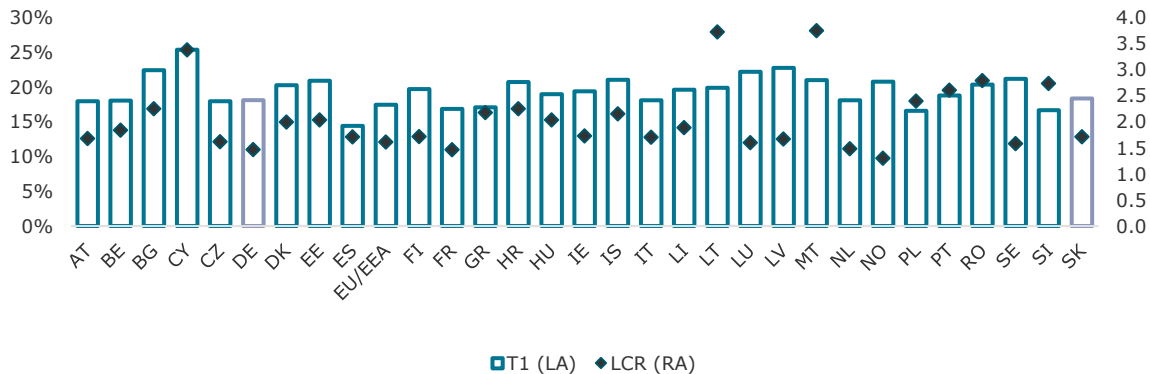


Source: Central Statistical Bureau of Latvia
*12 months up to September 2024

Well-Capitalized and Profitable Banking Sector

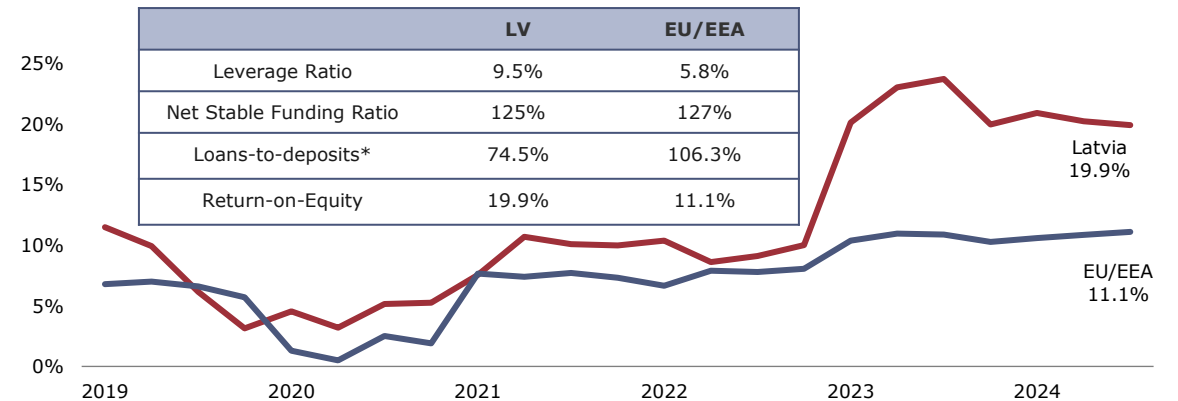
Prudent lending, ample capital buffers and low corporate and household debt provide strong shock absorption capacity

Total Tier 1 Capital Ratio and Liquidity Coverage Ratio



Source: European Banking Authority Risk Dashboard (Data as of Q3 2024).

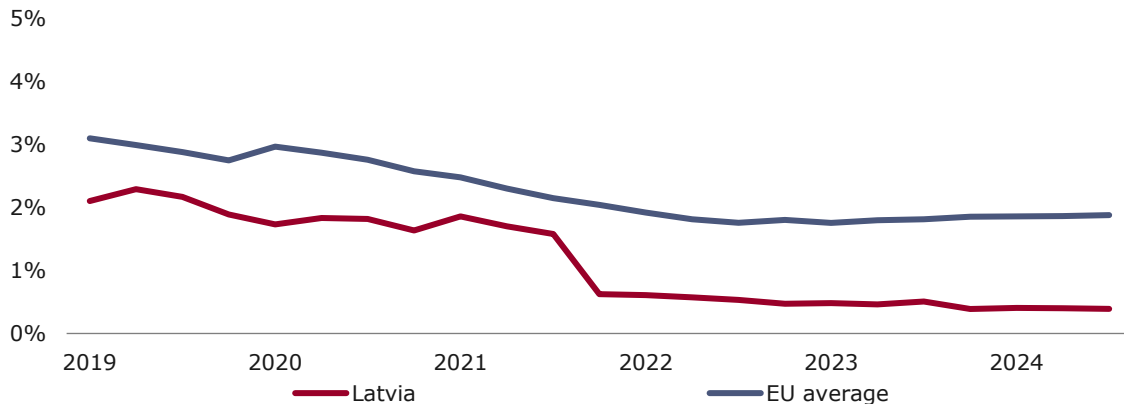
Return on Equity and additional indicators



Note: *for non-financial corporations and households.

Source: European Banking Authority Risk Dashboard (Data as of Q3 2024).

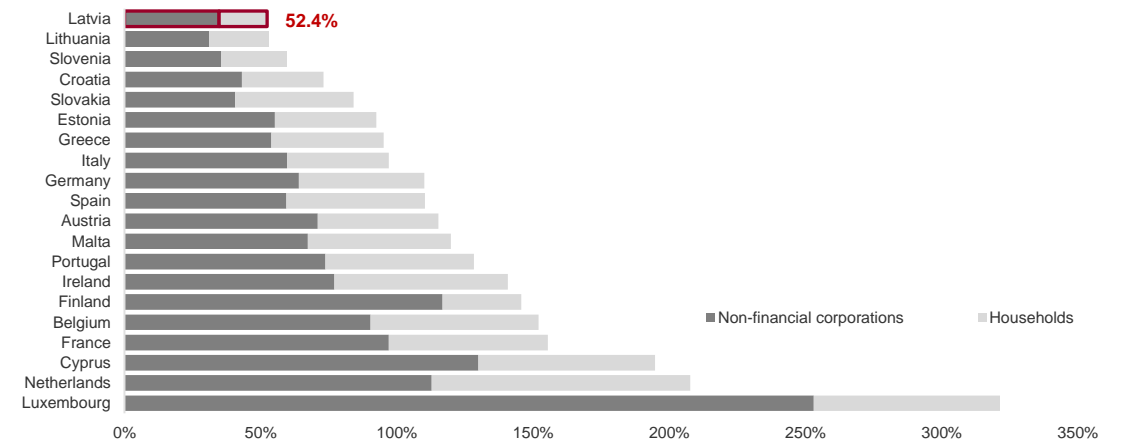
Share of NPLs in total loans



Source: European Banking Authority Risk Dashboard (Data as of Q3 2024).

Total debt*-to-GDP

Total consolidated debt vis-a-vis rest of the economy in 2024 Q1, (% of GDP)



Note: Total consolidated debt vis-a-vis rest of the economy in 2024 Q1

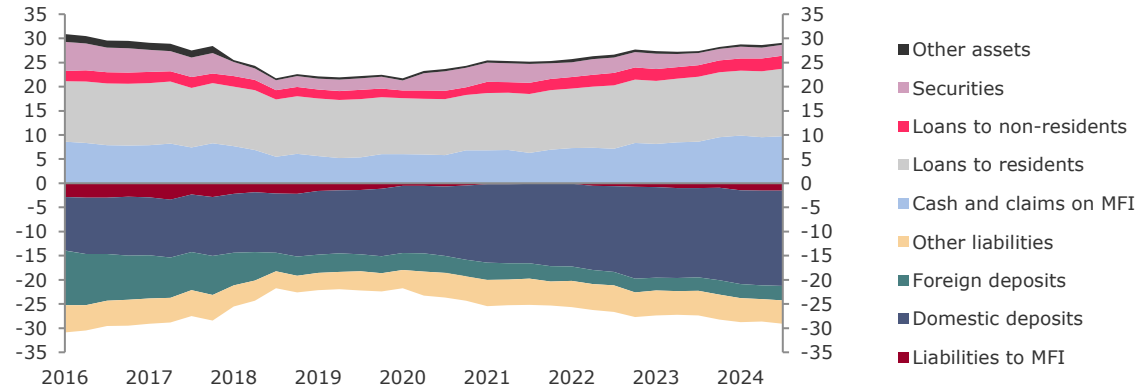
Source: ECB SDW

Domestic banking has outgrown once considerable foreign banking activities

Exposures to Russia or Belarus are low

Banking sector balance sheet

(EUR bn)



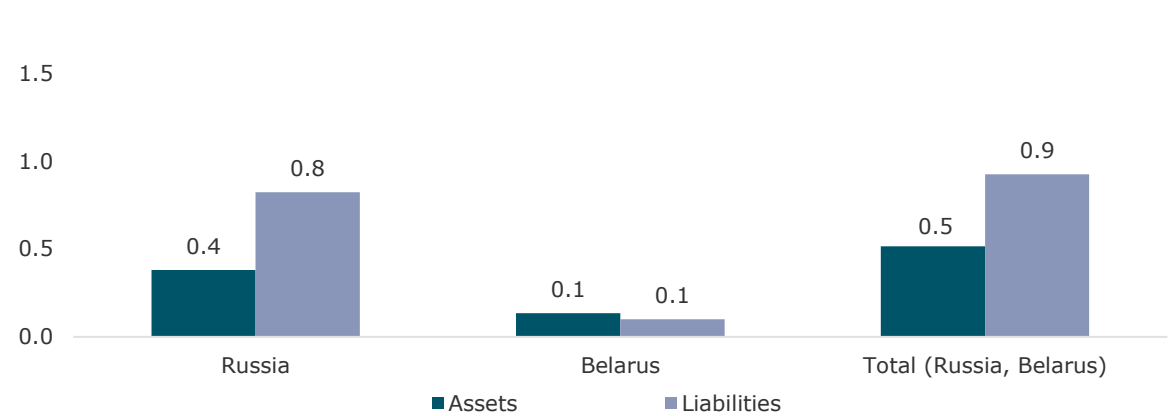
Source: Latvijas Banka, Latvijas Banka's calculations

Improvement in AML

- As noted in the IMF Article IV review 2023, Latvia has made significant progress with anti-money laundering and counter financing terrorism (AML/CFT) framework. The risk level of money laundering and terrorism and proliferation financing (ML/TPF) has decreased substantially at Latvia banks.
- Improved control system in financial institutions ensure that financial institutions are able to effectively manage the risk associated with the sanctions imposed against Russia and Belarus.
- 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.

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

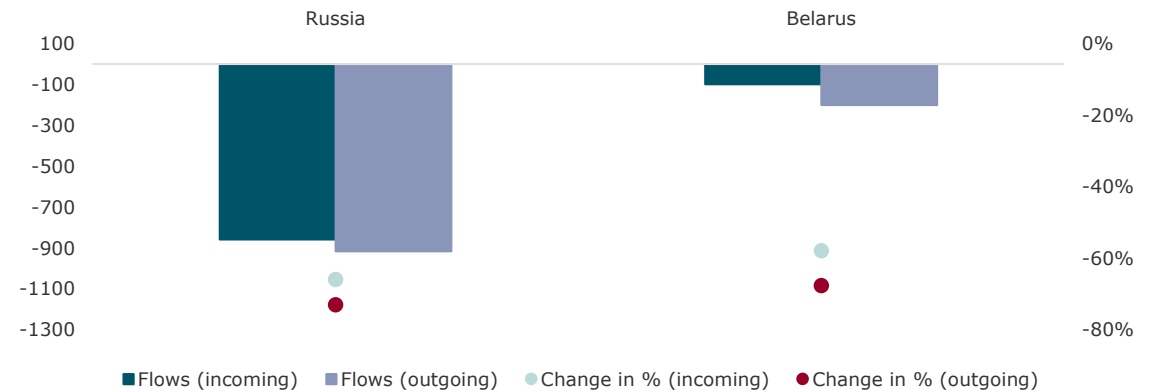
Banking sector exposure, % of total assets, March 2022



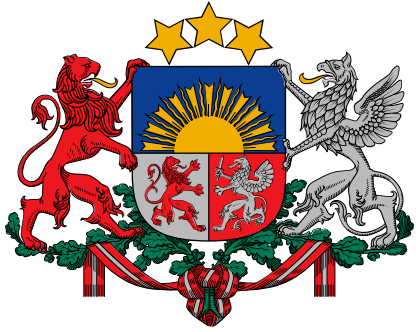
Source: Latvijas Banka FINANCIAL STABILITY REPORT 2022

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



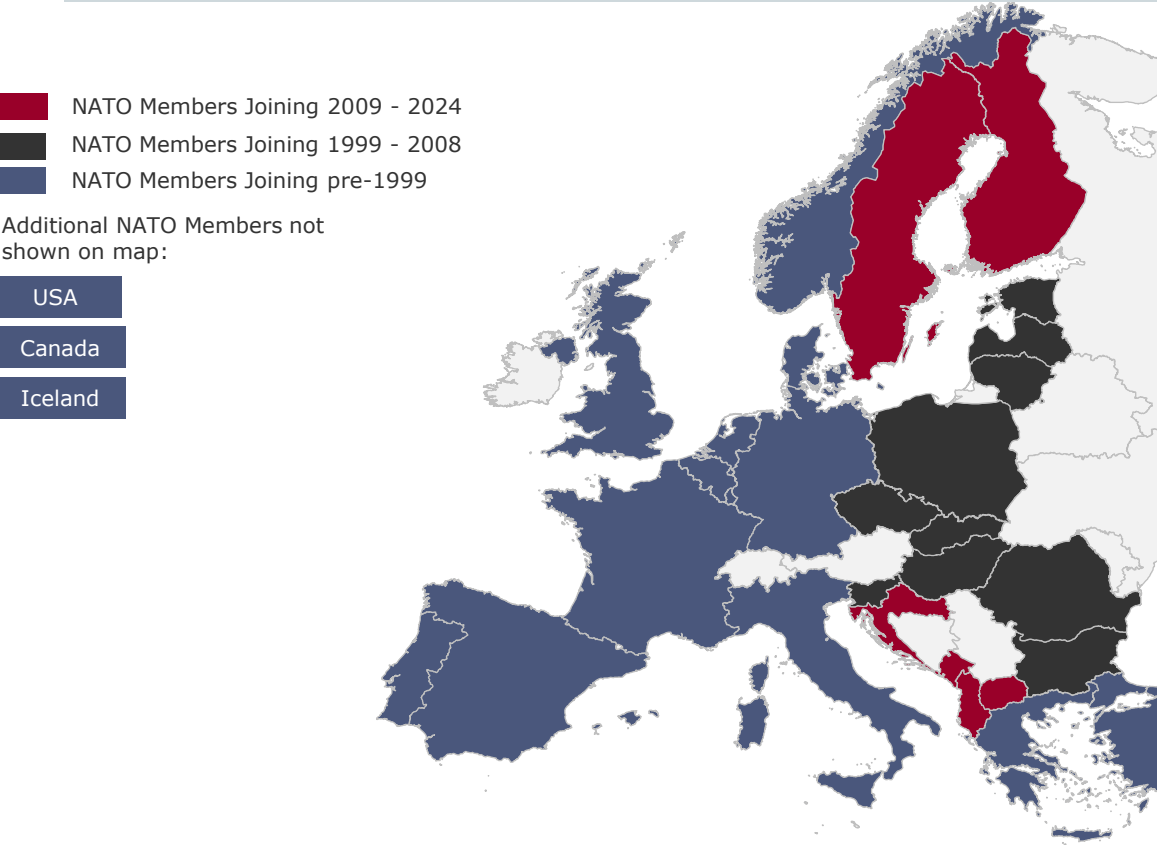
Security and Energy



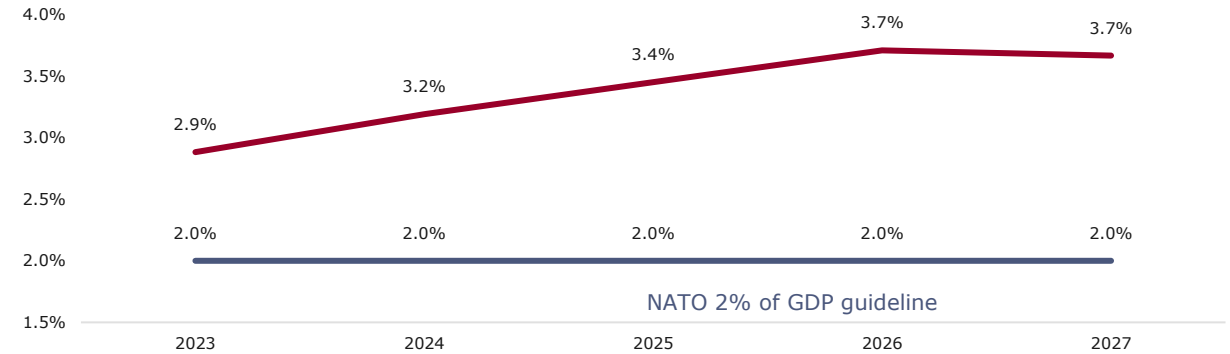
Latvia – Member of the World’s Strongest Military Alliance

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

Latvia is part of NATO’s Collective Defence



Defence spendings



Source: Overview of Defence Spending in 2025., Ministry of Defence

National and Allied contribution to Latvia’s security

Currently 17 NATO nations are represented in Latvia

- Developing NATO Multinational Brigade Latvia (led by Canada)
- Developing NATO Multinational Division “North” (Latvia and Denmark as Framework Nations)
- U.S. ensures the presence of rotational units
- Spain continuously deploys air defence systems

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

- Increasing firepower (long range artillery and coastal defence), mobility and overall readiness;
- Layered air defence to protect critical infrastructure and civilian population;
- Military strengthening of the Baltic Defence Line together with Estonia, Lithuania & Poland;
- Host Nation Support – development of infrastructure to accommodate the training needs of a growing number of Allied forces. Brigade-level military units will be able to conduct training in the Selonia military training range;
- Comprehensive State Defence – both the National Defence Service and National Defence subject promote civic awareness and capacity of citizens to participate in strengthening national defence.

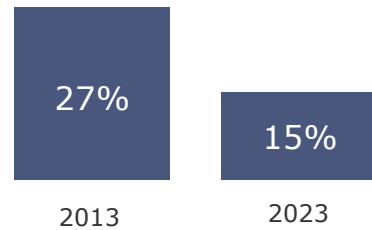
Latvia's Green Transition Enhancing National Energy Independence and Security

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

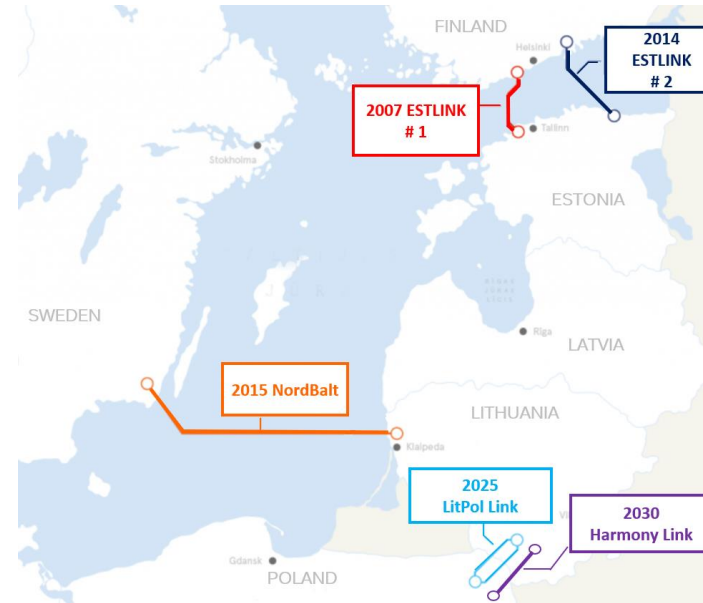


Natural gas in Energy Mix

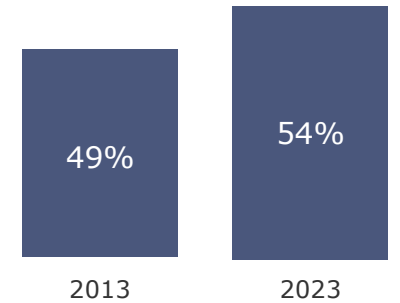


Source: Central Statistical Bureau

Synchronization of Baltics with European electric power networks in February 2025



Renewable energy sources in electricity



Source: Eurostat

Gas supply from Russia replaced with LNG Klaipeda (Lithuania)

Additional supply channels:

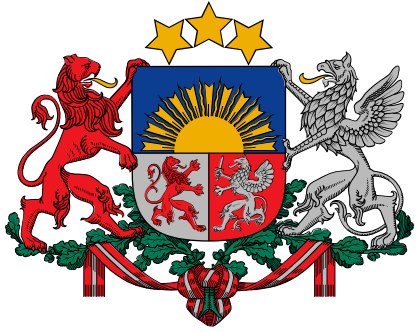
- The Gas Interconnection Poland-Lithuania (GIPL) gas pipeline
- A floating LNG terminal in Finland
- MoU with Estonia (Pakrineeme LNG terminal)

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

- Inčukalns UGS technical capacity for period 2024/2025 is 23.005 TWh, which serves the total Baltic region's annual needs and is fully booked. The storage is 75% full in December 2024.

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



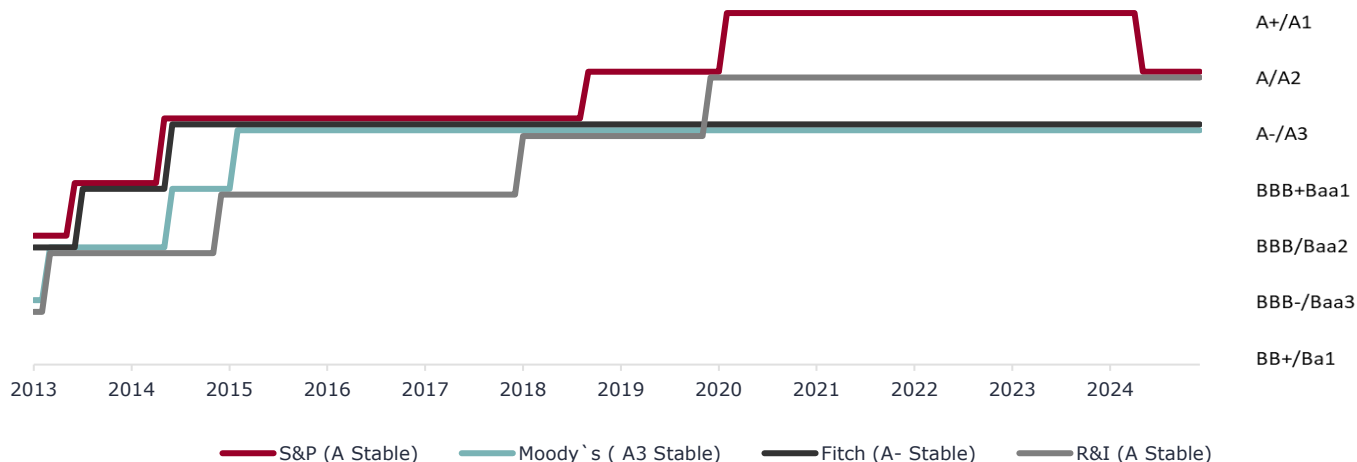
Debt Management



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- / Stable

On November 15, 2024, Fitch Ratings affirmed long-term foreign currency sovereign credit ratings at the A- level and changed outlook from Positive to Stable (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 July 26, 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 / Stable

On December 2, 2024, S&P Global provided an update about Latvia's credit strength, rating level - A Stable (did not contained rating action)

Credit Strengths:

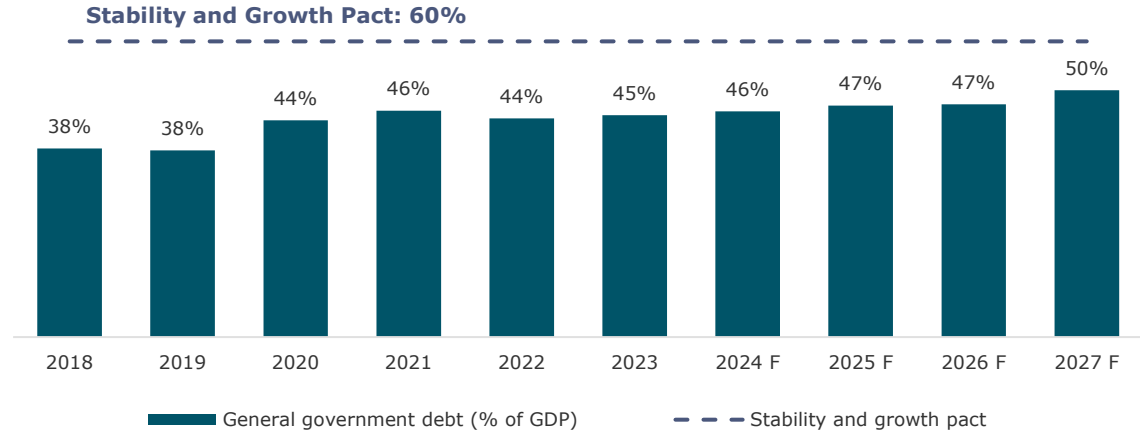
- Effective economic policymaking and Eurozone, EU and NATO membership
- Moderate government debt
- Solid external balance sheet

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

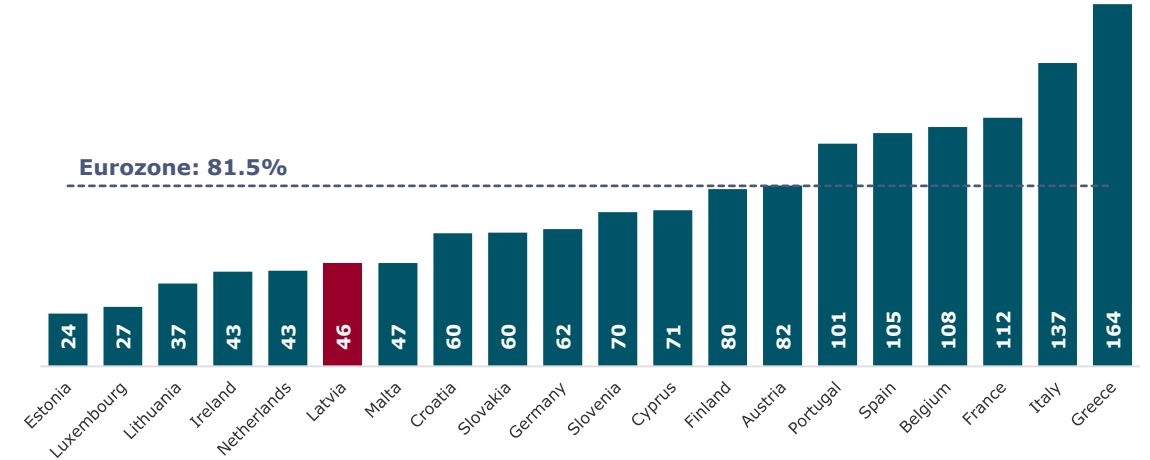
General Government Debt (% of GDP)



Source: Eurostat for data till 2023; F – Budget and medium-term budget framework law 2025-2027 (GDP forecast as on June 2024)

One of the lowest general government debt levels in the Eurozone

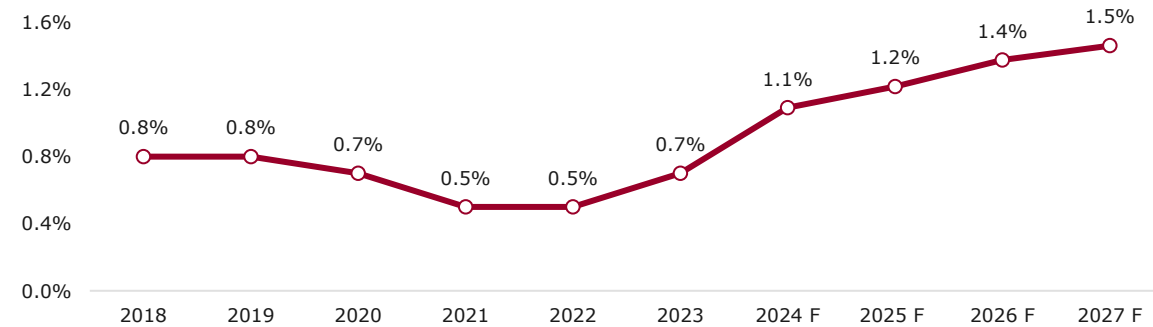
General Government Debt (% of GDP), 2024 Q2



Source: Eurostat

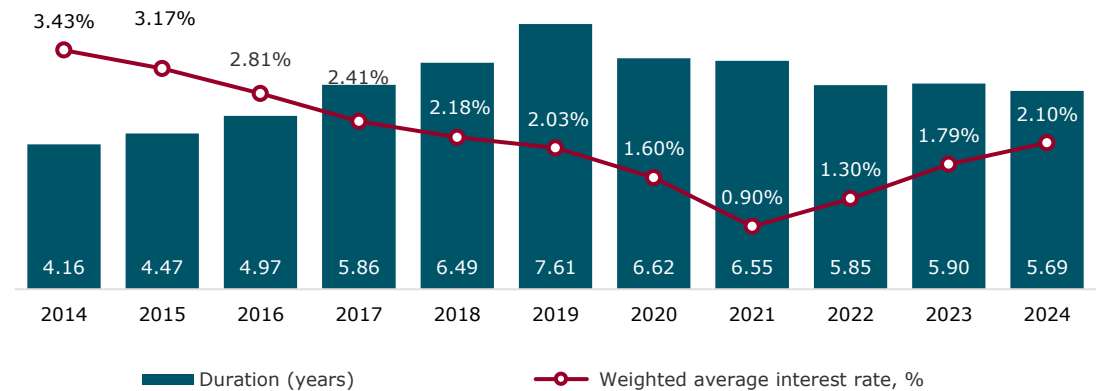
Moderate increase of debt servicing costs in the medium term

General Government Interest Payments (% of GDP)



Source: Eurostat, F – Budget and medium-term budget framework law 2025-2027 (GDP forecast as on June 2024)

Large proportion of fixed rate debt in the portfolio



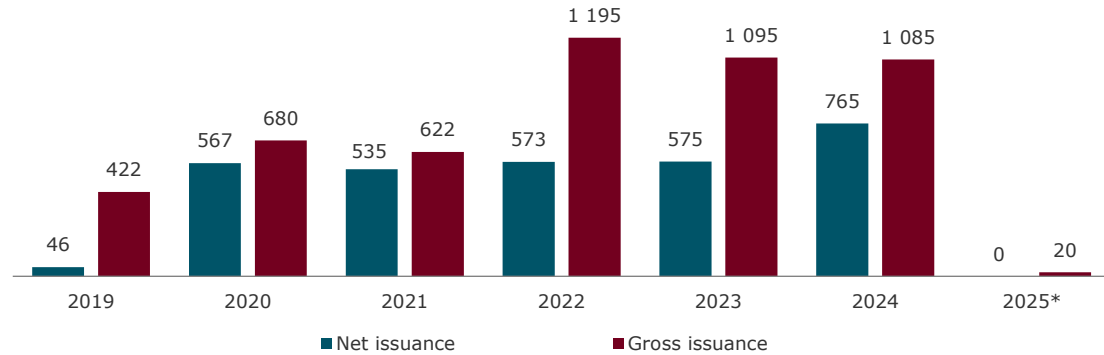
Source: Treasury, Data as of January 2025

Demand in the Auctions via Primary Dealer system 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

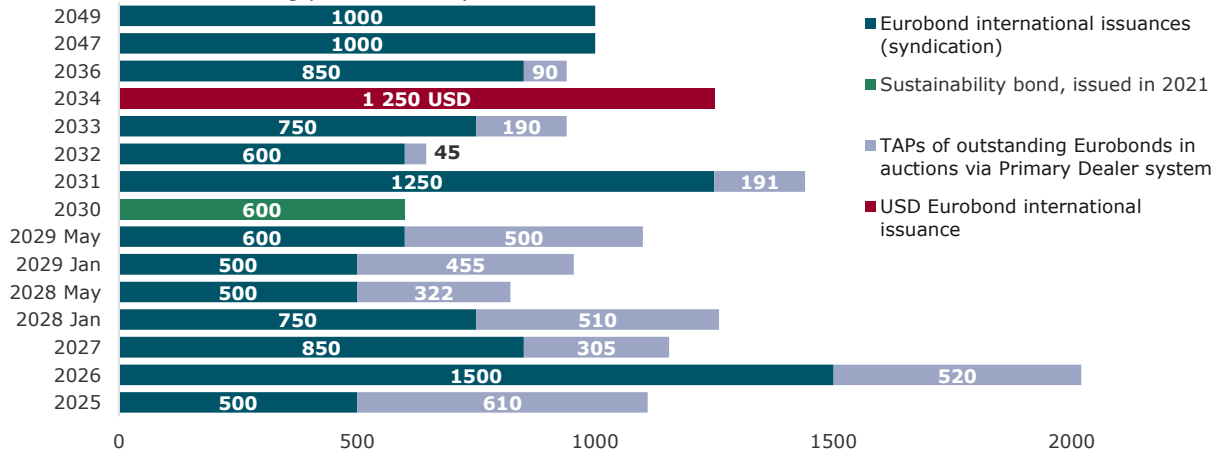
(EUR mn)



Source: *The Treasury as of 10 January 2025

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

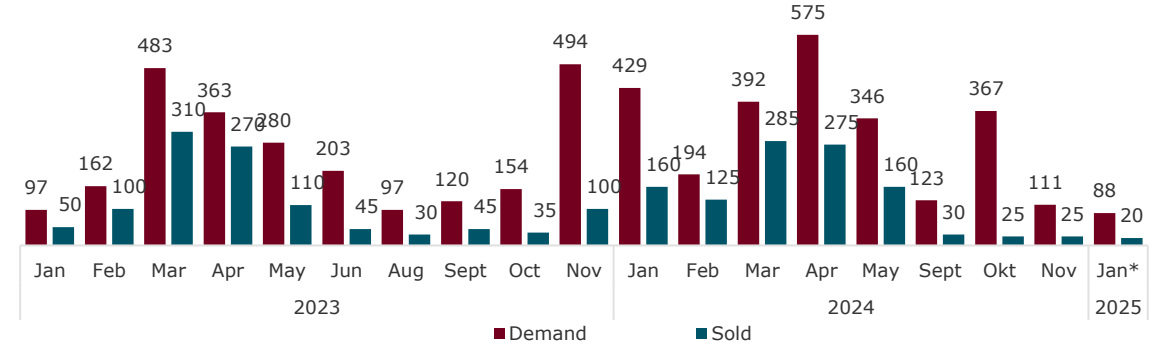
Latvia Eurobonds Outstanding (EUR or USD mn)



Source: *The Treasury as of 10 January 2025

Demand in Eurobond TAP auctions remains high and supportive

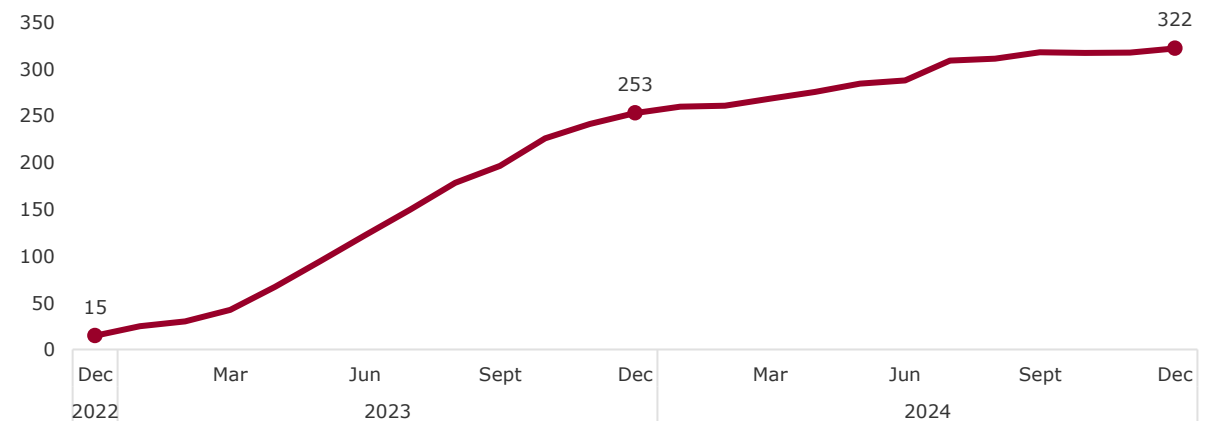
(EUR mn)



Source: *The Treasury as of 10 January 2025

Savings Bonds: record demand from retail investors in 2023

(EUR mn)



Source: The Treasury as of 31 December 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 2024

International capital market syndications 2 transactions

- ✓ USD 1,250mn bond maturing in July 2034
- ✓ EUR 600mn bond maturing in January 2032

Domestic auctions

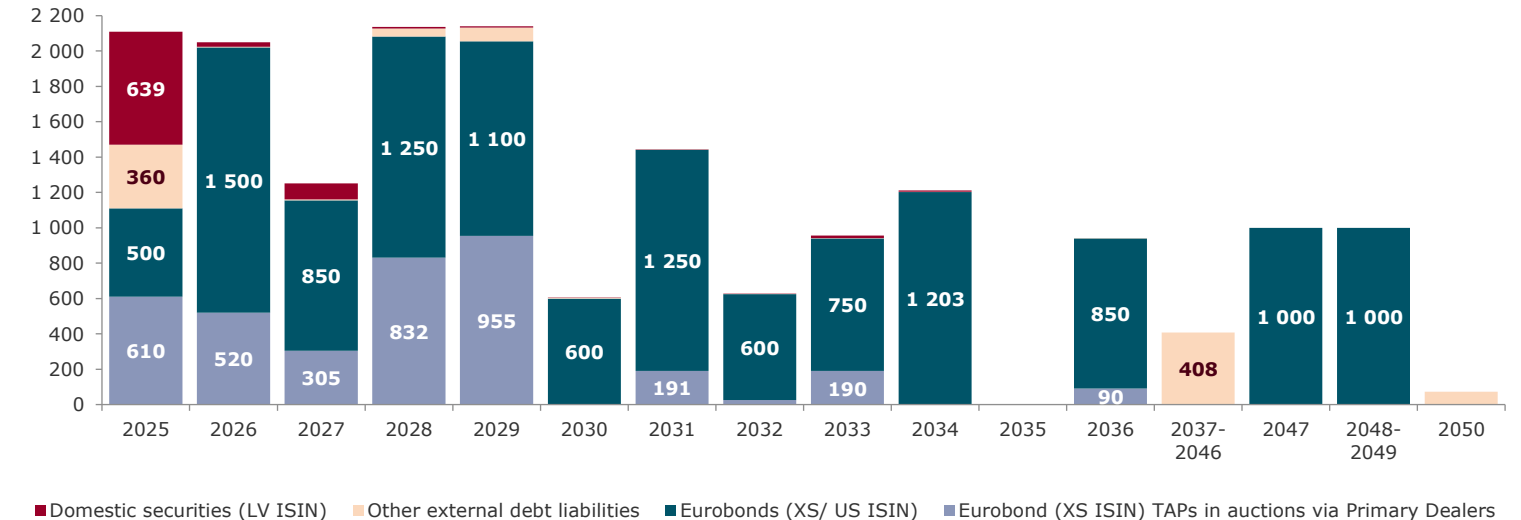
- ✓ Re-opening of bonds from March 2027 up to May 2036 maturity in total amount of EUR 1,085mn

Savings Bonds

- ✓ Outstanding savings bonds reached EUR 322 mn at the end of 2024 across different maturities from 6 month up to 10Y

Debt redemption profile*

(EUR mn)



*excluding financial derivatives

Source: The Treasury, as of 31 December 2024

Estimated central government borrowing volumes in 2024-2027

	Actual 2024	Estimation 2025	Estimation 2026	Estimation 2027
Gross Borrowing volumes¹ (nominal amount)	EUR 3.1 bn	EUR 3.6 bn	EUR 3.3 bn	EUR 3.9 bn
Cash buffer	5.0 % of GDP	4.5 % of GDP	4.2 % of GDP	6.5 % 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, January 2025 (estimation using GDP forecast as on June 2024)

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