INFORMATION STATEMENT

Dated 20 May 2024

REPUBLIC OF LATVIA,
ACTING THROUGH THE TREASURY

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

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

This Information Statement will be updated from time to time by Latvia. Statistical data appearing in this Information Statement has, unless otherwise stated, been obtained from the Central Statistical Bureau of Latvia (the "**Central Statistical Bureau**"), the Ministry of Finance, Latvijas Banka (the "**Latvian Central Bank**") and the Treasury and is made on the authority of a public official document or statement. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Certain statistical information relating to 2023 and any period within 2024 should be treated as preliminary and statistical information for these and prior years may be subject to future adjustment. See "*Risk Factors—Risk Factors Relating to Latvia—Official economic data may not be accurate or comparable with data produced by other sources and could be revised which may adversely affect the Latvian economy and Latvia's ability to repay principal and make payments of interest on the Notes*". Unless otherwise stated, all annual information, including budgetary information, is based on calendar years.

Latvia publishes statistical information on a regular basis and such statistical information can be found on the websites of the Central Statistical Bureau (www.csp.gov.lv), the Ministry of Finance (www.fm.gov.lv), the Latvian Central Bank (www.bank.lv) the Treasury (www.kase.gov.lv), among other sources. Statistical information in this document is presented up to 31 December 2023 or, where later information is available, up to 15 May 2024. Reflecting the frequency with which certain statistical data is published by the bodies listed above, any person reading this Information Statement is advised to check their websites for any statistical information which may supersede information contained in this Information Statement.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PRESENTATION OF INFORMATION

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

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

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

GENERAL INFORMATION

Under the Law on Budget and Financial Management adopted on 24 March 1994, the Regulations of the Treasury of the Republic of Latvia No. 677 issued by the Cabinet of Ministers on 3 August 2004 and the Order of Ministry of Finance of the Republic of Latvia No.317 dated 21 August 2020 "On Authorisation to the Treasury and the Signatory Authority", the Treasury, on behalf of the Republic of Latvia, is entitled to borrow money, provided that such borrowing is in line with the Central Government Debt and Cash Management Strategy and the Funding Plan approved by the Minister of Finance. In addition, each Law on the State Budget for the Current Year and on the Medium-term Budget Framework sets a total debt ceiling which must not be exceeded at 31 December of the year to which the relevant Law on the State Budget for the Current Year and on the Medium-term Budget Framework applies. In 2024, the central Government debt ceiling was set at an amount of €19.30 billion (at nominal value, including derivatives attributed to external debt). Copies (and certified English translations where the documents in question are not in English) of each of the authorisation documents referred to above (except for the Central Government Debt and Cash Management Strategy and the Funding Plan) may be obtained during normal business hours at the offices of the Listing Agent in Luxembourg.

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

The Republic is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of Notes under the Programme nor, so far as the Republic is aware, is any such litigation or arbitration pending or threatened.

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SUMMARY

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

THE REPUBLIC OF LATVIA

Geography and Population

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

As at 1 January 2023, the total population of Latvia was 1,883,008. Since 2000, the total population has decreased by 498,707 persons, or 20.9 per cent. of the population in early 2000, principally as a result of ageing, a low birth rate and emigration. The highest population concentration is in Riga. As at 1 January 2023, 860,142 people resided there, representing 45.7 per cent. of the total population.

Government Structure

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

The fourteenth Saeima was elected in October 2022.

The following table shows the name of each parliamentary group, and the number of seats held by them as on the date of this Information Statement, in the fourteenth Saeima:

Name of parliamentary group	**Number of seats**
THE NEW UNITY	25
Union of Greens and Farmers parliamentary group	16
"THE UNITED LIST – Latvian Green Party, Latvian Regional Alliance, Liepāja Party" parliamentary group	14
National Alliance parliamentary group	12
Stability! parliamentary group	10
PROGRESSIVES parliamentary group	10
LATVIA FIRST parliamentary group	8
Unaffiliated members of parliament(1)	5
Total	**100**

Source: The Saeima

Note:

(1) Of the five unaffiliated members of parliament, one used to be a member of "THE UNITED LIST – Latvian Green Party, Latvian Regional Alliance, Liepāja Party" parliamentary group, one used to be a member of "Stability! parliamentary group", one used to be a member of "National Alliance parliamentary group", one used to be a member of "THE NEW UNITY" and one used to be a member of "LATVIA FIRST parliamentary group".

The Saeima is entitled to elect, appoint, approve or dismiss a range of state officials and also elects the president of Latvia (the "**President**") for a term of four years. The current President is Edgars Rinkēvičs, who was elected on 31 May 2023 and took office on 8 July 2023. The next Presidential elections are scheduled to take place in June 2027. The current Prime Minister of Latvia ("**Prime Minister**") is Evika Siliņa. Her appointment was approved by the fourteenth Saeima in September 2023.

International Relations

Latvia is a member state of the United Nations ("**UN**"), the International Monetary Fund (the "**IMF**"), the World Trade Organisation (the "**WTO**"), the Council of Europe, the Organization for Security and Cooperation in Europe ("**OSCE**"), the Council of Baltic Sea States ("**CBSS**"), the European Union ("**EU**"**),** the North Atlantic Treaty Organisation ("**NATO**") and the Council of the Organisation for Economic Cooperation and Development (the "**OECD**").

Active membership in international organisations is a way of recognising the importance of multilateralism in the international rules-based order and it enables Latvia to meet new challenges and to contribute to the resolution of specific problems, while promoting national interests.

GDP

Stable economic growth in Latvia with rates exceeding the EU average was prevalent until the COVID-19 ("**COVID-19**") pandemic. For example, from 2013 to 2019, GDP grew by 2.9 per cent. per year on average. The COVID-19 pandemic had a significant impact on economic development on a global scale, including in Latvia. For example, GDP shrank by 3.5 per cent. in Latvia in 2020. The extensive government and EU funds support measures, as well as the improvement of the epidemiological situation in 2021, contributed to the recovery of Latvia's economy, and GDP grew by 6.7 per cent. After the rapid recovery of the economy from the crisis of the COVID-19 pandemic in 2021, growth in Latvia slowed to 3 per cent. in 2022, largely driven by the supply chain disruptions as a result of the Russia-Ukraine war and heightened inflation caused by the cost of energy and food, as well as a decline in global demand due to uncertainty, increased prices and growing bank interest rates. Unfavourable conditions in the external environment and weak demand in the main target markets negatively affected Latvia's export indicators. In addition, high inflation had a negative impact on household consumption and the real income of the population. Furthermore, geopolitical conditions in the region (such as the Russia-Ukraine war) and weak lending reduced investment. Overall, in 2023, GDP decreased by 0.3 per cent.

Inflation

Inflation (measured in terms of changes in the harmonised consumer price index (the "**HICP**")) was stable in 2019. Accordingly, the annual average inflation rate for 2019 was 2.7 per cent. Inflation was particularly low in 2020, with an annual average inflation rate of 0.1 per cent. The inflation rate was driven by declining demand due to the measures introduced to curb the spread of the COVID-19 pandemic. As the impact of the COVID-19 pandemic on the economy receded and the economy started to recover earlier in 2021, consumer prices were stabilising, and the annual average inflation rate in 2021 was 3.2 per cent. In 2022, there was a very sharp rise in prices with annual average inflation rate of 17.2 per cent. This was caused by the increase in global energy and food prices exacerbated by Russia's invasion of Ukraine and the subsequent sanctions, which caused a turmoil in the markets of energy, food and raw materials for manufacturing. In 2023, consumer prices stabilised and were shrinking every month compared to the corresponding month of the previous year, but considering the base effect of inflation dynamics, the annual average inflation remained high at 9.1 per cent. Inflation continued to be driven by global prices and the uncertainty caused by geopolitical conditions. The annual average inflation rate in April 2024 was 3.4 per cent.

The annual average growth rate of core HICP inflation (excluding energy, food, alcohol and tobacco) has been variable between 2019 till 2023, with annual average growth rates fluctuating between 0.6 and 9.9 per cent. The annual average growth rate of core HICP inflation was 7.6 per cent. in 2022 and 8.4 per cent. in 2023 and 6.6 per cent. in March 2024.

Borrowing from International Institutions

The table below sets out total committed, distributed and outstanding financing at 31 March 2024 provided by international lenders under a historical financial assistance package provided by the IMF, the EU, the World Bank, the EBRD, certain Nordic countries and certain member states of the EU.

	Total		
	Committed[(1)]	**Disbursed**	**Outstanding**[(2)]
		(€ billions)	
European Union	3.1	2.9	0.2
Nordic countries	1.9	0	—
IMF	1.7	1.1	—
World Bank	0.4	0.4	—
Other countries, EBRD	0.4	0.1	—
Total	**7.5**	**4.5**	**0.2**

Source: The Treasury
Notes:
(1) Financing committed at the start of the programme.
(2) Amount outstanding at 31 March 2024.

The only loan outstanding from this financial assistance package is the European Union's loan. The remaining amounts of the European Union loan (currently €200 million) are scheduled to be repaid in 2025. For further details on our borrowings from international institutions, refer to *"Indebtedness–Borrowing from International Financial Institutions*".

RISK FACTORS

Before making an investment decision, prospective investors should carefully review the specific risk factors described below, in addition to the other information contained in this Information Statement. The Issuer believes that the following factors may affect the Issuer's ability to fulfil its obligations under the Notes. The Issuer's results, financial condition and prospects could be materially affected by each of these risks presented. Also, other risks and uncertainties not described herein could affect the Issuer's ability to fulfil its obligations under the Notes. Additional risks and uncertainties not presently known to the Issuer, or that the Issuer currently believes are immaterial, could impair the ability of the Issuer to fulfil its obligations under the Notes. Certain other matters regarding the operations of the Issuer that should be considered before making an investment in the Notes are set out in other sections of this Information Statement. In this Information Statement, the most material risk factors have been presented at the beginning in each category.

Risk Factors Relating to Latvia

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

Latvia is highly integrated into the EU single market and, as a small open economy, its economic development is closely related to that of a number of major trading partners, including EU member states. For example, Latvia's economic recovery from 2010 to 2017 was driven significantly by export growth as a result of increased competitiveness and the recovery of the economies of its major trading partners. The need to improve cost competitiveness has however regained importance over time. More recently, Latvia has experienced weaker external demand as a result of the impacts of monetary policy tightening in the eurozone and the Russia-Ukraine war. Unfavourable conditions in the external environment and weak demand in the main target markets negatively affected Latvia's export indicators. For instance, after the commencement of the Russia-Ukraine war, amendments were introduced into domestic law which provided for the prohibition of natural gas supplies starting from 1 January 2023 from Russia, a source that Latvia has historically relied on. With the entry into force of the relevant amendments, natural gas traders in Latvia have reorientated the supply markets and accordingly, the natural gas flow has changed, with liquefied natural gas terminals in Klaipeda, Lithuania and Inkoo, Finland becoming the main sources of natural gas supply for Latvia. While Latvia has diversified and reoriented its gas supply, there can be no assurance that similar external factors or developments with its major trading partners will not arise. For further details, please see "*Balance of Payments and Foreign Trade*" and *"Economy of Latvia—Energy*".

Latvia is vulnerable to external shocks such as a global economic downturn (including those caused by the Russia-Ukraine war and energy crisis, the COVID-19 pandemic) and can be impacted by contagion effects, where a region or a country is adversely affected by adverse developments in neighbouring countries or in countries perceived to have related or similar economic characteristics. Furthermore, the default or significant decline in the credit rating of one or more sovereigns or financial institutions, or any EU and/or eurozone exits, could cause severe stress to the financial system generally and could adversely affect the global financial markets in ways which are difficult to predict. Additionally, a significant decline in the economic growth of Latvia's primary trading partners, including EU member states such as Germany, could have an adverse effect on export-orientated activities and in turn, Latvia's economic growth.

Factors that could have a negative effect on Latvia's economy include a protracted Russia-Ukraine war and any related escalations or regional disruption, whether caused by the actions of Russia or Belarus, or other factors, which have had and could have a material adverse impact on bilateral foreign trade (including energy, food, tourism, and critical supply chain components). Russia together with the other Commonwealth of Independent States ("**CIS**") countries as trading partners of Latvia accounted for 4.0 per cent. of Latvia's exports and 8.7 per cent. of its imports in 2023.

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

Additionally, the investment in the Notes could also be adversely affected by negative economic or financial developments in other countries, particularly neighbouring and major regional countries (including Estonia, Russia, Belarus and Lithuania). Adverse economic developments in one or more of the countries that comprise Latvia's major trading partners (many of which are in the EU), or questions about their ability to repay sovereign debt or the stability of their banking systems, could adversely affect the Latvia economy and Latvia's ability to repay principal and make payments of interest on the Notes.

Latvia is geographically located in a region that is experiencing increased geopolitical tension and its economy remains vulnerable to geopolitical and macroeconomic risks relating to the Russia-Ukraine war, which could have a material adverse effect on Latvia's economic growth

Since the start of the Russia-Ukraine war, the United States, the European Union and the United Kingdom, among others, imposed economic sanctions against Russia and Belarus, Russian government officials and Russian corporations and financial institutions. The ongoing conflict has had a significant impact on international capital markets, investor sentiment and commodity prices (including oil and gas, which has led to volatile fuel prices and inflation). The sanctions announced as a result include restrictions on selling or importing goods, services or technology in or from affected regions, travel bans and asset freezes impacting connected individuals and political, military, business and financial organisations in Russia, severing Russia's largest bank from the U.S. financial system, barring some Russian enterprises from raising funding in the U.S. market and blocking the access of Russian banks to financial markets. There remains a risk of escalation and an ongoing impact on geopolitical conditions. The United States and other countries could impose wider sanctions and take other actions should the conflict further escalate.

The Russia-Ukraine war has given rise to substantial volatility in international financial markets, threats to the global food supply and elevated levels of energy and other commodity prices, which, in turn, caused a global increase in inflation and increased inflation in Latvia in 2022 and 2023. The effects of monetary policy tightening in the eurozone and the Russia-Ukraine war also resulted in weakened external demand in Latvia. Although Latvia reacted swiftly, having diversified many aspects of its economy away from Russia including energy, a protracted Russia-Ukraine war could nevertheless result in renewed increases in energy prices, energy supply disruptions in Europe, and weaker external demand, and could impose higher-than-expected economic and further and/or higher-than-expected security costs on Latvia's small and open economy, which could have a material adverse effect on the ability of Latvia to repay principal and make payments of interest on the Notes. For instance, while in 2024 Latvia has allocated 3.1 per cent. of GDP to defence, the defence expenditure as a percentage of GDP is projected to be 3.2 per cent. in 2025 and increase to 3.4 per cent. in 2026 according to the state budget law for 2024 and the medium-term budget framework 2024-2026. See also — "*Latvia's economy may be adversely affected by a range of factors, including major regional or global economic downturns and difficulties experienced by its major trading partners*" and "*Deterioration in Latvia's relations with its major energy and power suppliers has had and may in the future have an adverse effect on the supply and price of energy resources and electricity which could have a material adverse effect on the Latvian economy*".

The Russia-Ukraine war and the consequent sanctions imposed on Russia caused a significant decrease in imports of major categories of goods due to Latvia's historic trade ties with Russia. For example, the imports of mineral products decreased from €577 million in 2014 and €624 million in 2021 to €256 million in 2023 (after the ban on natural gas imports from Russia). Imports of iron and steel stood at €163 million in 2014 and reached €459 million by 2021 due to surging commodity prices. They subsequently decreased to €27 million in 2023, with sanctions coming into effect in 2022. Imports of wood products followed similar developments, rising from €42 million in 2014 to €149 million in 2021 and eventually dropping to nil in 2023.

Any such further escalations and fluctuations of global prices could cause global financial conditions to further tighten, resulting in a material adverse effect on economic conditions and growth in Latvia and, accordingly, on the ability of Latvia to raise funding in the external debt markets in the future, to repay principal and make payments of interest on the Notes.

Deterioration in Latvia's relations with its major energy and power suppliers has had and may in the future have an adverse effect on the supply and price of energy resources and electricity which could have a material adverse effect on the Latvian economy

In 2022, the total consumption of primary energy resources in Latvia amounted to 187.6 petajoules ("**PJ**"). The price of natural gas for household consumers between the first half of 2020 to the first half of 2023 increased by 419 per cent. The price of electricity for household consumers also increased by 153 per cent. during the same period, which was caused as a result of Russia-Ukraine war and its consequences, reduced operation of hydropower plants due to weather conditions, as well as an increase in demand.

In 2022, Latvia started to diversify many aspects of its economy away from Russia including energy, as a result of the Russia-Ukraine war and the related sanctions regimes and now sources the majority of its gas imports from Lithuania and Finland, with liquefied natural gas terminals in Klaipeda, Lithuania and Inkoo, Finland becoming the main sources of natural gas supply. See *"Economy of Latvia—Energy—Natural Gas*". While Latvia no longer depends on Russia for a large percentage of its energy requirements, it remains susceptible to energy supply disruptions and energy price volatility or surges, in particular in the event of further escalation or protraction of the Russia-Ukraine war.

The electricity systems of the Baltic states, including Latvia, have historically worked, and are currently working, synchronously with the electricity systems of Russia and Belarus within the BRELL circle. Under this system, the Russian transmission system operator balances the energy system of the Baltic states by providing them with balancing electricity and frequency. Since the beginning of the Russia-Ukraine war, the risk of Baltic states such as Latvia being unilaterally desynchronized from the BRELL System has increased. While the transmission system operators and governments of the Baltic states have agreed to cooperate and take all necessary technical and legal measures required to position the Baltic power system for synchronisation with Continental European Synchronous Area by February 2025 and to disconnect from the BRELL circle, Latvia remains susceptible to desynchronisation from the BRELL system and related disruptions in electricity flows and frequency, in particular, in the event of further escalation or protraction of the Russia-Ukraine war. Such disruptions, volatility and any significant increases in the prices of Latvia's major energy imports or any adverse changes in Latvia's relations with its major energy suppliers have caused and could in the future cause increased energy costs for Latvia and increased retail energy costs for Latvian households, which have had and could have a material adverse effect on Latvia's economy and, as a result, have a material adverse effect on Latvia's capacity to repay principal and make payments of interest on the Notes. See *"Economy of Latvia—Energy—Electricity*".

Latvia is subject to inflation risk

In 2022, the average annual inflation rate, as measured by the consumer price index, was 17.2 per cent, primarily due to high energy and food price increases exacerbated by the Russia-Ukraine war and the subsequent sanctions imposed on Russia, as well as decline in global demand. which significantly decreased households' purchasing power. While inflation declined to 9.1 per cent. in 2023, wage growth increased significantly in 2023, which contributed to inflationary pressures and may impact the competitiveness of Latvia's small, open economy and constrain export growth in the medium term. In 2024, inflation continued to be influenced by global prices and unstable geopolitical conditions. The annual average inflation rate in March 2024 was 4.7 per cent. In addition, uncertainties stemming from labour market developments also remain relevant in the medium term, as Latvia is currently experiencing a shortage in skilled workers. Furthermore, against the current background of the ongoing Russia-Ukraine war, the risk of escalating trade tensions between China and the United States, the Israel-Hamas war and other recent developments in the Middle East (which could result in volatility in oil prices), inflationary pressures could re-emerge and negatively impact global economic activity and Latvia's economy (including business investment and external demand), and, as a result, have a material adverse effect on Latvia's capacity to repay principal and make payments of interest on the Notes.

Economic risks of an emerging market

An investment in an emerging market, such as Latvia, is subject to substantially greater risks than an investment in a country with a more developed economy. These greater risks include economic instability caused by factors such as a narrow export base, reliance on imports of energy and other key inputs, fiscal and current account deficits, reliance on foreign direct investment ("**FDI**"), high unemployment and frequent and significant potential changes in the political, economic, social, legal and regulatory environment. Accordingly, Latvia's economy is vulnerable to the impact of any deterioration in global economic conditions and external shocks, particularly those affecting economic trends in the EU and its other major trading partners. Although significant progress has been made in reforming Latvia's economy and political and legal systems since its independence from the Soviet Union in 1991, Latvia's economy remains characterised by certain attributes, such as concentration in a number of key industries, reliance on imports and FDI, trade and current account deficits and high unemployment, any or all of which may adversely impact Latvia's economic stability.

Consequently, an investment in Latvia carries risks that are not typically associated with investing in more mature markets. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, such investment is appropriate for them. Generally, investments in developing countries, such as Latvia, are only suitable for sophisticated investors who can fully appreciate and bear the significance of the risks involved.

Socio-economic challenges

Latvia faces certain socio-economic challenges, including high levels of emigration, an ageing population and high youth unemployment. These challenges require continuing attention by the Republic and were exacerbated by the COVID-19 pandemic. The percentage of the labour force aged 15 to 24 who were out of the workforce as at fourth quarter in 2023 was 29.3 per cent., as compared to a high of 36.1 per cent. as fourth quarter in 2015. The costs of unemployment both in terms of additional Government spending and reduced tax receipts may further have a negative impact on the Republic's finances. In addition, Latvia faces a shortage of qualified labour. The decline in the population of Latvia, which is to some extent a result of emigration and an aging population, may impact on Latvia's competitiveness and economic growth in the medium and long term.

Latvia also faces demographic challenges from continued migration and population ageing, which could result in a decline in working age population and, in turn, increasingly affect Latvia's growth potential.

Socio-economic challenges also arise from Latvia's pension system, which is facing demographic pressures from the ageing and declining population, which could cause gross social contributions to fall.

Latvia may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect the Latvian economy and Latvia's ability to repay principal and make payments of interest on the Notes

The implementation of domestic reforms, including programmes to support further economic growth, development and diversification, depends on significant and sustained political commitment and social consensus in favour of the reforms. On 13 July 2021, Latvia's Recovery and Resilience plan was adopted by the Council of the European Union ("**European Council**") with a total amount of €1.82 billion. On 8 December 2023, a revised plan was adopted by the Council, including a new RePowerEU component for the purposes of funding the energy sector, with a total amount of financing under the revised plan of €1.97 billion. For further details, see "*Description of the Republic of Latvia – European Recovery Plan*". Notwithstanding the substantial progress in recent years and Government policies of implementing further reforms and supporting diversification of the economy, there can be no assurance that the economic and financial initiatives, reforms and policies described in this Information Statement will continue, will be pursued or commenced, will not be reversed or will achieve their intended aims in a timely manner or at all. There can be no assurance that the Republic will be able to raise sufficient funding to support its reform programmes.

In particular, certain projects are reliant on obtaining EU or multilateral funding or for public-private partnerships ("**PPPs**") to be entered into. Changes in support from the EU and multilateral bodies, and the ability to enter into PPPs with attractive terms, to fund key reform projects could adversely affect the Latvian economy, if funding is needed to be sourced from elsewhere, or result in projects not being implemented.

Further, on 30 April 2024, the EU's new fiscal rules entered into force, whereby all member countries will be required to provide a new document, namely, a medium-term fiscal structural plan committing their expenditure path and explaining how they will deliver investments and reforms that respond to the principal challenges, in particular with respect to country-specific recommendations. This reform entails a significant change of key fiscal indicator by shifting from a balance-based rule to an expenditure-based rule, thus requiring changes in the national budgetary procedure and amendments (and potentially overhauls) to Latvia's fiscal discipline law that are expected in the course of 2024.

Any failure of the Republic to implement the proposed economic, financial and other reforms and policies, or a change in the political or social consensus relating to these reforms and policies, may adversely affect the growth and development of the Latvian economy and, as a result, have a material adverse effect on Latvia's capacity to repay principal and make payments of interest on the Notes.

Latvia is a member of the eurozone and, therefore, has limited ability to set monetary policy

The members of the eurozone have transferred the power to set monetary policy to the European Central Bank ("**ECB**"). The powers of the ECB include the power to manage the monetary policy of the eurozone member states, as well as to manage liquidity and stability of the financial system through open market operations, marginal lending facilities, reserve requirements and other policy instruments which may be available to the ECB in accordance with its constitutional documents. The ECB is an independent body. As a result, the Republic does not have any power to directly influence any policy decisions made by the ECB. The ECB sets monetary policy with a view to the eurozone as a whole. Therefore, where economic events are limited to Latvia or do not affect the eurozone as a whole, the ECB may not take such actions as may benefit Latvia, in particular, or as might be required to alleviate the effects of a financial crisis in Latvia. The absence of an independent monetary policy may contribute to a need to implement further structural reforms and financial consolidation measures to stabilise economic conditions. This may have a material adverse effect on the economy of the Republic and, consequently, on the Republic's ability to meet its obligations under any outstanding indebtedness.

Latvia has had, and expects to continue to have, a goods trade deficit

Latvia's economy is small and thus largely dependent on external trade, particularly imports, leaving it vulnerable to external shocks. In recent years, Latvia has had a current account deficit, reflecting a goods trade deficit due to a rise in exports as energy prices increased substantially as a result of Russia-Ukraine war and decreased external demand. While the goods trade deficit decreased in 2023 as energy prices normalized, the rate of future economic growth and the ability to fund the current account deficit is, accordingly, dependent on Latvia's exposure to and management of regional geopolitical risks, energy prices, its ability to continue to grow new sectors of the economy (such as services including computer services and information and communication technology ("**ICT**") services) and its ability to maintain its attractiveness to foreign investment.

Latvia's ability to attract foreign investment is based not only on international perceptions of the overall status of structural reforms and economic conditions in Latvia**,** but also perceptions of broader regional stability and economic prospects, as well as global macroeconomic conditions more generally. Accordingly, Latvia's economy is vulnerable to deterioration in global economic and geopolitical conditions and external shocks, particularly those affecting economic trends in the EU and its other major trading partners. Furthermore, Latvia's geographic proximity to Russia and Belarus has exposed Latvia to weakened external demand as a result of the Russia-Ukraine war, which has had and may have a material adverse effect on Latvia's economy, which may impact Latvia's ability to repay or refinance its existing debt and to repay principal and make payments of interest on the Notes. See "*—Latvia's economy may be adversely affected by a range of factors, including major regional or global economic downturns and difficulties experienced by its major trading partners"* and *"Economic risks of an emerging market*".

Latvia has had, and expects to continue to have, a budget deficit

The Republic has had a budget deficit in each of the last five years, and it does not expect to have a balanced budget for the foreseeable future. Fiscal risks also arise from Latvia's pension system, which is facing demographic pressures from the ageing and declining population, which could cause gross social contributions to fall.

In addition, any deterioration in financing conditions as a result of market, economic or geopolitical factors, which may be outside Latvia's control, may adversely affect Latvia's ability to implement its economic strategy and reforms and jeopardise Latvia's ability to repay or refinance its existing debt and to repay principal and make payments of interest on the Notes.

Larger fiscal imbalances and higher rates of growth in overall levels of public debt could have an adverse effect on Latvia's economic growth and Latvia's ability to repay principal and make payments of interest on the Notes

Latvia currently has relatively moderate levels of public debt as compared to its peers in the eurozone. However, any significant increase in future domestic or external borrowings to finance the budget deficit, or any significant fiscal slippage if not promptly addressed, could cause concerns regarding the debt sustainability of Latvia. Furthermore, any future lack of agreement between the major European governments on how to use fiscal and monetary measures to support the eurozone economies that are in difficulty, including as a result of the tightening of monetary policy by the ECB, could adversely affect the economy of the Eurozone countries and the conditions of the euro funding markets. Given Latvia's geographic, political and economic ties to the rest of Europe, and its use of the euro, the impact of these conditions could be detrimental to Latvia and could have a material adverse effect on the ability of Latvia to fund payments on its debt obligations, including the Notes.

Structural risks related to the domestic banking sector

While Latvia's banking sector has remained well capitalized and liquid, with a non-performing loan ("**NPL**") ratio of 26.5 per cent. as at 31 December 2023, structural banking risks persist across global and regional financial markets.

As at 31 December 2023, approximately 67 per cent. of assets in the banking sector were held by majority foreign-owned banks, and the Latvian banking sector was comprised of nine banks of which five were domestically owned and four were the branches of foreign-owned banks resident in other member states of the EU. In the event of increased levels of NPLs or deteriorating economic conditions in Latvia, foreign parent banks may decline to provide financing to their subsidiaries in Latvia or may be unable to provide such financing, as a result of adverse economic developments or regulatory requirements in their home jurisdictions. Foreign-owned banks may also reduce their loan portfolios or other business activities in a manner which adversely affects Latvia, as a result of events unrelated to Latvia, including as a result of economic turbulence in the eurozone and sovereign debt markets, global epidemics or the jurisdictions of their parent banks, as well as the impact of any "contagion" effects, and the resulting impact of these and other factors on the financial condition of the banking group more generally. In particular, a significant amount of total banking sector assets is held by foreign banks of Nordic origin. Accordingly, a significant downturn in the Nordic economies, disruptions in the financial and real estate markets and the impact that this would have on the cost of the parent banks' wholesale funding may have an adverse impact on the economic growth and lending volumes in Latvia. Such occurrences may result in a reduction in the level or scope of the activities of these banks in Latvia or a failure to meet capital adequacy ratios or other regulatory requirements, among other developments. Any or all of these occurrences may negatively affect the Latvian economy and have an adverse effect on Latvia's capacity to repay principal and make payments of interest on the Notes. In addition, any significant developments adversely affecting foreign banks with subsidiaries in Latvia, may cause volatility in Latvia, including local withdrawals from the Latvian subsidiaries of such banks as a result of the actual or perceived weakness of such subsidiaries. The occurrence of any such events would have an adverse impact on asset quality and profitability within Latvia's banking system and Latvia's economy.

Latvia is exposed to occurrences of corruption, money laundering and organised crime, which may have a negative impact on Latvia's reputation

Corruption, diversion or misuse of public resources or assets, money laundering, terrorism financing or organised crime in Latvia, or allegations thereof, and/or the resulting negative publicity may have a negative impact on Latvia's economy and its reputation abroad, including on external demand and its ability to attract foreign investment.

For example, in February 2018, Mr. Ilmārs Rimšēvičs, the then Governor of the Latvian Central Bank, was called to the Corruption Prevention and Combating Bureau of Latvia to provide information regarding certain criminal proceedings. The investigator recognised Governor Rimšēvičs as a suspect in the criminal proceedings and applied several security measures, including a prohibition on Governor Rimšēvičs performing in the capacity of the Governor of the Latvian Central Bank and a prohibition on leaving the country. On 24 May 2019, the Prosecutor General's Office expanded the charges against Governor Rimšēvičs to include charges relating to laundering the proceeds of crime. In December 2023, Mr. Ilmārs Rimšēvičs, was found guilty of bribery and money laundering, and was sentenced to six years in prison by the court of first instance. For further details, see "*Monetary and Financial System – Money Laundering and Terrorist and Proliferation Financing Regulations – Criminal proceedings against the former Governor of the Latvian Central Bank*." In addition, criminal proceedings continue against certain employees of ABLV Bank with respect to allegations of systematic money laundering in the period of 2010 to 2018. For further details, see "*Monetary and Financial System – Money Laundering and Terrorist and Proliferation Financing Regulations – Criminal Proceedings*."

Latvia is subject to cybersecurity risk

Latvia is susceptible to cyber-attacks, in particular relating to the Russia-Ukraine war. Cybersecurity risks have increased in recent years as a result of the proliferation of new technologies and the increased sophistication of cyber-attacks and financially motivated cybercrime, as well as due to geopolitical tensions, including the ongoing wars and conflicts in Ukraine and the Middle East, armed hostilities, civil unrest, sabotage, terrorism and state-sponsored or other cyber espionage.

The Republic has experienced an increase in the number of attempts by external parties to access its systems without authorisation and it expects this trend will not decline significantly. The Republic has been and will continue to be required to expend resources to continuously enhance its protective measures as cyber threats continue to evolve. There can be no assurance that the Republic will be able to implement preventive measures that are effective against any or all cyber security threats. Additionally, a cyber security incident may be difficult to detect, even after it occurs, which may compound the issue related to such breach.

The consequences and results of a material cybersecurity incident or circumvention could have a material adverse effect on Latvia's economic growth and Latvia's ability to repay principal and make payments of interest on the Notes.

Latvia's credit rating may deteriorate, which may adversely affect the Latvian economy and Latvia's ability to repay principal and make payments of interest on the Notes

In January 2024, Moody's long-term issuer rating for Latvia was A3 and with a stable outlook. Factors that could lead to a downgrade in Latvia's ratings or negative rating action include scenarios where economic resiliency weakens as a result of slower growth, the geopolitical environment and negative economic spillover effects from the Russia-Ukraine military conflict lead to a significant and sustained increase in Latvia's debt burden and deterioration of its debt affordability metrics, or where Latvia experiences a material rise in contingent liabilities.

In December 2023, S&P's long-term sovereign credit rating for Latvia was A+/A-1 with a negative outlook. Factors that could lead to a downgrade in Latvia's ratings or negative rating action include scenarios where the fallout from the Russia-Ukraine war proves to be more significant than anticipated or where an escalation weighs on Latvia's public finances, growth, and competitiveness.

In January 2024, Fitch's long-term foreign-currency issuer default rating for Latvia was A- with a positive outlook. Factors that could lead to a downgrade in Latvia's ratings or negative rating action include scenarios where Latvia experiences an upward trend in general government debt/GDP due to sustained pressure on expenditures, a substantial worsening of geopolitical risks with adverse consequences for economic growth, and public and external finances or where Latvia experiences a significant weakening of GDP growth performance and prospects due to weakened external competitiveness.

In December 2023, R&I's foreign-currency issuer rating for Latvia was A with a stable outlook. Factors that could lead to a downgrade in Latvia's ratings or negative rating action include scenarios where a significant decline in Latvia's population in the future undermines the growth potential of its economy and the inability of the Republic to the continue its fiscal management in line with the criteria set by its Fiscal Discipline Law and the EU's fiscal rules, to keep Latvia's fiscal deficit in check.

There can be no certainty that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. Deterioration in key economic indicators or the materialisation of any of the risks discussed herein may contribute to credit rating downgrades and the ratings assigned by the independent rating agencies may be subject to changes based on future developments. Latvia has no obligation to inform the Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to Latvia may adversely affect the Latvian economy and the Republic's cost of borrowing and, in turn, Latvia's ability to repay principal and make payments of interest on the Notes.

Latvia has a large informal economy

Latvia has a large informal economy, which was estimated to represent approximately 20.2 per cent. of GDP in 2021. This informal economy is not recorded and is only partially taxed, resulting in a lack of revenue for the Republic, ineffective regulation and monitoring of the overall economy, unreliability of statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and an inability to monitor or otherwise regulate this portion of the economy. The scale of the informal economy may also facilitate corruption, money laundering and organised crime. Due to its nature, the size of the informal economy is difficult to measure and any estimates are subject to inherent uncertainty. Although the Republic is attempting to address the informal economy, there can be no assurance that such reforms will adequately address the issues and bring the full economy into the formal sector, which could, in turn, have a material adverse effect on the Latvian economy and, accordingly, on the ability of Latvia to repay principal and make payments of interest on the Notes.

Official economic data may not be accurate or comparable with data produced by other sources and could be revised which may adversely affect the Latvian economy and Latvia's ability to repay principal and make payments of interest on the Notes

Although a range of Government ministries, including the Ministry of Finance and the Central Statistical Bureau, produce statistics on Latvia and its economy, there can be no assurance that these statistics are comparable with those compiled by other bodies, or in other countries, which use different methodologies. Prospective investors in respect of the Notes should be aware that figures relating to Latvia's GDP and many other aggregate figures cited in this Information Statement may differ from figures prepared by the Latvian Central Bank and international bodies, such as the EU or the IMF, which may use different methodologies. Standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Information Statement, data is presented as provided by the relevant ministry or by other organisations, such as the Central Bank, to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations. Furthermore, statistical data appearing in this Information Statement has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. In addition, the existence of an unofficial or unobserved economy may affect the accuracy and reliability of statistical information.

The statistical information presented in this Information Statement is based on the latest official information currently available from the relevant stated sources. The development of statistical information relating to Latvia is, however, an ongoing process, and revised figures and estimates are produced on a continuous basis. For instance, certain interim figures for 2024 are based on preliminary data.

Prospective investors should be aware that none of the statistical information in this Information Statement has been independently verified.

This Information Statement includes projected GDP and other data, which may not be realised

This Information Statement includes certain estimates, forecasts and projections, including GDP data and government debt for the years ending 31 December 2024 through 2028. These projections are forward-looking statements and investors are cautioned from placing undue reliance on any figures related to these periods. See "*Cautionary Statement Regarding Forward-Looking Statements*". Any projected level of change in GDP is subject to a significant level of uncertainty, and as a result may not materialise, or be worse than currently expected. Government budgets for future periods also remain subject to change. A worse-than-expected level of GDP and government receipts, or a higher-than-expected level of indebtedness could adversely affect Latvia's ability to repay principal and make payments of interests on the Notes.

DESCRIPTION OF THE REPUBLIC OF LATVIA

Source: SIA Envirotech GIS Latvia 10.2 data.

Geography and Population

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

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

As at 1 January 2023, the total population of Latvia was 1,883,008. Since 2000, the total population has decreased by 498,707 persons, or 20.9 per cent. of the population in early 2000, principally as a result of ageing, a low birth rate and emigration. Since 2019, the total population has decreased by 36,960 persons or by 13.1 per cent., primarily due to the abovementioned reasons.

The urban/rural ratio of the total population has increased since 2000 from 68 per cent. to 80 per cent. of the total population living in urban areas as at 1 January 2023 and from 32 per cent. to 20 per cent. in rural areas. The population density is 29 persons per square kilometre as of 1 January 2023.

The highest population concentration is in Riga. As at 1 January 2023, 860,142 people resided there, representing 45.7 per cent. of the total population.

As at 1 January 2023, 62.4 per cent. of the population was Latvian and 23.7 per cent. was Russian, with a range of other ethnic groups making up the balance.

The average life expectancy weighted for gender balance of those born in 2022 is 74.4 years (69.4 years for males and 79.3 years for females).

Historical Background

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

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

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

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

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

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

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

Political System and Developments

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

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

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

Each Saeima elects a Presidium which supervises the work of that Saeima. The Presidium consists of five members of parliament: the Speaker, two Deputy Speakers, the Secretary and the Deputy Secretary. There are seven parliamentary groups in the fourteenth Saeima. In the Saeima, there are 16 standing committees, 19 sub-committees and one Parliament investigative committee. In addition, groups of members of parliament and permanent delegations to international organisations have been established to promote cooperation with the governments of other countries.

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

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

The Cabinet of Ministers, which consists of the Prime Minister and 14 ministers appointed by the Prime Minister, is the highest executive power in Latvia (the "**Cabinet of Ministers**"). The Prime Minister determines the general direction of the Republic's activities and ensures that the Cabinet of Ministers works in a coordinated and purposeful manner. The Prime Minister is responsible for the work of the Cabinet of Ministers and is answerable to the Saeima. The Prime Minister or his nominee chairs the meetings of the Cabinet of Ministers and meetings of Cabinet committees.

Government and Politics

On 31 May 2023, the Saeima elected Edgars Rinkēvičs as the seventh President of Latvia since 1993. The next Presidential elections are scheduled to take place in June 2027.

The elections for the fourteenth Saeima were held in October 2022 with a turnout of 916,368 valid votes (representing 59.41 per cent. of eligible voters). The following table shows the name of each parliamentary group, and the number of seats held by them as on date of this Information Statement, in the fourteenth Saeima:

Name of parliamentary group	**Number of seats in the fourteenth Saeima**
THE NEW UNITY	25
Union of Greens and Farmers parliamentary group	16
"THE UNITED LIST – Latvian Green Party, Latvian Regional Alliance, Liepāja Party" parliamentary group	14
National Alliance parliamentary group	12
Stability! parliamentary group	10
PROGRESSIVES parliamentary group	10
LATVIA FIRST parliamentary group	8
Unaffiliated members of parliament(1)	5
Total	**100**

Source: The Saeima

Note:

(1) Of the five unaffiliated members of parliament, one used to be a member of "THE UNITED LIST – Latvian Green Party, Latvian Regional Alliance, Liepāja Party" parliamentary group, one used to be a member of "Stability! parliamentary group", one used to be a member of "National Alliance parliamentary group", one used to be a member of "THE NEW UNITY" and one used to be a member of "LATVIA FIRST parliamentary group".

The Saeima passed a vote of confidence in the Cabinet of Ministers formed by the Prime Minister, Evika Siliņa, in an extraordinary sitting on 15 September 2023. The current government comprises three parties and alliances: New Unity (25 seats), Union of Greens and Farmers (16 seats), and "The Progressives" (10 seats). Each Saeima elects a Presidium which supervises the work of that Saeima. The Presidium consists of five members of parliament: the Speaker, two Deputy Speakers, the Secretary and the Deputy Secretary. There are seven parliamentary groups in the thirteenth Saeima. In the Saeima, there are 17 standing committees, 18 sub-committees and one Parliament investigative committee. In addition, groups of members of parliament and permanent delegations to international organisations have been established to promote cooperation with the governments of other countries.

Pursuant to the Constitution, the next Saeima elections are scheduled to take place in October 2026.

Local Authorities

The Law on Administrative Territories and Populated Areas (the "**Local Government Law**") provides that Latvia comprises 43 local authorities: seven state cities (*valstspilsēta*) and 36 municipalities (*novads*), replacing the former administrative division of 119 local authorities. The new local authorities began work on 1 July 2021 after the municipal elections, which took place on 5 June 2021. The new administrative-territorial division is more balanced and the new municipalities will in general have larger financial and administrative capacity to carry out their functions under the Local Government Law.

A local government council is elected for a period of four years in direct elections, and by a secret ballot based on proportional representation. The last local elections took place on June 2021 and out of the 964,339 citizens who were entitled to vote, 327,950 (34.01 per cent.) exercised these rights.

Local governments, within the scope of their competence and the law, act mostly autonomously. The functions of local governments are specified in the Local Government Law (adopted on 20 October 2022, which came into force on 1 January 2023). They operate independently within the framework of their competencies and legislation, and have their own property, separate from the property of the State. All local authorities have equal competencies, except Riga, which has special functions, reflecting its status as the capital city, and other city governments, which have two extra functions in comparison with municipality governments. Riga is the largest municipality and has 60 deputies on its city council.

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

Riga City Council

The Riga City Council elections were held on 29 August 2020 and 60 councillors were elected to the council. The extraordinary elections were held following the dissolution of the Riga City Council pursuant to the Law on the Dismissal of the Riga City Council, which was passed by the Saeima on 13 February 2020 (and which entered into force on 25 February 2020), as a result of the previous administration's failure to ensure management of household waste, which is one of its autonomous functions. As the initial extraordinary municipal elections were to take place 14 months before the regular local elections, the national legislation was amended in order to allow the newly elected Riga City Council to have a longer term until the next scheduled local elections. Therefore, instead of the regular four-year term, the newly elected Riga City Council will work for an almost five-year term from 2020 to 2025, while other new local government councils will work for the regular term of four years.

The Judicial System

Alongside the legislative and the executive branches of government, Latvia has an independent judiciary, with a three-tiered court system. The Constitution states that judicial power is vested in district and city courts, regional courts, the Supreme Court and the Constitutional Court and, in the event of war or a state of emergency, also in military courts.

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

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

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

In addition, in order to optimise the efficiency of the courts and balance workload, the concept of "court houses" was implemented gradually and was completed in 2018. This concept involves the consolidation of the district (city) courts areas within the jurisdiction of a regional court, creating one larger district (city) court. This is aimed at facilitating access to justice and ensuring the effectiveness, efficiency and quality of judicial services in Latvia.

On 31 March 2021, the first specialized court in Latvia, namely the Economic Court (the "**Economic Court**") commenced hearing cases. The Economic Court's jurisdiction includes certain civil matters, economic, financial and corruption cases. It is intended to be an effective mechanism for the state to actively combat conditions that undermine the rule of law in the business environment, such as corruption, money laundering and other considerations that promote the shadow economy. The focus of the Economic Court on these specific cases is intended to improve the uniformity, predictability and quality of court decisions in these areas which are viewed as essential for the growth of the investment and business environment in Latvia.

On 1 December 2021, to ensure more efficiency and faster data circulation within the criminal, civil and administrative processes, the e-case platform was established, with its full implementation expected by 31 May 2026. The e-case platform ensures the exchange of data between the main operational information systems (Court Information System, Prosecution Information System "**ProIS**", Prison Administration Information System "**IIS**" and State Probation Service Information System "**Plus**"). Additionally, an e-case portal was launched, which provides process participants with the opportunity to communicate with institutions and access to case materials.

Maintaining the high qualification of judges, prosecutors and investigators and its continuous development is crucial for the quality investigation, preparation and trial of the case, as the public perceives the process as a whole rather than distinguishes different stages performed by different actors of the legal system. It is planned to implement the reform of the in-service training system for judges and prosecutors by the end of 2024, by the establishment of a single training centre i.e., a judicial academy. This will be implemented by the Court Administration in cooperation with the Prosecutor General's Office, the Supreme Court and the Ministry of the Interior, and the implementation will be monitored by the Ministry of Justice in cooperation with the Judicial Council.

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

Prevention and Combating of Corruption

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

- developing and implementing Latvia's mid-term anti-corruption policy;
- monitoring compliance of public officials with anti-corruption legislation;

- controlling political party financing and pre-election campaign financing; and
- investigating corruption-related offences in the public sector, such as bribery, the trading of influence and exceeding public authority in bad faith.

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

Investigators of the KNAB opened 47 criminal proceedings in 2019 (with 15 cases against 31 persons being sent for criminal prosecution), 39 criminal proceedings in 2020 (with 23 cases against 41 persons being sent for criminal prosecution), 39 criminal proceedings in 2021 (with 27 cases against 50 persons being sent for criminal prosecution), 32 criminal proceedings in 2022 (with 18 cases against 37 persons being sent for criminal prosecution) and 36 criminal proceedings in 2023 (with 18 cases against 56 persons being sent for criminal prosecution).

The Working Group on Bribery in International Business Transactions (the "**OECD WGB**") has acknowledged Latvia's significant progress in implementing the recommendations of the Phase 3 evaluation, with its achievement and demonstration of clear results in the successful investigation and follow-up of criminal proceedings on the bribery of foreign officials. Since the implementation of Phase 3 in 2019, KNAB has sent for prosecution four criminal proceedings for the bribery of foreign public officials.

Furthermore, Latvia has fully or partially complied with 35 of the 44 recommendations of the OECD WGB. The OECD WGB has simultaneously given a positive assessment of the KNAB's proactive approach to detecting cases of bribery of foreign officials, attracting additional human resources, including analysts, whose main task is to detect and support the investigation of criminal corruption offences, as well as by organising and participating in training aimed at the investigation of corruption and subsequent money laundering.

Further, the Riga Regional Court sentenced the Chairman of the Ventspils City Council to five years in prison in February 2021 (which was subsequently reduced to four years on appeal), as being subject to the confiscation of property (estimated at €350 million) and to a fine of €20,000 after finding him guilty on a number of charges of large-scale bribery, money and property laundering (in the amount of nearly €7 million) committed by an organised group, unlawful participation in property transactions, forgery of documents and official documents, and provision of false information in the declaration of a public official for nine separate years. Additionally, the former business partner of the Chairman of the Ventspils City Council was sentenced to two years in prison (reduced to one years and nine months on appeal) and subject to the confiscation of property (for abetting in bribery, money-laundering in an organized group and abetting unlawful participation in property transactions), whereas the son of the Chairman was sentenced to two years one month in prison (reduced to one year and eleven months on appeal) and subject to the confiscation of property (for money-laundering and abetting unlawful participation in property transactions). The judgement of the appeal court is still under cassation examination and has not entered into force.

On the 86th Plenary meeting, held online between 26 and 29 October 2020 the Council of Europe Group of States against Corruption ("**GRECO**") concluded the Fourth Evaluation Round on corruption prevention in respect of members of parliament, judges and prosecutors, and has confirmed the implementation by Latvia of 11 of its 14 recommendations, including the abolition of administrative immunity of judges and prosecutors. Latvia has thus implemented all recommendations of the Fourth Evaluation Round in relation to the activities of judges and prosecutors. GRECO also acknowledged that Latvia has fully or partially implemented 14 of the 17 recommendations made during the Fifth Evaluation Round on preventing corruption and promoting integrity in central governments (top executive functions) and law enforcement agencies, thus becoming the second country to successfully conclude the Fifth Evaluation Round.

On March 14, 2023, the Cabinet of Ministers approved the Corruption Prevention and Combating Action Plan 2023–2025 ("Action Plan"). The policy planning document contains a total of 49 measures in the areas of prevention and combating corruption which are to be implemented by the KNAB and other authorities, including ministries. The overarching objective of the corruption prevention and combating policy during subsequent years is to ensure the credible functioning of any authority or organisation in compliance with the principle of good governance and effective human resources management. In order to achieve the objective, the Action Plan identifies five sub-objectives, 13 action directions, and a total of 49 measures with consequential tasks. The Action Plan sets out a time schedule for fulfilling the tasks and also defines the expected results. The outcome of the tasks is focused on society and the public benefit related to effective prevention and combating of corruption, control over the implementation of the rules regarding provision of financing to political organisations, and also control of pre-election campaigns.

Combating Terrorism

In 2008 the national counter-terrorism plan was introduced and it has been reviewed every three years since then. The national counter-terrorism plan provides for four levels of terrorist threat, consisting of low, elevated, high and severe. The terrorism threat level is set by the Minister of the Interior, and can be introduced at a country-wide or regional level or, if applicable, to the relevant economic sector or other perceived target. The higher the declared level of terrorist threat, the more complex and extensive are the preventive counter-terrorism measures to be taken. The revised version of national counter-terrorism plan takes into account developments in the field of counter-terrorism and technology, as well as clarifications relating to institutional changes in the national security system.

The latest version of the national counter-terrorism plan was revised at the end of 2023 and was confirmed by the Cabinet of Ministers in 9 April 2024.The updated plan takes into account the trends in the terrorist threat in Europe in recent years, with a particular focus on strengthening the security of public places and addressing the risks associated with technological developments, such as drones, as well as security threats to ICTs. The national counter-terrorism plan significantly improves the preventive measures that institutions must take in the event of a particularly high level of terrorist threat, for example, when a terrorist act cannot be prevented or has already taken place, specifically in case of mass events or soft targets. The updated national counter-terrorism plan also pays special attention to the protection of critical infrastructure, ensuring efficient exchange of information and rapid response of institutions involved in counter-terrorism measures.

On 2 November 2021, the Cabinet of Ministers approved the counter-terrorism strategy for Latvia for the years 2021 to 2026. The purpose of the strategy is to identify the priority areas in the counterterrorism field at a national level for the next five years considering the current assessment of terrorism threats. The strategy takes into account the current counterterrorism system in Latvia, as well as an assessment of the threat of worldwide terrorism and terrorism in Europe and Latvia. The strategy defines the areas that will be prioritised at a strategic level as follows:

- international cooperation;
- prevention of radicalisation and violent extremism;
- restriction of terrorist freedom of activity;
- improvement of protection of objects that are at risk from terrorism;
- improvement of counterterrorism plans;
- improvement of the preparation of the institutions involved in the implementation of counterterrorism measures; and
- public participation.

Latvia supports the efforts of international organisations, including the UN, NATO, the EU, the OSCE and the Council of Europe, to combat global terrorism. Latvia has ratified and introduced all relevant UN Conventions and Protocols which form the basis of international legislation on issues of counterterrorism as well as the Council of Europe conventions and their protocols.

Within the EU, Latvia has become involved in a range of practical counter-terrorism initiatives which provide for an increased level of cooperation between investigatory and security services, as well as in judicial matters. In accordance with the EU Counter-Terrorism Strategy (adopted in 2005), Latvia has introduced a number of provisions in its legislation aimed at promoting practical cooperation among member states of the EU in combating terrorism and is participating in the preparation and implementation of other EU regulations relating to the exchange of information, such as the EU directive on passenger name record data which has already been implemented.

Latvia is a member of the Global Coalition against the Islamic State of Iraq and the Levant ("**ISIL**") and supports international efforts to counter ISIL propaganda, impede the open flow of foreign terrorist fighters, disrupt terrorism financing networks and stabilise liberated areas. In this regard, Latvia has provided military training to Iraqi security forces and has provided financial support in order to assist with stabilisation efforts in Syria. For example, in 2020 and 2021, Latvia offered practical assistance in the form of basic necessities and by improving the access of education for women and girls in the Raqqah region, in order to promote their protection and empowerment.

Latvia has given its consent to an on-site assessment visit by UN-CTED (Counterterrorism Committee Executive Directorate). The virtual component of the visit was conducted from 28 June to 1 July 2021. The in-person component of the assessment visit was held from 13 to 17 October 2022.

International Relations

Supranational Organisations

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

Latvia became a member state of the UN in 1991, thus creating a global dimension for Latvian foreign policy. By acceding to all major UN conventions and agreements Latvia has demonstrated its commitment to multilateralism and readiness to engage in the resolution of global problems. Latvia will continue to defend the fundamental principles of the rules-based international order. Therefore, in response to Russia's aggression against Ukraine, it is crucial to continue efforts in multilateral fora to support Ukraine and to ensure Russia's accountability.

Membership of the WTO, which was achieved in 1999, has contributed to the development of Latvia's economy. On 1 July 2016, Latvia acceded to the OECD and became the 35th member state of the OECD. The OECD has become an integral partner on Latvia's path to reform and in the shaping of Latvia's domestic policy.

Latvia joined NATO and the EU in 2004.

NATO is the cornerstone for security in the Euro-Atlantic area, including the Baltic region. NATO's military presence through the Allied enhanced forward presence in the Baltic states, as well as the NATO Baltic air policing, demonstrates the Alliance's commitment to the security and defence of Latvia. Active participation in NATO's collective defence efforts remains a key element of Latvia's security and defence policy. This includes participation in NATO's operations, full host nation support for Allied troops, as well as investment in national defence in line with the NATO commitments. In 2024, Latvia has allocated 3.1 per cent. of GDP to defence, which contributes to the continued development of Latvia's defence capabilities. The projected defence expenditure, according to the state budget law for 2024 and the medium-term budget framework 2024-2026, is 3.2 per cent. in 2025, and 3.4 per cent. in 2026.

At present, the armed forces representing up to 21 members states of NATO are participating in various NATO missions in relation to military co-operation and security in Latvia, including the NATO enhanced forward presence battalion led by Canada, air policing as carried out by the German air force and the presence of rotational units from the U.S.'s armed forces in Latvian military bases.

Latvia is boosting its military strength with additional personnel, new military systems and infrastructure such as the introduction of a comprehensive defence system, fortification of its eastern border, re-introduction of conscription, construction of largest training centre in the Baltic, and through improvements to its air defence, coastal defence, artillery rocket systems and infantry fighting vehicles.

In a broader security context, there is a strong support on both sides of the Atlantic to maintain NATO as the main pillar of Euro-Atlantic security. The Biden administration has repeatedly indicated its ironclad commitment to NATO and Article 5. Russia's confrontational approach has contributed to the coherent position of the Alliance on the need to continue developing NATO's deterrence and defence position. National and collective defence capabilities are an essential part of this and the effective fulfilment of the Alliance's core objectives. Currently the Alliance is preparing for the review and updating of the NATO Strategic objectives, which will outline the Alliance's priorities and approach both to the current and evolving challenges in the decade to come. The EU is also engaging in a parallel exercise – drafting of the Strategic Compass – which is intended to further improve European defence efforts and ensure such efforts are complementary with NATO.

Latvia continues to support and contribute to the development of the EU's civilian and military capabilities as well as to the building of the defence capabilities of the EU and its partners. Latvia is among the 25 member states of the EU that founded the Permanent Structured Cooperation ("**PESCO**") in 2017, which provides a platform for closer cooperation in developing joint defence projects and capabilities of common interest. Latvia currently participates in three PESCO projects in the following areas: 1) development of a modular unmanned ground system, 2) mine countermeasures and 3) facilitation of military mobility within the EU's territory. Ensuring military mobility is a precondition for the rapid movement of military forces and equipment throughout the EU, thus enhancing security and the defence of member states of the EU. Military mobility is also one of the key priorities of EU-NATO cooperation. Latvia strongly supports the participation of the US, Canada and Norway in the PESCO Military mobility project, as these partners are not only EU strategic partners, but also NATO allies.

Latvia's membership in international organisations and participation in missions demonstrates solidarity with its allies, while allowing Latvia to exert influence and an opportunity to take part in crisis resolutions abroad. In 2023, Latvia took part in missions and operations of the EU, NATO and the UN. Currently Latvia is contributing to the EU operation in the Mediterranean (EUNAVFOR MED IRINI). Latvia also participates in the EU Advisory Mission for Civilian Sector Reform in Ukraine, the EU Monitoring Mission in Georgia and the EU mission in Armenia.

Latvia supports disarmament and non-proliferation efforts to assure peaceful use of nuclear energy. Latvia has been selected to chair the Nuclear Suppliers Group for the period from June 2018 to June 2019. Latvia also held the chairmanship of the Arms Trade Treaty from August 2018 to August 2019. In addition, Latvia has chaired the Experts Group of the Wassenaar Arrangement for two years from January 2019 to December 2020.

Latvia aspires to become a first-time member of the United Nations Security Council at the elections in 2025 (for the term 2026-2027). Latvia is fully prepared to assume its part of the responsibility to uphold international peace and security.

Since July 2021, Belarus has continued its hybrid attacks on the EU's external borders to the east (with Latvia, Poland and Lithuania) using migratory flows (third country nationals primarily from countries in the Middle East, North Africa and Asia) as a political tool with the aim to destabilise the EU and its Member States. Latvia is coordinating its response to this instrumentalisation of migratory flows regionally with Lithuania, Poland, Estonia, Finland, as well as at the EU level. To counter this hybrid threat, Latvia is strengthening its eastern border security with a new border fence (on the Latvia-Belarus border) and upgraded border infrastructure. Latvia has also advocated for EU sanctions against Belarus and is taking preventive measures against those involved in or supporting the smuggling of migrants, including through EU cooperation with the countries of origin and transit, as well as the companies involved in this process. Latvia has been a member of the Schengen Area since 21 December 2007. This allows the free movement of people and goods within the Schengen Area, comprising 26 European countries, without any passport controls or customs formalities.

Regional and Bilateral Relationships

The Baltic region

Latvia considers regional cooperation to be of the utmost importance in order to build a sustainable and secure environment around the Baltic Sea and it therefore actively participates in various regional cooperation forums. The closest cooperation Latvia has is with Estonia and Lithuania through institutional frameworks such as the Baltic Council, Baltic Assembly (parliamentary cooperation) and Baltic Council of Ministers. Latvia focuses on its interests in regional security, including Eastern Partnership and Transatlantic relations, as well as development of energy and transport infrastructure projects.

Latvia sees the role of regional organisations such as the Council of the Baltic Sea States (the "**CBSS"**) as important forums for multilateral intergovernmental cooperation and dialogue in the Baltic Sea region. The CBSS work is guided by its three long-term priorities: Regional Identity, Sustainable and Prosperous Region, and Safe and Secure Region. It is implemented through regional expert groups and projects, guided by the Foreign Ministers of the Baltic Sea Region. The three main priorities aim to address the themes of sustainable development, climate, sustainable maritime economy, education, science, culture, youth engagement, labour, civil security, children's rights and trafficking in human beings. The CBSS will continue to focus on practical cooperation, intergovernmental dialogue, and synergetic cooperation with other regional cooperation forums.

Latvia is a part of the Nordic-Baltic Eight (the "**NB8**"), a regional cooperation format comprising Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. There are more than 50 political and expert consultations held at various levels among the NB8 annually.

In 2023, Latvia coordinated the NB8. The NB8's work under the coordination of Latvia was focused on shaping the future security environment, while strengthening a rules based international order, military security and deterrence, and resilience. The European Union Strategy for the Baltic Sea Region (the "**EUSBSR**"), adopted in 2009, is the first EU macro-regional strategy uniting the eight member states of the EU around the Baltic Sea: Estonia, Denmark, Finland, Germany, Latvia, Lithuania, Poland and Sweden. The EUSBSR has three main objectives: "Save the Sea", "Connect the Region" and "Increase Prosperity", and provides an integrated framework for addressing many important regional issues through constructive cooperation as well as by promoting a more balanced development in the region. Each objective relates to a wide range of policies such as bio-economy, education, energy, health, innovation, shipping, tourism and other areas. Latvia, together with Lithuania, is coordinating the EUSBSR policy area "Energy" which is interlinked with the Baltic Energy Market Interconnection Plan (the "**BEMIP**"). Both the EUSBSR and the BEMIP are aimed at facilitating competitive, secure and sustainable energy in the Baltic Sea region. In addition, in February 2021, the European Commission adopted its updated Action Plan of the EUSBR ("**2021 Strategy Action Plan**"), which aims to boost the transnational cooperation in the Baltic region in solving cross-. See "*Economy of Latvia—Energy*".

Latvia holds the current Presidency in the EUSBSR National Coordinators Group (from July 2023 to June 2024) (the "**Latvian EUSBR Presidency**"). The main priority is to keep on putting the Action Plan into practice and promote its implementation. Under the Latvian EUSBR Presidency, the update of the 2021 Strategy Action Plan has been initiated, with the aim to make the implementation of this strategy more agile and better adapted to the core political challenges.

Ukraine

Latvia's close bilateral relations with Ukraine, which are rooted in a deep understanding of the geopolitical situation, are enhanced by the provision of comprehensive assistance and support to Ukraine for the purpose of ensuring complete liberation of Ukraine's territory within its internationally recognised borders and providing justice in accordance with international law. Over the past two years, bilateral cooperation has intensified in scope, with Latvia's political focus being on the provision of support for Ukraine's integration into the EU and NATO. In April 2024, Latvia and Ukraine signed a bilateral agreement of long-term support and security commitments, emphasizing facilitation by Latvia of a broad spectrum of military and non-military support to Ukraine for the upcoming ten years.

Russia

Russia's aggression against Ukraine has significantly changed the bilateral relations between Latvia and Russia. Bilateral cooperation with Russia has been suspended completely in a number of areas or reduced to the minimum level necessary, overall. An extensive audit of the legal framework with Russia has been carried out by the Foreign Affairs Committee of the Saeima, suspending or denouncing intergovernmental and interdepartmental agreements in areas such as the work of the Intergovernmental Commission, Soviet memorial sites in Latvia, bilateral economic cooperation, cooperation in the field of culture, cross-border travel, double taxation, tourism, environmental protection, anti-monopoly policy, as well as forestry. Since February 2023, Latvia has lowered the level of diplomatic relations with Russia to the level of Charge d'Affaires *ad interim*. At the same time, however, the Latvian embassy in Russia and the Russian embassy in Latvia are still operational.

United States of America

Latvia regards the United States of America as its main strategic partner and a dependable ally. Latvia and the United States maintain active political dialogue at the highest and expert levels.

The visit of the foreign ministers and the speakers of the parliaments of the Baltic states to the U.S. in March and January 2024, as well as the Prime Minister's visit to the U.S. in March 2024 and the Bucharest Format and US Presidents' meeting at the NATO Summit in Warsaw in February 2023 reaffirm the importance of this relationship.

In June 2023, the United States' Trade Representative, Catherine Tai, paid a working visit to Latvia and met with the Prime Minister and the Minister of Foreign Affairs of Latvia (the "**Minister of Foreign Affairs**"). In August 2022, the United States' Secretary of Defence, Lloyd Austin, paid a visit to Latvia and met with the President, the Prime Minister and the Minister of Defence of Latvia. In March 2022, the United States' Secretary of State paid a working visit to Latvia and met with the President, the Prime Minister and the Minister of Foreign Affairs. During these meetings, the parties exchanged views on regional and global security, bilateral matters, including prospects for economic cooperation, as well as wider transatlantic relations. Latvia places increasing emphasis on advancing its economic, trade and investment relationship with the United States and promotes closer people-to-people contacts. Bilateral dialogue with the United States is maintained on both traditional and new security challenges, including in areas such as hybrid threats, cybersecurity, disinformation, the fight against international terrorism, organised crime, and international sanctions policy.

Latvia will continue its coordination in multilateral forums and fostering bilateral cooperation with the United States.

EU membership

As a member state of the EU since 2004, Latvia actively participates in the EU decision making process at European Council meetings and at the meetings of the European Council. Latvia is also represented in the European Parliament, the Committee of Regions and the European Economic and Social Committee. In the first half of 2015, Latvia held the Presidency of the European Council and is currently conducting the preparatory work for its next Presidency in the second half of 2028. For the next institutional cycle of the EU (2024-2029), Latvia will have nine parliamentary seats in the European Parliament out of a total of 720. Currently Latvia has eight seats in the European Parliament out of a total of 705. In the current formation of the European Parliament, the Group of the European People's Party (Christian Democrats) holds three Latvian seats, the Group of the Progressive Alliance of Socialists and Democrats holds two Latvian seats, the Group of European Conservatives and Reformists holds one Latvian seat, the Renew Europe Group holds one Latvian seat, and there is one non-attached member.

Membership of the European Economic and Monetary Union and the adoption of the single currency were both required by the terms of Latvia's accession to the EU and were set as objectives by the

Latvian Government. On 1 January 2014, the Latvian Central Bank became a part of the "**Eurosystem**" i.e., the system of central banks of the eurozone responsible for conducting the single monetary policy, and the euro became the lawful currency of Latvia.

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

Latvia's membership of the EU has resulted in a major inflow of EU funds relating to support for investments. The EU's Cohesion Fund provides support to Member States with a gross national income per capita below 90 per cent. of the EU-27 average to strengthen the economic, social and territorial cohesion of the EU (the "**Cohesion Fund**"). The total amount of financing relating to cohesion and structural funds allocated to Latvia through the EU Cohesion Fund, for the period between 2007 and 2013 equalled €4.5 billion.

EU funds 2014-2020

For the period between 2014 and 2020, the EU Commission approved the allocation of €4.4 billion in cohesion funds to Latvia. In total, €4.68 billion in EU funds (and, in addition, a further €222.4 million (€264 million with overcommitments) from the Recovery Assistance for Cohesion and the Territories of Europe ("**REACT-EU**") allocation fund) have been available for targeted and smart investments in Latvia until 31 December, with the general aim to enhance the competitiveness of Latvia's economy and reinforce the country's solid foundation for sustained and smart growth. These are to be applied across 10 priority areas as shown in the table below:

Area	**Funds**
	(€ million)
Research, technological development and innovation	448
ICT and e-governance	171
Competitiveness of small and medium-sized enterprises	370
Energy efficiency	653
Environment and resource efficiency	583
Sustainable transport systems	827
Employment and labour mobility	164
Education skills and lifelong learning	525
Social inclusion	516
Technical assistance	101
Access to affordable, sustainable and quality services (SAFE initiative)	60
Total	**4,418**

Source: Ministry of Finance

As a result of the Coronavirus Response Investment Initiative and Coronavirus Response Investment Initiative Plus launched by the European Commission in April 2020 and endorsed by the European Parliament and the European Council on 19 May 2020, the Republic approved proposals for the reallocation of nearly €500 million of EU funds to mitigate the consequences of the COVID-19 pandemic.

A year later, the REACT-EU fund envisaged an allocation of around an additional € 222.4 million of EU funds to Latvia as part of the European Commission's Recovery Plan for Europe proposal. On 8 June 2021, the government approved amendments to the EU funds operational programme (the "**OP**"), which allowed the use REACT-EU funding to mitigate the effects of the COVID-19 pandemic and in July 2021, the European Commission approved these amendments.

In 2023, in response to Russia's invasion of Ukraine, the European Commission launched the Support for affordable energy ("**SAFE**") initiative, which among other things, enables Member States to use unspent funds under their 2014-2020 allocation to provide direct support to vulnerable families and small and medium-sized businesses to help them face increased energy costs. As the SAFE initiative does not provide for additional funding from the EU, member states were asked to examine the funding already programmed under the OP, reallocating all the available resources to a set of new priorities as stipulated in Regulation 2023/435 of the European Council and Parliament dated 27 February 2023, which were oriented towards supporting specific groups facing increased energy costs, such as small and medium enterprises as well as vulnerable households. Latvia has accordingly reallocated nearly €60 million of Cohesion Fund resources from delayed projects (unspent funding) to the SAFE initiative in order to request 100 per cent. of its allocation under the OP from the European Commission.

Project contracts have been signed for all available EU funds allocation and it is expected to request from the Commission 100 per cent. EU financing after submission of final documentation to the Commission in 2026. Non-absorption risks, especially for Cohesion fund, offset by overcommitments, reallocations (incl. SAFE), completion projects as non-functional or phased, flexibility between priorities.

EU funds 2021-2027

The EU Cohesion Policy Programme 2021-2027 was adopted on 25 November 2022 (the "**2021-2027 Cohesion Policy**").

The 2021-2027 Cohesion Policy is focused on the promotion of economic, social and territorial convergence among member states of the EU, through sustainable competitiveness, research and innovation, digital transition and related measures. It aims to achieve this, among other ways, by reinforcing support for the preparedness of health systems, providing support to workers and to measures aimed at alleviating youth unemployment and child poverty, in the member states of the EU. Financing under the 2021-2027 Cohesion Policy is delivered to member states of the EU through the following funds:

- The European Regional Development Fund ("**ERDF**"), to invest in the social and economic development of all EU regions and cities.
- The Cohesion Fund, to invest in environment and transport in the less prosperous EU countries.
- The European Social Fund Plus ("**ESF+**"), to support jobs and create a fair and socially inclusive society in EU countries.
- The Just Transition Fund ("**JTF**") to support the regions most affected by the transition towards climate neutrality.

In parallel, a partnership agreement was entered into between Latvia and the European Commission, on the method of funding, the aims and objectives of the 2021-2027 Cohesion Policy as applied to Latvia, and the scope co-operation between the various funds that deliver financing under the 2021-2027 Cohesion Policy, namely, the ERDF, the Cohesion Fund, ESF+ and JTF.

EU funds 2021-2027 in Latvia by Policy Objectives

In total, €4.6 billion in EU funds have been available for targeted investments in Latvia, in addition to national co-financing, to support economic and territorial cohesion, and social fairness. Latvia aims to invest the EU funds in the green and digital transitions, in boosting innovation in the economy, and in healthcare and social services.

	ERDF	CF	ESF+	JTF	Total
	(in million euros)				
PO1. Smarter Europe	968.2	-	-	-	968.2
PO2. Greener Europe	993.9	181.3	-	-	1,175.2
PO3. Connected Europe	0.0	919.2	-	-	919.2
PO4. Social Europe	684.6	-	776.8	-	1,461.4
PO5. Europe closer to citizens	263.0	-	-	-	263.0
PO6. Just Transition Fund investments	0.0	-	-	216.7	216.7
Capacity building measures (TA)	3.5	-	1.9	-	5.5
Total	**2, 913.2**	**1,100.5**	**778.8**	**216.7**	**5, 009.2**

Source: Ministry of Finance

The relevant sectoral ministries responsible within Latvia develop rules for implementation of specific objectives as part of the 2021-2027 Cohesion Policy. These rules identify the method of implementation, the results to be achieved and the potential beneficiaries of the funding. Subsequently, funding projects are identified via a project application selection process, based on certain criteria including in relation to quality, eligibility, and fulfilment of administrative and regulatory requirements.

As of 30 March 2024, 63 signed contracts with a total funding from the EU funds of €323 million, are being implemented in the areas (7.4 per cent. of EU allocation) of business development, investments in health, education and social sectors, prevention of flood risks, capacity building of municipalities and planning regions, support in the form of financial instruments and payments to final beneficiaries (including advance payments).

European Recovery Plan

In 2020, member states of the EU and the European Parliament agreed on an ambitious European recovery plan with a view to preventing the economic and social damage caused by the COVID-19 pandemic, stimulating Europe's recovery and protecting and creating jobs (the "**European Recovery Plan**"). The European Recovery Plan also provides support for the transition of the EU to a green and digital economy, and aims to promote economic, social and territorial cohesion, as well as sustainable economic growth potential. A substantial part of recovery funding under the European Recovery Plan has been channeled to the European Recovery and Resilience Facility (the "**RRF**"), a new central budgetary programme to be managed by the European Commission. In line with the objectives of the European Recovery Plan, the RRF will provide financial support for the investment needs of member states of the EU and for the implementation of socio-economic reforms. On 13 July 2021, Latvia's Recovery and Resilience plan was adopted by the Council with a total amount of €1.82 billion (the "**Latvian Recovery Plan**").

On 8 December 2023, a revised Latvian Recovery Plan was adopted by the Council, including a new RePowerEU component with new total amount of financing of around €2 billion.

The Latvian Recovery Plan is structured into seven components:

(a) climate change and sustainability (reduction of transport emissions, energy efficiency, bio-methane production, climate adaptation) (34 per cent. of the allocation);

(b) digital transformation (public sector digital transformation, business sector digitalisation, digital skills, 5G and broadband) (19 per cent. of the allocation);

(c) reduction of inequality (administrative territorial reform, regional roads, affordable housing, industrial parks, social and employment services) (19 per cent. of the allocation);

(d) health (integrated care centers, resilience against epidemics, care provision models, cancer care) (9 per cent. of the allocation);

(e) economic transformation and productivity (research and development ("**R&D**"), higher education) (10 per cent. of the allocation);

(f) strengthening rule of law (shadow economy, economic crime, governance) (2 per cent. of the allocation); and

(g) RePowerEU (energy sector development) (7 per cent. of the allocation).

On 8 January 2024, Latvia's Minister for Finance signed an addendum to the Recovery and Resilience Facility Financing Agreement between the European Commission and the Republic of Latvia regarding new RRF financing. On March 22, 2024, two amendments in the European Council implementing the decision on the approval of the assessment of the Latvia Recovery Plan and amendments in the operational arrangements including new financing, changes in timeline and achievable indicators are reconciled and mutually approved by the Republic of Latvia and European Commission. The most important changes include additional financing allocation of €143.4 million, including RePowerEU financing, changes in the values, definitions and descriptions of achievable indicators (milestones and targets) and the extensions of certain milestone and target deadlines. Up until 27 March 2024, the Cabinet of Ministers had approved 65 reform/investment implementation regulations out of 69, amounting to 92 per cent. of the total allocation under the RRF financial assistance. For this purpose, project selection procedures were launched for a total funding of up to €1.75 billion (89 per cent. of the RRF allocation). By 5 March 2024, the contracted amount reached € 1.05 billion (53 per cent. of the RRF allocation) with the most financially intensive investments in fields such as climate change and sustainability, digital transformation, combating inequality and health. Latvia has received from the European Commission, €465.3 million (23.6 per cent. from allocation), including advance payments and payment in accordance with a payment request submitted in 2022. A second payment request was submitted on 22 December, 2023 (for receipt of €335.7 million which is expected to be received in 2024). Latvia plans to submit a third payment request by the end of 2024 (€275.1 million), after the milestones and targets set for 2023 are met.

The table below shows the breakdown of budget expenditure with respect to EU funds on a sub-fund basis:

	2019	**2020**	**2021**	**2022**	**2023**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
	(in million euros)									
Cohesion policy funds 2014-2020	712.2	630.8	579.0	594.4	869.9	190.6	-		-	-
Cohesion policy funds 2021-2027	-	-		12.3	75.2	261.0	725.9	965.4	818.2	941.1
Recovery and resilience facility	-	-	0.3	11.3	168.2	663.8	820.4	485.0		-
Total	**712.2**	**630.8**	**579.3**	**618.0**	**1,113.3**	**1,115.4**	**1,546.3**	**1,450.4**	**818.2**	**941.1**

Source: *Ministry of Finance*

ECONOMY OF LATVIA

Background

Since 1990, when Latvia regained independence from the Soviet Union, a consistent economic policy was prioritised to help lay the foundations, and establish good macroeconomic preconditions, for a market economy and future economic growth.

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

From 2011 to 2018, GDP grew by 3.4 per cent. per year on average. In 2019, GDP growth moderated, with real GDP increasing by 0.6 per cent. The deceleration of economic development was underpinned by both internal factors (including investments from EU funds having peaked and developments in the financial sector) and external factors (renewal of global trade tensions, Brexit and slower growth in other EU countries). In 2020, the COVID-19 pandemic had a significant impact on the Latvian economy and real GDP fell by 3.5 per cent, marking the first GDP decline since the financial crisis. The fall in private consumption, which was affected by rising unemployment and declining incomes, had the biggest impact on GDP reduction. In 2021, economic growth continued to be still affected by the COVID-19 pandemic and related government measures, but rapid growth was observed in the economy in the middle of the year largely due to the base effect, and in 2021 GDP increased by a total of 6.7 per cent. This increase was largely driven by the increase in exports fostered by favourable economic conditions in Latvia's largest export markets and growing private consumption mainly due to the base effect.

After the rapid recovery of the economy from the crisis of the COVID-19 pandemic in 2021, growth in Latvia slowed to 3.0 per cent. in 2022, largely driven by the supply chain disruptions as a result of Russia's invasion of Ukraine, heightened inflation caused by the cost of energy and food, as well as decline in global demand. While there was rapid growth in the first half of the year, before the impacts of the Russia-Ukraine war, due to increased exports and private consumption (underpinned by the base effect as compared to 2021) and the gradual easing of COVID-19 restrictions, growth decreased in the second half of the year. This was mainly driven by the deterioration of the balance of trade, in addition to the decrease in the growth rates of private consumption and investments.

In 2023, economic development continued to be affected by geopolitical conditions (such as the Russia-Ukraine war) and uncertainty, in addition to high prices and growing bank interest rates. Unfavourable conditions in the external environment and weak demand in the main target markets negatively affected Latvia's export indicators. In addition, high inflation had a negative impact on household consumption and the real income of the population. Furthermore, geopolitical conditions in the region (such as the Russia-Ukraine war) and weak lending reduced investment. Overall, in 2023, GDP decreased by 0.3 per cent. Despite these trends, there is some indication of recovery in the fourth quarter, both as compared to the fourth quarter of 2022 and to the third quarter of 2023 The general economic sentiment index in Latvia stood at 98.1 at 31 March 2024. Confidence indicators were positive in the retail trade and services sectors but negative in the industrial and constructions sectors, in addition to a negative consumer confidence indicator.

The table below shows the growth trend in selected economic indicators as at the end of each quarter in the years ended 31 December 2019, 2020, 2021, 2022 and 2023, in each case compared to the equivalent period of the preceding year.

Year ended 31 December

	2019				2020				2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(*per cent.*)																			
Household consumption .	1.3	0.8	0.5	(2.0)	0.5	(16.7)	0.7	(1.0)	(5.3)	18.6	4.8	12.3	14.7	9.0	4.4	3.8	0.1	(1.9)	(2.0)	(0.9)
Retail trade turnover.........	3.6	3.2	1.0	1.5	2.1	(1.7)	4.5	0.8	(4.6)	8.9	4.2	0.8	11.6	1.5	0.2	5.1	(1.7)	(2.3)	(3.1)	(1.1)
First registered passenger cars	5.2	3.3	1.4	(6.9)	(11.1)	(42.2)	(2.4)	(8.9)	(8.8)	64.4	11.9	8.2	18.0	(8.2)	(19.4)	(9.7)	(1.8)	5.5	1.0	(1.4)

Source: Central Statistical Bureau

Before the start of the COVID-19 pandemic, economic growth facilitated labour market improvements. As a result, it also contributed to the increase in employment, the creation of new jobs, the reduction of unemployment and the demand for labour. However, due to the rapid spread of COVID-19 in the world and the contraction of economic activities, as well as the related restrictions, significant changes were observed in the labour market and employment rates while unemployment increased. From 2022, the situation in the labour market began to improve, with a noticeable increase in the employment rate and a considerable decrease in the unemployment rate. According to the data published by the CSB in the period from 2019 to 2023, the number of employed persons (for persons aged 15 to 64) decreased from 870,300 in 2019 to 833,400 in 2023. The employment rate (for persons aged 15 to 64) for the same period decreased by 0.9 percentage points. The employment rate (for persons aged 15 to 64) was 72.3 per cent. in 2019 and then decreased to 71.6 per cent. in 2020 and 69.9 per cent. in 2021, but increased again to 71.3 per cent. in 2022 and 71.4 per cent. in 2023. The number of unemployed persons (aged 15 to 64) increased from 60,500 in 2019 to 78,300 in 2020 or by 29 per cent, but decreased back to 60,600 in 2023. The unemployment rate (for persons aged 15 to 64) was 6.5 per cent. in 2019, but increased to 8.4 per cent. in 2020 before gradually declining to 6.8 per cent. in 2023. Latvia had a current account deficit of 0.6 per cent. of GDP in 2019 and current account surplus of 2.9 per cent. of GDP in 2020. In the years 2021, 2022 and 2023, there was a current account deficit of 3.9 per cent., 4.7 per cent. and 4.0 per cent. of GDP, respectively.

For the period from 2019 to 2023, the average level of the current account balance was a deficit of 2.1 per cent. of GDP, which falls within the indicative thresholds set out in the EU Alert Mechanism.

Latvia’s current account is mainly determined by changes in the balance of the external trade of goods. In 2020, Latvia’s goods trade deficit declined sharply to 5.0 per cent. from a deficit of 8.6 per cent. of GDP in 2019, primarily driven by solid exports growth in addition to a decline in imports due to the effect of the COVID-19 pandemic on the economy. However, in 2021 and 2022, the trade deficit widened significantly to 8.3 per cent. and 10.7 per cent. of GDP, as imports surged due to high energy prices, with export growth unable to compensate for the import surge. While before the COVID-19 pandemic, a surplus in services trade was able to compensate for a deficit in goods trade, during the COVID-19 pandemic, transport services were heavily impacted, especially air transport, which negatively impacted the services trade. Furthermore, while the goods trade was not significantly impacted by the Russia-Ukraine war, transport services, including rail transport, were among the more adversely impacted. In 2023, both exports and imports of goods receded to levels closer to those observed in 2021, as energy prices normalized. Trade in services was rather stable from 2022 to 2023, with some still impacted by lower foreign demand and the Russia-Ukraine war, and others, such as air transport and travel services, that continued to recover from the COVID-19 pandemic.

Financial Assistance

Deteriorating economic conditions in Latvia in 2008 and a banking crisis at the end of that year significantly adversely affected State budget revenues and, as a result, Latvia sought financial assistance from the IMF and other international bodies towards the end of 2008. The IMF Stand-By Arrangement which Latvia entered into in December 2008 was part of the wider financial assistance package agreed with the EU, the World Bank, the EBRD and a number of Nordic and other EU countries, bringing the total financial assistance package to approximately €7.5 billion. By the end of 2011, only €4.5 billion of this financial assistance had been disbursed to Latvia and the financial assistance package has now lapsed. By 31 March 2024, Latvia had repaid €4.3 billion, or 96 per cent., of the amount borrowed. See “*Indebtedness—Borrowing from International Financial Institutions*”.

National Reform Programme

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

Since the adoption of the NRP of Latvia, progress reports relating to its implementation have been prepared and submitted to the EC annually. The progress reports reflect the updated medium term macroeconomic scenario, assess progress in the implementation of the EU Council’s country-specific recommendations, provide a detailed analysis on the implementation of policy directions of the NRP of Latvia (including progress on implementation of the European Pillar of Social Rights and achievement of the UN`s Sustainable Development Goals) and contain information on the spending of financing provided by the EU.

Latvia’s main structural policy priorities according to the NRP of Latvia are to maintain a sound and responsible fiscal policy, implement tax policy reform, foster public investments (including EU funds and the Recovery and Resilience Facility), implement reforms in health care (improving access and quality of health care by increasing financing, availability of medicines, medical staff, remuneration of doctors and nurses, digitalisation of health care and improving health and healthy lifestyles of the citizens), education (improvement of the school network, improvement of the higher education governance model, strengthening of vocational education and work-based learning, development of green and digital skills, strengthening life-learning and adult education) and ensure adequacy of social protection (minimum income reform, increase the financing for different social benefits, strengthening the adequacy of the pension system and increasing of pensions), foster access to finances especially for SMEs (by supporting programmes for loans and guarantees, risk capital, venture capital, etc.), strengthen energy policy to ensure energy independence, transition to green energy by fostering the use of renewable energy and foster energy efficiency.

Moreover, the recommendations of the OECD expressed in the OECD Economic Survey of Latvia regarding its socio-economic policy are addressed in similar policy directions as the EU Council’s country-specific recommendations. The recommendations of the EU Council and the OECD are reflected in the Republic’s action plan and serve as a good instrument in shaping structural reforms in Latvia.

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

Gross Domestic Product

In 2019, GDP growth increased by 0.6 per cent., driven by both internal factors (investments from EU funds have peaked, developments in the financial sector, etc.) and external factors (review of global trade tensions, Brexit, slower growth in other EU countries). Due to the COVID-19 pandemic, GDP fell by 3.5 per cent. in 2020. In 2021, the extensive government and EU funds support measures, as well as the improvement of the COVID-19 pandemic, contributed to the recovery of Latvia’s economy, and GDP grew by 6.7 per cent. In 2022, economic growth was significantly influenced by the disruptions in supply chains caused by the Russia-Ukraine war, the rise in inflation caused by the cost of energy and food, as well as the decline in global demand, and GDP growth slowed to 3 per cent. In 2023, economic growth continued to be affected by geopolitical conditions (such as the Russia-Ukraine war) and uncertainty, high prices and growing bank interest rates. Overall, in 2023, GDP decreased by 0.3 per cent.

The table below sets out Latvia's nominal GDP determined using the expenditure method in each of the years ended 31 December 2019, 2020, 2021, 2022, and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
			(€ millions)		
Private consumption	17,952.5	17,167.4	19,043.7	23,140.5	24,668.3
Public consumption	5,856.9	6,104.9	7,015.6	7,395.7	7,957.2
Gross fixed capital formation	6,734.9	6,752.1	7,461.4	8,452.6	9,730.0
Changes in inventories	243.0	(308.0)	879.2	1,158.1	(453.7)
Exports of goods and services	18,350.2	18,291.9	21,540.5	27,981.0	25,846.8
Imports of goods and services	(18,564.5)	(17,898.9)	(22,591.5)	(29,741.7)	(27,400.6)
GDP	**30,572.9**	**30,109.5**	**33,348.9**	**38,386.2**	**40,348.0**

Source: Central Statistical Bureau

The table below sets out the structure of Latvia's nominal GDP (determined using the expenditure method) of each sector specified in each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
			(per cent.)		
Private consumption	58.7	57.0	57.1	60.3	61.1
Public consumption	19.2	20.3	21.0	19.3	19.7
Gross fixed capital formation	22.0	22.4	22.4	22.0	24.1
Changes in inventories	0.8	(1.0)	2.6	3.0	(1.1)
Exports of goods and services .... …	60.0	60.8	64.6	72.9	64.1
Imports of goods and services	(60.7)	(59.4)	(67.7)	(77.5)	(67.9)
GDP	**100**	**100**	**100**	**100**	**100**

Source: Central Statistical Bureau

The table below sets out the real growth rates of each sector specified to Latvia's GDP determined using the expenditure method for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023 compared to the same period last year and the forecasts for 2024 to 2028.

	Year ended 31 December									
	2019	**2020**	**2021**	**2022**	**2023**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
					(per cent.)					
Private consumption	0.0	(4.3)	7.3	7.2	(1.3)	1.9	2.5	2.7	2.5	2.5
Public consumption	5.6	2.1	3.5	2.8	7.0	6.7	5.8	3.1	3.0	3.0
Gross fixed capital formation.....	1.5	(2.2)	7.2	0.6	8.2	3.8	4.2	2.8	2.8	2.8
Exports of goods and services....	1.3	0.4	9.0	10.3	(5.9)	(0.8)	3.3	4.1	4.0	4.0
Imports of goods and services....	2.2	(1.1)	(15.1)	11.1	(2.8)	1.9	3.9	4.0	4.0	4.0
GDP	**0.6**	**(3.5)**	**6.7**	**3.0**	**(0.3)**	**1.4**	**2.9**	**2.5**	**2.3**	**2.3**

Source: Central Statistical Bureau, 2024-2028 Stability Programme

The table below sets out the total and per capita GDP of Latvia for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023, in both current and constant prices (reference year 2015).

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
At current prices (€ *millions*)	30,572.9	30,109.5	33,348.9	38,386.2	40,348.0
At constant prices (€ *millions*)	27,183.2	26,228.0	27,993.6	28,820.7	28,739.3
Percentage change over previous period (constant prices)	0.6	(3.5)	6.7	3.0	(0.3)
Per capita(1)					
At current prices (€)	15,975	15,843	17,697	20,425	21,487
At constant prices (€)	14,204	13,801	14,855	15,335	15,305
Resident population					
At beginning of period	1,919,968	1,907,675	1,893,223	1,875,757	1,883,008
Average for the period	1,913,821	1,900,449	1,884,490	1,879,382	1,877,754

Source: Central Statistical Bureau
Note:
(1) Based on average population for the relevant period.

The increase in Latvia's GDP per capita was in line with the other member states of the EU from 2019 to 2023. Additionally, Latvia's general government gross fixed capital formation, i.e., the amount of public investment into fixed assets, was higher than the average for members states of the EU. High levels of public investment have been one of the main drivers of growth in Latvia. According to the 2024-2028 Stability Programme Forecast and Ameco (the annual macro-economic database of the European Commission), public investment is estimated to increase to 4.6 percent. of the GDP in 2024 and further, to 4.9 per cent. of the GDP in 2025.

Principal Sectors of the Economy

In terms of broad sectoral classification, Latvia's primary sector (agriculture, forestry and fishing) accounted for 4.7 per cent. of total value added in 2021 and 5.7 per cent. in 2022 and 4.7 per cent. in 2023.

The secondary sector (manufacturing, other industry (mining and quarrying, electricity, gas, steam and conditioning supply, water supply, sewage, waste management and remediation activities and construction)) accounted for 23.3 per cent. of total value added in 2021, 24.3 per cent. of total value added in 2022 and 23.7 per cent. of total value added in 2023. The principal contributors to total value added in the secondary sector are manufacturing and construction.

The tertiary sector (services) accounted for 72 per cent. of total value added in 2021 and 70 per cent. of total value added in 2022 and 71.5 per cent. in 2023. Within the services sector, the main activities contributing to total value added are wholesale and retail trade and repair services, transport and storage, real estate activities and a range of other commercial and public services.

The table below sets out nominal GDP (calculated using the production method) by primary, secondary and tertiary sector (and by each principal sub-sector within those sectors) for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
Primary sector	**1,149.5**	**1,204.9**	**1,379.4**	**1,922.4**	**1,681.4**
Secondary sector	**5,784.1**	**5,915.4**	**6,786.9**	**8,233.9**	**8,446.5**
Manufacturing	3,253.5	3,332.9	4,129.2	5,046.6	4,802.3
Other industry(1)	798.8	902.8	1,105.4	1,521.7	1,550.6
Construction	1,731.8	1,679.8	1,552.3	1,665.5	2,093.6
Tertiary sector	**19,683.6**	**19,160.6**	**20,980.8**	**23,676.5**	**25,445.4**
Trade(2)	4,430.3	4,272.2	4,457.2	5,094.2	5,084.6
Transportation and storage	2,207.6	1,748.8	1,869.9	2,328.6	2,193.1
Real estate activities	3,246.3	3,262.8	3,556.7	3,692.7	3,931.6
Other commercial services(3)	5,250.7	5,138.5	5,695.8	6,961.6	8,075.4
Public services(4)	4,548.7	4,738.4	5,401.2	5,599.5	6,160.6

Total value added	**26,617.2**	**26,281.0**	**29,147.1**	**33,832.8**	**35,573.3**
Taxes on products (minus subsidies)	3,955.7	3,828.5	4,201.8	4,553.4	4,774.7
Nominal GDP	**30,572.9**	**30,109.5**	**33,348.9**	**38,386.2**	**40,348.0**

Source: Central Statistical Bureau

Notes:

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

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

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

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

The tables below set out the share of each sector, by primary, secondary and tertiary sector (and by each principal sub-sector within those sectors), of total value added for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
			Share (per cent.)		
Primary sector	**4.3**	**4.6**	**4.7**	**5.7**	**4.7**
Secondary sector	**21.7**	**22.5**	**23.3**	**24.3**	**23.7**
Manufacturing	12.2	12.7	14.2	14.9	13.5
Other industry(1)	3.0	3.4	3.8	4.5	4.4
Construction	6.5	6.4	5.3	4.9	5.9
Tertiary sector	**74.0**	**72.9**	**72.0**	**70.0**	**71.5**
Trade(2)	16.6	16.3	15.3	15.1	14.3
Transportation and storage	8.3	6.7	6.4	6.9	6.2
Real estate activities	12.2	12.4	12.2	10.9	11.1
Other commercial services(3)	19.7	19.6	19.5	20.6	22.7
Public services(4)	17.1	18.0	18.5	16.6	17.3
Total value added	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Bureau

Notes:

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

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

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

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

The table below sets out the real growth rate of each GDP sector and principal sub-sector (calculated using the production method) for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023 compared to the same period in the previous year.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
			(per cent.)		
Primary sector	20.0	(0.4)	1.1	6.5	(8.1)
Secondary sector	(0.1)	1.1	4.0	(2.7)	0.7
Manufacturing	0.9	0.1	10.3	2.7	(5.2)
Other industry(1)	(8.1)	23.1	13.0	(11.7)	1.0
Construction	1.3	(5.9)	(13.6)	(11.3)	18.6
Tertiary sector	(0.4)	(5.4)	8.5	3.7	0.5
Trade(2)	1.3	(7.3)	17.8	(1.9)	(3.7)
Transportation and storage	(2.1)	(18.6)	6.6	3.0	(7.8)
Real estate activities	(1.0)	(1.9)	5.8	0.1	3.1
Other commercial services(3)	(0.9)	(4.4)	9.1	11.9	2.6
Public services(4)	(0.1)	0.8	1.4	3.1	4.8
Taxes on products (minus subsidies)	1.0	(3.5)	4.8	5.0	(3.8)
GDP	0.6	**(3.5)**	**6.7**	**3.0**	**(0.3)**

Source: Central Statistical Bureau
Notes:
(1) Includes mining and quarrying, electricity, gas, steam and conditioning supply, water supply, sewage, waste management and remediation activities.
(2) Includes wholesale and retail trade, repair of motor vehicles and motorcycles and accommodation and food service activities.
(3) Includes information and communication, financial and insurance activities, professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation and other service activities.
(4) Includes public administration, defence and compulsory social security, education and human health and social work activities.

Primary Sector

The primary sector accounted for between 4.3 per cent. and 5.7 per cent. of Latvia's total value added in the period from 2019 to 2023. The real growth rates in the primary sector were a positive real growth rate of 20 per cent. in 2019, a negative real growth rate of 0.4 per cent. in 2020 and a real growth rate 1.1 per cent. in 2021. Growth rates of 6.5 per cent. in 2022 and a negative real growth rate of 8.1 per cent. in 2023 were observed. Forests cover about half of Latvia and are the country's most important natural resource, while wood production is one of Latvia's principal exports. Agriculture plays a significant role as a source of employment, see "—*Employment*", and agricultural products (comprising live animals, prepared foodstuffs, principally fish and dairy products, and vegetable products) are a significant contributor to Latvia's exports, see "*Balance of Payments—Foreign Trade*". Agriculture also provides additional income for many families. According to data from the "*Agriculture of Latvia 2023*" collection of statistics prepared by the Central Statistical Bureau, there were 61,800 agricultural holdings in Latvia as at 31 December 2022, the average size of which was 44.7 hectares (6.4 hectares or 13.5 per cent. higher than 2020). Agricultural area on average per holding increased from 26.9 hectares in 2020 to 31.1 hectares in 2022. Over the period, the total utilised agricultural area in the country grew by 1.4 thousand hectares or 0.1 per cent., reaching 1,970.4 thousand hectares in 2022.

Secondary Sector

Manufacturing

The table below sets out the value added in nominal terms, the share of manufacturing of Latvia's total value added, as well as the real growth rate in manufacturing (in each case, calculated using the production method) for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
Manufacturing *(nominal, € million)*	3,253.5	3,332.9	4,129.2	5,046.6	4,802.3
Share *(per cent.)*	12.2	12.7	14.2	14.9	13.5
Real growth rate *(per cent.)*	0.9	0.1	10.3	2.7	(5.2)

Source: Central Statistical Bureau

Latvia's industrial strengths are in wood processing, the food industry, the production of electrical and optical equipment and metalwork and the production of metal goods, which together constituted 67.3 per cent. of the manufacturing sector's output in 2023.

The table below shows the structure of manufacturing based on the percentage proportion of the manufacturing sector's output in the year ended 31 December 2023 and changes in production volumes in manufacturing in each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December					
	Structure	**Changes in production volumes**				
	2023	**2019**	**2020**	**2021**	**2022**	**2023**
			(per cent.)			
Manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials	26.4	0.0	4.5	3.7	-1.0	-8.3
Manufacture of food products	19.3	-0.8	-0.3	-0.6	-1.6	4.1
Manufacture of fabricated metal products, except machinery and equipment	7.6	13.6	-3.3	10.0	0.5	-6.2

	Year ended 31 December					
	Structure	Changes in production volumes				
	2023	2019	2020	2021	2022	2023
			(per cent.)			
Manufacture of computer, electronic and optical products	5.7	9.3	.	.	-1.7	15.3
Manufacture of other non-metallic mineral products	5.1	-2.1	-1.4	4.4	5.4	-16.9
Manufacture of electrical equipment	4.2	16.0	5.8	5.1	8.6	12.4
Manufacture of chemicals and chemical products	3.5	-1.2	3.2	25.6	-5.0	-5.1
Manufacture of machinery and equipment not elsewhere classified	2.9	-1.9	-2.7	24.1	-12.3	4.1
Manufacture of motor vehicles, trailers and semi-trailers	2.9	-3.5	-17.3	34.8	13.6	-11.4
Manufacture of rubber and plastic products	2.8	-6.7	3.6	11.2	-1.8	-11.1
Manufacture of beverages	2.6	0.3	-8.2	10.4	19.1	-6.6
Manufacture of furniture	2.6	-2.8	-1.2	24.8	0.7	-20.8
Printing and reproduction of recorded media	2.0	7.5	6.8	16.7	-0.3	-28.9
Repair and installation of machinery and equipment	1.9	9.3	-29.5	-8.6	8.5	26.4
Manufacture of textiles	1.7	1.3	-11.3	8.0	3.8	-6.1
Manufacture of basic metals	1.5	3.3	-22.5	-37.6	187.3	-21.8
Manufacture of wearing apparel	1.3	-5.4	-8.1	16.0	6.0	-8.3
Manufacture of paper and paper products	1.2	1.0	0.0	2.1	-8.7	-7.6
Other manufacturing	0.9	-8.6	-8.4	19.7	0.9	6.4
Manufacture of leather and related products	0.02	-26.2	-21.9	-10.4	4.4	10.3
Total	**100.0**	**2.1**	**-0.9**	**7.5**	**2.7**	**-5.2**

Source: Central Statistical Bureau

In the wood processing industry, changes in production volumes generally reflect demand in Europe for processed wood products. Approximately 67 per cent. of the wood processing industry's production is exported, principally to EU countries. Approximately 56 per cent. of the goods produced by the food industry are sold in the domestic market. The majority of the electrical equipment produced in Latvia is exported, principally to EU countries, and demand in these markets fell in 2019, 2020, 2021 and 2022 before recovering in 2023. In 2023, approximately 61 per cent. of the fabricated metal products and 80 per cent. of chemicals and chemical products produced was exported.

In 2019, the growth rate in the production volume of manufacturing was 2.1 per cent., with the metals and metal articles, electrical and optical equipment and chemical, rubber, plastics and pharmaceuticals industries being the main contributors to this growth. In 2020, the negative economic impact of the COVID-19 pandemic impacted the manufacturing sector, resulting in a negative real growth rate in the production volume of manufacturing of 0.9 per cent. In 2021, there was a positive real growth rate in the production volume of manufacturing of 7.5 per cent. In 2021 such growth was observed in all manufacturing sub-sectors. In 2022, the growth rate in the production volume of manufacturing was 2.7 per cent., with the metals and metal articles and transport vehicles production industries being the main contributors to this growth. In 2023, there was a negative real growth rate in the production volume of manufacturing of 5.2 per cent. This was mainly due to reductions in wood processing, as well as non-metallic mineral production and chemical industry sub-sectors. The decline was partially offset by growth in the electrical and optical equipment and food industries.

Construction

The table below sets out the value added in nominal terms, the share of construction of Latvia's total value added, as well as the real growth rate in construction (in each case, calculated using the production method) for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	2020	2021	2022	2023
Construction *(€ millions)*…………………………..	1,731.8	1,679.8	1,552.3	1,665.5	2,093.6
Share *(per cent.)* ……………………………………	6.5	6.4	5.3	4.9	5.9
Real growth rate *(per cent.)*……………………..	1.3	(5.9)	(13.6)	(11.3)	18.6

Source: Central Statistical Bureau

The construction sector moderately increased in real terms by 1.3 per cent. in 2019. However, it subsequently contracted in 2020, 2021 and 2022 in real terms by 5.9 per cent., 13.6 per cent. and 11.3 per cent., respectively. In 2020, as the construction sector was not subject to strict restrictions., construction production volumes continued to increase, although in some quarters of the year, the decline in private investment caused by an economic downturn led to decreases in production volumes. In 2021 and 2022, however, the sector experienced a bigger drop in demand due to the global rise in construction costs and in particular, the prices of timber and metal. Reflecting this reduction, the construction sector's share in total value added has decreased from 6.5 per cent. in 2019 to 5.9 per cent. in 2023. In 2023, construction started to recover and rose sharply with a real growth rate of 18.6 per cent, with the increase in customer activity having a positive effect on the industry indicators. The low base effect of the industry's two-year recession can also be cited as an influencing factor.

Tertiary Sector

The tables below set out the value added in nominal terms and a breakdown of the share of the services sector (calculated using the production method) to total value added by significant sub-sectors for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December									
	2019		2020		2021		2022		2023	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Wholesale and retail trade, repair of motor vehicles and motorcycles	3,925.9	14.7	3,922.5	14.9	4,120.7	14.1	4,479.2	13.2	4,332.5	12.2
Real estate activities	3,246.3	12.2	3,262.8	12.4	3,556.7	12.2	3,692.7	10.9	3,931.6	11.1
Professional, scientific and technical activities(1)	2,340.8	8.8	2,351.6	8.9	2,510.3	8.6	3,182.0	9.4	3,486.1	9.8
Public administration and defence, compulsory social security	2,082.3	7.8	2,146.4	8.2	2,303.4	7.9	2,342.7	6.9	2,606.2	7.3
Information and communication	1,529.8	5.7	1,598.0	6.1	1,815.0	6.2	2,181.9	6.4	2,453.1	6.9
Transportation and storage	2,207.6	8.3	1,748.8	6.7	1,869.9	6.4	2,328.6	6.9	2,193.1	6.2
Human health and social work activities	1,151.0	4.3	1,232.9	4.7	1,640.6	5.6	1,728.2	5.1	1,854.2	5.2
Education	1,315.4	4.9	1,359.0	5.2	1,457.2	5.0	1,528.6	4.5	1,700.2	4.8
Financial and insurance activities	813.8	3.1	783.9	3.0	930.5	3.2	984.9	2.9	1,399.6	3.9
Remaining services(2)	1,070.7	4.0	754.6	2.9	776.5	2.7	1,227.7	3.6	1,488.7	4.2
All services	**19,683.6**	**74.0**	**19,160.6**	**72.9**	**20,980.8**	**72.0**	**23,676.5**	**70.0**	**25,445.4**	**71.5**

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

The table below sets out a breakdown of the real rates of growth of each significant sub-sector within the services sector (calculated using the production method) for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	2020	2021	2022	2023
			(per cent.)		
Wholesale and retail trade; repair services	2.2	(4.2)	19.8	(6.1)	(5.1)
Real estate activities	(1.0)	(1.9)	5.8	0.1	3.1
Professional, scientific and technical activities(1)	(0.6)	(2.1)	5.2	17.4	1.2
Public administration and defence; compulsory social security	0.2	2.8	0.5	3.7	6.1
Information and communication	3.6	0.6	12.6	12.6	2.5
Transportation and storage	(2.1)	(18.6)	6.6	3.0	(7.8)
Human health and social work activities	4.8	(3.4)	6.1	1.0	(1.5)
Education	(4.4)	1.1	(0.8)	4.1	7.8
Financial and insurance activities	(9.9)	0.6	16.0	(9.4)	2.3
Remaining services(2)	(1.5)	(32.5)	(0.5)	42.3	9.5
Services total	**(0.4)**	**(5.4)**	**8.5**	**3.7**	**0.5**

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

Within the tertiary services sector, the principal sub-sectors by share of total value added are wholesale and retail trade and repair services (trade); real estate activities (real estate); public administration and defence and compulsory social security (public administration) and ICT. Within the tertiary services sector, together these activities accounted for 54.8 per cent. of total services in 2019, 57.0 per cent. of total services in 2020, 56.2 per cent. of total services in 2021, 53.6 per cent. in 2022 and 52.4 per cent. in 2023.

Wholesale and retail trade; repair services

The table below shows a breakdown of value added of trade in nominal terms (calculated using the production method) for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
			(€ millions)		
Wholesale trade, except trade in and repairs for motor vehicles and motorcycles	1,844.2	1,809.2	2,008.6	-	-
Retail trade, except trade in and repairs for motor vehicles and motorcycles	1,634.1	1,693.0	1,648.9	-	-
Motor vehicles and motorcycles trade and repair services	447.6	420.2	463.2	-	-
Wholesale and retail trade; repair of motor vehicles and motorcycles	**3,925.9**	**3,922.5**	**4,120.7**	**4,479.2**	**4,332.5**

Source: Central Statistical Bureau

For the purposes of calculating GDP, wholesale trade is defined as an intermediate process in the distribution of merchandise, whereas retail trade is defined as the final process in the distribution of merchandise.

As a percentage of trade as a whole, retail trade was 40 per cent. in 2021, wholesale trade 48.7 per cent. in 2021, and motor vehicles and motorcycles trade and repair services were 11.2 per cent. in 2021.

Overall, wholesale and retail trade and repair of motor vehicles and motorcycles grew in real terms in 2019. These trends reflected the fact that private consumption was positively affected by declining unemployment and increased wages. Due to the COVID-19 pandemic, wholesale and retail trade and repair of motor vehicles and motorcycles fell in real terms by 4.2 per cent. in 2020. In 2021, wholesale and retail trade and repair of motor vehicles and motorcycles grew rapidly in real terms by 19.8 per cent., largely driven by the easing of the restrictions related to the COVID-19 pandemic. In 2022, trade was negatively affected by the decrease in turnover of goods with Russian and Belarusian markets due to sanctions imposed by government entities such as the EU and the United States, and wholesale and retail trade and repair of motor vehicles and motorcycles fell in real terms by 6.1 per cent. In 2023, trade continued to be negatively affected by unfavourable macroeconomic conditions, which reduced wholesale trade volumes even more. The increase in consumer prices exceeded the increase in income and real income of the population shrank, negatively affecting household consumption, which reduced retail trade volumes. Overall, wholesale and retail trade and repair of motor vehicles and motorcycles fell in real terms by 5.1 per cent. in 2023.

Transportation and storage

The share of transportation and storage in Latvia's total value added was 8.3 per cent. in 2019, 6.7 per cent. in 2020, 6.4 per cent. in 2021, 6.9 per cent. in 2022 and 6.2 per cent. in 2023. In terms of real growth, transportation and storage declined by 2.1 per cent. in 2019 and 18.6 per cent. In 2020. In 2019, the increase in volumes in land transport was unable to compensate for the decline in other transportation sub-sectors. However, in 2020, volumes of the sector reduced sharply due to the movement restrictions caused by the COVID-19 crisis, having a significant impact on aviation, land transport and railway operations. Transportation and storage then grew by 6.6 per cent. In 2021 and by 3.0 per cent. In 2022 as the COVID-19 pandemic improved and the related restrictions were eased. After growth in the previous two years, in 2023, in terms of real growth, the transportation and storage declined by 7.8 per cent., which was determined by the decrease in all transport sub-sectors, except for air transport. Certain freight transport statistics are set out below under "—*Infrastructure*".

Real estate activities

The share of the real estate sector of Latvia's total value added was 12.2 per cent. In 2019, 12.4 per cent. In 2020, 12.2 per cent. In 2021, 10.9 per cent. In 2022 and 11.1 per cent. in 2023. In terms of real growth, the real estate sector contracted by 1.0 per cent. in 2019 and by 1.9 per cent. in 2020, then grew by 5.8 per cent. in 2021, by 0.1 per cent. in 2022 and by 3.1 per cent. in 2023.

Public administration and defence; compulsory social security

The share of public administration in Latvia's total value added was 7.8 per cent. in 2019, 8.2 per cent. in 2020,7.9 per cent. in 2021, 6.9 per cent. in 2022 and 7.3 per cent. in 2023. In terms of real growth, public administration grew by 0.2 per cent. in 2019, by 2.8 per cent. in 2020, by 0.5 per cent. in 2021, by 3.7 per cent. in 2022 and 6.1 per cent. in 2023.

See also "*Public Finance—Summary Of Latvia's Budgets Since 2019*" for a discussion of budget cuts affecting the public sector since 2019.

Financial and insurance activities

The share of financial and insurance activities, which is dominated by Latvia's banking sector, in Latvia's total value added was 3.1 per cent. in 2019, 3.0 per cent. in 2020, 3.2 per cent. in 2021, 2.9 per cent. in 2022 and 3.9 per cent. in 2023. At real rates, the sector declined by 9.9 per cent. in 2019 and then grew by 0.6 per cent. in 2020, 16.0 per cent. in 2021, fell by 9.4 per cent. in 2022 and grew by 2.3 per cent. in 2023. In 2019, the aggregate loan portfolio of Latvian banks contracted by 0.7 per cent. and the decrease was mostly driven by non-financial corporations, whereas loans to households remained stable. The aggregate loan portfolio decreased further by 3.9 per cent. in 2020 and was affected by Latvian banks and potential borrowers taking a more cautious approach due to COVID-19 pandemic. In 2021, the aggregate loan portfolio increased by 12.2 per cent. significantly influenced by two one-off factors involving AS Citadele banka: the purchase by AS Citadele banka of (i) SIA UniCredit Leasing, which operates in the Baltics and as part of the purchase, AS Citadele banka replaced the funding provided by the leasing company's previous owner by way of a large loan to SIA UniCredit Leasing; and ii) the mortgage loan portfolio of the former ABLV Bank. In 2022, the aggregate loan portfolio continued to grow by 6.9 per cent. boosted by active domestic lending. Despite the uncertainty of the macroeconomic environment and the market (higher interest rate level, inflation, geopolitical situation), the Latvian banks' aggregate loan portfolio in 2023 grew by 1.5 per cent. driven mainly by domestic household lending, whereas loans to domestic non-financial corporations remained stable.

Education and health

Together, the share of education and health and social work in Latvia's total value added was 9.3 per cent. in 2019, 9.9 per cent. in 2020, 10.6 per cent. in 2021, 9.6 per cent. in 2022 and 10 per cent. in 2023. In terms of real growth, education fell by 4.4 per cent. in 2019, grew by 1.1 per cent. in 2020, fell by 0.8 per cent. in 2021, then grew by 4.1 per cent. in 2022 and 7.8 per cent. in 2023. The health and social work subsector grew by 4.8 per cent. in 2019, fell by 3.4 per cent. in 2020, then grew by 6.1 per cent. in 2021 and by 1.0 per cent. in 2022, and fell by 1.5 per cent. in 2023.

Tourism

The significant decline in the tourism sector between 2020 and 2022 was primarily caused by the restrictions imposed in response to the COVID-19 pandemic. International transport restrictions led to a decrease in passenger flows, significantly impacting transportation services such as aviation, ground transportation, and railways. Furthermore, the COVID-19 pandemic resulted in a reduction of services provided in accommodation and food service sectors.

Tourism plays a crucial role in the Latvian economy, contributing to its GDP and serving as a significant source of export revenue, but recent crises such as the Russia-Ukraine war and macroeconomic conditions, including inflationary pressures and volatile energy prices have hindered the post-pandemic recovery.

The Latvian Tourism and Events Export Promotion Strategy 2027 aims to elevate Latvia's tourism exports to €1.5 billion by 2027, representing a 4.2 per cent. annual growth rate. Additionally, Latvia leverages funding from the EU to bolster the export capacity of the tourism industry and enhance the country's international competitiveness.

The Latvian Tourism and Events Export Promotion Strategy 2027 also outlines four key priorities or strategic directions: development of products and destinations; promotion of demand; data-driven management; and enhancement of the business environment in the tourism sector and restructuring of regulatory framework in the tourism sector.

Latvia's target tourism markets are countries with highest potential to maximize Latvia's returns on its marketing investments and to contribute to the achievement of the economic goals of the Latvian tourism sector. The Latvian Tourism Marketing Strategy for 2021-2027 prioritizes Lithuania, Estonia, Germany, Finland, Sweden, Norway, the United Kingdom as high priority markets. Poland, Belgium, France, the Netherlands, Ireland, Austria, Italy, Denmark, Switzerland and Spain are identified and as secondary markets, while the United States of America, Japan, South Korea and the United Arab Emirates are considered prospective long-haul markets.

The main tourism industry indicators 2019 – 2023

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
The number of overnight travellers (both residents and non-residents) in Latvia	2,853,333	1,462,965	1,306,588	2,172,069	2,435,795
The number of overnight foreign visitors in Latvia	1,945,919	714,975	442,188	1,138,873	1,388,972
The total expenditure of overnight non-resident travellers, million EUR	908	699	634	1,050	1,213
The top six countries contributing the largest proportion of overnight non-resident travellers to Latvia	Lithuania, Estonia, Russia, Germany, United Kingdom, Poland	Lithuania, Estonia, Russia, Poland, Germany, Finland	Lithuania, Estonia, Russia, Germany, United Kingdom, Ukraine	Lithuania, Germany, Estonia, United Kingdom, Russia, Poland	Lithuania, Estonia, Germany, Finland, United Kingdom, Poland
The number of nights spent at Latvian tourist accommodation establishments (both residents and non-residents)	5,509,682	2,889,342	2,379,777	3,882,922	4,370,854
The number of hotels and other accommodation establishments in Latvia	847	700	757	786	851

Inflation

Inflation (measured in terms of changes in the HICP) was elevated from 2017 to 2019. Accordingly, the annual average inflation rate was 2.9 per cent., 2.6 per cent., 2.7 per cent. for 2017, 2018 and 2019 respectively. Inflation was very low in 2020, with the annual average inflation rate being 0.1 per cent, driven by declining demand due to the measures introduced to curb the spread of COVID-19 pandemic. As the immediate impact of the COVID-19 pandemic on the economy receded and the economy recovered, consumer prices were stabilising, and the annual average inflation rate in 2021 was 3.2 per cent. In 2022, there was a very sharp rise in prices with an annual average inflation rate of 17.2 per cent. This was underpinned by the increase in global energy and food prices exacerbated by Russia's invasion of Ukraine and the subsequent sanctions, which disrupted the production and transport of energy, food and raw materials for manufacturing. In 2023, consumer prices stabilised and were shrinking every month compared to the corresponding month of the previous year, but considering the base effect of inflation dynamics, the annual average inflation remained high at 9.1 per cent. The biggest contributor to inflation in 2023 was the rise in prices of food and non-alcoholic beverages, accounting for more than a third of the total inflation. Food prices had a significant impact on average inflation, accounting for the largest share of all goods and services in a household consumption basket at 26.2 per cent. of total consumption. Food price inflation slowed during 2023, in line with an average inflation, with food prices remaining above the average. This put significant pressure on household spending, especially for low-income households. In 2024, inflation continued to be influenced by global prices and unstable geopolitical conditions. The annual average inflation rate in March 2024 was 4.7 per cent. The annual average growth rate of core HICP inflation (which excludes energy, food, alcohol and tobacco) has remained broadly stable from 2016 till 2021 with annual average growth rates between one and 2.2 per cent. The annual average growth rate of core HICP inflation was 7.6 per cent. in 2022 and 8.4 per cent. in 2023 and 6.6 per cent. in March 2024.

The table below sets out the annual average growth rate of the HICP and the core HICP for the years ended 2019, 2020, 2021, 2022, 2023 and the period ended 31 March 2024. As of 31 March 2024, the annual average growth rate of HICP was 4.7 per cent. and the core HICP was 6.6 per cent.

	Year ended 31 December					**Period ended 31 March**
	2019	**2020**	**2021**	**2022**	**2023**	**2024**
HICP *(annual average rate of change in per cent.)*..........	2.7	0.1	3.2	17.2	9.1	4.7
Core HICP excluding energy, food, alcohol and tobacco *(annual average rate of change in per cent.)*	2.2	0.9	1.9	7.6	8.4	6.6

Source: Eurostat

From 2021 to 2023, core inflation was driven primarily by a sharp rise in the prices of subset of goods and services (as opposed to a more level increase across all goods and services), and other goods and services that registered milder increases. In 2023 specifically, core inflation was high due to wage increases strengthening demand and increasing expenses, especially in the services sector where the role of labour is more important than in other product groups. Further, the increase in energy prices had an inflationary effect on both the cost of non-energy goods and services. In the first three months of 2024, however, there has been a decline in prices across product groups and services.

As of April 2024, Latvia had among the lowest HICP values, which was at 1.1 per cent., as compared to the average HICP value for members of the eurozone, which stood at 2.4 per cent. for the same period.

Wages

Since 2019, average monthly gross wages have grown and the average monthly gross wage in 2023 was €1,537, an increase of 42.8 per cent. compared to the average monthly gross wage in 2019.

The table below sets out the average monthly gross and net wages in Latvia and their growth rates, together with the real wage index, for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
Average monthly gross wages (€)	1,076	1,143	1,277	1,373	1,537
Gross growth (per cent.)..........	7.2	6.2	11.8	7.5	11.9
Average monthly net wages (€)..........	793	841	939	1,006	1,119
Growth *(per cent.)*..........	6.8	6.1	11.7	7.1	11.3
Real wage index *(per cent. of previous year)*	103.9	105.9	108.1	91.3	102.2

Source: Central Statistical Bureau

The monthly average gross wage continues to grow; however, its growth rates were lower than the inflation growth rate compared to the corresponding period from Q1 2022 to Q1 2023, causing a deterioration in purchasing capacity. The real wage resumed growth from Q2 2023. The net average wage in 2023 (calculated using the employment taxes applicable in the workplace) was €1,119 or 72.8 per cent. of gross wage, and it increased by 11.3 per cent. during the year, outpacing the rise in consumption prices. The increase in real net wage, taking account of inflation, was 2.2 per cent. At the same time, positive pressure on wages will continue to be maintained both by the process of wage convergence closer to the wage level of the economically developed countries of the EU, and by the growing shortage of qualified labour. As such, the tightening of the labour market is expected to result in an increase in wage rates.

Between January 2019 and January 2024, the minimum monthly wage in Latvia increased from €430 to €700 an increase of 62.8 per cent. Between 2019 and 2022, the nominal hourly labour costs in Latvia increased from €9.51 to €12.76. From 2019 to 2022, real labour productivity per hour worked has increased by 11.4 per cent.

In 2019, the differentiated non-taxable minimum ranges from €0 to 2,760 per year (€0-230 per month), in 2020 and 2021, from €0 to 3,600 per year (€0-300 per month) and in 2022, from €0 to 5,100 per year (€0-350 per month in the first half of the year and €0 to 500 in the second half of the year) and in 2023 and 2024 from €0 – 6,000 per year (€0-500 per month).

From 2018, according to the labour tax reform, the allowance for each dependant has gradually increased to €2,400 per year (€200 per month) in 2018, €2,760 per year (€230 per month) in 2019 and €3,000 per year (€250 per month) in 2020. From 2015 until 2020, the monthly tax allowance has been €120 for the third disability group and €154 for the first and second disability group.

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

Employment

The table below sets out the Labour Force Survey ("**LFS**") annual average unemployment rate (the share of unemployed persons (aged 15-64) as a percentage of the active population of the same age group), the registered unemployment rate (unemployed non-working persons (aged 15-64), actively seeking a job and registered with the State Employment Agency, as a percentage of the active population of the same age group), the labour participation rate (the active population (persons aged 15-64 who are employed or actively seeking a job) as a percentage of the total population) and the employment rate (the number of employed persons aged 15-64 expressed as a percentage of the total population) in Latvia in 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
Unemployment rate	6.5	8.4	7.9	7.1	6.8
Registered unemployment rate, end of period *(per cent.)*	6.2	7.7	6.7	6.1	5.7
Labour participation rate, annual data *(per cent.)*	77.3	78.2	75.8	76.8	76.6
Employment rate *(per cent.)*	72.3	71.6	69.9	71.3	71.4
Men	73.9	73.1	71.9	72.5	72.7
Women	70.7	70.2	68.0	70.2	70.2

Sources: State Employment Agency, Central Statistical Bureau

From 2011 until March 2020, the labour market was on a relatively upward trend but the rapid spread of COVID-19 and the resulting drop in economic activity had a consequential impact on the labour market. However, from 2022, the labour market has improved, with an increase in the employment rate and a decrease in the unemployment rate. In particular, in 2019, Latvia's employment rate in the age group 15-64 was 72.3 per cent., dropped to 69.9 per cent. in 2021, and then increased to 71.4 per cent. in 2023. Disaggregated by gender, the employment rate for women in Latvia in the age group 15-64 years is lower than for men. In 2023, the female employment rate in this age group was 70.2 per cent., while the male employment rate was 72.7 per cent.

The unemployment rate in the age group 15-64 was 6.5 per cent. in 2019 and increased to 8.4 per cent. in 2020. In 2023, the unemployment rate in the age group 15-64 decreased to 6.9 per cent. The overall unemployment rate for women, however, is lower than for men in Latvia. In 2023, the unemployment rate in the age group 15-64 for women was 5.6 per cent., while the unemployment rate for men was 7.9 per cent. (compared to 7.4 per cent. and 9.4 per cent. respectively in 2020).

The number of registered unemployed started to increase from the declaration of the state of emergency as a result of the COVID-19 pandemic on 12 March 2020. According to the data of the State Employment Agency, there were 69,605 registered unemployed (at a registered unemployment rate of 7.7 per cent.) at the end of December 2020. However, the number of registered unemployed has been on the decline since April 2021, when the state of emergency ended and related safety measures were lifted. There were 50,344 registered unemployed as of 31 December 2023 (with a registered unemployment rate of 5.7 per cent), 53,536 registered unemployed (with a registered unemployment rate of 6.1 per cent) as of 31 December 2022 and 60,774 registered unemployed as of 31 December 2021 (with a registered unemployment rate of 6.7). Alongside economic development, the demographic situation also had a significant impact on the reduction of unemployment. Since 2015, the number of entrants into the labour market has been lower than the number of people in their sixties leaving the labour market due to a steady decline in total working-age population, with the notable exception of 2022, when Latvia welcomed refugees from Ukraine as a result of the Russia-Ukraine war.

The following table shows annual average employment by sector in Latvia in 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
	(thousands of persons)				
Agriculture, forestry and fishing	66.3	64.3	58.5	59.9	59.3
Mining and quarrying	3.2	2.7	2.7	2.8	3.5
Manufacturing	115.1	114.5	109.2	114.4	111.7
Electricity, gas, steam and air conditioning supply	9.4	10.7	12.1	12.9	10.8
Water supply; sewage, waste management and remediation activities	6.7	6.2	7.3	7.7	6.5
Construction	81.1	76.5	72.3	72.1	70.3
Wholesale and retail trade; repair services	137.6	130.6	132.1	139.5	127.6
Transportation and storage	74.3	69.3	66.7	65.9	73.2
Accommodation and food service activities	32.0	29.6	25.8	26.7	29.0
Information and communication	25.6	31.1	35.6	42.6	42
Financial and insurance activities	23.2	20.3	17.7	16.9	16.4
Real estate activities	21.7	19.7	17.8	16.6	19.5
Professional, scientific and technical activities	33.4	37.0	32.2	34.4	35.6
Administrative and support service activities	29,0	29.0	26.1	26.5	27.8
Public administration and defence; compulsory social security	63.3	63.1	62.7	62.5	57.2
Education	83.3	81.6	82.3	82.5	82.4
Human health and social work activities	58.0	56.7	58.3	59.8	64.6
Arts, entertainment and recreation	27.6	24.5	21.5	21.6	23.3
Other service activities	16.4	21.2	19.4	18.4	21.1
Activities of households as employers; undifferentiated goods - and services - producing activities of households for own use	-	-	-	-	-

Source: Central Statistical Bureau; Ages 15 to 74

The sectors which were the biggest employers in 2023 in Latvia were trade and repair services, manufacturing, education, transport and storage, construction, human health and social work activities and agriculture, forestry and fishing, which together accounted for 66.6 per cent. of total employment based on CSB figures.

Social Security System

Social Insurance

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

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

Since 1 January 2021, an employee insured for all types of social insurance has a compulsory contribution rate of 34.09 per cent. of his gross wage. The total social insurance contribution is split between the employer and the employee at 23.59 per cent. and 10.5 per cent., respectively. 1 per cent. of the total rate is transferred for the financing of health care services.

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

The benefits and contributions which are paid are financed by the State Social Insurance special budget and, where necessary, social security costs can also partly be financed by accumulated budget resources. Since 2014, the State Social Insurance special budget has operated with a surplus. The surplus by the end of 2023 was €251 million. This trend towards a surplus reflects a number of measures taken with a view to balancing the budget and creating a sustainable social insurance framework, including an increase in social contribution; a general reduction in certain types of compensation and setting upper limits for compensation amounts. In addition, the retirement age is being increased by three months a year from 62 to 65 years between 2014 and 2025.

Pension System

In 1996, Latvia commenced reform of its pension system in order to create greater flexibility with regard to demographic fluctuations and to provide long-term stability given the ageing population. The pension system focuses on incentives for the working age population to remain in the labour market as long as possible beyond the minimum retirement age (which in 2024 is 64 years and nine months see "—*Social Insurance*" above). Since July 2001, a three-tier pension system has been in operation in Latvia. The first tier comprises a state compulsory unfunded pension scheme, the second tier comprises a state funded pension scheme and the third tier comprises a private voluntary pension scheme. All persons making social insurance contributions are included in the first tier. Contributions paid by the members are used for the payment of old age pensions to the existing generation of pensioners. Social insurance contributions paid by those who participate in the second pension tier are invested by selected fund managers and saved for the pension of the individual making contributions. The third pension tier allows every individual to create additional savings for his pension in private pension funds.

The first tier has been in operation since 1 January 1996. The pension amount paid under this tier depends on the recipient's accumulated pension capital, age at retirement and forecasted life expectancy after retiring. The number of contributors (including transfers) to this scheme in 2023 was 1 million (unique persons). Expenditures for old age pensions under this tier equalled 7.0 per cent. of GDP in 2023.

The second tier has been in operation since 1 July 2001. Under this tier, the participant's contributions are invested in capital markets instruments in Latvia and abroad by his selected fund manager. The assets of this tier at the end of 2023 were managed by eight private investment management companies which offer 33 investment plans. The number of participants in the second tier scheme at the end of 2023 was 1.3 million. The net assets of the investment plans of the scheme equalled 17.5 per cent. of GDP at the end of 2023. Since 2016, the contribution rate has remained at 6.0 per cent. of gross wages.

The third tier has been in operation since 1 July 1998. The third tier gives any person the free choice to create additional savings for his pension by paying contributions into private pension funds. At the end of 2023, there were seven private pension funds operating in Latvia, consisting of six open pension funds and one closed pension fund, offering 21 pension plans to 411,877 participants, or 43.6 per cent. of Latvia's economically active population (aged 15 to 74 years). In 2023, the majority of total contributions were made by individual participants. The net capital of the scheme equalled 2.0 per cent. of GDP at the end of 2023.

From 1 July 2023, the minimum old-age pension is linked to the income median and revised annually. The amount of the minimum pension depends on both the value of the minimum pension calculation basis and the duration of the insurance record. The minimum old-age pension for each year of insurance is determined by applying a coefficient to the old-age pension calculation base. Additionally, from 2023 onwards, the regulation of the pay-out phase of the pension system was changed, setting an equal life-annuity monthly amount for the complete retirement period. Under the prior framework, it was possible to divide the amount across three sub-periods with different payments for each period. This was found to result in low levels of life annuities during the final sub-period, thus undermining the adequacy of pension payments made to the oldest age groups of pensioners.

Tax Policy Principles

On 9 May 2017, Latvia's government approved the Finance Ministry's tax policy principles for 2018-2021 (the "**Tax Policy Principles**"). Legislation in respect of the Tax Policy Principles and related bills were endorsed by the Saeima on 27 and 28 July 2017, and entered into force on 1 January 2018.

The Tax Policy Principles provided for the following tax reforms:

- Three personal income tax basic rates for salary income and income from economic activities were stipulated in the Tax Policy Principles: 20 per cent. on annual income of up to €20,004, 23 per cent. on annual income between €20,004 and €62,800 (€55,000 in 2018), 31.4 per cent. on annual income exceeding €62,800 (€55,000 in 2018). From 2021, the personal income tax rate for annual income above €62,800 per year has been reduced from 31.4 per cent. to 31 per cent.
- The non-taxable differentiated minimum in respect of income was initially planned to be increased from €230 to €250 per month (in 2020). However, the differentiated non-taxable minimum was increased more rapidly to €300 per month in 2020 to reduce income inequalities and to provide more support to citizens.
- The tax allowance for dependants was increased from €230 to €250 per month in 2020.
- The non-taxable minimum in respect of income for pensioners was raised from €235 to €250 per month in 2018. This has subsequently risen to €270 in 2019, to €300 in 2020 and to €330 in 2021.
- The minimum monthly wage was increased from €380 to €430 in 2018 and to €500 per month in 2021.
- The personal income tax rate for capital gains and income from capital was increased to 20.0 per cent. in 2018.
- The solidarity tax (which is a tax levied on income which exceeds the ceiling for mandatory state social contributions) was transformed. Instead of being paid into the central government budget, the proceeds of the solidarity tax are distributed to social security, the healthcare financing budget and the personal income tax account. The solidarity tax rate has been reduced from 35.09 per cent. to 25.50 per cent. in 2019 and to 25 per cent. in 2021.
- Mandatory social insurance contributions were increased by one percentage point in 2018 (to 35.09 per cent. This additional revenue was used for financing the healthcare sector. Mandatory social insurance contributions were decreased by one percentage point in 2021 (to 34.09 per

cent.), with one percentage point of mandatory social insurance contributions remained to be used for financing the healthcare sector.

- The system of corporate taxes was altered such that a corporate income tax rate of 20 per cent. applies to profit distributions (calculated dividends, payments treated as dividends and deemed dividends) and deemed profit distributions (e.g., expenses not related to economic activity). No tax applies to retained earnings (profits gained are not taxed until their distribution). Tax allowances for donations, EU subsidies for agriculture, large investment projects initiated prior to the end of 2017 and special economic zones were maintained.
- Gains realised from the sale or exchange of securities are included in the taxable base of legal entities which are resident in Latvia or maintain a permanent establishment in Latvia if such securities are held for less than 36 months; however, the taxation of such gains only applies upon a distribution of profits (in respect of which a corporate income tax rate of 20 per cent. applies).
- From 2021 onwards, the micro-enterprise tax rate for turnover up to €25,000 per year is 25 per cent., but for the turnover share over €25,000 per year is 40 per cent. The micro-enterprise tax can be applied only to one person, namely the owner of the micro-enterprise. If a micro-enterprise has an employee, the income of the employee from the micro-enterprise shall be taxable with the personal income tax (salary tax) in accordance with the law On Personal Income Tax, and the employee shall be insured as an employee in accordance with the law On State Social Insurance. Dividends paid by a micro-enterprise are not subject to personal income tax if the micro-enterprise tax has been paid in the Republic of Latvia, in accordance with the requirements of the Micro-enterprise Tax Law which came into force on 1 January 2021.
- Improvements were planned for the so-called lifestyle businesses (previously individual economic operators whose annual revenues did not exceed €15,000 and that were performing certain listed economic activities (e.g., craftsmen, photographers, florists, providers of beauty services and home care services) were allowed to pay a fixed amount (combined personal income tax and mandatory state social insurance contributions)). From 2021, the patent fee regime has been abolished, saving only the reduced patent fee regime.
- Taxes on slot machines and gaming tables were raised, and personal income tax applies to income from gambling exceeding €3,000.
- Excise tax rates are being gradually increased in accordance with excise duty tax changes in the other Baltic states.
- A number of restrictions were stipulated, including those concerning (i) personal income tax payers' education, medical and other expenses, (ii) individuals' donations to political parties, (iii) contributions to private pension funds and life insurance, and (iv) restrictions on corporate income tax rebates for companies that donate to charity.

A medium-term tax policy strategy for 2024-2027 is in the development stage, which involves a thorough analysis to serve as a basis for future changes to the tax regime.

Infrastructure

Since EU accession, Latvia has been investing in improving its transport infrastructure with the help of EU structural funds. A number of transport and communications sectors have also been liberalised and competition and service levels are increasing.

The table below sets out certain transport and communications statistics for Latvia for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year Ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
Road					
Passenger cars (*thousands*) (*no. at period end*)	727.2	739.1	758.7	769.7	781.7

	Year Ended 31 December				
	2019	2020	2021	2022	2023
Goods vehicles (*thousands*) (*no. at period end*)	91.3	92.5	94.8	97.1	99.6
Freight (*million tonnes*)	73.8	75.7	81.6	80.9	80.7
Rail					
Freight (*million tonnes*)	41.5	24.0	21.8	21.3	15.5
International freight (*million tonnes*)	39.8	22.0	19.8	19.6	13.8
Exports (*million tonnes*)	2.3	2.0	2.1	3.7	3.5
Imports (*million tonnes*)	33.0	16.4	13.4	13.8	9.4
Air					
Cargo loaded and unloaded in Riga airport (*thousand tonnes*)	27.2	23.2	27.8	21.1	19.2
Passenger turnover in Riga airport (*million passengers*)	7.8	2.01	2.35	5.38	6.63
Sea					
Outward cargo handled (*million tonnes*)	52.9	35.3	31.7	33.7	26.4
Inward cargo handled (*million tonnes*)	9.5	9.7	10.0	14.4	12.3
Telecommunications					
Fixed lines (*per 100 inhabitants*)	509	4915	490	489	489
Mobile subscribers (*per 100 inhabitants*)	2533	2665	2665	2690	2280
Estimated internet users	83.7	86.9	89.7	90.0	91.4

Source: Central Statistical Bureau; Public Utilities Commission (Regulator)

Road

The number of registered vehicles in Latvia, including both passenger cars and goods vehicles, has been growing steadily (2-4 per cent. annually) since 2012, with the exception of 2016 when a slight decrease (-2 per cent.) was observed.

Road transport freight has increased since 2019 from 73.8 million tonnes to 80.7 million tonnes in 2023. The volume of cargo has slightly decreased in the last two years compared to 2021.

Two significant road transport links in Latvia are the Via Baltica, a road linking the Baltic states to Germany through Poland.

Rail

The operating length of the Latvian railway network is 1,860 km. The total length of the state public use railway is 1,781 km, of which 1,748 km is 1520 mm gauge railway, linking Latvia with the other Baltic states, Russia and Belarus, and 33 km is 750 mm gauge railway. The main East – West rail corridor connects Russia and Belarus with Latvia's three ports (Riga, Ventspils and Liepaja). In October 2008, the government created an independent state-owned company to manage the passenger component of the State-owned Latvian Railways with a view to promoting passenger rail travel and relieving road congestion.

Since 2012, the volumes of railway freight have been very variable due to geopolitical conditions. And since the beginning of the Russia-Ukraine war, freight transport has been negatively affected by related sanctions. In 2020 the volume of freight decreased by 50 per cent. compared to the volume of freight in 2019. In 2021 the railway public infrastructure the volume of rail freight transported was 21.8 million tonnes, which is 2.2 million tonnes or 8.9 per cent. less than in 2020, when 24.1 million tonnes of freight were transported. A similar dynamic in railway freight transportation can also be observed in 2022, when the total amount of transported freight was 21.3 million tonnes, 15.5 million were transported by rail transport in 2023, it is 27.5 per cent. less than in 2022.

In the segment of passenger transportation by rail, the number of passengers has been variable in the last five years. In 2019 there were 18 million passengers carried by rail. As a result of the COVID-19 pandemic, there was a noticeable decline in rail passengers in 2020, with only 12.9 million passengers. In 2023, 17.1 million were transported by rail transport passengers, by 9.2 per cent. more than in 2022.

Rail Baltica is a project which is a part of the Connecting Europe Facility ("**CEF**") and EU's North Sea-Baltic TEN-T Core Network and is one of the priority projects of the EU. Rail Baltica is designed as a new fast, conventional double-track electrified and ERTMS-equipped 870 km railway line with a maximum design speed of 249 km/h on the route from Tallinn through Pärnu – Rīga – Panevėžys –

Kaunas to the Lithuanian-Polish border. There is also a connection from Kaunas to Vilnius, both for international passenger and rail freight transportation, as well as providing local and cross-border regional connectivity. Rail Baltica will be built as an environmentally sustainable infrastructure, supporting climate goals and the Green Deal, reducing the overall CO_2 emission and air pollution, enhancing noise reduction and boosting renewable energy use, thus contributing to climate-neutral mobility in Europe.

According to the 2018 EU Commission Implementing Decision, Rail Baltica is expected to be operational by 2030 latest. Initially, the total cost of the Rail Baltica project was estimated at €5.8 billion, including €1.9 billion for the new infrastructure in Latvia. Yet, carrying out the comparative cost analysis in 2023, it has been concluded that the investment volume of the project has increased.

The project is being implemented with up to 85 per cent. co-funding from CEF and 15 per cent. national budget co-funding. The future financing of Rail Baltica project holds the utmost importance, and as such the Baltic states are joining efforts to procure the European Commissions' continuous support to Rail Baltica in the form of CEF financing also beyond the year 2027 (the new EU Multi-Financial Framework 2028-2034) as well as other fiscal solutions that might be beneficial to the project implementation. In order to supplement the CEF funding, the project is also trying to secure financing also via other financing sources like the Three Seas Initiative Investment Fund and CEF Military Mobility envelope. By participating in the CEF Transport Calls for proposals from 2015 to 2023, including the Military Mobility envelope, as a result signing a total of ten financing agreements, the Rail Baltica project has received €916 million.

Currently, all critical path activities are on-going, and the project has advanced to a no-return point with physical construction well in progress. In November 2020, the construction phase in Latvia started with construction of the most complex section of the main line, the Riga central railway section and station, followed in 2021 by construction start of the Rail Baltica connection with the Riga International Airport. In December 2023, a framework agreement for the construction of the majority of Rail Baltica mainline section in Latvia was signed, with construction works expected to begin already in spring 2024 with building of the construction base that will service all construction activities of the southern part of main line in Latvia.

Air

One of the national policy goals in the aviation sector is to maintain and develop an economically efficient air transportation system that provides safe, high-quality, and accessible air traffic services to the public. This includes creating a dynamic air transportation system to contribute to Latvia's economy and rendering Riga a hub for direct and transit passengers, while simultaneously taking measures to reduce the environmental impact of the industry's operations. To achieve this, among other things, effective management and regulation of the air transportation system are necessary, along with a development-focused air transportation policy.

At present Latvia has two international airports, Riga International Airport and Liepaja International Airport. Riga International Airport is the largest international airport and the main air traffic centre in the three Baltic states. Riga International Airport, as one of the main elements in the structure of the national aviation sector, is the largest international aviation company in the Baltic region and serves as the primary air traffic hub in the area. It provides regular passenger traffic, as well as cargo and mail transportation with civil aviation aircraft to cities in Europe and other countries around the world, thereby ensuring Latvia's international accessibility.

Latvia's national airline is airBaltic. Transitioning to a modern single-type fleet, in February 2023, airBaltic completed the handover of its last Bombardier Q400 NextGen turboprop aircraft. airBaltic operates flights with a single-type fleet, which is the Airbus A220-300. This aircraft is one of the most efficient commercial airplanes in the world.

In 2023, airBaltic served 80 destinations and operated flights on 126 routes from Riga, Tallinn, Vilnius, Tampere, and Gran Canaria. This represents a significant increase compared to 2022 when 74 destinations and 103 routes were served.

Most of the flights are operated from Riga, but in 2014, airBaltic commenced flights from Tallinn and Vilnius and is constantly increasing its presence in Baltic capitals. In December 2023, airBaltic launched a seasonal base in Gran Canaria, connecting it with ten destinations in the Nordic and Baltic states. Following the COVID-19 related capital injection, the government participation in the share capital of airBaltic reached 96.14 per cent., with the remaining share capital being held by a private investor. airBaltic and the government of Latvia are in the process of elaborating IPO plans for the airline.

In 2023, airBaltic carried 4.54 million passengers and Riga International Airport served 6.63 million passengers in total.

By the order of the Cabinet of Ministers of 21 October 2021, no. 710, which set forth the "*On transport development guidelines for 2021-2027*", the following ambitions, among other things, form the framework for the Latvian aviation industry development policy:

- continue to develop Riga as an important Northern European aviation hub;
- implementation of the air traffic control infrastructure that meets the latest technologies, as well as the growing environmental and safety requirements;
- promote the development of regional airports;
- develop the export potential of Latvian transport and logistics services; and
- implement measures to reduce noise pollution.

Latvia's private aviation sector also operates with high returns and added value to the national economy. The competitive advantages of Latvian aviation are realized in the following sub-sectors:

- Aircraft repair and technical maintenance;
- Aviation training, science, and education;
- Aviation engineering services;
- Business aviation and related services;
- Aviation logistics; and
- Production of unmanned aerial vehicle systems, industrial application, and integration into services.

As a result of successful infrastructure development, the growth of "airBaltic," and the leveraging of geographic advantages, Riga Airport has positioned itself as the regional air traffic centre and leader in terms of size and passenger traffic in the Baltic states. While the COVID-19 pandemic had an impact on the aviation industry on the global level, the growth indicators from 2019 confirmed Riga Airport's stable and undisputed leadership position in the Baltics pre-pandemic.

According to available statistical data from Riga Airport, by 2019, Riga Airport had maintained a pronounced leadership position in terms of passenger turnover in the Baltic states market. Accordingly, Latvia retained leadership among all the Baltic states in measurable indicators such as the number of transported passengers and cargo. The share of passengers flying through Riga Airport reflected as a percentage of the total Baltic market constituted 44 per cent. (as compared to Lithuania at 37 per cent. and Estonia at 19 per cent.), and the volume of cargo transported through Riga Airport accounted for 49 per cent., (as compared to Lithuania at 31 per cent. and Estonia at 19 per cent.).

Before the COVID-19 pandemic, in 2019, the overall impact of the Latvian aviation sector on GDP was €918 million, reflecting the interdependence of sectors and the economic value generated by various passenger transportation-related activities, such as ticket sales, airport services, tourism expenditures, and related services. In the same year, the sector's contribution to exports accounted for 4.5 per cent. of Latvia's total export volume, facilitating the movement of goods and people and thus contributing to export-oriented industries. As a result of the COVID-19 pandemic, the total added value of the aviation industry in Latvia decreased from €918 million for the year ended 31 December 2019 to €40 million for the year ended 31 December 2020 and the exports in the aviation industry decreased from €550 million to €137 million across the same period.

Even after the economic impacts of the COVID-19 pandemic on the aviation sector, Latvia continues to maintain its leadership among all the Baltic states. In 2023, the number of passengers transported through Riga Airport amounted to 6.6 million passengers, while the total for Lithuanian airports (Vilnius Airport, Kaunas Airport, Palanga Airport) was 6 million passengers, and Tallinn Airport served 2.96 million passengers.

Overall, the aviation sector in Latvia has promoted national connectivity, economic development, job creation, and enhanced export growth. However, the COVID-19 pandemic and its lingering impacts have significantly affected the aviation industry worldwide, including in Latvia, and these effects temporarily impacted the sector's positive contributions, as mentioned above.

Latvia aims to maintain the status of the largest air traffic centre in the Baltic states and to continue to grow and become a leading air traffic centre in Northern Europe, ensuring good connectivity to and from the region.

However, despite the challenges, Latvia's vision for the future remains unchanged, which is to maintain the status of the largest air traffic centre in the Baltic states and to continue to grow and become an important air traffic centre in Northern Europe, ensuring good connectivity to and from the region.

Sea

Latvia has three major ports, Ventspils, Riga and Liepaja, which are central to the country’s transit trade. Riga accounted for approximately 49 per cent., Ventspils for approximately 27 per cent. and Liepaja for approximately 19 per cent. Small ports which are not connected with transit trade accounted 6 per cent. of total sea cargo loaded in 2023. In terms of cargo unloaded in 2023, Riga accounted for approximately 48 per cent., Ventspils for approximately 37 per cent. and Liepaja for approximately 13 per cent. and small ports – 1 per cent. In 2020, the cargo turnover handled in Latvia`s ports dropped to 44.9 million tonnes and in 2023 dropped to 38.6 million tonnes.

Telecommunications

The COVID-19 pandemic has radically changed the role of digitalisation. Digital technologies are now imperative for working, learning, entertaining, socialising, shopping and accessing everything from health services to culture. The availability and quality of existing broadband access infrastructure and services in Latvia is as follows:

1. 4G mobile networks are available to about 99 per cent. of the country's population and Latvia’s residents are very active mobile Internet users;

2. broadband fixed networks with a data download speed of at least 30 Mbps are available to approximately 87.9 per cent. of the country's population; and

3. very High Capacity Networks (“**VHCN**”) networks with a speed of at least 100 Mbps are available to 75.09 per cent. of the country’s population.

As the relatively small areas where VHCN services are available are urban and largely populated, there is a significant discrepancy in the broadband network coverage offered in the urban and rural parts of the country. This is due to the low average population density in the country, the historically high concentration of the population in the capital city of Riga and regional centres, as well as active migration from rural areas to these centres or abroad.

In rural areas, VHCN coverage has increased by 5 percentage points, reaching 80 per cent. in 2022. In 2023, the regulatory framework was completed in order to start the €16,500,000 investments as part of the European Union's Recovery and Resilience Mechanism investment "Development of broadband or very high-performance networks' "last mile" infrastructure" for digital infrastructure. As a result, 6,200 households, companies, hospitals, educational institutions and other public buildings are expected to have access to VHCN by 2027. Since 2023, all electronic communications operators have continued the expansion of the 5G network, and 5G is currently available 80 per cent. in cities, and in 25 per cent. of rural areas.

Energy

Both imported (natural gas, electricity, petroleum products, coal and coke) and local (hydropower, wind power, solar, fuel-wood, charcoal, straw, biogas, biodiesel, peat, used tyres, municipal and industrial waste) energy resources are used in Latvia to supply fuel, electricity and heat to commercial and residential consumers.

Electricity

Electricity is generated in Latvia by hydro power plants ("**HPPs**"), combined heat and power plants, biomass, biogas and wind power plants ("**WPPs**"), solar power plants and microgenerators and is also imported. Heat is generated in Latvia using both local (fuel-wood) and imported fuels (including natural gas and other fossil fuels), and a small share of heat is also generated from renewable energy sources (solar power). In 2022, the total consumption of primary energy resources in Latvia amounted to 187.6 petajoules ("**PJ**"), and the energy imports dependence indicator, based on Eurostat data, decreased to 38.7 per cent. as compared to 2021. In 2022, fuel-wood was the most widely used local energy resource (63.97 PJ), and natural gas was the principal import in terms of energy resources. Electricity generated by HPPs and WPPs accounted for 2,780 GWh, 6.22 per cent. of total energy consumption in Latvia in 2022. Between 2013 and 2022, the total energy consumption did not change significantly, but the share of renewable energy resources increased from 49 per cent. to 53 per cent. In 2020, Latvia reached its 2020 renewable energy target (40 per cent.) set by the EU Renewable Energy Directive. In 2022, the share of energy from renewable sources in Latvia's gross final consumption of energy was 43.32 per cent., and the proportion of renewables used in transport in Latvia was 3.13 per cent. of the total amount of energy used in the transport sector.

The volume of electricity generation in Latvia depends directly on the flow in the Daugava River, prices in the Nord Pool electricity exchange and heat demand. After the closure of the Ignalina Nuclear Power Plant in Lithuania at the end of 2009, Latvia no longer imports nuclear energy from Lithuania and now imports electricity from Estonia, Sweden, Finland and Norway via the Nord Pool exchange.

In 2022, 2.3 PJ of Latvia's electricity requirements were net imported (electricity imports and electricity exports were 19.1 PJ and 10.8 PJ, respectively).

The consumption structure of Latvia's district heat supply has remained relatively constant in past years, with district heating comprising between 65 and 70 per cent. and hot water accounting for between 30 and 35 per cent. of total supplies. In 2022, 10.4 per cent. of the produced district heat was sold to industrial users, 55.1 per cent. was sold to residential users and 20.6 per cent. was sold to other consumers (mainly commercial and institutional users). District heat is produced in 637 boiler houses and 119 co-generation stations, and 7.7 terawatt hours of district heat were produced in 2022. The principal fuel source for heat production in district heating is renewables (fuel-wood, biogas and solar) accounting 63 per cent. of total centralised heat production in 2022.

Cogeneration remains an important source of heat energy and power for Latvia, however, the contribution of combined heat and power plants ("**CHP**") to overall energy balance fluctuates significantly in line with such external factors as climatic conditions, electricity market wholesale prices, natural gas and wood fuel wholesale prices. In 2022, Latvia's CHP plants produced 2.02 terawatt hours of electricity and 4.81 terawatt hours. of the total heat produced in the country.

Latvia constantly seeks to improve its energy efficiency in buildings and heating systems, as well as to increase its use of renewable energy. Many of these projects have been supported by EU funds, and in the 2014 to 2020 planning period, more than €333 million of EU funds were allocated for this purpose.

The electricity systems of the Baltic states, including Latvia, have historically worked, and are currently working synchronously with the electricity systems of Russia and Belarus. This operation is within the "**BRELL**" circle (Belarus, Russia, Estonia, Latvia, Lithuania) which refers to a coordinated system management, which, among other things, provides for the obligation to maintain certain reserves (with Latvia being expected to maintain up to 100 MW) as BRELL does not participate in the exchange of reserves. In addition, the Russian transmission system operator ("**TSO**") balances the energy system of the Baltic states by providing them with balancing electricity and frequency.

Since 2009, the Baltic states, in close cooperation with the European Union, have worked to disconnect from the BRELL circle by 2025. Synchronisation of the electricity grids of the Baltic states with continental European power grids is expected to increase the Baltic states' ability to more consistently manage their electricity system, ensuring the balance between production and consumption, manage the necessary safety reserves, and regulate electricity flows and frequency, without involving countries outside the European Union. The TSOs of the Baltic states have taken the necessary actions according to the catalogue of measures, including a series of technical requirements that target the maintenance of a secure the interconnection of the power system of Baltic states with the power system of continental Europe and reduce risks related to the adequacy of the limited electricity production and balancing capacities of the Baltic region. For instance, Latvia has confirmed that at a technical level, it is possible to ensure operational synchronisation with the transmission system of continental Europe through the Polish-Lithuanian Interconnection in the event of an emergency desynchronisation from the Russian power system.

Since the beginning of the Russia-Ukraine war, the risk of Baltic states being unilaterally desynchronized from the BRELL System has increased, and to address this, the TSOs and governments of the Baltic states have agreed to cooperate and take all necessary technical and legal measures required to position the Baltic power system for synchronisation with Continental European Synchronous Area by February 2025.

Further, due to the Russia-Ukraine war, the Saeima subsequently amended the Electricity Market Law, with effect from 6 July 2023, to prohibit the trade of electricity with the Russian Federation and the Republic of Belarus, as well as the supply of electricity for trade using the electricity system of the Russian Federation and the Republic of Belarus. As an alternative, Latvia trades electricity with Nordic countries and Poland on the Nord Pool, a pan-European power exchange market.

Natural Gas

Natural gas is an important resource in the Latvian economy. Natural gas forms 15.6 per cent. of Latvia's primary energy consumption in 2022 and in 2022 the demand for natural gas was approximately 293 PJ (846 million cubic metres). The share of natural gas in the total consumption of energy declined from 27 per cent. in 2013 to 16 per cent 2022.

Until 3 April 2017, the major gas supplier in Latvia was JSC Gazprom. In 2015, a liquefied natural gas terminal in the Lithuanian port city of Klaipėda officially commenced commercial operations, which provides Latvia with an alternative to Russian gas.

The Republic liberalised its gas market in April 2017, and as of May 2024 there were 38 registered gas suppliers (with 5 active suppliers for households, and 9 for non-households). The objectives of the liberalisation of the gas market are to increase Latvia's energy security, provide free gas market competition and ensure a steady supply. Under the amendments to the Energy Law as part of the process of liberalisation, JSC Latvijas Gāze ("**Latvia Gas**") has been split up into three companies: JSC Conexus Baltic Grid, which is responsible for operating the gas transmission and storage system, JSC Latvia Gāze, which is responsible for natural gas trading and JSC Gaso, which is responsible for natural gas distribution. In order to comply with the requirements relating to the independence of the transmission and storage system operator (as set out in Directive 2009/73/EC concerning common rules for the internal market in natural gas), the three shareholders of JSC Conexus Baltic Grid (JSC

Gazprom, Itera Latvija and Uniper Ruhrgas International GmbH) were required to dispose of their shareholdings. In December 2017, the Republic purchased Itera Latvija's and Uniper Ruhrgas International GmbH's shares in JSC Conexus Baltic Grid. In July 2020, the Republic finalised the acquisition of shares from JSC Gazprom and the State-owned transmission system operator Augstsprieguma Tīkls acquired JSC Gazprom's stake (34.10 per cent.). As a result, the state of Latvia now holds a 68.46 per cent. stake and therefore has a controlling interest in JSC Conexus Baltic Grid.

Historically, the Latvian gas supply system has been physically connected to the Russian natural gas supply system. As a result, Latvia's natural gas supply to Latvia has been ensured using the services of the Russian natural gas transmission company and natural gas resources available in Russia. After the commencement of the Russia-Ukraine war, amendments were introduced into domestic law, which provided for the prohibition of natural gas supplies from Russia. In particular, amendments to the Energy Law, which entered into force on 11 August 2022, provide for a complete ban on the supply of natural gas from Russia, starting from 1 January 2023. With the entry into force of the relevant amendments, natural gas traders in Latvia have reorientated the supply markets and accordingly, the natural gas flow has changed, with liquefied natural gas terminals in Klaipeda, Lithuania and Inkoo, Finland becoming the main sources of natural gas supply for Latvia. In addition, from 1 May 2022, natural gas has also been supplied to the region via the Poland-Lithuania gas interconnection (GIPL). The majority of natural gas is supplied from the Klaipeda terminal, an LNG import terminal in Lithuania. In this regard, one of the largest natural gas traders in Latvia, the joint-stock company "Latvenergo" has concluded a long-term (10-year) contract with the Klaipeda natural gas terminal for the supply of natural gas in the amount of 6 TWh annually.

Additionally, Latvia and Estonia have signed a Memorandum of Understanding dated 12 May 2023, which sets the framework for establishing LNG reception capacity in case of natural gas supply disruptions. While the capacity of the LNG terminals in Finland and Lithuania are sufficient to meet the needs of the Baltic and Finnish gas markets even if the gas demand were to recover, the infrastructure in Estonia is intended to provide significant additional security in case of an emergency.

In addition, to ensure continuous supply with natural gas and to prevent a crisis situation, Latvia maintains energy crisis safety reserves of energy supply in amount of 1.8 TWh at its Inčukalns underground gas storage facility.

Currently, several natural gas trading companies, including the state owned power producer and trader JSC "Latvenergo", as well as former natural gas monopoly JSC "Latvijas Gāze" and other companies carry out trading activities in Latvia. Meanwhile the natural gas distribution operations are carried out by an independent operator, privately owned JSC Gaso in compliance with licences issued by the Public Utilities Commission. A key ongoing process in the gas sector is the creation of the Baltic natural gas market merger. The single natural gas market including Finland, Estonia and Latvia commenced on 1 January 2020. Currently it is a single entry/exit tariff area with two balancing areas - Finland and a single Estonia-Latvia area. Moreover, energy ministries, regulators and transmission system operators from Estonia, Finland, Latvia and Lithuania have given their agreement to a roadmap establishing a process for the future regional gas market integration of their respective countries. In this common market, Latvia and one of its most valuable assets, Inčukalna natural gas underground storage, the third largest underground gas storage in Europe, will play the essential role of a regional balancing point. The Inčukalns underground gas storage facility had a total technical storage capacity of 22.6 TWh for the 2023/2024 storage cycle.

Geological conditions in Latvia are favourable for creating underground storage facilities for natural gas and Latvia has been using its Incukalns underground gas storage facility, with an active capacity of 2.32 billion m^3, since 1968. A project to enhance and modernise this storage facility by 2026 has been identified as a regional project of common interest and in 2019 it received €44 million CEF energy funding, amounting to 50 per cent. of total costs.

Renewable Energy

Latvia is seeking to increase the proportion of energy produced from renewable resources in the total final gross consumption of energy from 32.6 per cent. in 2005 to 57 per cent. by 2030 in accordance with the renewed draft National Energy and Climate Plan until 2030. To reach these targets by 2030, Latvia has proposed several additional measures in its renewed draft National Energy and Climate Plan mainly for the promotion of non-emission renewable technology, including wind, solar and heat pumps (together with energy storage technologies) for use in Latvia as well as for the promotion of non-emission fuels, mainly electricity and biomethane, use in transport, as well as use of these technologies by renewable energy self-consumers.

During the period from 2013 to 2023, the penetration of renewable energy sources increased significantly, mainly by 7.9 per cent. In 2022, the electricity produced at hydroelectrical power plants was 2,750 GWh, or 42 GWh more than in 2021. Electricity produced in solar micro-generators and power plants continued to increase and was 41 GWh in 2022, which was 34 GWh higher than in 2021. Wind power generation in 2022 (190 GWh) was 49 GWh higher than in 2021 (141 GWh). Electricity produced in biogas cogeneration plants decreased from 374 to 250 GWh over the period of 2018 to 2022, and biomass (firewood) cogeneration plants and power plants decreased from 570 to 552 GWh during that same period.

On 14 July 2002, the Saeima adopted the final reading of the amendments prepared by the Ministry of Economy to the Energy Law and the Electricity Market Law, which are intended to contribute to the further strengthening of Latvia's energy security and independence, and promote wider production of renewable energy resources (RES), the development of certain projects, as well as the stimulation of greater energy efficiency and involvement by the population in energy production.

The adopted amendments to the Energy Law provide for a complete ban on the import of natural gas from Russia from 1 January 2023, with JSC Conexus Baltic Grid, the unified natural gas transmission and storage operator in Latvia, obliged to provide the necessary infrastructure to limit supply risks.

Energy Policy

Latvia's energy policy is aimed at ensuring energy independency by increasing competition in the energy market through liberalisation, effective use of existing infrastructure, and improving the security of the country's energy supply by diversifying energy supply sources and by creating conditions for increasing Latvia's own electricity generation. In addition, Latvia is seeking to promote the use of renewable energy resources and ensure environmental protection. In May 2013, the Cabinet of Ministers approved a energy strategy (titled "**Latvian Energy Strategy 2030**") which sets out the main goal of promoting a competitive national economy through developing an energy policy that is well-balanced; effective; economically, socially and ecologically reasonable; and based on market principles. The strategy also has two additional goals of orientation towards sustainable energy (through promoting energy efficiency measures and seeking to achieve EU sustainability targets) and increasing security of energy supply through diversification of supply routes, developing energy infrastructure, establishing reserves and seeking improved international regulation.

Latvia's National Energy and Climate Plan 2021-2030 (approved by the Cabinet of Ministers Ordinance No 46 of 4 February 2020) (the "**National Energy and Climate Plan**" or "**The Plan**") sets the main energy and climate policy targets, as well as the specific and detailed measures and necessary investments required to reach the targets and objectives in all areas falling within the EU's energy union, which was set up as an umbrella organisation to develop a coherent and integrated approach to energy policy, among member states of the EU. These measures and investments involve decarbonisation (including renewables), energy efficiency, energy security and internal energy market (including energy poverty) research, innovations and competitiveness. The main actions to reach the objectives are: 1) to promote the efficient use of resources and their self-sufficiency and diversity; 2) to ensure a considerable reduction in the consumption of resources, in particular fossil and unsustainable resources, and a simultaneous transition to the use of sustainable, renewable and innovative resources ensuring equal access to energy sources for all community groups; and 3) to stimulate the development of research and innovation that contributes to the development of the sustainable energy sector and mitigation of climate change.

In order to ensure the compliance of the National Energy and Climate Plan until 2030 to align the plan to bring it up to standards required under the European Union's "Fit for 55 package", including more ambitious climate and energy targets, in 2023, Latvia started the renewal of the National Energy and Climate Plan. On 5 December 2023, the Cabinet of Ministers decided to submit the renewed draft of the Plan to the European Commission for recommendations. In parallel with this process, from 2023 to 2024, the development of the renewed draft of the Plan will continue, including comprehensive consultations with interested parties, coordination with line ministries and modelling of the impact of additional measures included in the renewed draft of the Plan within the target scenario. It is expected that the renewed draft of the Plan will be reviewed by the Cabinet of Ministers in June 2024 and will be submitted to the European Commission by 30 June 2024.

In January 2015, the Ministers responsible for energy policy in the three Baltic states signed a Declaration on Energy Security of Supply of the Baltic states. By signing this declaration, the Baltic states assure their commitment to strengthening regional cooperation. In June 2015, the eight EU Baltic Sea region countries signed the Memorandum of Understanding on the reinforced Baltic Energy Market Interconnection Plan and the EU Strategy for the Baltic Sea Region (including the related Action Plan).

The Baltic energy market is currently connected to the European energy market through two sea cables between Estonia and Finland (Estlink I with transmission capacity of 350 MW and Estlink II with transmission capacity of 650 MW), a sea cable between Lithuania and Sweden (NordBalt with transmission capacity of 700 MW and ramping restriction of 600 MW) and an AC interconnection between Lithuania and Poland (LitPol link 1 with transmission capacity 500 MW).

In the Baltic states, Estonia, which was historically an exporter of electricity, in the past few years has imported 45 per cent. of consumed electricity, Latvia is able to cover its electricity demand fully from domestic sources and export electricity under favourable market and weather conditions and Lithuania is a net importer of electricity and imports up to 70 per cent. of consumed power. Electricity trading between the Baltic states is limited by an insufficient transfer capacity in the Estonian-Latvian interconnection. Before the opening of the NordBalt interconnection, the average electricity prices in Latvia and Lithuania were almost always higher than in Estonia and Scandinavia. However, the NordBalt sea cable has considerably improved the situation and reduced the electricity price differentiation in the region.

In October 2019, the Kurzeme Ring project (330 kV overhead line in the western part of Latvia), which is a part of the Lithuanian-Swedish interconnection NordBalt with a transmission capacity of 700 MW, was commissioned. Another important energy supply project is the third Latvian-Estonian interconnection, which was commissioned in March 2021. Both the third stage of the Kurzeme Ring and the third interconnection project were funded under the EU Connecting Europe Facility ("**CEF**").

As part of Latvia's electricity market liberalisation strategy, Latvia's household open electricity market was opened on 1 January 2015, with households being able to choose the most appropriate offers from electricity suppliers available on the market.

Privatisation

A Privatisation Completion Law was introduced in Latvia in September 2005. The law determines how, and the suggested timescale for, the completion of the privatisation process (which is substantially complete) and land reform in Latvia. The law also provides that certain state companies (including the Latvian post office, the Latvian railways, Latvian air traffic control, the Latvian state forestry company, Riga International Airport and Latvenergo, the State-owned electricity utility) will not be privatised. In addition to the Privatisation Completion Law, other laws and legal acts may include provisions that certain companies are not allowed to be privatised e.g. the Latvian state radio and television centre, high voltage networks, the transmission system operator in Latvia and others.

The Law on Governance of Capital Shares of a Public Person and Capital Companies (in force since 2015) stipulates that the State must re-evaluate each of its direct equity participations at least every 5 years, except in cases when the shares in the relevant company are not allowed to be sold by law.

One of the significant privatisations yet to be completed by the State is the privatisation of Tet (previously known as Lattelecom), which is 51 per cent. owned by the State. The State may also sell its direct owned 28 per cent. and indirectly owned 12 per cent. shareholding in Latvia Mobile Telephone.

Environment and Climate Change

Environmental protection in Latvia is primarily the responsibility of the Ministry of Environmental Protection and Regional Development. Since January 2023, a new Ministry of Climate and Energy (MoCE) has been established and is the responsible government institution for the climate policy in Latvia.

In order to move towards climate neutrality in 2050 and promote adaptation to climate change, several national planning documents have been developed (and adopted by Cabinet of Ministers), namely, Strategy of Latvia for the Achievement of Climate Neutrality by 2050, the National Energy and Climate Plan and Latvian National Plan for Adaptation to Climate Change until 2030.

MoCE has developed a Climate Law project that is currently being consulted among the ministries before submission to the Cabinet of the Ministers and the Parliament. The goal of the forthcoming Climate Law is to help Latvia reach climate neutrality and resilience by 2050 in line with Latvia's commitment to the Paris Agreement. The purpose of the Law is to act as an umbrella for all national-level climate change mitigation and adaptation legislation. The Climate Law is aligned with EU legislation and transposes several EU legal acts into the national legislative system.

During 2023, Latvia was intensively working on updating the National Energy and Climate Plan. In December, an updated draft NECP2030 was submitted to the European Commission including information on greenhouse gas (GHG) emission reduction targets, renewable energy targets, and energy efficiency goals. These elements collectively contribute to a comprehensive NECP2030, providing a roadmap for sustainable development and climate resilience. Work is ongoing to submit the final NECP2030 in June 2024.

The EU emissions trading system (EU ETS) directives (2023/959) reform includes extension of the current ETS to the maritime sector and creation of new EU ETS for buildings, road transport, and additional sectors – (EU) ETS2. The key EU ETS2 legislation in Latvia will be Climate Law, which is currently under development. The EU ETS directive (2023/959) conditions that are related to ETS2 must be transposed by the end of 30 June 2024 in the national legislation. Additional regulations of the Cabinet of Ministers will be developed to support the implementation of ETS2. Additionally, the MoCE is working on the identification of ETS2 operators (informing them and assessing their belonging to the ETS2 scope) and developing implementing conditions for separating the fuel that is used for ETS2 scope sectors from non-ETS2 sectors.

Within the National Sustainable Development Strategy 2030, the strategic goals are to create an attractive living environment for the citizens and to preserve natural ecosystems, to become an EU leader in the area of nature conservation, to increase sustainable use of nature capital and to fully strengthen Latvia's position in the EU as well as to efficiently exploit the local renewable energy potential.

The overall purpose of the environmental policy, set out in the Environment Policy Strategy 2021-2027 in 2022, is to provide the public with the opportunity to live in a clean and well-arranged environment through sustainable development, preservation of environmental quality and biological diversity, and sustainable use of natural resources, as well as to encourage participation by the public in environmental decision-making and to increase their awareness of the environmental situation.

Latvia's relatively underdeveloped national economy and tradition of environmentally friendly lifestyle traditions have contributed to the conservation of many species and habitats in Latvia which are rare elsewhere in Western Europe. There are 722 specially protected nature territories ("**SPNT**") in Latvia, which include nature reserves and parks, national parks, nature monuments, protected marine territories and one biosphere reserve. Approximately, 17 and 15 per cent. of Latvia's land and sea area, respectively, is considered to be SPNT.

In general, the air quality in Latvia is considered to be good, although some local air quality problems exist in Riga city centre as a result of traffic and fuel combustion (household and industrial). The Riga municipality in recent years has implemented several air quality action programmes to address emissions from vehicle use and industrial activities. The latest is adopted for the period from 2021 to 2025. At the national level there has been a significant reduction of emissions of the main air pollutants since 2005. The decline in air emissions has been driven by the use of more effective technologies, energy efficiency measures installations and strengthened vehicle standards. Latvia met its 2010 targets under the EU National Emission Ceilings Directive for sulphur oxides ("**Sox**"), nitrogen oxides ("**Nox**"), particulate matter $PM_{2,5}$ and non-methane volatile organic compounds. However, Latvia failed to meet its national commitment for ammonia. Additional measures will be needed in the agricultural sector to meet the targets and ammonia. In order to reach air pollution emission reduction targets the Air Pollution Reduction Plan 2020 – 2030 was adopted by the Cabinet of Ministers in April 2020.

Latvia is a water-rich country, where land drainage is more of a priority than irrigation. Water scarcity is not typical. The quality of Latvian groundwater is assessed as good by the Latvian Environment, Geology and Meteorology Centre. Coastal waters, the water of the Gulf of Riga and inland surface waters still require some improvements in order to reduce the impact of nutrient pollution and hydrological and morphological alterations. However, their current status does not impair water use. Due to long-term investment programmes to improve the collection and treatment of sewage, the amount of pollution discharged to surface waters has decreased significantly since the 1990s. Some improvements in agricultural practices are also taking place. For example, the construction of new manure storage facilities and limitations on the use of fertilisers.

In 1991, the Natural Resources Tax Law came into force (which was then substantially revised in 2005) to encourage the economically efficient use of natural resources, promote energy efficient technology, restrict pollution and reduce damage to the environment. For example, a tax has been levied on industries involved in the extraction of natural resources and the pumping and storage of gases in subterranean structures.

In 2016, Latvia established an Emission Allowances Auctioning Instrument ("**EAAI**") to administer and manage revenues from the auctioning of EU emission allowances. The funding available within the EAAI is used to contribute to the prevention of global climate change, adaptation to the effects of climate change and the reduction of greenhouse gas emissions. The operation of the EAAI is regulated by the legal acts, including Law "On Pollution", in which the areas of use of the revenues from the auctioning of emission allowances are determined. In the period from 2016 until the beginning of 2024, 7 project tenders have been organized (one of them in two rounds), allocating a total of €145 million for the reduction of greenhouse gas emissions. Support programs within the framework of the EAAI will also be developed in 2024 and in the following years.

In 2022, Latvia started the implementation of the Modernisation Fund (the "**Modernisation Fund**"), which is a financial instrument whose purpose is to promote the transformation of the energy sector, the modernisation of energy systems and the improvement of energy efficiency by supporting low-carbon investments that contribute to the reduction of greenhouse gas emissions and the progress of EU countries towards climate neutrality. In July 2023, the Cabinet of Ministers approved the rules of operation of the Modernisation Fund in Latvia, a multiannual operational program which defines the priority investment areas for the use of the available funding in the period from 2023 to 2027. The funding available within the Modernisation Fund will be acquired by organizing open project tenders. In 2023 and 2024, the development of the first and second support programs within the Modernisation Fund began in order to increase energy efficiency in the transport sector, provide support for the introduction of electric cars and their charging infrastructure as well as to promote the use of renewable energy sources in building sector and to reduce greenhouse gas emissions by means of supporting purchase, installation and connection to network of solar panels, heat pumps and solar collectors. Support programs within the framework of the Modernisation Fund will also be developed in the following years.

The International Energy Agency ("**IEA**") is an autonomous intergovernmental organisation, established in 1974, that provides policy recommendations, analysis and data on the global energy sector, with a focus on energy security, climate change and decarbonisation, energy access and efficiency, investment and innovation, and ensuring reliable, affordable and sustainable energy for all. During the ministerial meeting of the IEA held in February 2024, Latvia was invited to join the organisation, with the IEA noting that Latvia had complied with the Agreement on an International Energy Programme, the treaty instrument governing the functioning of the IEA and its members, by amending its national energy legislation to strengthen regulation of oil reserves. It should be noted that membership in the IEA for Latvia, among other benefits, provides:

- Greater national energy security by being within the framework of the common collective security mechanism;
- Opportunity to participate in decision-making and defend national energy policy interests not only with EU member states but also other countries with influence on the global energy policy (for example, the U.S. and China);
- Access to a capable analysis and planning team that provides robust analysis, forecasts, and data in all energy sectors, as well as recommendations to member states; and
- Access to a database of political and practical measures.

BALANCE OF PAYMENTS AND FOREIGN TRADE

BALANCE OF PAYMENTS

Current Account

Latvia's exports were on an upward trend until 2019, however in 2020 exports declined due to restrictions imposed on the provision of services to mitigate the impact of the COVID-19 pandemic. Exports of goods rose in 2021 and 2022, reflecting increased demand and rising prices for various commodities. The year ended 31 December 2023 was a significant setback for goods exports, as monetary policy tightened and external demand weakened, despite various tourism services rebounding after the COVID-19 pandemic. Similarly, imports were on an upward trend until to 2019, later declining in 2020 as a result of the impact of the COVID-19 pandemic. In 2021 and 2022 imports rose significantly, in particular as energy and food prices rose rapidly in 2022, following the Russian invasion of Ukraine. In 2023, imports decreased as energy prices normalized and domestic economic activity decelerated.

As a percentage of nominal GDP, in 2019 Latvia's goods trade deficit was 8.6 per cent. In 2020, the goods trade deficit decreased to 5.1 per cent. due to the strong performance of Latvian exports in the first year of the COVID-19 pandemic. In 2021 and 2022, the goods trade deficit increased to 8.3 per cent. and 10.7 per cent., respectively, due to imports growth outpacing the rise in exports in addition to the increase in energy prices associated with the outbreak of the Russia-Ukraine war. In 2023, the goods trade deficit decreased to 9.3 per cent. due to a normalisation in the prices of energy and weaker domestic demand, while exports also suffered from lower prices and external demand due to the tightening of monetary policy in the eurozone.

Latvia's services balance has been positive in all years since 2019, though it has been on a declining trend. The growth in exports of newer services such as ICT services and various business services has gradually increased in Latvia along with the development of air transportation and tourism services in Latvia. In 2020 and 2021, as a result of the impact of the COVID-19 pandemic services exports declined sharply, especially in travel and transportation while business, computer and construction services exports continued to grow. From 2022 onwards, travel and air transport services have somewhat recovered, however services related to transit trade to Russia have performed worse as a result of the impact of the Russia-Ukraine war. As a percentage of nominal GDP, Latvia's services surplus was 7.9 per cent. in 2019, 6.4 per cent. in 2020, 5.1 per cent. in 2021, 6.1 per cent. in 2022 and 5.4 per cent. in 2023.

In 2019, 2021, 2022 and 2023, Latvia's primary income account was negative, primarily reflecting the repatriation of profits on foreign direct investment. In 2019, the primary income deficit decreased slightly, reaching 1.5 per cent. of nominal GDP. In 2020 the primary account balance was balanced due to a decline in direct investment profits. In 2021, the primary income deficit increased notably to 1.9 per cent. of nominal GDP, with one of the main reasons being a rebound in direct investment profits. In 2022, the primary income deficit slightly decreased to 1.5 per cent., while further increasing in 2023 to 2.4 per cent. of nominal GDP, mainly due to increased investment profits.

Latvia's secondary income account (reflecting remittances from Latvians working abroad and including certain fiscal transfers from the EU) has remained positive since 2019. In 2019, 2020, 2021, 2022 and 2023, the secondary income account was equal to 1.5 per cent., 1.6 per cent., 1.1 per cent., 1.3 per cent. and 2.2 per cent. of nominal GDP, respectively.

In 2019, Latvia's current account balance showed a deficit equal to 0.6 per cent. of nominal GDP, largely due to a decline in the secondary income surplus as compared to the prior year. In 2020, the current account balance shifted to a surplus of 2.9 per cent. of GDP due to a large reduction in goods and primary income deficits. In 2021 and 2022, the current account shifted to a deficit of 3.9 per cent. and 4.8 per cent. of GDP, respectively, as the goods trade deficit increased and the services trade surplus deteriorated, in part due to decreased external demand from 2022 onwards as a result of the heightened inflation resulting in tighter financing conditions and lowered demand for exports. In 2023, the current account deficit decreased to 4.0 per cent. of GDP, primarily due to a smaller goods trade deficit as energy prices normalized.

Capital and Financial Account

Latvia saw significant funding inflows covering the current account deficit until late 2008 when the full effects of the global financial crisis on the country's large external imbalances (principally a lack of liquidity in international markets and a collapse of both external and domestic demand) became apparent. Latvia's funding inflows are principally in the form of equity investment and reinvested earnings and other investment, which, prior to 2008, comprised principally lending by non-Latvian banks to their subsidiaries in Latvia. For more information, see "*—Foreign Direct Investment*". In December 2008, the EC, the IMF, the World Bank, the EBRD and several Member States of the EU agreed to provide financial support to Latvia in an amount of €7.5 billion. Reflecting financial assistance received from international lenders and the actions taken by Latvia to stabilise its banking system and ensure economic recovery in the aftermath of the global financial crisis, the confidence of foreign investors and other non-residents in Latvia increased. As a result, Latvia experienced an increase in both foreign deposits and net FDI in 2010, both of which contributed to a reduction in the financial account deficit. Since 2011, Latvia has continued to raise finance in the international capital markets and repay foreign financial assistance received as a result of the global financial crisis, see "*Indebtedness—Borrowing From International Financial Institutions*".

Given the continued inflows of EU funding, the capital account remained in surplus in 2019 (1.5 per cent. of GDP). At the same time, net financing outflows from Latvia were recorded in the financial account. Contraction of external debt liabilities was only partly offset by a decrease in external assets. The largest financial flows were observed in the credit institution sector and were related to the active measures implemented by the government to prevent money laundering, terrorist and proliferation financing risk. The above measures resulted in a decrease of non-resident deposits with Latvia's credit institutions. The cross-border financing flows of the public sector were primarily associated with government debt refinancing, management of the Latvian Central Bank's reserves and participation in the Eurosystem's monetary policy operations. Foreign direct investment inflows accounted for 2.7 per cent. of GDP in 2019.

Given the continued inflows of EU funding, the capital account remained in surplus in 2020 (1.7 per cent. of GDP). Private sector external liabilities decreased further while placement of funds in foreign securities by Latvian monetary financial institutions alongside monetary operations increased outflows in the financial account. The COVID-19 pandemic related uncertainty concerning future economic developments did not discourage investment in Latvia, and foreign direct investment inflows accounted for 2.9 per cent. of GDP in 2020.

In 2021, the capital account surplus decreased slightly to 1.4 per cent. of GDP, reflecting continued inflows of EU funding. External liabilities increased slightly more than external assets, but foreign direct investment activity was strengthened due to the creation of Swedbank's Baltic subsidiary, ("**Swedbank Baltics AS**"), reaching 8.4 per cent. of GDP.

In 2022, the capital account surplus decreased even more to 0.7 per cent. of GDP, primarily due to increased outflows of capital transfers, primarily reflected in government aid to Ukraine. Despite Latvia's proximity to the Russia-Ukraine war, foreign direct investments remained at relatively high levels in 2022, totalling 3.5 per cent. of GDP, even accounting for outflows of Russian investments.

In 2023 the capital account surplus improved to 2 per cent. of GDP, with large EU fund inflows, while government aid for Ukraine still continued. Foreign direct investments were largely at historical average levels – reaching 2.8 per cent. of GDP, even despite the unfavourable investment climate – weak economic performance in Europe and the continuation of the war in Ukraine. The financial account was nearly in balance, with external liabilities of the private sector increasing, as opposed to the public sector, which saw a decrease in its external liabilities, also investments abroad grew moderately.

Reflecting the above, Latvia's capital and financial account surplus was equal to 2.6 per cent., 7.8 per cent. and 0.4 per cent. of nominal GDP in each of 2019, 2020 and 2021, respectively, a deficit of 0.8 per cent. of GDP in 2022 and a surplus of 2.2 per cent. of nominal GDP in 2023.

The table below sets out Latvia's balance of payments for the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	2020	2021	2022	2023
			(€ millions)		
Current account	**(189)**	**876**	**(1,311)**	**(1,832)**	**(1,617)**
Trade balance	(2,639)	(1,544)	(2,756)	(4,093)	(3,736)
Exports	12,761	13,449	16,214	20,740	18,333
Imports	15,400	14,993	18,970	24,833	22,069
Services balance	2,425	1,937	1,705	2,332	2,182
Exports	5,589	4,842	5,326	7,241	7,514
Imports	3,164	2,906	3,621	4,909	5,332
Primary income balance	(445)	(5)	(619)	(577)	(949)
Credit	1,469	1,337	1,491	1,929	2,691
Debit	1,914	1,342	2,110	2,505	3,639
Secondary income balance	471	489	359	505	885
Credit	1,104	1,105	1,230	1,546	1,851
Debit	634	616	871	1,040	966
Capital and financial account	**805**	**2,352**	**134**	**(291)**	**873**
Capital account	452	516	456	266	797
Financial account	353	1,836	(322)	(557)	76
Direct investment	(920)	(655)	(828)	(1,224)	(583)
Portfolio investment	(605)	4,161	(414)	917	(1,565)
Financial derivatives	65	(216)	133	455	(174)
Other investment	1,862	(1,914)	639	(266)	2,175
Reserve assets	(94)	447	144	(441)	226
Errors and omissions	**90**	**445**	**534**	**1,009**	**896**

Source: The Latvian Central Bank

The table below sets out Latvia's balance of payments as a percentage of nominal GDP for the relevant period for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	2020	2021	2022	2023
			(as a percentage of nominal GDP)		
Current account	(0.6)	2.9	(3.9)	(4.8)	(4.0)
Goods trade balance	(8.6)	(5.1)	(8.3)	(10.7)	(9.3)
Services balance	7.9	6.4	5.1	6.1	5.4
Primary income balance	(1.5)	0.0	(1.9)	(1.5)	(2.4)
Secondary income balance	1.5	1.6	1.1	1.3	2.2
Capital and financial account	**2.6**	**7.8**	**0.4**	**(0.8)**	**2.2**
Capital account	1.5	1.7	1.4	0.7	2.0
Financial account	1.2	6.1	(1.0)	(1.5)	0.2
Reserve assets	(0.3)	1.5	0.4	(1.1)	0.6
Errors and omissions	0.3	1.5	1.6	2.6	2.2

Source: The Latvian Central Bank

FOREIGN TRADE

Introduction

The real annual growth rates of exports of goods in 2019, 2020, 2021, 2022 and 2023 were 1.6 per cent., 6.3 per cent., 9.9 per cent., 6.7 per cent. and minus 7.1 per cent. respectively. Even though labour costs in Latvia have risen relatively quickly, exports remained competitive, with the export market for goods growing rapidly since 2019. In 2020, exports of goods increased as a result of the increased competitiveness of Latvian businesses and an increase in external demand. In 2021 and 2022, as a result of increased external demand export volumes increased even more rapidly than in 2019 and 2020. In 2023, however, external demand weakened as a result of global inflationary pressures, the impacts of the Russia-Ukraine war, and the economic conditions, including recessionary conditions, of Latvia's principal trading partners in the EU, resulting in decreased export volumes. Despite the rise in their prices, Latvian exports have remained competitive mainly due to gains in other metrics such as improvements in their quality and the ability of producers to adjust these goods to the preferences of consumers in foreign markets. (*Source*: *UN Contrade, The Latvian Central Bank*).

The real annual growth rates of imports of goods in 2019, 2020, 2021, 2022 and 2023 were 2.6 per cent., 0.5 per cent., 14.7 per cent., 9.3 per cent. and minus 3.9 per cent. respectively. Weak import growth in 2020 was due to low domestic demand, due to the COVID-19 pandemic. However, demand began to grow rapidly in 2021, with import growth rates at their fastest pace in recent years mainly due to the strong domestic demand and the base effect. In 2022, as domestic demand remained the main driver, imports of goods continued to grow rapidly. The development in demand for imports in 2023 was influenced by a sharp decrease in prices of raw materials, especially for energy resources as well as wood and wood products.

Geographical Breakdown of Trade

Latvia's main trading partners are EU Member States, which accounted for 68.7 per cent. of Latvia's exports and for 80.7 per cent. of its imports in 2023. Within the EU Member States, the principal export destinations for Latvia's goods in 2023 were Lithuania (which accounted for 18.1 per cent. of Latvia's total exports in 2023), Estonia (11.4 per cent.) and Germany (6.7 per cent.). In terms of imports, the principal EU sources of imports for Latvia in 2023 were Lithuania (which accounted for 21.1 per cent. of Latvia's total imports in 2023), Germany (11.2 per cent.) and Poland (10.6 per cent.).

Outside the EU, the share of the states comprising the Commonwealth of Independent States ("**CIS**") in Latvia's exports was 8.7 per cent. in 2023. Within the CIS states, Russia is the principal export market for Latvian goods, accounting for 68 per cent. of Latvian exports to the CIS states in 2023. In terms of imports, the CIS states accounted for 3.9 per cent. of Latvia's total imports in 2023. As with exports, within the CIS, Russia is the principal source of Latvia's imports, accounting for 66.1 per cent. of total imports from CIS states to Latvia in 2023. Exports to CIS countries, including Russia, have been decreasing mainly due to the EU and national sanctions on trade with Russia and Belarus.

In particular, overall trade ties with Russia and Belarus have significantly diminished since 2014, when EU sanctions were first imposed on Russia. In 2023, exports of goods and services to Russia stood at 3.1 per cent. of the nominal GDP as compared to 7.2 per cent. in 2014. Similar developments were observed on the imports side as Latvia has reduced its reliance on Russian energy. In 2014, imports of goods and services from Russia stood at 1.6 per cent. of nominal GDP as compared to 5.2 per cent. in 2023. For further details, see "*Economy of Latvia–Energy*".

In addition, the exports of mechanical appliances and electrical machinery has been trending downwards, rising from €181 million in 2014 to €324 million in 2021 and, subsequently, declining to €99 million in 2023. However, pharmaceutical exports increased in value from €60 million in 2014 to €95 million in 2021 and remaining steady thereafter, at €99 million in 2023. This is reflective of the nature of the pharmaceutical industry, where the licensing process increases the entry barriers to new markets.

On the imports side, sanctions imposed on imports from Russia caused a significant decrease in major categories of goods. For example, the imports of mineral products decreased from €577 million in 2014 and €624 million in 2021 to €256 million in 2023 (after the ban on natural gas imports from Russia). Imports of iron and steel stood at €163 million in 2014 and reached €459 million by 2021 due to surging commodity prices. They subsequently decreased to €27 million in 2023, following sanctions that came into effect in 2022. Imports of wood products followed similar developments, rising from €42 million in 2014 to €149 million in 2021 and, eventually, dropping to nil in 2023.

The Latvian economy over time reduced its reliance on transit trade, as economic ties with Russia have shrunk significantly since 2014, and shifted towards more productive sectors, such as ICT services. Transit trade reached a peak export value of €466 million in 2012, dropping significantly in the following years down to €133 million in 2023. However, at the same time, exports of ICT services have climbed up from €239 million in 2012 to €1,264 million in 2023. Exports to other countries excluding EU and the CIS states, to which the United Kingdom belongs during the first half of 2020, make up an increasing share in the total export structure from 2020 to 2023. Exports to other countries, excluding EU and the CIS states made up an increasing share in the total exports, and accounted in 2019, 2020, 2021, 2022 and 2023 for 15.8 per cent., 23.3 per cent., 23.9 per cent., 22.9 per cent. and 22.5 per cent. respectively. The imports from other countries, excluding EU and the CIS states as a share of total imports in 2019, 2020, 2021, 2022 and 2023 was 14.1 per cent., 15.8 per cent., 15.5 per cent., 13.8 per cent. and 15.4 per cent. respectively.

Latvia primarily trades with countries in Asia and the Americas. Asia accounted for 5.8 per cent. of Latvia's exports and 8.8 per cent. of its imports in 2023. The Americas accounted for 3.5 per cent. of Latvia's exports and 4.9 per cent. of its imports in 2023.

The tables below set out the geographic distribution of Latvian exports of goods for each of the years ended 31 December 2019, 2020, 2021, 2022, 2023 and the first three months of 2024.

	Year ended 31 December										As of 31 March	
	2019		2020		2021		2022		2023		2024	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
EU												
Lithuania	2,206.9	17.0	2,169.3	16.3	2,922.4	17.8	3,889.8	18.2	3,448.3	18.1	850.0	18.2
Estonia	1,527.7	11.8	1,551.3	11.7	1,747.7	10.6	2,502.6	11.7	2,176.9	11.4	602.0	12.9
Germany	940.5	7.3	962.1	7.2	1,197.4	7.3	1,433.0	6.7	1,275.5	6.7	308.8	6.6
Sweden	854.3	6.6	758.9	5.2	905.4	5.5	1,213.2	5.7	1,131.9	5.9	263.9	5.6
Denmark	554.2	4.3	607.0	4.6	711.0	4.3	845.7	4.0	794.8	4.2	228.1	4.9
Poland	470.0	3.6	485.6	3.6	689.6	4.2	780.7	3.7	738.9	3.9	200.1	4.3
Finland	318.5	2.5	353.9	2.7	417.6	2.5	1,008.9	4.7	694.4	3.6	117.7	2.5
Netherlands	348.5	2.7	405.9	3.1	536.7	3.3	753.6	3.5	577.6	3.0	145.5	3.1
Other EU	1 419.9	11.0	1,437.3	10.8	1,844.7	11.2	2,349.1	11.0	2,261.2	11.9	621.2	13.3
Total	**8,640.6**	**66.6**	**8,731.2**	**65.6**	**10,972.5**	**66.7**	**14,776.6**	**69.3**	**13,099.5**	**68.7**	**3,337.2**	**71.4**
CIS												
Russia	1,184.7	9.1	1,131.8	8.5	1,197.2	7.3	1,197.6	5.6	1,130.7	5.9	267.9	5.7
Belarus	192.3	1.5	183.1	1.4	187.1	1.1	184.1	0.9	171.2	0.9	39.6	0.8
Other CIS	177.9	1.4	156.2	1.2	170.1	1.0	299.3	1.4	361.9	1.9	69.1	1.5
Total	**1,555.0**	**12.0**	**1,471.1**	**11.1**	**1,554.3**	**9.4**	**1,681.0**	**7.9**	**1,663.7**	**8.7**	**376.5**	**8.1**
United Kingdom	726.6	5.6	762.4	5.7	1,260.5	7.7	1,131.2	5.3	916.7	4.8	223.3	4.8
United States	208.4	1.6	247.0	1.9	380.9	2.3	612.4	2.9	507.4	2.7	126.7	2.7
Ukraine	152.3	1.2	219.2	1.6	231.0	1.4	521.3	2.4	485.1	2.5	61.9	1.3
Norway	292.8	2.3	261.6	2.0	323.7	2.0	409.3	1.9	342.9	1.8	80.8	1.7
Other countries (except EU and CIS)	**2,770.0**	**21.4**	**3,102.4**	**23.3**	**3,925.6**	**23.9**	**4,876.1**	**22.9**	**4,296.5**	**22.5**	**963.0**	**20.6**
Total	**12,965.6**	**100**	**13,304.7**	**100**	**16,452.3**	**100**	**21,333.6**	**100**	**19,059.7**	**100**	**4,676.7**	**100**

Source: Central Statistical Bureau

The tables below set out the geographic distribution of Latvian imports of goods for each of the years ended 31 December 2019, 2020, 2021, 2022, 2023 and the first three months of 2024.

	Year ended 31 December										As of 31 March	
	2019		2020		2021		2022		2023		2024	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
EU												
Lithuania	2,810.5	17.7	2,717.0	17.9	3,361.0	17.2	6,450.7	24.3	4,923.8	21.1	1.018.7	19.8
Germany	1,739.6	10.9	1,581.9	10.4	2,055.3	10.5	2,538.8	9.6	2,609.9	11.2	589.2	11.5
Poland	1,494.8	9.4	1,542.5	10.2	1,872.5	9.6	2,497.5	9.4	2,467.2	10.6	573.0	11.1
Estonia	1,346.0	8.5	1,293.5	8.5	1,730.2	8.9	2,668.8	10.1	1,966.6	8.4	378.4	7.4
Netherlands	635.4	4.0	651.5	4.3	789.9	4.0	1,049.2	4.0	1,024.7	4.4	261.6	5.1
Finland	675.3	4.2	588.4	3.9	723.3	3.7	910.9	3.4	1,011.8	4.3	194.8	3.8
Italy	523.6	3.3	523.6	3.5	608.4	3.1	757.1	2.9	848.7	3.6	179.8	3.5
Sweden	522.3	3.3	511.8	3.4	578.0	3.0	706.6	2.7	729.6	3.1	158.1	3.1
Other EU	2,147.6	13.5	2,106.1	13.9	2,514.1	12.9	3,022.4	11.4	3,259.2	14.0	752.9	14.7
Total................	**11,895.3**	**74.7**	**11,516.1**	**76.0**	**14,232.7**	**72.9**	**20,601.9**	**77.8**	**18,841.4**	**80.7**	**4,106.5**	**79.9**
CIS												
Russia	1,080.7	6.8	931.3	6.1	1,771.9	9.1	1,831.2	6.9	606.7	2.6	149.5	2.9
Belarus.............	320.4	2.0	298.5	2.0	463.6	2.4	298.0	1.1	173.4	0.7	47.3	0.9
Other CIS.........	31.6	0.2	21.6	0.1	31.8	0.2	100.8	0.4	137.7	0.6	34.8	0.7
Total................	**1 432.7**	**9.0**	**1,251.4**	**8.3**	**2,267.3**	**11.6**	**2,230.1**	**8.4**	**917.6**	**3.9**	**231.6**	**4.5**
China	510.0	3.2	634.8	4.2	859.8	4.4	993.8	3.8	865.6	3.7	210.5	4.1
Canada	598.2	3.8	261.2	1.7	598.4	3.1	663.1	2.5	653.8	2.8	93.8	1.8
Ukraine	185.1	1.2	182.2	1.2	225.6	1.2	286.6	1.1	299.3	1.3	66.1	1.3
United Kingdom	348.5	2.2	375.0	2.5	174.5	0.9	184.2	0.7	241.8	1.0	49.6	1.0
Other countries	943.7	5.9	938.7	6.2	1,160.7	5.9	1,536.0	5.8	1,534.4	6.6	380.8	7.4
Other countries (except EU and CIS)	**2,585.5**	**16.2**	**2,391.9**	**15.8**	**3,019.0**	**15.5**	**3,663.7**	**13.8**	**3,594.9**	**15.4**	**800.8**	**15.6**
Total................	**15,913.6**	**100**	**15,159.5**	**100**	**19,518.9**	**100**	**26,495.7**	**100**	**23,354.0**	**100**	**5,138.9**	**100**

Source: Central Statistical Bureau

Composition of Trade

In 2023, the principal product groups exported by Latvia were agricultural and food products (principally live animals, prepared foodstuffs, fish products, dairy products and vegetable products), wood products (principally sawed wood, fuel wood and round wood), machinery (principally appliances and electronic equipment), and chemical products (principally pharmaceuticals). Over the period from 2019 to 2023 and as a percentage of exports:

- agricultural and food product exports fluctuated between a low of 18.3 per cent. in 2021 and a high of 22.6 per cent. in 2023;
- machinery product exports fluctuated between a low of 16.2 per cent. in 2023 and a high of 18.9 per cent. in 2020;
- wood product exports fluctuated between a low of 15.1 per cent. in 2023 and a high of 19.1 per cent. in 2021; and
- chemical product exports fluctuated between a low of 11.1 per cent. in 2019 and a high of 11.7 per cent. in 2023.

In 2023, the principal product groups imported by Latvia were machinery (principally machine parts, electrical equipment, office equipment, cables and wires), agricultural and food products (principally live animals, prepared foodstuffs, fish products, dairy products and vegetable products), chemical products (principally pharmaceuticals), and transport vehicles (principally land vehicles other than railway or tramway rolling stock). Over the period from 2019 to 2023 and as a percentage of imports:

- machinery product imports fluctuated between a low of 17.3 per cent. in 2022 and a high of 22.5 per cent. in 2020;
- agricultural and food product imports fluctuated between a low of 15.2 per cent. in 2022 and a high of 19.2 per cent. in 2023;
- chemical product imports fluctuated between a low of 14.7 per cent. in 2022 and a high of 16.4 per cent. in 2020 and 2021; and
- transport vehicle imports fluctuated between a low of 9.1 per cent. in 2020 and a high of 13.3 per cent. in 2023.

The tables below set out the composition of Latvia's exports of goods for each of the years ended 31 December 2019, 2020, 2021, 2022, 2023 and the first three months of 2024.

	Year ended 31 December										As of 31 March	
	2019		2020		2021		2022		2023		2024	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Live animals and animal products	518.2	4.0	504.2	3.8	589.3	3.6	875.7	4.1	879.2	4.6	223.7	4.8
Vegetable products....................	958.8	7.4	1,174.5	8.8	1,176.7	7.2	1,682.2	7.9	1,461.8	7.7	349.8	7.5
Fats and oils	17.0	0.1	25.2	0.2	27.5	0.2	119.0	0.6	97.7	0.5	34.2	0.7
Prepared foodstuffs	1,251.5	9.7	1,222.8	9.2	1,213.1	7.4	1,558.7	7.3	1,869.4	9.8	448.2	9.6
Mineral products	646.2	5.0	540.7	4.1	1,040.5	6.3	2,731.6	12.8	1,486.9	7.8	416.4	8.9
Products of the chemical and allied industries	1,014.0	7.8	1,053.1	7.9	1,424.7	8.7	1,736.2	8.1	1,614.9	8.5	418.7	9.0
Plastics, rubber and articles thereof.................................	430.2	3.3	458.6	3.4	585.7	3.6	682.2	3.2	616.8	3.2	142.3	3.0
Raw hides, leather, fur skins and articles thereof......................	28.3	0.2	24.1	0.2	37.0	0.2	35.6	0.2	49.1	0.3	17.8	0.4
Wood and articles of wood	2,237.4	17.3	2,192.1	16.5	3145.9	19.1	3,673.4	17.2	2,869.5	15.1	765.3	16.4
Pulp of wood, paper and paperboard...........................	283.4	2.2	273.1	2.1	324.1	2.0	386.4	1.8	329.0	1.7	79.7	1.7
Textiles and textile articles........	391.2	3.0	391.4	2.9	432.9	2.6	493.3	2.3	514.1	2.7	139.0	3.0
Footwear, headgear, umbrellas and other articles	45.5	0.4	45.4	0.3	57.8	0.4	81.3	0.4	116.6	0.6	36.8	0.8
Articles of stone, plaster, cement, glassware and ceramic products...............................	315.2	2.4	311.0	2.3	354.7	2.2	437.9	2.1	381.0	2.0	90.6	1.9

	Year ended 31 December										As of 31 March	
	2019		2020		2021		2022		2023		2024	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Precious and semi- precious stones and metals and articles thereof..................................	47.4	0.4	29.1	0.2	36.7	0.2	39.2	0.2	32.0	0.2	6.4	0.1
Base metals and articles of base metals..................................	1,100.9	8.5	1,097.6	8.2	1,641.5	10.0	1,463.2	6.9	1,240.2	6.5	293.9	6.3
Machinery and mechanical appliances; electrical equipment............................	2,140.4	16.5	2,509.7	18.9	2681.5	16.3	3,041.7	14.3	3,087.6	16.2	708.4	15.1
Transport vehicles.....................	811.0	6.3	693.7	5.2	762.9	4.6	985.6	4.6	1,138.2	6.0	257.0	5.5
Optical instruments and apparatus	235.8	1.8	238.1	1.8	308.5	1.9	403.3	1.9	438.9	2.3	117.9	2.5
Arms and ammunition..............	1.6	0.01	0.3	0.002	2.1	0.0	8.8	0.0	6.1	0.0	0.9	0.0
Miscellaneous manufactured articles..................................	469.7	3.6	500.3	3.8	585.5	3.6	666.5	3.1	600.6	3.2	121.6	2.6
Works of art collectors' pieces and antiques	0.8	0.01	1.0	0.01	2.4	0.0	2.5	0.0	1.1	0.0	0.1	0.0
Other goods..............................	21.0	0.2	19.8	0.1	21.3	0.1	229.3	1.1	229.0	1.2	8.2	0.2
Total..	**12,965.6**	**100**	**13,304.7**	**100**	**16,452.3**	**100.0**	**21,333.6**	**100.0**	**19,059.7**	**100**	**4,676.7**	**100**

Source: Central Statistical Bureau

The tables below set out the composition of Latvia's imports of goods for each of the years ended 31 December 2019, 2020, 2021, 2022, 2023 and the first three months of 2024.

	Year ended 31 December										As of March 31	
	2019		2020		2021		2022		2023		2024	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Live animals and animal products	506.7	3.2	514.5	3.4	591.3	3.0	793.4	3.0	861.5	3.7	220.6	3.7
Vegetable products	701.2	4.4	779.0	5.1	834.3	4.3	1,111.1	4.2	1,176.2	5.0	285.6	5.0
Fats and oils	77.1	0.5	97.1	0.6	122.3	0.6	246.5	0.9	187.8	0.8	64.2	0.8
Prepared foodstuffs	1,407.9	8.8	1,457.2	9.6	1,428.7	7.3	1,888.7	7.1	2,218.2	9.5	547.0	9.5
Mineral products	1,454.3	9.1	1,000.9	6.6	1,883.6	9.7	5,549.1	20.9	2,746.4	11.8	423.0	11.8
Products of the chemical and allied industries	1,576.0	9.9	1,629.5	10.7	2,079.0	10.7	2,587.7	9.8	2363.9	10.1	616.2	10.1
Plastics and articles thereof; rubber and articles thereof	845.7	5.3	861.8	5.7	1,115.5	5.7	1,295.1	4.9	1,108.0	4.7	252.0	4.3
Raw hides, leather, fur skins and articles thereof	55.5	0.3	49.0	0.3	53.8	0.3	66.3	0.3	82.7	0.4	23.4	5.6
Wood and articles of wood	577.8	3.6	587.7	3.9	940.2	4.8	901.9	3.4	571.3	2.4	121.1	1.2
Pulp of wood; paper and paperboard	315.2	2.0	311.7	2.1	356.9	1.8	454.2	1.7	401.6	1.7	99.6	10.6
Textiles and textile articles	569.2	3.6	588.3	3.9	651.6	3.3	771.0	2.9	775.3	3.3	190.4	8.2
Footwear, headgear, umbrellas and other articles	152.1	1.0	134.4	0.9	156.2	0.8	205.0	0.8	234.5	1.0	57.8	12.0
Articles of stone, plaster, cement, glassware, ceramic	282.9	1.8	253.0	1.7	295.6	1.5	377.0	1.4	330.1	1.4	72.5	4.9
Precious and semi- precious stones and metals and articles thereof	59.8	0.4	48.9	0.3	61.6	0.3	100.8	0.4	71.3	0.3	10.8	0.5
Base metals and articles of base metals	1,246.8	7.8	1,187.4	7.8	1,850.0	9.5	1,806.3	6.8	1,479.8	6.3	349.2	2.4
Machinery and mechanical appliances; electrical equipment	3,200.0	20.1	3,411.9	22.5	3935.2	20.2	4,580.8	17.3	4,504.3	19.3	954.7	1.9
Transport vehicles	2,052.9	12.9	1,374.7	9.1	2128.9	10.9	2,619.3	9.9	3,082.1	13.2	583.8	3.7
Optical instruments and apparatus	358.2	2.3	356.5	2.4	416.3	2.1	472.7	1.8	477.5	2.0	114.2	1.1
Arms and ammunition	40.7	0.3	77.7	0.5	112.9	0.6	55.7	0.2	94.7	0.4	6.2	1.4
Miscellaneous manufactured articles	427.7	2.7	430.2	2.8	503.9	2.6	574.3	2.2	543.6	2.3	120.6	0.2
Works of art collectors' pieces and antiques	6.0	0.04	8.0	0.1	1.1	0.0	9.8	0.0	7.3	0.0	14.2	6.8
Other goods					0.0	0.0	29.0	0.1	35.9	0.2	11.8	18.6
Total	**15,913.6**	**100**	**15,159.5**	**100**	**19,518.9**	**100.0**	**26,495.7**	**100.0**	**23,354.0**	**100**	**5,138.9**	**100**

Source: Central Statistical Bureau

Trade Policy

The main legal framework for trade is set by Latvia's commitments as a member of the EU and the WTO. Trade policy is a common policy of the EU, and since Latvia's accession to the EU, its domestic customs regime has been harmonised with EU legislation.

Latvia's trading relations with other non-EU countries are regulated under agreements concluded and negotiated by the EU. The EC negotiates trade agreements on behalf of the EU Member States and the common position of the Member States is co-ordinated within the Trade Policy Committee of the Council of the European Union.

The objectives and guidelines of the EU common trade policy are set out in the EU's mid-term trade policy strategy titled "Trade Policy Review – An Open, Sustainable and Assertive Trade Policy". At the centre of the renewed trade policy is the concept of "open strategic autonomy", which uses the EU's openness to contribute to economic recovery by supporting green and digital transformations. It also sets out a renewal of the EU's focus on the strengthening of multilateralism and reforming global trade rules to ensure their fairness and sustainability and highlights the necessity of stricter enforcement of the EU's rights and interests.

The EU has concluded 45 free trade agreements with 77 countries. The most recent to enter into force are free trade agreements with the United Kingdom (on 1 May 2021), Vietnam (on 1 August 2020), Singapore (on 21 November 2019) and Japan (on 1 February 2019). An agreement in principle has been reached with Mexico, Mercosur states (Argentina, Brazil, Paraguay and Uruguay) and the People's Republic of China (Comprehensive Investment Agreement), while negotiations with Chile, Australia, New Zealand and Indonesia are currently ongoing.

Latvia has concluded bilateral economic cooperation agreements with the Republic of Armenia, the Republic of Azerbaijan, the People's Republic of China, Georgia, the Republic of Kazakhstan, the State of Kuwait, the Republic of Kyrgyzstan, the Republic of Moldova, the Republic of Tajikistan, the Republic of Turkey, Turkmenistan, Ukraine, the United Arab Emirates, the Kingdom of Saudi Arabia and the Republic of Uzbekistan. In 2022, the Cabinet of Ministers suspended the previously concluded agreements on economic cooperation with the Russian Federation and the Republic of Belarus in response to hostilities in Ukraine conducted by Russia and backed by Belarus. These agreements are aimed at enhancing bilateral economic cooperation between Latvia and countries outside the EU in industry, transport, pharmaceuticals, agriculture, financial services, communications, tourism, professional training, promoting investment, technologies and innovation, among other fields. The agreements also provide for an Intergovernmental Commission or a Joint Committee to be established. Meetings of these bodies enable regular supervision of the implementation of these agreements and provide a platform to discuss matters of common interest to enhance economic cooperation at both governmental and entrepreneurial levels.

In order to ensure the comprehensive economic development of Latvia and to promote structural changes in the economy, the main objective of which is economic growth, the new Guidelines on the National Industrial Policy for 2021-2027 (the "**NIP**") were announced on June 2, 2020. The objective of the new NIP is to increase the export potential of the Latvian economy and increase spending on R&D activities, as well as identify key industrial policies, consider existing developments, global challenges, including climate change, and potential opportunities for industries to move towards higher value added products, strengthen human resources capacity increasing innovation capacity, strengthen infrastructure and the technological base of enterprises, create an attractive business environment for small and medium-sized enterprises and promote access to investment and financial resources.

Latvia currently has 19 Foreign Economic Representative Offices in the USA (San Francisco and Boston), the United Arab Emirates, Austria, Denmark, South Korea, France, Italy, Japan, Canada, Great Britain, the Netherlands, Norway, Finland, Ukraine, Germany and Sweden. In addition, two representative offices in Norway and Sweden have a representative who works only with investment matters. Considering the current global and geopolitical challenges, in order to expand the company's opportunities to find partners in new markets, representative offices have been opened in Australia and

Uzbekistan. In 2023, three external economic representations of Latvia have been established in Brussels, Geneva and Israel, whose basic tasks are to search for cooperation and projects in the field of innovation and technology, as well as to represent Latvia's interests in the European Organization for Nuclear Research ("**CERN**"). Taking into account the Russia-Ukraine war, operations of the representative office in Russia and Belarus were also suspended. Evaluating the geopolitical situation, the operation of the representative office in the People's Republic of China has also been suspended.

FOREIGN DIRECT INVESTMENT

As of 31 December 2023, the sectors with the largest accumulated FDI in Latvia were professional, scientific and technical activities, financial intermediation, real estate, manufacturing and trade which together accounted for 77.0 per cent. of accumulated FDI.

Prior to the global financial crisis, FDI inflows were more concentrated in the financial intermediation and real estate sectors. However, with an improvement in the business climate and gains in competitiveness as Latvia emerged from a recession, investors' interest in Latvia's manufacturing sector was revived. In subsequent years, FDI inflows in manufacturing were among the largest FDI inflows in Latvia. In 2019, net FDI inflows to Latvia were 2.7 per cent. of its nominal GDP. In 2020, net FDI inflows to Latvia were again above the historical average, reaching 2.9 per cent. of Latvia's nominal GDP. In 2021, net FDI inflows to Latvia were 8.4 per cent. of its nominal GDP, primarily due to the creation of Swedbank AS, and while stocks of FDI in financial intermediation decreased, FDI in professional, scientific and technical activities increased tenfold. In 2022 and 2023 net FDI inflows to Latvia were 3.5 per cent. and 2.8 per cent. of Latvia`s nominal GDP, respectively, the largest of which were recorded in the professional, scientific and technical activities, manufacturing, financial intermediation and trade sectors. By country, the largest investment inflows received in 2022 and 2023 were from Sweden, Estonia, Germany and Lithuania.

In 2019, cumulative FDI in the financial intermediation sector decreased by 4.2 per cent. In 2020, cumulative FDI in the financial intermediation sector increased by 6.4 per cent. In 2021, cumulative FDI in the financial intermediation sector decreased by 19.5 per cent. primarily due to the aforementioned creation of the Swedbank holding company of the Baltics. In 2022 and 2023, cumulative FDI in the financial intermediation sector increased by 4.2 per cent. and 10.1 per cent., respectively.

Cumulative FDI in professional, scientific and technical activities increased by 5.8 per cent. in 2019, 26.8 per cent. in 2020 and 1222.7 per cent. in 2021, primarily due to the aforementioned Swedbank group activities. Cumulative FDI in professional, scientific and technical activities increased by 5.4 per cent. in 2022 and increased by 15.7 per cent. in 2023. Cumulative FDI in the manufacturing sector increased by 6.1 per cent. in 2019, 3.8 per cent. in 2020, 19.0 per cent. in 2021, 17.9 per cent. in 2022 and 13.8 per cent. in 2023. In 2020, 51 companies announced their intentions to invest in Latvia in projects worth €252.4 million with the assistance of the Investment and Development Agency of Latvia (the "**LIAA**"). Moreover, in the first half of 2021, LIAA attracted 17 new investment projects worth €313 million.

For purposes of increasing investment in Latvia, in 2021, the LIAA established a government initiative, known as the "Green Channel", to reduce the administrative burden for large-scale and strategically important investment projects in priority sectors.

The priority areas for investment include "Smart" specialisation areas (IT; Bioeconomics; "Smart" materials and photonics; Biomedicine and "Smart" energy), International Business Service Centres, Construction, Transport and Logistics.

The priority project status is granted by LIAA under the following conditions:

- the amount of investment is at least €5 million (€10 million in Riga);
- the export volume in three years is more than €3 million;

- 75 new jobs are estimated to be created (100 to be created in Riga);
- investments of at least €250,000 are aimed at R&D and employee competence expansion

From 2021 to date, the priority project status has been granted to 27 projects, within the framework of which investments of €620 million are currently planned, including the potential creation of 1300 new jobs. These projects cover smart energy, ICT, engineering systems, global business centres, wood processing etc.

THE SCOPE OF THE LEGISLATIVE PROPOSAL

On 2 April 2024, the Law on Support of Innovative Entrepreneurship and Priority Projects regarding a permanent «Green channel» initiative entered into force.

Regarding the framework of this law (a) the areas of priority projects and service of priority projects will are defined by expanding them to other areas, including net-zero emission technologies, safety and security, tourism etc. (b) the law will determine the delegation to the Cabinet of Ministers for supporting investment attraction, including ad-hoc support and export promotion, as well as (c) criteria for "regulatory sandbox" creation.

In the sense of this law, the regulatory sandbox is a specific legal framework, including a specific territory, where conditions different from the current regulatory enactments apply, within which businesses and scientific institutions can test and verify innovative products, technologies and services for the commercialisation of relevant solutions. In order to improve the quality of services offered to investors, in 2010, LIAA developed a single, dynamic cooperation-based investment attraction methodology known as the Polaris process. The Polaris process is designed to facilitate more effective attraction of foreign investments in Latvia by identifying target sectors, compiling and updating the latest discoveries in scientific fields related to the sectors, offering projects to foreign investors, and coordinating cooperation among Latvian government institutions, municipalities, the private sector, and scientific institutions.

In this regard, on 9 April 2024, the Cabinet of Ministers approved certain amendments to the Regulation of the Co-ordination Council for Large and Strategically Important Investment Projects to improve the coordination of large and strategically important investment projects and decision-making for the implementation of the relevant investment projects in Latvia. As a result of this amendment, the Co-ordination Council for Large and Strategically Important Investment Projects (the "**Co-ordination Council**") is empowered to consider and decide on the amendments to the laws, support mechanisms, additional infrastructure or other investments and measures necessary for the implementation of specific investment projects. As a result of the amendments made to the bylaws of the Council, the composition, functions, tasks and rights of the Council, as well as the frequency of convening meetings, is clarified. The goal of these amendments is to make the Council a central institution under the leadership of the Prime Minister, which recognizes and monitors the progress of all large investment projects in Latvia, regardless of whether it is foreign investment in Latvia or Latvian company development projects with an investment volume of at least €10 million or an export volume of €5 million.

MODIFICATION OF THE PRIORITY INVESTMENT COUNCIL

Since 2010, when Cabinet of Ministers Regulation no. 774 "Regulation of the Co-ordination Council for Large and Strategically Important Investment Projects" was adopted, as part of the Polaris process, a Council was also established (the "**Polaris Council**").

The Polaris Council ensures strategic decision-making involving the Prime Minister and ministers from different line ministries.

To improve strategic decision making by the Polaris Council for the successful implementation of Polaris process and thus - large and strategically significant investment projects in Latvia, a draft amendment has been developed in 2024, which includes:

- optimize the composition of the Polaris Council, establishing it with three members – the Prime Minister, Minister of Economy, Minister of Finance and Minister of Foreign Affairs;

- introducing and strengthening the format of operational groups, which provide proposals for Polaris Council decisions. The operational working group is established by the Ministry of Economics, and is planned as a consultative, coordinating format of various public level institutions with the purpose of preparing proposals for decision-making in the Council, as well as to ensure the supervision of the execution of these decisions regarding the successful implementation of investment projects important to the economy of Latvia;

- specify the tasks of the Polaris Council; and

- determine the tasks of the Investment and Development Agency of Latvia as the Polaris Council's secretariat.

Additionally, it is planned that the Polaris Council will assess and decide on the infrastructure or other investments necessary for the implementation of priority investment projects, which would be provided by the public sector, thereby ensuring that these infrastructure or other investments are prioritised.

The principal source of FDI into Latvia is from EU member states which, at the end of 2023, accounted for 83.5 per cent. of cumulative Latvian FDI. Apart from EU member states, Norway, the United Kingdom, the United States and Switzerland have each been important sources of FDI for Latvia, accounting for 1.9 per cent., 1.6 per cent., 1.6 per cent. and 0.9 per cent., respectively, of cumulative FDI into Latvia as at 31 December 2023. The importance of Russia as a source of foreign direct investments has diminished, with cumulative FDI from Russia decreasing from 10.0 per cent. of total FDI in 2019 to 4.9 per cent. in 2023.

The table below sets out the cumulative FDI stock as at 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019	**2020**	**2021**	**2022**	**2023**
			(€ millions)		
Foreign investment stock in Latvia	16,050	16,799	21,196	22,564	24,476
in equity capital	12,651	13,311	18,000	19,245	21,357
in other capital	3,399	3,488	3,196	3,319	3,118

Source: The Latvian Central Bank

The tables below set out the distribution of cumulative FDI by sector and as a percentage of total FDI in enterprises as at 31 December 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December									
	2019		**2020**		**2021**		**2022**		**2023**	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Financial and insurance activities	3,898	24.3	4,145	24.7	3,336	15.7	3,477	15.4	3,829	15.6
Real estate activities	2,662	16.6	2,636	15.7	3,132	14.8	3,204	14.2	3,269	13.4
Wholesale and retail trade; Repair of motor vehicles and motorcycles	2,503	15.6	2,617	15.6	2,923	13.8	2,941	13.0	3,109	12.7
Manufacturing	1,906	11.9	1,977	11.8	2,354	11.1	2,775	12.3	3,158	12.9
Transportation and storage	789	4.9	717	4.3	720	3.4	757	3.4	781	3.2
Agriculture, forestry and fishing	669	4.2	715	4.3	795	3.8	916	4.1	1,017	4.2
Information and communication	529	3.3	616	3.7	642	3.0	673	3.0	783	3.2

	Year ended 31 December									
	2019		2020		2021		2022		2023	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Electricity, gas, steam and air conditioning supply	547	3.4	567	3.4	693	3.3	629	2.8	737	3.0
Construction	471	2.9	436	2.6	386	1.8	432	1.9	389	1.6
Professional, scientific and technical activities	268	1.7	340	2.0	4,492	21.2	4,735	21.0	5,478	22.4
Other sectors	1,808	11.3	2,033	12.1	1,723	8.1	2,025	9.0	1,926	7.9
Total	**16,050**	**100.0**	**16,799**	**100.0**	**21,196**	**100.0**	**22,564**	**100.0**	**24,476**	**100.0**

Source: The Latvian Central Bank

The tables below set out the distribution of cumulative FDI by country and as a percentage of total cumulative FDI as at 31 December 2019, 2020, 2021, 2022 and 2023.

	As at 31 December									
	2019		2020		2021		2022		2023	
	(€ millions)	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*	*(€ millions)*	*(per cent.)*
Sweden..............................	2,435	15.2	2,779	16.5	6,005	28.3	6,429	28.5	7,312	29.9
Estonia	2,167	13.5	2,221	13.2	2,618	12.4	2,939	13.0	3,374	13.8
Lithuania	1,054	6.6	1,261	7.5	1,604	7.6	1,743	7.7	1,904	7.8
Cyprus...............................	1,210	7.5	1,257	7.5	1,288	6.1	1,339	5.9	1,406	5.7
Germany	1,025	6.4	1,175	7.0	1,239	5.8	1,378	6.1	1,477	6.0
The Netherlands	1,127	7.0	997	5.9	1,051	5.0	1,173	5.2	1,212	5.0
Luxembourg......................	831	5.2	667	4.0	829	3.9	765	3.4	705	2.9
Denmark	608	3.8	654	3.9	691	3.3	824	3.7	933	3.8
Finland	469	2.9	457	2.7	365	1.7	429	1.9	418	1.7
Malta.................................	380	2.4	399	2.4	431	2.0	455	2.0	488	2.0
Other EU...........................	858	5.3	902	5.4	903	4.3	971	4.3	1,219	5.0
Total EU...........................	**12,164**	**75.8**	**12,769**	**76.0**	**17,024**	**80.3**	**18,445**	**81.7**	**20,448**	**83.5**
Russian Federation............	1,611	10.0	1,493	8.9	1,838	8.7	1,412	6.3	1,207	4.9
Norway	457	2.8	456	2.7	456	2.2	460	2.0	473	1.9
United Kingdom................	210	1.3	321	1.9	304	1.4	371	1.6	383	1.6
Switzerland	210	1.3	183	1.1	203	1.0	204	0.9	221	0.9
Ukraine	143	0.9	169	1.0	212	1.0	183	0.8	218	0.9
United States.....................	136	0.8	139	0.8	214	1.0	283	1.3	394	1.6
Other countries..................	1,119	7.0	1,269	7.6	945	4.5	1,206	5.3	1,132	4.6
Total	**16,050**	**100.0**	**16,799**	**100.0**	**21,196**	**100.0**	**22,564**	**100.0**	**24,476**	**100.0**

Source: The Latvian Central Bank

MONETARY AND FINANCIAL SYSTEM

THE LATVIAN CENTRAL BANK

Latvijas Banka (the "**Latvian Central Bank**") was established as the central bank of Latvia on 7 September 1922, following the proclamation of the Republic of Latvia in 1918. The Latvian Central Bank operated as a central bank and a commercial bank until June 1940 when Latvia was occupied by the Soviet Union. The Latvian Central Bank was liquidated in October 1940 following the annexation of Latvia to the Soviet Union in August of that year.

After regaining independence in 1991, the Latvian Central Bank regained its position as Latvia's central bank with the right to issue lawful currency and the legal status of the Latvian Central Bank, and its role as an independent central bank, were reinforced by legislation passed in May 1992. Following the introduction of this legislation, the Latvian Central Bank was divested of its commercial operations through the restructuring and privatisation of its 49 branches. The Latvian Central Bank may grant loans to the banking sector but is prohibited by law from issuing credits to the Republic or purchasing Government securities in the primary market.

Primary Objective and Responsibilities

The primary objective and the tasks of the Latvian Central Bank are stipulated in the Law on Latvijas Banka, which came into effect on 19 May 1992,which sets out its role and confers authority on it to operate as an independent institution solely responsible to the Saeima. As of 2023, all functions related to the supervision and the promotion of the development of the financial and capital market as well as the functions of the resolution authority fall within the remit of the Latvian Central Bank, following the 2021 decision of the Saeima of the Republic to integrate the Financial and Capital Market Commission (the "**FCMC**") into the Latvian Central Bank. Following its adoption of the euro in 2014, the Latvian Central Bank has been a member of the European System of Central Banks (the "**ESCB**") and participates in the decision making process in the area of banking and finance in the European Union.

In accordance with the Treaty on the Functioning of the European Union ("**TFEU**"), the primary objective of the Latvian Central Bank is to maintain price stability. Without prejudice to the primary objective, the Latvian Central Bank, in accordance with Article 127(1) of the TFEU, also supports the general economic policies of the EU, contributes to the overall stability of Latvia's financial system, participates in the performance of the tasks of the European System of Central Banks and performs other related tasks, including participation in the definition of the monetary policy and implementation of it, performing macroeconomic analysis and research, determining and implementing the macroprudential policy, and regulating and supervising the operation of the financial market and its participants.

Governance

The Latvian Central Bank is administered by its Council (the "**Central Bank Council**"). The Central Bank Council consists of seven members: the Governor (who is also the Chairman of the Central Bank Council), two Deputy Governors and four other members. The Central Bank Council makes decisions on behalf of the Latvian Central Bank. Each Council member operates within their respective areas of responsibility. The Governor and the members of the Central Bank Council are appointed by the Saeima for a five-year term and for no more than two successive terms. They can only be removed by the Saeima in limited circumstances. On 12 December 2019, the Saeima approved Mārtiņš Kazāks as the Governor of the Latvian Central Bank from 21 December 2019 for a five-year term following the expiry of Governor Ilmārs Rimšēvičs term.

Following EU accession in May 2004, Latvijas Banka has become a part of the European System of Central Banks. Latvia joined ERM II in May 2005 and adopted the euro as its lawful currency on 1 January 2014.

MONETARY POLICY

The monetary policy of the Latvian Central Bank and the Eurosystem aim to achieve price stability, targeting the maintenance of 2 per cent. inflation over the medium term. Following the adoption of the euro on 1 January 2014, the Latvian Central Bank became a member of the Eurosystem and the Governor of the Latvian Central Bank became a member of the Governing Council of the ECB (the "**ECB Governing Council**"). In addition, Latvian monetary financial institutions have been integrated into the eurozone banking system and are able to participate in ECB open market operations. As such, monetary policy in Latvia is primarily driven by monetary policy in the Eurosystem.

The Eurosystem is led by the ECB Governing Council as the highest decision-making body of the ECB, primarily responsible for conducting monetary policy. The ECB Governing Council consists of six members of the Executive Board and the Governors of the national central banks of the euro are countries. Its main responsibility is to adopt guidelines and take all actions necessary to ensure the performance of tasks entrusted to the Eurosystem. The formulation of monetary policy for the eurozone includes, but is not limited to, decisions relating to monetary objectives, key interest rates, the supply of reserves in the Eurosystem, and the establishment of guidelines for the implementation of those decisions.

Objectives

The Eurosystem has a symmetric 2 per cent. inflation target over the medium term that provides a clear anchor for inflation expectations. The Harmonised Index of Consumer Prices ("**HICP**") is the price measure for assessing the achievement of the price stability objective. In the future the costs related to owner-occupied housing may be included in the HICP to better represent the inflation rate that is relevant for households.

Without prejudice to the price stability objective, the Eurosystem aims to support balanced economic growth, a highly competitive social market economy aiming at full employment and social progress, and to provide a high level of protection and improvement of the quality of the environment.

Policy Instruments

The ECB Governing Council bases its monetary policy decisions, including the evaluation of the proportionality of its decisions and potential side effects, on an integrated assessment of all relevant factors. This assessment builds on two interdependent analyses: the economic analysis and the monetary and financial analysis. Within this framework, the economic analysis focuses on real and nominal economic developments, whereas the monetary and financial analysis examines monetary and financial indicators, with a focus on the operation of the monetary transmission mechanism and the possible risks to medium-term price stability from financial imbalances and monetary factors. The pervasive role of macro-financial linkages in economic, monetary and financial developments requires that the interdependencies across the two analyses are fully incorporated.

Monetary policy decisions in the Eurosystem are made based on a detailed economic analysis in the eurozone, including Latvia, in addition to global macroeconomic indicators. Following the adoption of the euro, the monetary aggregates and counterparts of monetary aggregate M3 compilation represent the national contribution of the Republic to the aggregated eurozone data, published by the ECB, and these aggregates are analysed for purposes of monetary policy. M3 consists of M1 (the sum of currency in circulation and overnight deposits), M2 (deposits with an agreed maturity of up to two years, deposits redeemable at notice of up to three months), and repurchase agreements, money market fund shares/units and debt securities with a maturity of up to two years. The Latvian Central Bank publishes data on Latvia's contribution to eurozone M3. M3 published by the Latvian Central Bank no longer includes cash circulating in the economy, since it is no longer possible to establish that indicator due to the implementation of the single currency

The primary monetary policy instrument is the set of ECB policy rates. The ECB Governing Council sets three key interest rates: (i) the interest rate on the main refinancing operations, which is the rate banks pay when they borrow money from the ECB for one week; (ii) the rate on the deposit facility, which banks can use to make overnight deposits with the Eurosystem; and (iii) the rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem. Since the financial crisis in 2008, the Eurosystem has expanded its set of policy instruments in a way that would allow it to influence financing conditions and safeguard the monetary policy transmission mechanism. During these periods, short-term interest rates approached their effective lower bound, (i.e., the level below which lowering them would no longer increase the level of economic activity). To ensure price stability amid these challenges, the Eurosystem incorporated new tools, including, for example, providing "forward guidance," asset purchase programs and longer-term refinancing operations, as appropriate. The Governing Council responds flexibly to new challenges as they arise and considers, as needed, new policy instruments in the pursuit of its price stability objective.

The ECB Governing Council has raised its deposit-facility rate ten times, by a total of 450 basis points, since it started to tighten policy in mid-2022. Since September 2023, the deposit facility rate has been set at 4 per cent. The ECB Governing Council's June meeting has been flagged as a potential turning point to start rate cutting as new labour market data will become available.

Over the years, the ECB Governing Council has made several decisions to recalibrate the pace of asset purchases and reinvestments. In June 2023, the ECB Governing Council announced that it would discontinue reinvestments under the asset purchase programme (the "**APP**") as of July 2023.

In December 2023, the Governing Council announced that it intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the pandemic emergency purchase programme ("**PEPP**") during the first half of 2024 and to reduce the PEPP portfolio by €7.5 billion per month on average over the second half of the year. At the same time, the Governing Council announced that it intends to discontinue reinvestments under the PEPP at the end of 2024.

MONEY SUPPLY

From 2019 to 2021, the amount of money in circulation increased, as overnight deposits grew. As the cycle of rising interest rates began, deposits with an agreed maturity increased in 2022. In 2023, there was a decrease in demand for overnight deposits, reflecting the ongoing demand among households and enterprises for more profitable investments as a result of higher interest rates.

In 2019 and 2020, the perception of economic risks decelerated the lending recovery that started in the previous years and loans to domestic enterprises (including financial institutions and public non-financial corporations) and households in Latvia (private sector domestic credit) decreased. In 2021 and 2022, there was a gradual recovery in lending to households and non-financial corporations, which resulted in an increase in private sector domestic credit. In 2023, a moderate increase in lending to households continued, while lending of non-financial corporations shrank, which contributed to a decline of private sector credit growth rate, as overall lending remains subdued.

On the liability side of the Latvian banking sector's balance sheet, deposits from private domestic enterprises (excluding public non-financial corporations and financial institutions) and households (private sector domestic deposits) grew. This was due to moderate but steady economic growth, which enabled households and entrepreneurs to place increased savings in their bank accounts as well as emergency savings and unrealised consumption during the COVID-19 pandemic. In 2023, growth of private domestic sector deposits almost stopped as spending in high inflation period decreased household savings and search of more profitable opportunities for allocation of savings outside the banking sector activated.

From 2019 to 2023, the negative net foreign assets of Latvian banks (excluding the Latvian Central Bank) turned positive and increased by €3.0 billion. The decline in foreign liabilities of Latvian banks (excluding the Latvian Central Bank) totalled €2.0 billion, mainly reflecting a €1.0 billion fall in both liabilities to foreign banks and non-resident non-monetary financial institutions. Over the same period, the increase in foreign assets of Latvian banks (excluding the Latvian Central Bank) totalled €0.9 billion.

The table below sets out certain Latvian liquidity indicators as at 31 December 2019, 2020, 2021, 2022 and 2023.

	As at 31 December				
	2019	2020	2021	2022	2023
	(*€ millions*)				
National contribution to the eurozone monetary base......	10,418.5	11,302.4	12,066.4	10,994.8	12,813.0
Current account holdings of credit institutions	5,672.2	6,080.0	6,443.5	395.2	279.6
National contribution to the eurozone M1 - overnight deposits	13,010.1	15,574.1	17,354.9	18,501.6	16,3574.5
Deposits with agreed maturity of up to 2 years	1,464.9	1,232.2	797.6	853.1	3,403.6
Deposits redeemable at notice of up to 3 months	969.8	658.6	690.9	686.4	734.5
National contribution to the eurozone M2	15,444.8	17,464.9	18,843.4	20,041.1	20,495.6
Repurchase agreements	0.0	0.0	219.2	0.0	86.3
Money market fund shares/units	0.0	0.0	0.0	0.0	0.0
Debt securities issued with maturity of up to 2 years	(9.6)	(3.3)	0.0	0.0	0.0
National contribution to the eurozone M3	15,435.2	17,461.6	19,062.6	20,041.1	20,581.9
Private sector domestic credit	11,684.6	11,214.1	12,423.8	13,396.2	13,609.3
Private sector domestic credit to nominal GDP (*per cent.*).	38.1	37.3	37.3	34.9	33.8
Private sector domestic deposits	11,616.2	13,316.7	15,131.9	16,408.4	16,464.0

Source: The Latvian Central Bank
Note:
Unless otherwise indicated, all data points refer to contributions of Latvia to the eurozone.

RESERVE ASSETS AND INVESTMENT PORTFOLIO

The table below sets out the reserve assets held by the Latvian Central Bank and as defined in international reserves statistics (*Balance of Payments and International Investment Position Manual, sixth edition, IMF*). The table below also includes the investment portfolio managed by the Latvian Central Bank that in addition to the reserve assets is also comprised of euro denominated investment portfolio assets.

	As at 31 December				
	2019	2020	2021	2022	2023
	(*€ millions*)				
Reserve assets...	3,989	4,312	4,848	4,184	4,487
of which: monetary gold............................	289	330	344	365	399
Investment portfolio	5,658	5,920	6,705	5,972	6,231

Source: The Latvian Central Bank

INTEREST RATES

The table below sets out the key interest rates as set by the ECB, for December of each of 2019, 2020, 2021, 2022 and 2023. As a member thereof, interest rates in Latvia are driven by interest rates in the Eurosystem.

	2019	**2020**	**2021**	**2022**	**2023**
ECB deposit facility rate	(0.50)	(0.50)	(0.50)	2.00	4.00
Interest rate for house purchase: floating rate and up to 1 year.....	2.36	2.22	2.02	4.05	5.63
Interest rate on loans to non-financial corporations, loans over 1 million euro: floating rate and up to 1 year........................	3.13	2.76	2.83	5.10	5.93

Source: The European Central Bank

Following a few years of interest rate stability, in addition to a low interest rate environment at the height of COVID-19, as a result of increases in money market rates and tighter ECB monetary policy in 2022 and 2023, interest rates on euro denominated loans increased.

In addition, as a result of the high interest rate environment, Latvian households began shifting their savings towards time deposits.

BANKING REGULATION

The Latvian Central Bank regulates and supervises the operation of the financial market and its participants in Latvia. The Latvian Central Bank monetary, supervision and resolution functions are separated at the operational (structural unit) level, ensuring strict reporting lines, information exchange mechanism and reinforced internal control system. In accordance with the provisions set by the Law of Latvijas Banka, a committee is vested with delegated authority to take decisions on behalf of the Central Bank Council in the field of supervision of the financial market and its participants and, another committee is similarly authorised to take decisions which are necessary in relation to the application of resolution tools and the provision of compensation disbursement schemes, are established.

With the introduction of the Single Supervisory Mechanism (the "**SSM**") for the eurozone banking sector in November 2014, the ECB, in close cooperation with the national supervisory authority, exercises supervision of certain credit institutions in Latvia. As of 31 January 2021, within the SSM, there are three credit institutions in Latvia which are under direct supervision of the ECB, A/S Swedbank, A/S Citadele banka and A/S SEB banka.

The Latvian Central Bank is involved in the work of the ECB Banking Supervision ("**SSM**"), the European Systemic Risk Board, the Single Resolution Board and the European Supervisory Authorities. The Latvian Central Bank closely follows developments in the regulatory framework proposed by the EC and international organisations and is committed to ensuring the effective implementation of the regulatory framework for the financial sector.

Latvia's compensation schemes' system is comprised of the Deposit Guarantee Fund, the Fund for the Protection of the Insured (FPI) and the protection system of the customers of the financial instruments market (investors).

Latvijas Banka ensured the accumulation and management of the DGF funds, and at the end of 2023, and the amount accumulated in the NGF was €229.9 million.

At the end of 2023, €19.8 million were accumulated in the FPI. Since at the end of 2015 the accumulated funds exceeded the amount stipulated in Section 288 of the Insurance and Reinsurance Law, contributions to the FPI in 2016 were suspended.

Compensation per investor is calculated up to 20,000 euro. The disbursement of compensation is ensured by the Latvian Central Bank. The Investor Protection Law does not provide for accumulating the assets of compensation disbursement, but, if necessary, it is provided that the assets are ensured by the system participants or legal entities, who, under the established procedure, have received a Latvian Central Bank permit (licence) for the provision of investment services. Reflecting the risks assumed by certain Latvian banks which had been focusing on serving foreign clients, enhanced capital requirements and individual minimum liquidity requirements were introduced. These requirements have to be calculated annually, monitored on a regular basis and adjusted where relevant, for example when there are material changes in a bank's business model. Following the change of business model of those banks and their refocus on domestic and EU clients, the regulatory framework has been adjusted and capital and liquidity requirements are determined for all banks individually within the regular Supervisory Review and Evaluation Process ("**SREP**") process which includes, among other things, the assessment of each bank's business model together with inherent ML/TF risks.

Insurance

Activities related to insurance and reinsurance in the Republic of Latvia are regulated by the Insurance and Reinsurance Law, which entered into force on 1 January 2016 and implements the requirements of the Solvency II Directive and the Omnibus II Directive. The Insurance and Reinsurance Law establishes the national legal framework applicable to the insurance and reinsurance activities. Activities relating to insurance and reinsurance distribution in the Republic of Latvia are regulated by the Insurance and Reinsurance Distribution Law, which entered into force on 23 May 2019 and implements the requirements of Directive (EU) 2016/97 of the European Parliament and of the European Council of 20 January 2016 on insurance distribution.

The insurance market is supervised by the Latvian Central Bank. The Motor Third Party Liability Compulsory Insurance is supervised by the Motor Insurers' Bureau of Latvia. The Latvian Central Bank is involved in the work of the European Insurance and Occupational Pensions Authority (the relevant supervisory authority of the EU with respect to the insurance and occupational pensions sectors) and closely follows developments in other international organisations such as the International Association of Insurance Supervisors and OECD, with respect to the insurance market.

MONEY LAUNDERING AND TERRORIST AND PROLIFERATION FINANCING REGULATIONS

The money laundering prevention framework in Latvia is based on the Law on the Prevention of Money Laundering and Terrorist and Proliferation Financing (the "**AML/CTPF Law**"), which follows international standards and complies with applicable EU Directives. The AML/CTPF Law forms the basis for regulations promulgated by the Cabinet of Ministers, and after the merger of the FCMC and the Latvian Central Bank (the "**FCMC Merger**"), regulations approved by the Latvian Central Bank in respect of the financial market. The AML/CTPF Law was adopted in July 2008.

With regard to the legislative framework on sanctions enforcement, on 4 February 2016 the Law on International and National Sanctions of the Republic of Latvia was adopted, with amendments adopted on 28 June 2018 delegating powers of enacting administrative liability and impose corrective measures for violations of the laws and regulations governing the requirements of international and national sanctions regarding internal control systems and sanctions risk management to the FCMC and following the FCMC Merger, these powers are delegated to the Latvian Central Bank. Subsequent amendments to the Law on International and National Sanctions expanded the list of competent authorities covered. These amendments provide a clear and formal mechanism to identify targets for designations and/or designation proposals. The amended law also implements a formal mechanism and evidentiary standard on how to designate targets for international sanctions.

The Financial Intelligence Unit and the Money Laundering Prevention and Sanctions Department (AML Department) retains the power of sanctions enforcement and supervision.

The AML/CTPF Law has been subject to a number of amendments including with respect to prohibitions to provide that credit institutions, payment institutions, electronic money institutions, investment brokerage companies and certain investment management companies are prohibited from establishing business relationships or executing transactions with shell arrangements in the following circumstances:

- the shell arrangement has no affiliation of a legal person to an actual economic activity or the operation of a legal person forms a minor economic value or no economic value at all, and the subject of the AML/CTPF Law has no documentary information at its disposal that would prove the contrary; and
- the laws and regulations of the country where the legal person is registered do not provide for an obligation to prepare and submit financial statements for its activities to the supervisory institutions of the relevant state, including annual financial statements.

To address the risks associated with the cross-border provision of services of PSP (payment institutions and electronic money institutions providing payment services), amendments to the AML/CFT Law were adopted in June 2021 stipulating the rights of the financial sector supervisor to apply sanctions to financial institutions operating in Latvia without opening a branch or having representation.

After the FCMC Merger, the Money Laundering Prevention Department continues to monitor AML/CFTP compliance. The AML Department implements on-site supervision and on-going control over the implementation of AML/CFTP requirements and progress of remediation activities and corrective measures in respect of financial institutions subject to sanctions. In addition, in order to increase the efficiency of supervisory functions related to AML/CTF operations, the development of IT tools relating to the use of AML/CTF data analysis and transaction monitoring functions was completed and the tools are used for both on-site inspections and off-site supervision.

The on-site inspection scope has been subject to changes to ensure that the inspection process places more emphasis on the inherent risk in each institution, and the inspection process was revised to make it more efficient and to complete inspections in a shorter period of time. In 2020, the AML/CFT full-scope on-site inspection approach has been revised to focus on the assessment of AML/CFT governance in general, focusing on an in-depth review of elements of the internal control system. In practical terms, the internal control system is to be reviewed through the following factors: 1) ML/TPF risk assessment and the applicable methodology; 2) AML/CFTP strategy and messages from management (tone on the top); 3) structure, responsibilities, staff and training, whistle-blowing; 4) customer due diligence; 5) transaction monitoring; 6) suspicious transaction identification and reporting; 7) IT systems for ML/TPF and sanctions risk management; and 8) audit (external and internal).

Anti-Money Laundering Law

The requirements of the Fifth Anti-Money Laundering Directive (EU) No. 2018/843 have been transposed into the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing through the adoption of comprehensive and substantial amendments. These amendments included changing the procedure for reporting suspicious transactions to the Financial Intelligence Unit. In addition, as of 1 January 2020, insolvency administrators will also have to comply with an expanded range of legal requirements, including in relation to customer due diligence, internal control systems and suspicious transactions reporting.

Increased powers have also been provided to the Register of Enterprises in relation to the evaluation of information submitted and also to facilitate the timely notification of law enforcement authorities in respect of false information relating to companies included in the Register of Enterprises. Measures have also been taken to exclude high-risk limited liability companies from the Register of Enterprises.

The amendments also relate to ensuring accurate data identification and verification, reflecting the development of new technologies and the digitalisation of payments. Clearer customer due diligence requirements for cooperation with high-risk third countries have also been provided for.

The amendments further include arrangements to prevent proliferation funding, which is aimed at addressing the concerns raised by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") in its Fifth Round Mutual

Evaluation Report of Latvia (the "**MONEYVAL Report**") (see "*-The MONEYVAL Report" below*") in respect of a clear anti-proliferation mechanism.

Recommendations issued by the European Banking Authority ("**EBA**") are either fully incorporated into the legal framework stipulated by the Latvian Central Bank or by inclusion of a reference to the relevant EBA regulation under the domestic framework.

The legal framework on customer due diligence and enhanced due diligence requirements applicable to all the supervised financial institutions of the Latvian Central Bank has been revised. The revised regulations combine in one document, customer due diligence, enhanced due diligence requirements and the required information technology solutions along with a list of the risk factors that financial market participants need to monitor and take into consideration when assessing customer risks. The risk factors are in line with the Recommendations on the Risk Factors issued by the EBA (the "**EBA Recommendations**"). The EBA recommendations are used by financial institutions within member countries of the EU as guidance for the risk assessment of their customers and transactions thereof.

In addition, in July 2020, comprehensive recommendations on the establishment of internal control systems were adopted, which provided detailed guidance on managing ML/TPF risks, including *inter alia*, practical case study examples from the supervision in relation to customer due diligence, enhanced due diligence, ML/TPF and sanctions risk assessment. The recommendations have been subject to amendments the first time in 2022 when provisions on sanctions compliance were included into the document. The recommendations were further amended in 2023 with provisions addressing internal control system measures for providers of investment services, payment initiation and account information service providers, as well as other issues identified in the dialogue with market participants.

Both regulations aim to ensure that the ML/TPF risks are identified and necessary customer due diligence measures are appropriate and conducted in a timely manner. Furthermore in January 2021, the effective regulations for customer due diligence, enhanced due diligence and risk numerical assessment system development and information technology requirements where amended enhancing the risk-based approach and focusing on particular risks along with information technology requirements.

In 2023 The Recommendations for Remote Customer Identification were adopted to provide guidance for risk management in the process of applying remote customer identification and IT solutions applies, the differences between remote and on-site identification.

Criminal Proceedings

The Prosecutor General's Office has increasingly enhanced measures to combat financial and organised crimes, such as money laundering, and a number of criminal proceedings concerning such crimes are ongoing. The outcome of such proceedings is difficult to predict.

Criminal proceedings against the former Governor of the Latvian Central Bank

In February 2018, Mr. Ilmārs Rimšēvičs, the Governor of the Latvian Central Bank, was called to the Corruption Prevention and Combating Bureau of Latvia to provide information regarding certain criminal proceedings. The investigator recognised Governor Rimšēvičs as a suspect in the criminal proceedings and applied several security measures, including a prohibition on Governor Rimšēvičs performing in the capacity of the Governor of the Latvian Central Bank and a prohibition on leaving the country.

Mr. Rimšēvičs denied the allegation and announced that he would not step down. Mr. Rimšēvičs appealed against the prohibitions applied by the investigator at the district court. On 27 February 2018, the court rejected the appeal and this decision was final.

As the prohibition to perform as the Governor of the Latvian Central Bank prohibited Mr. Rimšēvičs from exercising his functions as a member of the ECB's Governing Council, Governor Rimšēvičs appealed the prohibition to the European Court of Justice (the "**ECJ**"). The ECB also referred the case regarding the suspension of Governor Rimšēvičs to the ECJ.

On 26 February 2019, the ECJ annulled the decision suspending Governor Rimšēvičs from his office on the grounds that the Latvian authorities had not been able to establish that the suspension of Mr. Rimšēvičs was based on the existence of sufficient evidence that he had engaged in serious misconduct.

The ECJ has also ruled that the Republic must pay the costs incurred by the ECB. However, it is not certain if the ECB will declare any costs related to the proceedings and what the amount of such costs will be.

On 24 May 2019, the Prosecutor General's Office expanded the charges against Governor Rimšēvičs to include charges relating to laundering the proceeds of crime. On 8 July 2019, the pre-trial criminal procedure in relation to the charges against the Governor of the Latvian Central Bank was completed and the case was lodged with the Rīga District Court (in Jūrmala) for examination on its merits.

The trial in the criminal proceedings in relation to the charges against the Governor of the Latvian Central Bank started on 4 November 2019 in Rīga District Court (in Jūrmala). On 20 December 2019, the Riga District Court (in Jūrmala) decided to refer several preliminary questions in connection with the criminal procedural immunity of the Governor of the Latvian Central Bank, as a member of the ECB's Governing Council, to the ECJ. Pending the ruling of the ECJ, the criminal proceedings were suspended. On 30 November 2021, the ECJ ruled to waive the immunity of the former Governor of the Latvian Central Bank, as a member of the ECB's Governing Council.

In December 2023, the court of first instance found the former Governor Rimšēvičs guilty of accepting bribes (Article 320, Part 4 of the Criminal Law) and money laundering (Article 195, Part 3 of the Criminal Law), imposing a final sentence of deprivation of liberty for a period of six years and partial confiscation of property. The said judgment has not yet entered into force.

Sentencing of the Chairman of Ventspils City Council

The Riga Regional Court sentenced the Chairman of the Ventspils City Council to five years (reduced to four years in appeals instance) in prison and as being subject to the confiscation of property (estimated at €350 million) and to a fine of €20,000 after finding him guilty on a number of charges of large-scale bribery, money and property laundering (in the amount of nearly €7 million) committed by an organised group, unlawful participation in property transactions, forgery of documents and official documents, and provision of false information in the declaration of a public official for nine separate years. For further details, see "*Description of the Republic of Latvia - Prevention and Combating of Corruption*".

ABLV Bank

Certain criminal proceedings are ongoing in Latvia in relation to ABLV Bank and allegations of systematic money laundering. In particular, proceedings were initiated in 2020 against former employees of ABLV Bank for transactions estimated at an amount of at least 2 billion euros, in the period of 2010 to 2018. These proceedings follow the historic allegations of money laundering against ABLV, including in February 2018, when the Financial Crimes Enforcement Network ("**FinCEN**") released a statement regarding ABLV Bank (the fourth largest bank by assets in Latvia at the time (*Source: Finance Latvia Association*)) naming it as an institution of primary money laundering concern and, pursuant to the USA PATRIOT Act, seeking to prohibit the opening or maintaining of a correspondent account in the United States for, or on behalf of, ABLV Bank. Shortly thereafter, a series of actions by the ECB and the FCMC resulted in ABLV entering into a voluntary self-liquidation process, which is planned to be completed by 2028. See "*Liquidation of ABLV Bank, AS*".

The MONEYVAL Report

The MONEYVAL Report is an independent audit of Latvia's compliance with the latest global standards on AML/CTF and details the AML/CTF measures in place in Latvia.

The MONEYVAL Report analyses the level of technical compliance with the Financial Action Task Force ("**FATF**") recommendations and the effectiveness of Latvia's AML/CTF system providing recommendations on how Latvia's AML/CTF system can be improved.

In December 2019, MONEYVAL reviewed the technical compliance progress report submitted by Latvia, which provides information and an expert assessment of Latvia's progress in improving the regulatory framework to comply with FATF 40 recommendations. Following the assessment of the progress report, out of 40 FATF technical compliance recommendations, 7 were assessed as fully compliant and 33 as largely compliant. Latvia is the first MONEYVAL member state that has successfully implemented all FATF recommendations.

In February 2020, the FATF plenary session reviewed the efficiency progress report submitted by Latvia, which reflects the effective application of the regulatory framework in the fight against money laundering, terrorist financing and proliferation financing. After evaluating the efficiency report, it was confirmed that in all ten efficiency indicators, previously rated as “low” or “medium”, Latvia has been able to show a significant and positive improvement, as well as demonstrating its commitment to combating economic and financial crime, thus strengthening its national security, prosperity, sustainability and reputation.

In December 2019, the government of Latvia adopted an Action plan to prevent money laundering, terrorism and proliferation financing for the period of 2020 until 2022) in order to address FATF and MONEYVAL recommendations. These measures are based on international, national, and sectoral risk assessments, recommendations from international organisations and results and learnings taken from the previous plan.

Since that period Latvia constantly has up to date Action plan to address these issues. These Action plans are being constantly updated according to the National Money Laundering and Terrorism and Proliferation Financing Risk Assessment (“**NRA**”). There have been made NRA for the period 2017-2019 (“**NRA 2020**”) and for the period 2020-2022 (“**NRA 2023**”). NRA 2023 is published in Latvian on Financial Intelligence Unit (FIU) website.

NRA 2023 was published in November 2023 and the main conclusion is that the ML/TF risks identified in previous NRAs, which arose from the former status of Latvia as a regional financial centre, no longer poses a notable threat and are no longer relevant in the current reporting period. Based on the NRA 2020, the developed ML/TF risk mitigation measures, implemented during this reporting period, have significantly reduced the ML/TF risks by eliminating opportunities to use of the Latvian financial system for ML/TF purposes.

The National Financial Crime Prevention and Combating Strategy has been approved by the Financial Sector Development Board in January 2024. It defines the future strategic goal, vision and priority directions for the development of the system for preventing and combating money laundering, terrorism and proliferation financing (AML/CFT). The Strategy aims at improving the cooperation between the public administration and the private sector in order to effectively prevent and combat financial crimes, promote the rule of law, Latvia's economic growth and investment environment, thereby strengthening both Latvia's internal and external security.

The current Action plan is for the period of 2023-2025 and it has been made to mitigate ML/TF risks according to the conclusions of NRA 2020. The objective of the Action Plan 2023-2025 is to strengthen the capacity of Latvia to combat money laundering and terrorist and proliferation financing, and to mitigate the risks associated with this, by ensuring conformity with international commitments and standards in the field of AML/CTF and promoting public safety, competitiveness of the economic environment, and confidence in the jurisdiction of Latvia.

The Action plan for the time period 2024-2026 has been adopted by the Cabinet of Ministers in April 2024. The Action plan 2024-2026 has been developed taking into account the conclusions of the NRA 2023. Action plan 2024-2026 provides a set of specific measures to achieve the goal of the National Financial Crime Prevention and Combating Strategy.

At the sitting of the Cabinet of Ministers on 11 April 2023, the informative report “*On Latvia's participation in the 6th evaluation round of MONEYVAL*" was approved. According to the informative report, Latvia applied for MONEYVAL’s 6th assessment round and the decision was approved at MONEYVAL’s 15 December 2023 plenary session.

In the informative report, it was concluded that by conducting an evaluation of Latvia's AML/CFT prevention system as soon as possible, Latvia has opportunity to improve its rating in efficiency indicators, confirming the effectiveness of Latvia's AML/CFT prevention system as a whole, including strengthening Latvia's reputation as a country with an effective AML/CFT prevention system.

BANKING SECTOR DEVELOPMENT

Credit institutions in Latvia are mainly regulated by the Credit Institutions Law, which implements the fifth Capital Requirements Directive (on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms) and the related Capital Requirements Regulation (on prudential requirements for credit institutions and investment firms) in Latvia. The Recovery and Resolution Directive and the Directive on Deposit Guarantee Schemes have also been implemented in Latvia through the Law on Recovery and Resolution of Credit Institutions and Investment Firms and the Law on Deposit Guarantees, respectively.

Banks account for about 73 per cent. of the total assets of the Latvian financial sector. As of 31 December 2023, there were eight Latvian licensed banks operating in Latvia, four branches of other EU banks and one financial holding company.

As of 31 December 2023, approximately 78 per cent. of the Latvian banking share capital was owned by foreign investors. Two subsidiaries of EU banks Skandinaviska Enskilda Banken AB (publ) and Swedbank AB (publ)) and four branches of EU banks (BIGBANK plc, OP Corporate Bank plc, Luminor Bank AS and TF Bank AB) accounted for approximately 70 per cent. of total banking sector assets and approximately 83 per cent. of the total domestic loan portfolio as of 31 December 2023.

Three largest Latvian banks (AS "Swedbank", AS "SEB banka" and AS "Citadele banka" are directly supervised by the ECB within the framework of the Single Supervisory Mechanism (SSM), as well indirectly the branches of AS "Luminor Bank" (Estonia) and AS "OP Corporate Bank Plc" (Finland) i.e. 86.2 per cent. of the total banking sector assets.

In 2022, there was a significant increase in assets by €2.4 billion or 9.5 per cent. primarily driven by the surge in customer deposits. However, in 2023, deposit growth slowed considerably, resulting in a more modest increase in total assets. In 2023, total assets rose by €560 million or 2.0 per cent., reaching a total of €28.2 billion. This growth was mainly attributed to the increase in equity by €460 million or 16.9 per cent. driven by higher profits. Regarding the asset composition, there was a noticeable rise in cash and claims to the central bank, amounting to €1.6 billion or 29.1 per cent. Simultaneously, claims to credit institutions decreased due to operations by one bank. Additionally, holdings of securities decreased by €717 million or 22.3 per cent. mainly determined by the repayment of TLTRO III funding.

The growth of lending that was observed between 2020 and 2022 has slowed down. The total growth of the non-bank customer loan portfolio year-on-year was 1.5 per cent. or €237.4 million, mainly driven by an increase of domestic customer loan portfolio of households. At the end of 2023, the loan portfolio stood at €15.9 billion. If compared to 2022, the total domestic non-banks loans portfolio increased by €294.3 million or 2.2 per cent., meanwhile foreign loans decreased by €57.0 million or 2.3 per cent. Loans of domestic non-financial corporations increased slightly (by 0.4 per cent.) compared to 2022, while domestic households' loans grew by 3.5 per cent.

The challenging macroeconomic environment and interest rates increase that could lead to potential deterioration of quality of loan portfolio has been one of the main concerns over the 2023. However, at the end of 2023 there was still no significant deterioration in credit quality to non-banks, and the non-performing loans ratio stood at 2.7 per cent. Although the risks associated with a sharp deterioration in quality of loans due to the increase in interest rates have slightly diminished, especially considering the adopted mortgage borrower protection measures, slower economic growth and geopolitical risks determine that credit risk remains elevated.

The rise in interest rates significantly contributed to the improvement of profitability in the banking sector. In 2023, the sector operated with a profit of €622 million, e.g. growth of 93.8 per cent., if compared to 2022. The prevalence of floating interest rates over the fixed ones and accordingly expanded margins led to substantial growth in net interest income by €532 million or 94.7 per cent.

compared to 2022. Consequently, profitability indicators also improved: the cost-to-income ratio decreased from 53.8 per cent. to 39.3 per cent., and the return on equity increased from 11.2 per cent. to 20.0 per cent. From 2020 to 2022 domestic deposits significantly increased (on average by 10.8 per cent.) driven by high uncertainty and limited consumption opportunities. In 2023, total deposits grew by €278 million or by 1.3 per cent. and reached €22.1 billion. With persistent inflation and increasing interest rates, growth of savings became considerably lower, as domestic deposits grew only by €159 million or 0.8 per cent. The opposite trend in 2023 was seen in foreign deposits, where a more active attraction of deposits through online platforms led to growth by 4.2 per cent. or €120 million, reaching a total of €3 billion. Along with increasing interest rates deposit composition shifted into term deposits and the share of term deposits in total deposits grow from 7.1 per cent. to 19.7 per cent. in 2023.

The average LCR and NSFR ratios for the last couple of years were significantly above the minimum requirement of 100 per cent. and in 2023 was 252 per cent. and 167 per cent. respectively, showing that liquidity risk in the Latvian banking sector remains limited.

Over the last two years capital ratios have slightly decreased due to increase of risk exposure determined by growth of loan portfolio and changes in asset structure and voluntary additions to compensate for possible deficiencies in IRB models. The average common equity tier 1 ratio of the banking sector in 2023 decreased from 22.2 per cent. to 20.0 per cent., but the average total capital ratio - from 23.2 per cent. to 20.8 per cent. remaining well above regulatory requirements and fostering resilience to economic downturn.

The table below sets out certain performance indicators of the Latvian banking sector and the quality of its loan portfolio as at the last day of each quarter from 1 January 2019 to 31 December 2023.

	2019				2020				2021				2022				2023			
	31 Mar	*30 Jun*	*30 Sep*	*31 Dec*	*31 Mar*	*30 Jun*	*30 Sep*	*31 Dec*	*31 Mar*	*30 Jun*	*30 Sep*	*31 Dec*	*31 Mar*	*30 Jun*	*30 Sep*	*31 Dec*	*31 Mar*	*30 Jun*	*30 Sep*	*31 Dec*
Liquidity (per cent.)	-	-	-	-	-	-	-	-	-	-	-	-	347.6	320.1	276.7	221.8	225.1	242.1	245.0	251.9
Liquidity coverage ratio	307.2	308.7	295.5	314.5	373.3	334.9	346.2	373.7	320.4	312.3	332.3	319.3	56.3	56.6	58.1	55.6	55.9	56.5	57.1	55.3
Loans issued to non-banks/total assets	60.4	61.5	60.7	58.6	59.4	55.8	55.1	52.7	54.8	54.7	56.5	57.0	71.8	73.1	75.1	70.6	71.4	72.0	73.5	70.7
Loans issued to non-banks/non-banks deposits....	78.9	79.9	80.0	75.2	74.1	73.1	72.7	68.1	70.4	70.2	72.5	71.6	-	-	-	-	-	-	-	-
Capital adequacy (per cent.)																				
Total Capital ratio	23.7	22.6	21.6	21.1	25.0	24.5	24.6	26.9	24.8	25.1	24.7	25.3	23.8	22.9	22.0	21.9	20.8	20.7	20.4	20.0
CET1 ratio .	21.2	20.2	19.3	19.6	23.7	23.3	23.5	25.7	23.8	24.1	23.7	24.3	36.1	35.9	36.3	36.3	39.6	40.2	40.7	40.6
Total risk exposure amount/total assets....	43.0	42.7	42.5	41.0	40.2	38.1	37.4	35.5	36.9	36.4	37.6	36.4	10.4	8.6	9.1	10.0	20.1	23.0	23.7	20.0
Profitability (per cent.)																				
Return on equity.......	11.5	9.9	6.1	3.1	4.5	3.2	5.1	5.2	7.5	10.7	10.1	10.0	1.7	1.7	1.8	2.0	3.2	3.5	3.6	3.7
Return on assets	1.5	1.2	0.8	0.4	0.3	0.4	0.6	0.7	0.8	1.2	1.2	1.2	-	-	-	-	-	-	-	-
Net interest income to interest bearing assets	2.2	2.3	2.3	2.3	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	-	-	-	-	-	-	-	-
Non-bank clients credit risk and assets quality																				
Level of non-performing loans (NPL ratio)........	7.1	7.4	7.8	7.1	5.1	5.3	5.0	4.7	4.6	4.6	4.3	3.6	26.2	26.0	27.0	27.8	26.9	29.3	30.0	26.5
Coverage ratio of non-performing loans	33.4	32.0	36.3	38.9	32.8	30.4	30.2	27.9	24.6	25.7	24.5	25.7	6.0	5.5	5.1	4.9	4.0	3.6	4.0	4.6
Forbearance ratio for loans	8.7	5.0	4.8	5.1	4.8	5.8	6.2	6.9	7.4	7.5	6.9	6.6	347.6	320.1	276.7	221.8	225.1	242.1	245.0	251.9

Source: The Latvian Central Bank

The transformation of bank business models

The Latvian Central Bank was supervising the change in business models of credit institutions specialising in foreign customer service in accordance with business strategies developed by these banks, as the phasing out of the servicing of foreign customers has been a priority since 2018, in response to the MONEYVAL Report that identified the need for reforms in the banking sector. Since 2018, the banking sector has reduced its exposure to Russia and, at present, such exposure is mostly limited to a few smaller banks. Additionally, cross border transactions with Russia have decreased significantly since Russia started the war in Ukraine. As expected, during this business model transformation process, some credit institutions left the Latvian market via liquidation or consolidation processes.

All the credit institutions currently operating in Latvia have met the supervisory expectations and have succeeded to implement more sustainable and competitive business model focusing more on Latvian and European market thus strengthening the credit institution sector of Latvia.

Liquidation of ABLV Bank, AS

According to the Latvian Credit Institutions Law, the self-liquidation process initiated in 2018 by ABLV Bank AS continues, which is planned to be completed by 2028. The process is supervised by the Latvian Central Bank, ensuring its implementation in accordance with the approved liquidation plan and the methodology developed by their independent auditor.

Unless otherwise stated, all statistical data under the heading "*—Banking Sector Development*" in this section has been derived from the Latvian Central Bank reports.

The restructuring of Parex Bank

The restructuring of Parex Bank was taken over by the state in 2008 and is nearing completion. The bank had been restructured in 2010 by transferring performing assets to the newly established Citadele Bank, which was later sold to a group of international financial investors in 2015. The remaining part of Parex Bank operating as a distressed asset management company, Reverta, was subject to a workout of its portfolio and was put into liquidation in 2017.

Other restructurings and liquidations

The state-owned Mortgage and Land Bank ("**MLB**"), which was recapitalised in 2009 and 2010, is being transformed into a pure development institution. The commercial segment of MLB was split into six bundles which were sold during 2012 and 2013. Most of the bundles were sold to private investors. The non-performing loans and part of the real-estate corporate loan bundle were transferred to Hiponia, a wholly owned subsidiary of the Possessor (previous known as Latvian Privatisation Agency). Hiponia has completed the workout of such non-performing loans and real-estate corporate loan bundle and was put into liquidation in 2018. The liquidation of Hiponia was completed on 2 November 2020.

During 2014, the shares of three development institutions: MLB, the Latvian Guarantee Agency and the Rural Development Fund, were transferred to a new institution to allow the integration of the development companies following a change in law. The new institution's responsibilities include designing and implementing future state support and development programmes.

On 15 August 2019, the ECB assessed that A/S PNB Banka ("**PNB Banka**") was failing or likely to fail and the Single Resolution Board determined that resolution action was not necessary in the public interest in accordance with the Single Resolution Mechanism Regulation. As a result, and with a view to protecting the deposits of PNB Banka's customers, the FCMC decided to suspend the provision of financial services by PNB Banka (including the withdrawal of deposits). Subsequently, the court declared PNB Banka insolvent on 12 September 2019. On 17 February 2020, the ECB decided to withdraw PNB Banka's licence and this decision came into force on 18 February 2020.

The amount of guaranteed compensations relating to the failure of PNB Banka could reach approximately €275 million. Clients who hold deposits within PNB Banka of amounts up to €100,000 (which represents 99.2 per cent. of PNB Banka's clients) will be fully covered by the funds of the Deposit Guarantee Fund. No state budget resources will be used to pay the guaranteed compensations.

To ensure the stability of Latvia's financial sector and protecting the interests of Baltic International Bank SE customers and creditors, the Board of FCMC on 12 December 2022 decided to suspend the provision of financial services at Baltic International Bank SE. The same day FCMC assessed that Baltic International Bank SE was failing or likely to fail in accordance decided not to take resolution action of Baltic International Bank SE, which means to take no actions in order to stabilise bank activities. The Board of the FCMC on 13 December 2022 took a decision on the unavailability of deposits at Baltic International Bank SE in order to protect the interests of bank's customers by preventing a bank run. The FCMC has made a decision on the procedure for the guaranteed compensation payments to the depositors of Baltic International Bank SE No state budget resources will be used to pay the guaranteed compensations.

On 10 March 2023, the ECB has made the decision to withdraw the banking licence of Baltic International Bank SE. The decision took effect on 11 March 2023. By a decision of the Court of Economic Affairs dated 24 March 2023, Baltic International Bank SE was recognised as the institution to be liquidated and the process of its liquidation was initiated. By a decision of the Court of Economic Affairs dated 24 January 2024, Baltic International Bank SE was recognised to be insolvent as an institution.

CAPITAL MARKETS

The Financial Instruments Markets Law governs the procedure whereby securities are publicly offered in Latvia, the provision of investment services and ancillary (non-core) investment services, the licensing and supervision of participants (except investment brokerage firms) in the capital market and also establishes the rights and obligations of those participants and liability for any infringement of the requirements of the law.

Investment brokerage firm licencing and supervision is governed by the Law on Investment Firms adopted by Saeima on 28 April 2022. It specifically regulates the licencing process and sets supervision and administrative measures as well as sanctions to investment brokerage firms.

NASDAQ RIGA

Nasdaq Riga is the only licensed stock exchange in Latvia. It was established in 1993 and commenced trading in 1995. Nasdaq Riga is part of the Nasdaq Group which also owns Nasdaq CSD SE ("**Nasdaq CSD**"), which is the regional Baltic central securities depository with a business presence in Estonia, Iceland, Latvia and Lithuania.

Nasdaq Nordic Ltd is the major shareholder of Nasdaq Riga with a 92.98 per cent. ownership and sole shareholder of Nasdaq CSD.

Only licensed Nasdaq Riga members, being banks and brokerage companies, may trade on the exchange. As at April 2, 2024, Nasdaq Riga had 21 trading members. Nasdaq Riga operates five lists: the Main List, the Secondary List, the Bond List, the Funds List and the First North (Alternative Market) List.

As at April 2, 2024, 16 Latvian companies' equity securities, 36 corporate debt securities and 2 Government Treasury bond issues were listed on Nasdaq Riga.

The table below sets out certain information relating to Nasdaq Riga as at 31 December 2019, 2020, 2021, 2022 and 2023.

	2019	**2020**	**2021**	**2022**	**2023**
			(million, EUR)		
Equity market capitalisation	840.7	948.9	986.1	737.3	733.7
Debt market capitalisation	1,925.3	2,043.7	2,325.8	1,678.2	1,446.9

Total market turnover	38.9	45.4	43.2	18.2	35.7
Equity market turnover	24.8	14.9	28.4	11.4	15.0
Debt market turnover	14.0	30.5	14.8	6.8	20.7

Source: Nasdaq Riga

During each trading session, Nasdaq Baltic data is distributed to various global market data vendors and market participants.

Nasdaq CSD is the regional Baltic central securities depository and was established in 2017 following the merger of the Estonian, Latvian and Lithuanian central securities depositaries. Nasdaq CSD Iceland merged with Nasdaq CSD in May 2020. Nasdaq CSD provides safe custody of all publicly issued securities in Estonia, Latvia and Lithuania, clearing and settlement services for securities traded on Nasdaq Riga, Nasdaq Vilnius, Nasdaq Tallinn and Nasdaq Iceland and also manages corporate actions related to securities.

Nasdaq CSD is licensed under the European Central Securities Depositories Regulation ("**CSDR**") and runs modern straight-through processing ("**STP**") technology in a solution connected to the pan-European TARGET2-Securities ("**T2S**") platform.

The proprietary accounts of Nasdaq CSD's participants are segregated from their client accounts, thus reducing risk in case of a default by a bank or a brokerage company. Nasdaq CSD is a member of the Association of National Numbering Agencies and has obtained National Numbering Agency status in Estonia, Latvia, Lithuania and Iceland. As a result, Nasdaq CSD assigns ISIN, CFI codes and FISN for all issues registered with Nasdaq CSD.

Nasdaq CSD also administers the State funded pension, which is the second pillar of the pension system, in Latvia - see "*Economy of Latvia—Social Security System—Pension System*". Nasdaq CSD has established a relationship with Clearstream Banking S.A., allowing Nasdaq CSD's participants to act as custodians of financial instruments registered with Clearstream Banking S.A. Nasdaq CSD has established a direct link with Clearstream Banking AG, the German CSD, to facilitate cross-border settlement in T2S markets, giving foreign investors access to the Baltic securities market.

UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES ("UCITS") AND ALTERNATIVE INVESTMENT FUNDS ("AIFS")

Activities related to investment fund management in Latvia are regulated by the Law on Investment Management Companies.

Alternative investment funds and their managers are regulated by separate legislation.

As of 31 December 2023, two investment management companies managed 13 UCITS funds in Latvia and the total assets of these UCITS funds amounted to €168.2 million (as compared to €193.4 million on the 31st December 2022) of which 72 per cent. were invested in debt securities, 16 per cent. were invested in shares and 12 per cent. were allocated to the investment funds. As of 31 December 2022, there were 6 licensed and 25 registered alternative investment fund managers in Latvia. The total assets of alternative funds amounted to €352.8 million (as compared to €200.7 million on 31 December 2019). The table below sets out certain information with respect to the total assets in UCITS and AIFs as at 31 December 2019, 2020, 2021, 2022 and 2023.

	2019	**2020**	**2021**	**2022**	**2023**
			(in € million,)		
UCITS total assets	226.9	248.1	278.0	193.4	168.2

AIF	total	assets	200.7	224.1	298.1	352.8	N/A

Source: The Latvian Central Bank

PUBLIC FINANCE

INTRODUCTION

The general Government budget consists of the central Government budget and local government budgets. The central Government budget is made up of a basic budget and the social security budget, which is a special central Government budget. The consolidated general Government budget is generally prepared on a cash flow basis; certain budget information is also determined according to the European System of National and Regional Accounts ("**ESA**"), which differs significantly from the cash flow-basis, for EU reporting purposes. Unless specifically stated otherwise, all budget information in this section, is presented on a cash flow basis.

PREPARATION AND APPROVAL OF THE CENTRAL GOVERNMENT BUDGET

The obligation to prepare the State budget is enshrined in the Constitution of the Republic, which states that the Saeima annually, before the beginning of the financial year, shall decide on the State budget of revenue and expenditure, the draft of which shall be submitted to it by the Cabinet of Ministers. The draft state budget law (the "**State Budget Law**") submitted by the Cabinet of Ministers shall be examined and approved by the Saeima in accordance with the legislative procedure.

The importance of the budget and the key aspects of its preparation are set in the Law on Budget and Financial Management (the "**LBFM**").

The annual budget formulation process involves the Cabinet of Ministers, the Ministry of Finance, the State Chancellery, the Cross-Sectoral Coordination Centre (attached to the State Chancellery), other Government ministries and the Latvian Association of Local and Regional Governments. By 1 March of each year, the Minister of Finance submits to the Cabinet of Ministers, a draft schedule for the preparation and submission of the State Budget Law. Until the end of 2011, the IMF and the European Commission also exerted substantial influence through recommendations over budgetary decisions through their influence on structural reforms to various sectors, including the public sector, the education sector and the social sector, as part of the financial assistance package. See "*Indebtedness—Borrowing from International Financial Institutions*".

A spending review (the "**Spending Review**") is an integral part of the annual process for the preparation of the State budget. The Spending Review is the process of developing and adopting savings measures, based on the systematic review of baseline expenditure, processes and policy areas. An inter-institutional working group has been established to prepare proposals for the spending review of the State budget expenditures, to discuss the results of evaluations, the best solution options, recommendations and the use of results in the budget development process. The working group is established and approved by order of the Minister of Finance. The working group includes representatives from Ministry of Finance, the Latvian Central Bank, State Chancellery and State Audit Office.

The LBFM sets out a provision that requires the Cabinet of Ministers to ensure a continuous and systematic review of state budget expenditure, allowing for more efficient and economical implementation of public policies, as well as for optimising budget expenditure and assessing its compliance with the priorities and objectives set out in national development planning documents, including the National Development Plan of Latvia (as described in the paragraph below). The Cabinet of Ministers decides annually on the scope of the review of state budget expenditure at the same time as it approves the timetable for the preparation of the budget. The Minister of Finance, in turn, submits to the Cabinet the results of the review of state budget expenditure and proposals on the use of these results in the process of drafting the State Budget Law, in accordance with this timetable. In 2024, the spending review will ensure the alignment of public spending with sectoral policy objectives and results, and start implementing results-based budget programmes, analysing them in terms of performance, cost and international benchmarking, so that the benefits of the performance indicator system can be used, where possible, for public budget decision-making. The Spending Review also requires that line ministries review the funding allocated so far to priority actions, analyse performance indicators in 2023 or the relevant prior year, analyse sector budgeted expenditure and propose possible policy changes.

If, in accordance with the latest macroeconomic forecasts, funds for new policy initiatives are expected to be required, the ministries and other central State bodies prepare and submit their proposals for policy measures on the basis of priorities and goals envisaged by the National Development Plan of Latvia for 2021 to 2027 (the "**National Development Plan**") and the State Defence Concept. The National Development Plan targets equal opportunity, productivity, income, social trust and regional development through the following aims: (i) strengthening human-centred healthcare, social inclusion and demography; (ii) developing quality, accessible and inclusive education, science, technological environment and services; (iii) increasing productivity, innovation and exports; (iv) conserving nature and the environment; (v) promoting cohesion of society, rule of law and governance as well as safety and security; (vi) contributing to culture and sports. Submitted proposals for policy measures are reviewed by the Budget Department of the Ministry of Finance and the Cross-Sectoral Coordination Centre (attached to the State Chancellery). The Minister of Finance is responsible for the organisation of the process for evaluating priority measures, and for the submission of proposals to the Cabinet of Ministers for priority measures to be supported and resources allocated for the financing thereof. After discussions and decisions in the Cabinet of Ministers, the Minister for Finance submits to the Cabinet of Ministers the draft of the State Budget Law.

The Cabinet of Ministers shall submit the draft State budget Law (the package of draft budget laws) for the next financial year, proposals for amendments to laws in order to ensure their conformity with the budgetary requests, and explanations of the draft State budget law (the package of draft budget laws) to the Saeima by 15 October of the relevant year, and in a Saeima election year, i.e., no later than four months after the newly elected Saeima has expressed its confidence in the Cabinet of Ministers.

The Saeima is authorised to amend the draft State Budget Law proposed by the Cabinet of Ministers. However, the Constitution restricts the amendment powers of the Saeima by providing that decisions involving additional expenditure must allocate funds to cover such expenditure. The budget adopted by the Saeima enters into force at the beginning of the year in respect of which the law has been prepared. If a budget has not come into force in due time, the Minister of Finance shall approve the State Budget expenditure, loan and borrowing limits necessary for the activities of the State, provided that the expenditure does not exceed the maximum permissible amount of the total State Budget expenditure determined for the relevant year in the medium term budget framework law for each ministry and other central State institutions, and that the implementation of the budget policies and conditions determined in the State Budget law of the previous financial year is ensured at a constant level, except for fixed-term measures.

During the execution phase according to the LBFM, the Ministry of Finance may suspend or reduce the expenditure of budget institutions in any of the following cases:

- if actual revenues are lower than budgeted by an amount equal to at least 0.5 per cent. of nominal GDP for a three-month period;
- if the actual deficit is higher than budgeted by an amount equal to at least 0.5 per cent. of nominal GDP for a three-month period; or
- if there are insufficient resources in the Treasury's accounts to meet the following month's due payments in full.

If any suspension or reduction of expenditure exceeds three months, the Cabinet of Ministers is required to submit a supplementary budget.

A medium term budget planning system was introduced in Latvia starting from 2008, and it was implemented in accordance with the Concept on Implementation of Strategic Planning and Budget Planning in State Administration. The Medium term budget planning requires the approval of the State Budget Law for one year, and determination of maximally allowable expenditure levels for the subsequent two years. Until 2012, the main medium term budget planning document was Medium-term Macroeconomic development and Fiscal Policy Framework (the "**Framework**"), which included medium-term national macroeconomic analysis, government's fiscal policy objectives for the medium term, state budget revenue projections and state budget expenditure ceilings for each ministry and other central government institutions for medium term. This Framework was accepted by the Cabinet of

Ministers. Given that the Framework was not legally binding and only gave an indicative information of the maximum amount of total state budget expenditure that could incur in the medium term, there was a need to strengthen the medium-term budgetary planning system. Amendments to the LBFM, which entered into force on 1 January 2012, provided that Framework, approved by the Cabinet of Ministers, shall be developed in a form of a law as the Medium Term Budget Framework Law (the **"Medium-term Budget Framework Law**") prepared annually with a three-year duration, to be approved by the Saeima, thus ensuring that financial indicators included in the Medium-term Budget Framework Law are legally binding and should be respected in the Annual State Budget Law. The Medium-term Budget Framework Law sets out the maximum permitted amount of expenditure for ministries and other central state institutions for the following three years. The Medium-term Budget Framework Law also includes medium-term budget goals and priorities, expected macroeconomic developments, fiscal policy goals, budget revenue forecasts and other medium-term budgetary issues.

The fiscal discipline framework in Latvia was strengthened in 2013 through the introduction of a Fiscal Discipline Law. The FDL aims to ensure a balanced budget over the economic cycle, in accordance with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The State Budget has to be prepared in accordance with the fiscal policy principles set out in the FDL with a view to ensuring a transparent and responsible fiscal policy. The Medium-term Budget Framework Law is the primary operational tool under the Fiscal Discipline Law (the "**FDL**").

The FDL established the Fiscal Discipline Council (the "**Fiscal Discipline Council**") that ensures that the fiscal conditions required by the FDL are observed in the planning and execution phases of the budget. The Fiscal Discipline Council as an independent collegial institution in accordance with a cooperation agreement signed on 8 February 2016, is responsible for approving the Minister of Finance's macroeconomic forecasts. The six members of the Fiscal Discipline Council, comprising experts in fiscal policy from Latvia and other EU Member States, are appointed by the Saeima for a term of six years (and were appointed for the first time in December 2013). Three representatives are nominated according to the joint proposal of the Governor of the Latvian Central Bank and Minister of Finance and three representatives nominated by at least ten deputies of the Saeima. One and the same member of the Fiscal Discipline Council may hold the office in the Fiscal Discipline Council for not more than two terms of office in succession.

The FDL also established a general management system for fiscal risks with the twin aims of ensuring stability in fiscal indicators (namely, deficit, structural deficit, revenues, expenditures) over the medium term irrespective of changes caused by external factors and reducing the impact of changes caused by external factors on fiscal indicators. The general management of fiscal risks includes identification of risks, evaluation of their potential to occur, the fiscal impact if they do occur and the development of measures that will reduce or prevent the impact of any occurrence of fiscal risks. Based on the evaluation, the fiscal security reserve is calculated (with an amount of not less than 0.1 per cent. of GDP per year) and included in the Medium-term Budget Framework Law covering mild macroeconomic fluctuations and expenditure caused by identified quantifiable fiscal risks.

The first Medium-term Budget Law covering the period 2013 to 2015 was submitted to the Saeima on 28 September 2012 in parallel with State Budget Law for 2013.

On 3 November 2022, amendments to the LBFM entered into force, providing that the Medium-term Budget Framework Law and the Annual State Budget Law is elaborated as a single law (Law on the State Budget for the Current Year and on the Medium-term Budget Framework), starting with the Law on the State Budget for 2023 and the Budget Framework for 2023, 2024 and 2025. These amendments were in effect as of 2023.

On 30 April 2024, the EU's new fiscal rules entered into force, whereby all member countries will be required to provide a new document, namely, a medium-term fiscal structural plan ("**FSP**"), committing their expenditure path and explaining how they will deliver investments and reforms that respond to the principal challenges, in particular with respect to country-specific recommendations. The fiscal rules aim to provide a system that is more tailored to the specific circumstances of each member country. This reform entails a significant change of key fiscal indicator by shifting from a balance-based rule to an expenditure-based rule, thus requiring changes in the national budgetary procedure and amendments (and potentially overhauls) to Latvia's FDL that are expected in the course of 2024. Latvia's fiscal policy and budgetary procedure will be adjusted in line with the new EU fiscal rules.

Member states of the EU are also required to submit a draft budgetary plan to the European Commission, which is an important part of the coordination of economic policy in the EU. A budget plan is a way by means of which a closer involvement of the EU in the budget preparation and implementation within its member states. In 2014, Latvia became the 18th eurozone member state and it submitted its draft budgetary plan to the European Commission for the first time in 2015 as determined by the European Parliament and Council Regulation No 473/2013. Regulation provides for the coordination and strengthening of a budget supervision process in the eurozone. In general, it provides for:

- a uniform timeframe for budget preparation; supervision of a budget process, which is conducted in spring;
- the preparation of Convergence and Stability Programmes and their submission to the European Commission in spring. This further was supplemented by the second supervision stage that is conducted by the European Commission in autumn, when eurozone countries prepare an annual state budget for the following year, with member states of the EU being required to submit plans summarizing their annual state budgets in October of each year to the European Commission prior to the submission to their respective national parliaments; and
- uniform budget principles that rely on fiscal conditions that are provided in the strengthened Stability and Growth Pact.

Within the framework of the EU, the Republic is required to submit annually a general government draft budgetary plan ("**Draft Budgetary Plan**") with the aim for coordination and strengthening of a budget supervision process in the eurozone. A Draft Budgetary Plan enables a closer involvement of the EU in budget preparation of member states. If it is established by the European Commission that a budget plan significantly violates the EU rules on fiscal discipline, it may reject a budget plan and require a Member State to make changes and to submit the plan repeatedly. The European Commission may also provide in its opinion the recommendations for improving the plan. This procedure stipulates that national parliaments take into account the opinion of the European Commission, in the adoption of their respective state budgets. The latest draft budgetary plan for 2024 was approved by the government of Latvia on 1 November 2023 and on the same day, it was submitted to the European Commission.

EXECUTION OF THE CENTRAL GOVERNMENT BUDGET

The Budget Management Law authorises the Treasury to organise the execution and financial accounting of the central Government budget. The Treasury grants spending allocations to all entities financed from the budget and ensures that payments executed by those entities comply with the limits set out in the central Government budget.

As part of its implementation of the central Government budget, the Treasury opens budget accounts for budget executors, grants allocations based on financial plans, ensures payments made by entities financed from the budget and maintains records of budget execution transactions effected by entities financed from the budget.

The Treasury prepares monthly, quarterly and annual reports on the execution of the central Government budget and local government budgets as well as daily reports on the execution of the central Government budget. Reports on budget execution are compiled and submitted by the central Government budget entities and local governments in accordance with the Budget Management Law and other relevant laws and regulations.

According to procedures outlined by the Cabinet of Ministers, local governments prepare and submit to the Treasury monthly and annual reports regarding the implementation of their budgets, financing and the amount of their borrowings and guarantees, and the Ministry of Finance prepares a financial year report which is submitted to the Cabinet of Ministers by the Minister for Finance (the "**Annual Report**"). The submission of the Annual Report is accompanied by an opinion of the State Audit Office (the "**SAO**") as required by law. The Cabinet submits the consolidated report on the financial year together with the opinion of the SAO to the Saeima by 1 September for the following budget year.

The Annual Report is prepared in accordance with the requirements and structure stipulated in Article 30 and 31 of Law on Budget and Financial Management and associated Cabinet Regulations. Article 30 and 31 and the regulations promulgated thereunder also govern the form of the financial and budget execution information to be included in the Annual Report, as well as the explanations to be provided for significant changes in the accounting year.

The SAO conducts a financial audit and renders an opinion on the correctness of the preparation of the Annual Report according to the Budget Management Law and the Law on the State Audit Office. The audit is conducted in accordance with international auditing standards as recognised by the Republic of Latvia. The SAO inspects the preparation of the Annual Report and the correspondence of transactions with regulatory requirements. The audit also assesses the accounting principles applied.

The SAO sends draft audit reports relating to the Ministry of Finance for review to the units and subordinated institutions of the Ministry of Finance which are responsible for the evaluation of audit proposals and problematic issues. The Internal Audit Department of the Ministry of Finance supervises the implementation of the SAO recommendations related to the Ministry of Finance and its subordinated institutions.

RELATIONSHIP BETWEEN CENTRAL GOVERNMENT AND LOCAL GOVERNMENT BUDGETS

Local governments prepare, approve and execute their budgets independently. The central Government budget is consolidated with local government budgets in the general Government budget.

An Equalisation Fund for Local Government Finance, formed from local government payments and grants from the central Government budget, focuses on providing equal conditions for the execution of local government functions by transferring financial resources from certain local governments with higher socio-economic conditions to local governments with lower socio-economic conditions.

During the initial phases of the budget preparation process, the Ministry of Finance, together with local governments, determines the amount of equalisation grants to be provided to local governments and the total amount of central Government budget financing as well as its distribution to local governments for the next financial year. Local governments are represented by The Latvian Association of Local and Regional Governments. The Cabinet of Ministers, when submitting the draft State Budget Law to the Saeima, adds a protocol detailing the results of any negotiations between The Cabinet of Ministers and the Latvian Association of Local and Regional Governments.

The State Budget Law may provide for grants and subsidies from the central Government budget to ensure the execution of State functions.

Local governments are empowered to borrow and provide guarantees according to the procedures specified by the Cabinet of Ministers. The annual State Budget Law sets a maximum amount for the total increase in borrowings and guarantees. Local governments are allowed to borrow and provide guarantees for the implementation of investment projects under the annual State Budget Law conditions. In order to control and supervise the financial activity of local governments in respect of borrowings and guarantees, the Minister of Finance has established the Local Government Borrowing and Guarantee Control and Supervision Council. Local governments may only borrow or provide guarantees where the Local Government Borrowing and Guarantee Control and Supervision Council has approved such borrowing or guarantee, as applicable.

SUMMARY OF LATVIA'S BUDGETS SINCE 2019

In 2019 a temporary budget was approved by the order of the Minister of Finance on 18 December 2018. The budget for 2019 was then submitted to the Saeima on 8 March 2019 and approved by the Saeima on 3 April 2019. The general Government budget structural deficit target for 2019 was projected to be 0.5 per cent. of projected nominal GDP. The fiscal safety reserve was equal to 0.1 per cent. of GDP. According to ESA methodology, the general Government budget for 2019 was 0.5 per cent. of GDP, in line with the budget projection.

The 2018 annual spending review focused on two main areas: (i) changes in the State Budget policy (legislative amendments for work efficiency, wider use of automatic data processing systems and analytical work strengthening); and (ii) changes in the line of ministry policy funding (focus on effective real estate use and management and ICT optimisation). On 5 February 2019, the Cabinet of Ministers accepted the results of the 2018 spending review. The spending review identified €51.3 million to be reallocated to other priorities. In addition, the main results were: saved resources; reduced administrative burden; strengthened analytical work; recommendations for ICT optimisation; reduced prices for reimbursed pharmaceutical products; and legislative amendments for work efficiency.

In 2019, the government of Latvia allocated an additional €28.8 million to finance priority measures, where €7.2 million was channelled to implement the action plan for the implementation of the MONEYVAL recommendations on money laundering and terrorist financing as part of the financial sector improvements. Regarding healthcare, the government of Latvia decided that €4.8 million would be allocated to the improvement of the quality of long-term social care services, €3 million would be allocated to fund the treatment of rare disease patients, €2.7 million would be allocated to the improvement of a special care allowance for children and adults with disabilities since childhood and €2.6 million would be allocated for the Latvian diaspora support measures.

The State Budget for 2020 (the "**2020 State Budget**") was approved by Saeima on 14 November 2019. The Saeima also approved the Medium-term Budget Law for 2020, 2021 and 2022. The 2020 State Budget was prepared in compliance with the relevant national and EU fiscal regulations in force at the time. Cooperation and discussion led to agreement on support for a number of activities considered to be of key importance in the fields of health, education, as well as internal security and justice. According to ESA methodology, the general Government budget for 2020 was projected to be 0.3 per cent. of GDP, whereas the actual general Government budget deficit in 2020 was 4.5 per cent. of GDP, reflecting the direct negative impact of the COVID-19 pandemic, of which COVID-19 support measures comprised €1.0 billion or 3.2 per cent. of GDP.

The 2019 annual spending review focused on three main areas: revision of the sector policies (expenditure areas of the Ministry of Health and the Ministry of Education), revision of the State Budget programmes and an improvement of processes and systems (legislative amendments were made and recommendations prepared for ministerial spending on telecommunications and printing services). As a result of the 2019 spending review process, €93.7 million were identified for reallocation, with €48.0 million allocated for improving overall fiscal space and €45.7 million allocated to different priorities set by the line ministries.

In 2020, the government of Latvia allocated an additional €190.7 million to finance priority measures to support a sustainable increase in the quality of life of Latvian citizens, including by reducing the income gap, increasing national human capital through increased public funding and reforms in health, education and science sectors, restoring the country's assets by providing infrastructure financing and increasing the efficiency of public finance spending through additional territorial reform. An additional €66.3 million was earmarked for the health sector, including wage increases for medical practitioners, reimbursable medicines and treatment of rare disease patients, and €31 million was earmarked for teachers' salaries, public research programmes and other educational and scientific developments. An increase in remuneration was also planned for officials and employees of the Ministry of the Interior, Ministry of Justice and Ministry of Culture. A total of €19.2 million was earmarked for increasing the salaries of officials with a special service grade in the Ministry of the Interior, to improve the security of information flows, construction of a national border strip to strengthen border security with respect to Belarus and Russia and other sectoral priorities. €6.8 million was earmarked for justice sector measures, including an increase in the remuneration of justice system employees. An additional €13.1 million was earmarked for the remuneration of cultural sector employees, renovation of cultural infrastructure buildings and other sectoral priorities. A further €7.9 million was allocated for the maintenance of motorways and the development of electronic communications. €7.4 million was allocated to improve media performance, including the exit of public media from the advertising market and for security measures in the information sector. €10 million was earmarked for the provision of measures to prevent money laundering and terrorist financing and €6.3 million was earmarked for demographic measures. An additional €1.1 million was allocated for the implementation of the Administrative Territorial Reform.

In 2020, the general escape clause of the Stability and Growth Pact was activated at the EU level, which allowed EU Member States to increase general Government budget deficits in 2020 as necessary to reduce the economic damage caused by the COVID-19 pandemic. Consequently, the EU fiscal policy framework in 2020 allowed EU Member States to deviate from the previously set deficit targets.

Government support measures for the economy in 2020 in order to mitigate the impact of the COVID-19 pandemic totalled €1.3 billion, amounting to 4.3 per cent. of GDP.

On 2 December 2020, the Saeima approved the 2021 State Budget. The Saeima also approved the Law on Medium-Term Budget for 2021, 2022 and 2023. The State Budget for 2021 was prepared at a time when the Latvian economy and public finances were significantly affected by the COVID-19 pandemic, which led to significant changes in fiscal policy (based on a balanced budget in the economic cycle). The two main areas which were impacted by this were changes in the application of the Stability and Growth Pact and the FDL in relation to fiscal discipline conditions and government financial support for mitigating the effects of the COVID-19 pandemic. According to ESA methodology, the general Government budget deficit for 2021 was projected to be 3.9 per cent. of GDP, whereas the actual general Government budget deficit in accordance in 2021 was7.2 per cent. of GDP. The higher deficit is as a result of the implementation of COVID-19 support measures, the direct fiscal impact of which was €2.1 billion or 6.3 per cent. of GDP in 2021. The spending review for 2020 focused on a fundamental analysis of the functions financed by the State Budget and an analysis of the financing policies under the supervision of line ministries and medium-term spending review results. the 2020 spending review process identified functions and activities of the State Budget programmes and sub-programmes that required further revision to ensure more efficient implementation in future years. Certain financing policies and expenditure areas under the supervision of the Ministry of Health, the Ministry of Education and Science and the Ministry of the Interior were reviewed to ensure a more rational implementation of the State Budget functions by providing proposals for policy changes. Suggestions were also made for the centralisation of support functions, the ICT areas, and the potential role of PPPs in promoting development and productivity. As a result of the 2020 spending review process, €53.6 million was identified for reallocation, with €13.1 million allocated for improving overall fiscal space and €40.5 million allocated to different priorities set by the line ministries.

On 23 November 2021, the Saeima approved the Medium-Term Budget Framework Law for 2022, 2023 and 2024 and the Law on the State Budget for 2022 (the "**2022 State Budget**"). Similar to previous years, the 2022 State Budget and the Medium-term Budget Law for 2022, 2023 and 2024 were prepared at a time when the Latvian economy and public finances are still affected by the COVID-19 pandemic. The 2022 State Budget and the Medium-term Budget Law for 2022, 2023 and 2024 has been prepared by forecasting, according to ESA methodology, a general Government budget of 4.8 per cent. of GDP in 2022, 2.1 per cent. of GDP in 2023 and 1.3 per cent. of GDP in 2024. The actual government deficit in accordance with ESA methodology in 2022 was 4.6 per cent. of GDP. Similar to the situation in 2020, the Republic of Latvia relied on the general escape clause of the EU Stability and Growth Pact to trigger the exemption provided for in Section 12 of the FDL. In addition, the Republic of Latvia relied on the Law on the Suppression of Consequences of the Spread of COVID-19 Infection to deviate from the numerical fiscal conditions set in the FDL. To reduce the negative impact of high inflation on the most vulnerable population groups, pension indexing was carried out two months earlier than usual. In addition, budget expenditures accounted for the purchase of gas reserves, as an additional support for mitigating the impact of COVID-19 the war in Ukraine, and significant financing for mitigating the increase in energy prices.

The fiscal policy strategy with the aim to gradually reduce the elevated deficit level was approved by the government in April 2022. It was based on two principles: (i) a 0.5 per cent. annual deficit reduction (in structural terms) and (ii) preparing for the provision of temporary support measures to address crises in line with evolving circumstances.

In practical terms, the structural balance (net of one-off measures, including COVID-19-, energy- and Ukraine-related support measures (including the provision of support to Ukrainian refugees), one-off investments in defence and the amortized increase of defence expenditures)) needed to be improved until it reaches a medium term objective, which was defined in the FDL at -0.5 per cent. of GDP including a threshold of 3 per cent. of GDP for headline deficit, in line with the Maastricht Treaty criteria (as defined below).

The spending review for 2021 focused on three main areas, namely: (a) the analysis of the financing policies under the supervision of the relevant ministries, including a review of medicinal products to be reimbursed from the State budget, a review of the State budget paid to residents and an analysis of the use of funding to support the diaspora; (b) horizontal measures for the resource allocation in favour of the current priorities; and (c) process and system improvement. As a result of the 2021 spending review process, €172.8 million was identified for reallocation, with €70.6 million allocated for government priorities and €102.2 million allocated to additional priorities set by the various line ministries.

The spending review for 2022 was divided into two parts: (a) an annual spending review of the State budget (including an analysis of the financing policies under the supervision of line ministries, horizontal measures for the resource allocation to the current priorities, improvement of financial management system and processes); and (b) a medium- term spending review of the State budget (including an analysis of data and information to improve costs related to rental and maintenance of real estate, analysis of financial management in local governments, for example, to improve financial equalisation, and processing of information and data to ensure analysis of policies and areas under the supervision of line ministries). As a result of the 2022 spending review process, €168.4 million was identified for reallocation, with €12.1 million allocated for government priorities and €156.3 million allocated to additional priorities set by the various line ministries.

While in 2021 and 2022, Latvia's budget deficit was among the highest in the EU, (–7.2 per cent. of GDP and 4.6 per cent. of GDP respectively), the fiscal strategy contributed to a decline in the budget deficit in 2023. In this regard, the Russia-Ukraine War and the shared border with Russia brought new challenges, as additional expenditures (mostly in the form of one-off investments) were necessary to increase the resilience of Latvia to geopolitical threats and to support Ukraine and it's refugees in Latvia.

The Law on the State Budget for 2023 and the Budgetary Framework for 2024, 2025 and 2026 ("**2023 State Budget Law**") was approved by the Saeima on 9 March 2023. The 2023 State Budget identified five priority areas: security, education, energy, competitiveness and quality of life (individual and public health). Additional funding of €713.3 million was allocated for these priority areas. According to ESA methodology, the general Government budget for 2023 was forecasted to be 4.2 per cent. of GDP. According to estimates by the Ministry of Finance, in accordance with ESA methodology, the actual general Government budget in 2023 is estimated at 2.3 per cent. of GDP. For 2023, the general government deficit was 2.2 per cent. of GDP, according to Eurostat data published at the end of April 2024.

On 9 December 2023, the Saeima approved the Law on the State Budget for 2024 ("**2024 State Budget**") and the Budgetary Framework for 2024, 2025 and 2026. The 2024 State Budget identified three priority areas: security, health and education. According to ESA methodology, the budget deficit of the general government for 2024 is predicted to be 2.8 per cent. of GDP. A significant portion of the deficit is expected to consist of one-off investments for internal and external security, including the creation of the infrastructure for the country's external border and investments in strengthening the state security institutions, as well as strengthening the state's defence capabilities, the purchase of special firefighting and rescue vehicles, and other measures.

The draft budgetary plan ("**DBP**") for 2024 has been submitted to the European Commission for assessment in November 2023 and resulted in the opinion that Latvia's DBP is broadly in line with European Council's fiscal recommendations.

The spending review for 2023 was divided into three parts, namely:

- analysis of the financing policies under the supervision of line ministries (including a comprehensive analysis of the budget expenditures of the Ministry of Health, the evaluation of the use of invested resources in relation to the defined performance indicators, the evaluation of the prepared higher education analysis, an analysis of the funding allocated to state research programs, their projects and the results achieved, an analysis of the management of the ICT field of state budget institutions and an analysis of the funding allocated to educational programs of interest and professional orientation);
- horizontal review of state budget programs (including an analysis of the allocated funding to priority measures, a review of the State budget base expenses, an analysis of the expenses of mobile apps created and maintained and a review of the translation costs); and
- medium-term spending review of the State budget (including an analysis of data and information related to rental and maintenance costs of real estate in the regions of Latvia).

As a result of the 2023 spending review process, €112.0 million was identified for reallocation, with €1.3 million allocated for government priorities and €110.7 million allocated to different priorities set by the line ministries.

On 30 April 2024, the Saeima approved the Stability Programme for 2024–2028 (the "**2024-2028 Stability Programme**"). The 2024-2028 Stability Programme is one of the elements in the cycle of preparation of the draft law on the national budget for the current year and the medium-term budgetary framework, and it includes projections of macroeconomic indicators for 2024 to 2028 as well as fiscal projections and government's targets for balancing. This Stability Programme is the last one that Latvia is preparing and submitting to the European Commission. The new EU fiscal policy framework, which no longer requires the preparation of a Stability Programme and a National Reform Programme, entered into force on 30 April 2024. Instead, the FSP will be prepared every four years. The first FSP will be prepared in 2024 and submitted to the European Commission on 15 October together with the draft Budgetary Plan for 2025. This Stability Programme is therefore prepared during a transition period, when the current fiscal policy framework is in place but will change significantly in the near future. For further details on the FSP, see "*–Preparation and Approval of the Central Government Budget.*"

So far, the Stability Programme has been prepared as a brief overview of the current macroeconomic and fiscal projections and the deficit targets and fiscal space have been set according to the existing fiscal conditions. The Stability Programme has been prepared incorporating, as far as possible, the fiscal conditions of the new EU legal framework, by extending the Stability Programme's projection period from three years to four years, thus aligning it with the period of the first FSP from 2025 to 2028.

According to the Stability Programme (with forecasts as of February 2024), the GDP of Latvia is expected to increase by 1.4 per cent. (€40 million in nominal value) in 2024, and in 2025, economic growth is expected to accelerate to 2.9 per cent. (€45 million in nominal value). The GDP growth forecast for 2024 has been reduced by 1.1 percentage points, but the forecast for 2025 has not been changed. Economic growth is expected to slow slightly over the next three years, expecting to reach 2.5 per cent. (€47 million in nominal value) in 2026 and slowing to 2.3 per cent. by 2028 (€49 million in nominal value in 2027 and €52 million in nominal value in 2028).

In 2024, the Stability Programme has projected an expected GDP growth of 0.1 percentage point higher than budgeted, at 2.9 per cent. of GDP. In the no-policy-change scenario, the general Government budget deficit is projected at 2.7 per cent. of GDP in 2025, 2.2 percent. of GDP in 2026, 2.0 per cent. of GDP in 2027 and 1.7 per cent. of GDP in 2028.

Along with the significant drop in the prices of energy resources and other raw materials in global markets, which has resulted in a stabilizing effect on the prices of other goods, as well as the strict inflation control policy implemented by the ECB, Latvia's inflation forecast for 2024 has been reduced to 1.6 per cent. In the medium term, until 2028, inflation is expected to stabilize around 2.5 per cent., which corresponds to the price increase level of a converging country.

In August of 2024, the Cabinet of Ministers will consider updated macroeconomic and budgetary forecasts, updated budget balance targets and the calculation of fiscal space, as part of the drafting of the Law on the State Budget for 2025 and the Budgetary Framework for 2025, 2026 and 2027.

With the EU's general escape clause abrogated as of 2024 and the new fiscal conditions in place as of 2024, the high level of the deficit in 2024 and its relatively slow reduction under unchanged policies point to strained public finances in upcoming years.

On 26 March 2024, the Cabinet of Ministers approved the scope of the spending review for 2024. As part of the spending review, there is a plan to improve the linking of State budget expenditures with sectoral policy objectives and results, and to start implementing performance-based State budget programmes, analysing them according to performance, costs and international comparisons (benchmarking), so that the advantages of the performance indicator system used for decision-making in relation to the State budget. The spending review also provides for a review by line ministries of the funding allocated to priority measures, an analysis of the implementation of performance indicators in 2023, as well as an analysis of the expenditures planned in the sector budget and proposals for possible policy changes.

CONSOLIDATED GENERAL GOVERNMENT BUDGET

The table below sets out a summary of the consolidated general Government budget outcome on a cash flow basis for each of the years ended 31 December 2019, 2020, 2021, 2022 and 2023 and for the four months ended 30 April 2024.

		Year ended 31 December					Period ended 30 April
		2019	**2020**	**2021**	**2022**	**2023**	**2024**
					(€ millions)		
General Government budget revenues		**11,407.6**	**11,337.4**	**12,549.2**	**14,294.4**	**15,541.7**	**5,511.6**
1.	Tax revenues	9,057.3	9,006.5	10,031.0	11,557.3	12,600.4	4,154.3
1.1.	Direct taxes	5,096.5	5,162.5	5556.7	6538.0	7305.6	2,616.9
	Corporate income tax	44.8	207.5	281.1	378.8	544.8	217.2
	Personal income tax	1,929.6	1,819.7	1,927.3	2,262.5	2,500.7	792.8
	Social security contributions (incl. the Solidarity tax)	2,895.7	2,913.2	3,122.1	3,666.1	4,023.5	1,488.3
	Property tax	226.4	222.2	226.2	230.6	236.5	118.7
1.2.	Indirect taxes	3,960.8	3,844.1	4,128.4	5,001.4	5,333.6	1,603.4
	Value added tax	2,648.3	2,544.7	2,762.5	3,558.7	3,879.5	1,159.7
	Excise duty	1,064.1	1,059.7	1,104.8	1,131.0	1,154.8	373.3
	Car tax	-	-	-	-	-	-
	Customs duties	49.7	47.7	70.7	87.9	56.9	21.4
	Subsidised energy tax	-	-	-	-	-	-
	Vehicle operation tax	95.3	97.4	100.0	101.5	102.5	38.2
	Company car tax	21.1	21.8	22.5	22.4	25.3	9.1
	Electricity tax	5.0	4.8	5.0	5.0	4.9	1.7
1.3.	Other taxes[(1)]	77.3	68.0	62.7	95.0	109.7	46.0
2.	Non-tax revenues	642.5	666.3	771.2	845.0	1064.3	280.6
3.	Grants and donations	5.1	2.8	3.0	1.6	1.8	0.5
4.	Self-earned revenues	382.5	348.4	372.5	424.9	490.4	198.0
5.	Foreign financial assistance	1,320.1	1,310.3	1,371.0	1,465.5	1,384.6	878.2
6.	Other local government payments	0.0	0.0	0.0	0.0	0.1	0.0
General Government budget expenditures		**11,525.0**	**12,462.2**	**14,394.0**	**15,718.3**	**16,964.7**	**5,607.6**
1.	Non-capital expenditure	10,315.4	11,210.3	13,125.9	14,438.0	15,508.4	5,220.0
2.	Capital expenditure	1,208.6	1,251.9	1,268.2	1,280.3	1,456.3	387.7
3.	Other expenditure	1.0	0.0	0.0	0.0	0.0	0.0

Financial balance[(2)]	**(117.4)**	**(1124.9)**	**(1844.8)**	**(1423.9)**	**(1422.9)**	**(96.1)**
Financial balance (ESA 2010)[(3)]	**(148.9)**	**(1318.5)**	**(2396.1)**	**(1778.8)**	**(893.1)**	**-**

Source: Ministry of Finance, State Treasury, Eurostat
Notes:
(1) Including taxes on lotteries, gambling and natural resources tax.
(2) Calculated according to cash flow methodology.
(3) Calculated according to ESA methodology.

The table below summarises the outcome of the consolidated general Government budget for each of the years ended 31 December 2019, 2020, 2021, 2022, 2023 and the four months ended 30 April 2024, in each case as a percentage of nominal GDP (calculated on a cash flow basis).

	Year ended 31 December					Period ended 30 April
	2019	**2020**	**2021**	**2022**	**2023**	**2024**
General Government budget revenues	**37.3**	**37.7**	**37.6**	**37.2**	**38.5**	**13.1**
1. Tax revenues	29.6	29.9	30.1	30.1	31.2	9.9
1.1 Direct taxes	16.7	17.1	16.7	17.0	18.1	6.2
1.2 Indirect taxes	13.0	12.8	12.4	13.0	13.2	3.8
1.3 Other taxes[1]	0.0	0.0	1.0	0.0	(0.1)	0.0
2. Non-tax revenues	2.1	2.2	2.3	2.2	2.6	0.7
3. Grants and donations	0.0	0.0	0.0	0.0	0.0	0.0
4. Self-earned revenues	1.3	1.2	1.1	1.1	1.2	0.1
5. Foreign financial assistance	4.3	4.4	4.1	3.8	3.4	0.4
6. Other local government payments	0.0	0.0	0.0	0.0	0.0	0.0
General Government budget expenditures	**37.7**	**41.4**	**43.2**	**40.9**	**42.0**	**13.3**
1. Non-capital expenditure	33.7	37.2	39.4	37.6	38.4	12.4
2. Capital expenditure	4.0	4.2	3.8	3.3	3.6	0.9
3. Other expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Financial balance[2]	**(0.4)**	**(3.7)**	**(5.5)**	**(3.7)**	**(3.5)**	**(0.2)**
Financial balance (ESA 2010)[3]	**(0.5)**	**(4.5)**	**(7.2)**	**(4.6)**	**(2.3)**	**0.0**

Source: Ministry of Finance

Notes:

(1) Including taxes on lotteries, gambling, car tax, customs duties, subsidised energy tax, vehicle tax, electricity tax and natural resources tax.

(2) Calculated according to cash flow methodology.

(3) Calculated according to ESA methodology.

Revenues

Latvia's general government budget revenues comprise revenues from taxation and a limited number of other sources. The Republic's tax revenues are described below. The Republic's principal non-tax revenues are derived from a range of fees (such as licensing and land registration fees), dividends and interest income. The Republic's self-earned revenues reflect income from services provided by budget institutions. Foreign financial assistance reflects funds from the EU and other similar sources of support.

Latvia's general government budget revenues increased by 4.9 per cent. in 2019, by 0.6 per cent. in 2020, by 10.7 per cent. in 2021 and 13.9 per cent. in 2022. In 2023, Latvia's general government budget revenues increased by 8.7 per cent. compared to the 2022 budget.

Tax revenues

Most of the Republic's revenues are derived from taxes. As a percentage of total general Government revenues, tax revenues were 79.4 per cent. in 2019 and 2020, 79.9 per cent. in 2021, 80.9 per cent. in 2022, and 81.1 per cent. in 2023.

Latvia's tax revenues are principally made up of direct taxes and indirect taxes. Direct taxes comprise social security contributions (including one per cent. for healthcare financing), personal income tax, corporate income tax and real estate tax. As a percentage of total general Government tax revenue, revenues from direct taxes were 56.3 per cent. in 2019, 57.3 per cent. in 2020, 55.4 per cent. in 2021, 56.6 per cent. in 2022 and 58.0 per cent. in 2023.

Social Security Contributions

The tax rate for social security contributions represents employer and employee contributions which aggregates 34.09 per cent. of salary. These contributions are paid by the employer and recorded in a special budget (which is consolidated into the general Government budget). The special budget is used to pay a range of social benefits, including sickness benefit, unemployment benefit, incapacity benefit and maternity benefit.

Solidarity Tax

The Republic also imposes a solidarity tax for the purpose of supporting the State's pension system, the rate of which is 25 per cent. (1 per cent. for health funding, 10 per cent. for personal income tax and 14 per cent. for state special budget) and applies to income exceeding €78,100 per year. During the relevant taxation period, the solidarity tax is taxed at the same rate as the rate applied to the mandatory state social insurance contributions, and the State Revenue Service, by 1 September of the year following the relevant taxation period, under its summing-up procedure, calculates the solidarity tax refund, which equals the difference between the solidarity tax paid in the relevant taxation period and the mandatory State social security contributions (which is calculated by applying the higher rate of the mandatory state social insurance contributions, and the solidarity tax calculated by applying the solidarity tax rate).

Personal Income Tax

Personal income tax is levied on employees' salaries and is deducted at source by employers and paid to the Treasury. Three personal income tax basic rates currently apply: 20 per cent. on annual income of up to €20,004, 23 per cent. on annual income between €20,004 and €78,100, and 31.0 per cent. on annual income exceeding €78,100.

Corporate Income Tax

The system of corporate income tax ("**CIT**") is designed such that profit distributions are subject to a CIT rate of 20 per cent. whilst retained earnings are not subject to corporate income tax. From 2024, a CIT surcharge for credit institutions and consumer credit service providers was introduced.

Real Estate Tax

Real estate tax is levied on the value of land and buildings used for business purposes at a rate of 1.5 per cent. in each case. The tax is collected during a given financial year and can be paid in 4 instalments. Municipalities are permitted to determine their own tax rate within the scope of a tax rate corridor+ (0.2 to 3 per cent.) provided by law (the general rule being that the rate should be within 0.2 to 1.5 per cent. limits unless any real estate is not maintained in accordance with applicable law, in which case the rate should be within 1.5 to 3 per cent.).

VAT and Excise Duties

Indirect taxes principally comprise value added tax ("**VAT**") and excise duties. Customs duties, vehicle operation tax and company car tax and electricity tax also generate a small proportion of indirect tax revenue. As a percentage of total general Government tax revenue, revenue from indirect taxes (comprising principally VAT and excise duties) was 43.7 per cent. in 2019, 42.7 per cent. in 2020, 41.2 per cent. in 2021, 43.3 per cent. in 2022 and 42.3 per cent. in 2023. VAT in Latvia is charged on a wide range of goods and services. The current VAT standard rate is 21 per cent. There are reduced VAT rates of 5 per cent. and 12 per cent., which are introduced to different types of goods and services, including, selected medical products, selected specialised food products intended for infants, scheduled inland transport services of passengers and their luggage, accommodation services provided in tourist accommodation sites and supplies of thermal energy. Further, a reduced VAT rate of 0 per cent. was applied for domestic supplies of COVID-19 vaccines and COVID-19 in vitro diagnostic medical devices, as well as services closely related to such vaccines and devices applied from 25 December 2020 until 31 December 2022.

Excise duty in Latvia is charged on alcoholic beverages (including beer), tobacco products, liquids used for e-cigarettes, mineral oils, natural gas, non-alcoholic beverages and coffee within a wide range of different charges. Starting from 1 January 2021, excise duty has been applied on tobacco substitute products (nicotine pouches) and components of the preparation of the liquid used in e-cigarettes (for example, propylene glycol, flavourings, glycerol of vegetable origin, nicotine extracts and other substances).

Expenditure

Under the Medium-term Budget Law, substantial additional funding for expenditure in the 2021 to 2023 period has been allocated to the defence sector (raising state defence funding to 3 per cent. of GDP starting from 2027), internal security, energy sector, health and the education sector.

Additional, although less significant, increases in expenditure include increasing the minimum wage from €500 to €620, measures to combat the shadow economy, grants for municipalities and the restoration of the State Budget grant to ensure scientific activity in higher educational institutions and colleges.

Latvia’s general Government budget classifies expenditure as either capital expenditure or non-capital (or maintenance) expenditure. As a percentage of total expenditure, non-capital expenditure was 89.5 per cent. in 2019, 90.0 per cent.in 2020, 91.2 per cent. in 2021 and 91.9 per cent. in 2022. In 2023, non-capital expenditure equalled 91.4 per cent. of total expenditure. Non-capital expenditure principally comprises current expenditure and subsidies, grants and social support. Together, these two expenditure classifications made up 94.1 per cent. in 2019, 94.3 per cent. in 2020, 94.6 per cent. in 2021 and 95.5 per cent. in 2022. In 2023, current expenditure and subsidies, grants and social support were together budgeted to account for 95.4 per cent. of total non-capital expenditure. In addition, interest payments on Latvia’s outstanding debt and international collaboration payments and Latvia’s contributions to the EU budget make up the balance of non-capital expenditure. Interest payments declined since 2016 as Latvia started to refinance outstanding debt obligations at lower interest rates, taking advantage of the favourable situation in the financial markets.

Non-capital expenditure increased by 4.1 per cent. in 2019, by 8.7 per cent. in 2020, by 17.1 per cent. in 2021 and by 10.0 per cent. in 2022. In 2023, non-capital expenditure increased by 7.4 per cent, compared to 2022.

The table below provides a breakdown of non-capital expenditure in the consolidated general Government budget (on a cash flow basis) for each of the years ended 31 December 2019, 2020, 2021, 2022, 2023 and four first months of 2024.

	Year ended 31 December					Period ended 30 April
	2019	2020	2021	2022	2023	2024
			(€ millions)			
Current expenditure	4,116.2	4,182.4	4,494.1	5,429.2	5,919.4	1,812.5
Remuneration of which:	2,611.9	2,712.2	2,939.5	3,120.1	3,601.4	1,199.9
Wages and salaries	1,957.5	2,059.7	2,243.9	2,363.8	2,724.5	882.6
Employers' social security contributions	654.5	652.5	695.6	756.3	876.9	317.3
Goods and services	1,504.2	1,470.2	1,554.6	2,309.0	2,317.9	612.6
Interest payments	263.1	262.9	256.6	196.5	228.7	193.2
Subsidies, grants and social support	5,588.3	6,394.1	7,919.0	8,362.6	8,869.7	3,059.0
Subsidies and grants	2,329.5	2,773.8	3,627.6	3,840.8	4,036.1	1,324.8
Social support of which:	3,258.7	3,620.3	4,291.3	4,521.8	4,832.6	1,734.1
Pensions	2,213.7	2,543.4	2,539.9	2,843.3	3,242.9	1,675.7
Other social support	1,045.1	1,076.9	1,751.4	1,678.4	1,589.7	58.5
International collaboration	55.9	49.0	57.8	57.8	106.6	29.1
Payments to EU budget	291.9	321.6	398.4	391.9	385.0	126.2
Total non-capital expenditure	**10,315.4**	**11,210.3**	**13,125.9**	**14,438.0**	**15,508.4**	**5,220.1**

Source: Ministry of Finance, State Treasury, Eurostat

Current expenditure

Current expenditure comprises remuneration of central and local government employees as well as payments for goods and services used by central and local government. As a percentage of total non-capital expenditure, current expenditure was 39.9 per cent. in 2019, 37.3 per cent. in 2020, 34.2 per cent. in 2021 and 37.6 per cent. in 2022.

In 2023, current expenditure was 38.2 per cent. of total non-capital expenditure. In the first four months of 2024, current expenditure amounted to 34.7 per cent. of total non-capital expenditure.

Remuneration includes both wages and employers' social security contributions. Remuneration increased by 6.5 per cent. in 2019, by 3.8 per cent. in 2020, by 8.4 per cent. in 2021 and by 6.1 per cent. in 2022. In 2023, remuneration increased by 15.0 per cent. As a percentage of total current expenditure, remuneration was 63.5 per cent. in 2019, 64.8 per cent. in 2020, 65.4 per cent. in 2021 and 57.5 per cent. in 2022. In 2023, remuneration was 60.8 per cent. of total current expenditure. In the first four months of 2024, remuneration was 66.2 per cent. of current expenditure.

Payments for goods and services decreased by 1.6 per cent. in 2019 and by 2.3 per cent. in 2020. This was followed by an increase by 5.7 per cent., in 2021 and by 48.5 per cent. in 2022, primarily driven by purchases of natural gas. In 2023, payments for goods and services increased by 0.4 per cent. As a percentage of total current expenditure, payments for goods and services were 36.5 per cent. in 2019, 35.2 per cent. in 2020, 34.6 per cent. in 2021, 42.5 in 2022 and 39.2 per cent. in 2023. In the first four months 2024, Latvia's spending for goods and services were 33.8 per cent. of total current expenditure.

Subsidies, grants and social support

As a percentage of total non-capital expenditure, subsidies, grants and social support was 54.2 per cent. in 2019, 57.0 per cent. in 2020, 60.3 per cent. in 2021, 57.9 per cent. in 2022 and 57.2 per cent. in 2023.

Subsidies and grants principally comprise payments by the Republic to enterprises for ensuring certain functions which are necessary to society (for example, subsidising the costs of mail delivery in rural areas). In addition, subsidies for agriculture and payments to non-Governmental organisations make up the balance of subsidies and grants expenditure. Subsidies and grants increased by 2.3 per cent. in 2019, 19.1 per cent. in 2020, 30.8 per cent. in 2021 (because of the COVID-19 pandemic and related government measures), 5.9 per cent. in 2022 and 5.1 per cent. in 2023. As a percentage of total subsidies, grants and social support, subsidies and grants comprised 41.7 per cent. in 2019, 43.4 per cent. in 2020, 45.8 per cent. in 2021, 45.9 per cent. in 2022 and 45.5 per cent. in 2023.

Social support principally comprises pensions and other social insurance payments made from the Central Government Social Security Budget. Social support increased by 6.3 per cent. in 2019, by 11.1 per cent. in 2020, by 18.5 per cent. in 2021 and 5.4 per cent. in 2022. Social support increased by 6.9 per cent. in 2023.

As a percentage of total subsidies, grants and social support, social support was 58.3 per cent. in 2019, 56.6 per cent. in 2020, 54.2 per cent. in 2021 and 54.1 per cent. in 2022. Social support was 54.5 per cent. of total subsidies, grants and social support in 2023.

Support to reduce energy prices

As a result of high energy prices for households and businesses due to the Russia-Ukraine war and the related supple chain disruptions, measures were implemented to reduce the impact of such high energy prices, which were in effect from 1 January 2022 to 30 April 2022 and were established in the Law on Measures to Reduce Extraordinary Rise in Energy Prices. These measures are no longer in force after 30 April 2022.

These measures included, among others, coverage or reduction in the following costs and payments due, from the State budget: (a) complete coverage of the full amount of the payment of the mandatory procurement component (in Latvian “OIK”) on electricity bills for all electricity consumers; (b) coverage of the complete costs of electricity distribution/transmission for all electricity consumers; (c) reduction of the mandatory procurement component paid by all Latvian end consumers for electricity; (d) for district heating households that experienced extreme price increases, the difference between the tariff and the final bill; (e) for households that use natural gas for heating, expenses above a specific threshold; (f) increase in support for protected users (needy and low-income households, large families, persons with disability and persons with disabled children); (g) the payment of additional support by way of increased monthly payments for seniors and persons with disabilities, children and recipients of a long-service pension from the Ministry of Defence who had not yet reached the age required for receiving an old-age pension and who have been diagnosed with a disability; (h) a subsidy earmarked in the state budget that was provided to local governments for the provision of housing benefits; and (i) the payment of a benefit to seniors in order to promote the vaccination of such persons against COVID-19 and to compensate for the increase in expenses related to higher energy prices.

On 21 June 2022, the Cabinet approved the implementation of the further support measures proposed in the report “On support measures for reducing the impact of energy prices and general inflation growth on vulnerable groups”. The support is planned in two areas: (i) support for vulnerable groups; and (ii) support for the general public to provide compensation for energy expenditure in household bills. The measures proposed in the report by way of support for vulnerable groups include an improved entitlement to housing benefit to a broader scope of people with low income and earlier pension indexation. Other measures include increased; (a) monthly payments to seniors, persons with disabilities and survivors whose pension or income does not exceed certain thresholds; and (b) support for the general public to compensate for energy expenditure in household bills up to a specified maximum total support amount per household. The Saeima also approved a series of additionally measures to support households and companies in the heating season from 1 November 2022 to 31 May 2023, taking into account the rapid increase in the cost of energy resources. These support measures aim to compensate households and companies for the increased cost of electricity (including as used in heating), central heating and other heating products (including natural gas, firewood, wood pellets and briquettes). In addition, these measures also provide for an additional monthly allowance for the duration of the upcoming heating season, which is to be paid in varying amounts to pensioners, senior citizens, persons with disabilities and persons who have lost their main income earner. The Republic continues to work on the development of such support measures. As a result, the planned size of the measures already announced may change and further measures may also be introduced.

BUDGET DEFICITS

Since its accession to the EU in 2004, Latvia has been obliged to observe the euro convergence criteria for eurozone entry (the “**Maastricht Treaty criteria**”) which limits the general Government sector budget deficit to no more than 3.0 per cent. of nominal GDP (on an ESA basis).

Following Latvia’s acceptance of the financial assistance package from international lenders, Latvia implemented significant budget consolidation measures as part of the conditions attached to that package. See “*Indebtedness–Borrowing from International Financial Institutions*”. Reflecting these and a strong fiscal policy, according to ESA methodology, the general Government budget had a surplus of 0.2 per cent. of nominal GDP in 2016, which was well within the 3.0 per cent. limit of the Maastricht Treaty criteria.

See "*Summary of Latvia's budgets since 2019*" for additional information.

According to ESA methodology, the general Government budget deficit for 2017 was 0.8 per cent. of nominal GDP, in 2018 there was a deficit of 0.8 per cent. of nominal GDP and in 2019 there was a deficit of 0.6 per cent. of nominal GDP. As a result of the COVID-19 pandemic the general government budget deficit in 2020 increased to 4.8 per cent. of nominal GDP. The COVID-19 support measures continued in 2022 for continued implementation of high preparedness investment projects at national and municipal levels, as well as funding for the purchase of vaccines. On 22 April 2022, the European Statistical Office (Eurostat) published data on the seasonally adjusted government deficit in the EU according to which Latvia`s general government budget was 7.3 per cent. of its GDP.

In 2020, the general escape clause of the Stability and Growth Pact was activated in the European Union, allowing the European Union Member States to increase the general government budget deficit in 2020 to such an extent as is necessary for mitigating the economic harm caused by the COVID-19 pandemic, and remained active till the end of 2023. See "*Summary of Latvia's budgets since 2019*" for additional information. For 2022, Latvia's budget deficit was among the highest in the EU, amounting to 4.6 per cent. of the GDP, while in 2023, the general government deficit was 2.2 per cent. of the GDP, according to Eurostat data published at the end of April 2024.

INDEBTEDNESS

All central Government debt and cash management activities (including the issuance of securities) are entrusted to the Treasury, an administrative institution that reports to the Minister of Finance. The main goal for central Government medium-term debt and cash management is to ensure the availability of cash for financing requirements in a timely manner at the lowest possible debt servicing costs, while hedging financial risks and at the same time contributing to the development of the domestic financial market. This latter objective is an important reason for Latvia to offer debt securities in the domestic market via primary dealers as well as offer saving bonds for retail investors. The Minister of Finance approves a medium-term funding plan prepared by the Treasury, which indicates the planned borrowing measures in the domestic and international capital markets, including alternate borrowing instruments.

Central Government debt comprises the outstanding gross debt of central Government authorities, stated in accordance with the institutional sector classification (excluding merchants controlled and financed by the central Government, port and free port authorities and special economic zones) in the following financial instrument categories:

- debt securities (excluding derivative financial instruments); and
- loans and deposits, including savings bonds, interest-free bonds, guarantee deposits, cash deposits and account balances of clients (excluding central Government authorities but including merchants controlled and financed by central Government, port and free port authorities and special economic zones) placed at the Treasury.

The ceiling on the total central Government debt (comprising both domestic and external debt, including derivatives attributed to external debt) is set in the annual State Budget Law for a given year and the Budget Framework (for the given year and the subsequent two years) in terms of nominal value as at 31 December of each year. In 2019, the central Government debt ceiling was set at €11.25 billion (at nominal value, including derivatives attributed to external debt). In 2020, it was initially set at €11.75 billion (at nominal value, including derivatives attributed to external debt). The spread of COVID-19 and the measures taken for its suppression and to mitigate the impact of the COVID-19 pandemic has meant that on 5 May 2020, the Ministry of Finance by order No. 146 set the total debt ceiling outstanding of €14.4 billion (at nominal value, including derivatives attributed to external debt) as at 31 December 2020. In 2021, the central Government debt ceiling was initially set at €14.44 billion (at nominal value, including derivatives attributed to external debt) but due to the continued spread of COVID-19 in 2021 and the measures taken to mitigate the impact of the COVID-19 pandemic, on 30 November 2021, the Ministry of Finance by order No. 780 set the total debt ceiling outstanding of €15.44 billion (at nominal value, including derivatives attributed to external debt) as at 31 December 2021. In 2022, the central Government debt ceiling was €17.015 billion (at nominal value, including derivatives attributed to external debt), and in 2023, the central Government debt ceiling was €19.20 billion (at nominal value, including derivatives attributed to external debt). In 2024, the central Government debt ceiling is set in the amount of €19.30 billion (at nominal value, including derivatives attributed to external debt).

The table below sets out Latvia's outstanding central Government debt in euro and as a percentage of nominal GDP as at 31 December 2019, 2020, 2021, 2022 and 2023. As at 30 April 2024, Latvia's outstanding central Government debt was €17,212.4 million, of which external debt consisted of €15,257.1 million and domestic debt was €1,955.3 million.

	As at 31 December					As at 30 April
	2019	2020	2021	2022	2023	2024
			(€ millions)			
Central Government debt	**10,810.1**	**12,458.7**	**15,258.9**	**16,767.1**	**17,650.3**	**17,212.4**
External	9,079.4	9,810.9	12,287.0	14,431.5	15,771.3	15,257.1
Domestic	1,730.7	2,647.8	2,971.9	2,335.6	1,879.0	1,955.3
		(as a percentage of nominal GDP)				
Central Government debt	**35.4**	**41.4**	**45.8**	**43.7**	**43.7**	**41.0**
External	29.7	32.6	36.8	37.6	39.1	36.3
Domestic	5.7	8.8	8.9	6.1	4.7	4.7

Source: The Treasury

Latvia has met all principal and interest obligations on its central Government debt since the renewal of its independence in 1991.

The table below sets out Latvia's debt redemption profile (excluding interest amounts) in respect of its total outstanding central Government debt as at 30 April 2024, expressed in millions of euro, and as a percentage of the total amount outstanding at 30 April 2024, for each of the years indicated. The data contained in the table does not assume any refinancing of existing debt.

	2024(1)	2025	2026	2027	2028	2029	2030	2031
				(€ millions)				
Total principal payments	305.6	1,921.7	2,049.8	1,247.4	2,057.3	2,028.0	606.2	1,441.9
Securities	152.1	1,561.7	2,044.9	1,242.4	2,012.3	1,950.0	601.3	1,441.0
Loans	53.4	360.0	5.0	5.0	45.0	78.0	5.0	0.9

	2032	2033	2034	2035	2036	2037	2038(2)	Total
				(€ millions)				
Total principal payments	2.4	895.6	2.7	0.8	940.8	167.5	2,312.7	15,980.3
Securities	1.5	894.7	1.9	0.0	940.0	0.0	2,000.0	14,843.6
Loans	0.9	0.9	0.8	0.8	0.8	167.5	312.7	1,136.7

Source: The Treasury
Note:
(1) Amount due to be repaid from 1 May to 31 December, 2024.
(2) Amount due to be repaid from and including 2038 onward.

As at 31 December 2023 and according to the Eurostat data, Latvia's general Government debt was 43.6 per cent. of Latvia's GDP compared to 41.8 per cent. as at 31 December 2022, 44.4 per cent. as at 31 December 2021, 42.7 per cent. as at 31 December 2020, and 36.7 per cent. as at 31 December 2019. As at 31 December 2023, Latvia had one of lowest ratios of general Government debt to GDP among the member states of the EU. As at 31 December 2023, according to Eurostat data published in April 2024, Latvia's general government interest expenditure was 0.6 per cent. of Latvia's GDP. (*Source:*

Eurostat). Further, as per the 2024-2028 Stability Programme, the general government interest expenditure from 2024 to 2028 is expected to show a moderate increase from 1.0 per cent. to 1.4 per cent. of Latvia's GDP, according to ESA methodology, primarily due to the increase in interest rates. According to the Treasury's forecasts, the general government debt for 2024 and 2025 is projected to be 45.2 per cent. and 46.3 per cent. of Latvia's GDP respectively, according to ESA methodology.

On 30 April 2024, outstanding central Government debt consisted of issues of Eurobonds (originally issued and reopened in international capital markets (62 per cent.) and Eurobond TAPs offered in domestic market auctions through primary dealers (20 per cent.), the issues of LV ISIN securities (4 per cent.), loans from the European Union during the 2009 – 2011 borrowing period (1 per cent.) and loans from the European Investment Bank (3 per cent.), the European Union's Support to mitigate Unemployment Risks in an Emergency (SURE) instrument (3 per cent.) and other lenders (7 per cent.).

The table below sets out the central Government debt broken down by currency (excluding derivatives), calculated based on the nominal value as at 31 December 2019, 2020, 2021, 2022, 2023 and as at 30 April 2024.

	As at 31 December					As at 30 April
	2019	2020	2021	2022	2023	2024
			(€ millions)			
CHF	0.133	0.045	0.00	0.00	0.00	0.00
€	9,680.83	11,987.84	14,715.45	16,219.04	17,650.34	17,212.36
USD	979.81	327.82	0.34	0.00	0.00	0.00
XDR(1)	149.32	143.03	543.11	548.05	0.00(2)	0.00(2)
Total	**10,810.09**	**12,458.74**	**15,258.91**	**16,767.09**	**17,650.34**	**17,212.36**

Source: The Treasury
Note:
(1) IMF special drawing rights.
(2) According to the Cabinet of Ministers Regulation No. 732 "Amendments to the Regulations of the Cabinet of Ministers of 22 November 2005 No. 875" IMF special drawing rights is withdrawn from central Government debt

CENTRAL GOVERNMENT EXTERNAL DEBT

Latvia's central Government external debt (the "**External Debt**") comprises mainly borrowings from the international financial markets (including tap issuances of Notes previously issued in the domestic market under the Programme through international Eurobond offerings of those Notes by way of auctions in the international primary dealer market) and several loans from international financial institutions and the EU. As of 17 May 2024, the following issues were outstanding:

Aggregate Outstanding Principal Amount	Original Issue Date	Maturity Date	Coupon
			(per cent.)
€1,110.0 million*	23 September 2015	23 September 2025	1.375
€2,020.0 million*	7 October 2016	7 October 2026	0.375
€1,115.0 million*	27 October 2022	27 March 2027	3.875
€1,180.0 million*	17 January 2023	17 January 2028	3.500

€821.75 million*	30 May 2018	30 May 2028	1.125
€955.0 million*	7 July 2021	24 January 2029	0.000
€1075.0 million*	22 November 2023	22 May 2029	3.875
€600.0 million**	13 December 2021	23 January 2030	0.250
€1,440.5 million*	17 March 2021	17 March 2031	0.000
€940.0 million	12 July 2023	12 July 2033	3.875
€940.0 million	16 May 2016	16 May 2036	1.375
€1,000.0 million	15 February 2017	15 February 2047	2.250
€1,000.0 million	19 February 2019	19 February 2049	1.875

Notes:
* Including tap issues of Notes issued under the Programme in the domestic markets only through Latvian primary dealers
** Sustainable bond

BORROWING FROM INTERNATIONAL FINANCIAL INSTITUTIONS

The table below sets out total committed, distributed and outstanding financing at 31 March 2024 provided by the international lenders under a historical financial assistance package provided by the IMF, the EU, the World Bank, the EBRD, certain Nordic countries and certain EU Member States.

	Total		
	Committed(1)	**Disbursed**	**Outstanding(2)**
		(€ billions)	
European Union	3.1	2.9	0.2
Nordic countries	1.9	0	—
IMF	1.7	1.1	—
World Bank	0.4	0.4	—
Other countries, EBRD	0.4	0.1	—
Total	**7.5**	**4.5**	**0.2**

Source: The Treasury
Notes:
(1) Financing committed at the start of the programme.
(2) Amount outstanding at 31 March 2024.

The only loan outstanding from this financial assistance package is the European Union's loan. The remaining amounts of the European Union loan (currently €200 million) are scheduled to be repaid in 2025. See also, "*Risk Factors—Latvia has significant central Government debt repayment obligations and any inability to obtain funding to meet these obligations could adversely affect Latvia in a number of ways*".

In April 2020, the Nordic Investment Bank and Latvia signed a 10 year loan agreement of €500 million to finance additional government expenditures for the mitigation of the impact of the Covid-19 pandemic. The loan was fully disbursed and later prepaid in full on 7 April 2023.

Furthermore, in September 2020, the European Council decided to grant Latvia €192.7 million under its Support to mitigate Unemployment Risks in an Emergency (SURE) instrument, provided in the form of loans. In April 2021, the European Council amended its initial decision and increased the amount of the SURE loan by €112.5 million and thereby increased the total amount available to €305.2 million. The SURE loans have been fully disbursed. In November 2022, the European Council decided to grant additional financial support to Latvia and increased the amount of the SURE loan by €167 million (therefore increasing the total amount of the SURE loan increased to €472 million).

Latvia also signed a loan agreement with the European Investment Bank in 2015 and in 2019 for a total amount of €400 million for EU funds co-financing from 2014 to 2020. On 1 December 2023, a 15-year loan in total amount of €200 million was disbursed under the abovementioned agreement with European Investment Bank signed in 2019.

GROSS EXTERNAL DEBT

Latvia's gross external debt is determined, in accordance with IMF methodology, as the total of all direct liabilities (including debt securities, loans, deposits and trade credits) of Latvia's residents to non-residents requiring future principal and/or interest payments based on a prior agreement.

The table below sets out certain information with respect to Latvia's gross external debt (in € million) as at 31 December 2019, 2020, 2021, 2022 and 2023.

	2019	**2020**	**2021**	**2022**	**2023**
General Government	9,827	10,089	11,161	10,540	12,183
Short-term	268	256	526	743	571
Long-term	9,559	9,834	10,635	9,797	11,611
The Latvian Central Bank	7,951	10,028	10,604	13,889	12,369
Short-term	7,951	10,028	10,604	13,889	12,369
Long-term	0	0	0	0	0
MFIs (excluding the Latvian Central Bank)	4,563	3,633	3,214	3,353	3,904
Short-term	2,947	2,610	2,514	2,450	2,530
Long-term	1,616	1,022	699	903	1,374
Other sectors	8,919	8,528	7,332	7,039	6,806
Short-term	3,316	3,529	3,333	3,601	3,066
Long-term	5,604	4,998	3,999	3,439	3,740
Direct investment	4,542	4,485	4,542	4,449	4,467
Debt liabilities to direct investment enterprises	3,788	3,691	3,602	3,516	3,317
Debt liabilities to direct investors	153	131	135	166	130
Debt liabilities between fellow enterprises	601	662	805	767	1,021
Gross external debt	**35,803**	**36,763**	**36,854**	**39,270**	**39,728**
As a percentage of GDP	117.1	122.1	110.5	102.3	98.6

Source: The Latvian Central Bank

As at 31 June 2021, Latvia's gross external debt was €36.3 billion accounting for 118.6 per cent. of GDP. As at 31 December 2020, Latvia's gross external debt was €36.8 billion accounting for 125.4 per cent. of GDP. At 31 December 2019, 31 December 2018, 31 December 2017 and 31 December 2016, the gross external debt-to-GDP ratios were 117.1 per cent., 123.3 per cent., 141.5 per cent. and 147.3 per cent., respectively. As at 31 December 2020, the contribution of the government sector to Latvia's gross external debt was 27.6 per cent., the contribution of the financial sector was 47.1 per cent. and the debt of other sectors contributed 25.3 per cent. (of which the contribution of direct investment liabilities (debts owed by domestic and foreign enterprises to each other) was 11.6 per cent.).

As at 31 December 2020, Latvia's net external debt (calculated as its gross external debt less its external debt assets) was €4.0 billion, representing 13.7 per cent. of nominal GDP.

CENTRAL GOVERNMENT DOMESTIC DEBT

As at 30 April 2024, central Government domestic debt ("**Domestic Debt**") amounted to €1,955.3 million. Domestic Debt stood at €1,879 million, €2,335.6 million, €2,971.9 million, €2,647.8 million, and €1,730.7 million as at 31 December 2023, 2022, 2021, 2020, and 2019, respectively.

Domestic Debt principally comprises tradable government securities ("**LV ISIN**"), a retail borrowing instrument in the form of a non-tradable savings bond, non-tradable interest-free bonds issued in accordance with the Immigration Law, deposit facilities and other borrowings (which are used for liquidity management purposes).

As at 16 May 2024, in the domestic market the Republic had outstanding:

- medium-term government securities with LV ISIN (bonds with an original maturity of five and seven years); and
- retail instruments for private individuals (savings bonds and interest-free bonds).

The last issue of government securities with LV ISIN took place in September 2020 by offering seven-year bonds. Since October 2020, the Treasury offers tap issuances of Global Medium Term Notes previously issued in the domestic markets by way of auctions through the primary dealer market.

The LV ISIN are issued in dematerialised form and sold through NASDAQ Riga's Genium INET trading system at competitive multi-price and non-competitive (fixed-rate) auctions at par for both Treasury bills and Treasury bonds. All auctioned Government Domestic Debt securities are registered with Nasdaq CSD and are listed on NASDAQ Riga. Tap offerings of domestic GMTN Notes are sold through NASDAQ Riga's Genium INET trading system as well, at competitive multi-price auctions. In February 2013, a primary dealer system was introduced in the domestic market. Currently, five banks act as primary dealers of Domestic Debt securities and Domestic Global Medium Term Notes (i.e. Eurobond TAPs). Primary dealers have certain rights and obligations with regard to participation in the domestic auctions, as well as the provision of liquidity and price transparency of Government securities in the secondary market.

Since 2015, the Treasury has issued interest-free bonds according to the Immigration Law, which prescribes that a foreigner has the right to request a residence permit in the Republic of Latvia for a period not exceeding five years if that person purchases interest-free government securities dedicated to a specific purpose with a nominal value of €250,000.

The table below sets out the structure of the outstanding Domestic Debt securities (original maturities) as at 30 April 2024.

	30 April 2024	
	nominal (€ millions)	*(per cent.)*
5 year bonds	390	51.91
7 year bonds	80	10.65
Savings bonds	274.9	36.58

Interest-free bonds	6.5	0.87
Total	**751.4**	**100**

Source: The Treasury.

Since October 2020, the Treasury continued to tap outstanding Eurobonds in domestic auctions on a regular basis through a primary dealer system. In 2021, the Treasury held 21 competitive multi-price auctions issuing €622.2 million, in 2022 the amount issued by re-opening outstanding Eurobonds reached €1,195 million. In 2023, the Treasury successfully completed 20 competitive multi-price auctions by re-opening GMTN notes and offered various tenors in the domestic market auctions with maturities in 2026, 2027, 2028, 2029, 2031 and 2033. In 2023, competitive multi-price auctions of the Notes previously issued under the Programme to primary dealers in the Latvian domestic primary dealer market were fully subscribed with minimum and maximum bid to cover ratios ranging between 1.13 and 5.64, an average bid to cover ratio of 2.67. As of 15 May 2024, the Treasury successfully completed 17 competitive multi-price auctions by re-opening outstanding Eurobonds and the amount issued has reached €1,005 million.

The table below sets out gross and net issuance in domestic auctions as at 31 December 2019, 2020, 2021, 2022, 2023 and as at 15 May 2024.

	As at 31 December					**As at 15 May**
	2019	**2020**	**2021**	**2022**	**2023**	**2024**
						(€ millions)
Net issuance	46.0	567.0	535.0	573.0	575.0	685.0
Gross issuance	422.0	679.5	622.3	1195.0	1095.0	1005.0

Source: The Treasury

The table below sets out demand in domestic auctions as at 31 December 2019, 2020, 2021, 2022, 2023 and as at 15 May 2024.

	As at 31 December					**As at 15 May**
	2019	**2020**	**2021**	**2022**	**2023**	**2024**
			(€ millions)			
January	75.2	-	325.0	-	97.4	429.3
February	181.2	144.8	206.3	127.3	162.0	193.7
March	128.3	159.5	59.8	759.0	483.3	391.8
April	168.4	446.5	180.1	394.2	363.3	574.5
May	119.1	650.8	123.5	328.5	279.8	346.5
June	115.3	363.9	60.5	228.8	203.2	-
July	83.2	570.4	126.9	109.1	-	-
August	68.0	-	110.0	116.7	97.3	-
September	94.5	225.6	137.8	89.4	120.3	-
October	141.5	151.5	159.0	32.7	153.8	-
November	149.2	113.0	121.8	50.8	494.4	-
December	116.3	-	135.2	-	-	-

Total	422.0	679.5	622.3	1,195.0	1,095.0	1,935.7

Source: The Treasury

The table below sets out the amount sold in domestic auctions as at 31 December 2019, 2020, 2021, 2022, 2023 and as at 15 May 2024.

	As at 31 December					As at 15 May
	2019	**2020**	**2021**	**2022**	**2023**	**2024**
			(€ millions)			
January	30.0	-	66.8	-	50.0	160.0
February	40.0	20.0	50.0	65.0	100.0	125.0
March	30.0	79.0	25.0	525.0	310.0	285.0
April	30.0	274.5	50.0	230.0	270.0	275.0
May	20.0	101.0	35.5	130.0	110.0	160.0
June	20.0	45.0	15.0	70.0	45.0	-
July	20.0	80.0	50.0	50.0	-	-
August	30.0	-	35.0	60.0	30.0	-
September	30.0	40.0	50.0	40.0	45.0	-
October	60.0	20.0	100.0	10.0	35.0	-
November	72.0	20.0	65.0	15.0	100.0	-
December	40.0	-	80.0	-	-	-
Total	**1,440.1**	**2,826.0**	**1,745.8**	**2,236.4**	**2,454.7**	**1,005.0**

Source: The Treasury

SAVINGS BONDS

On 19 June 2013, the Treasury launched the first savings bonds intended for retail investors. The goal of issuing saving bonds is to provide Latvian residents with additional investment opportunities as well as a possibility to lend to the government and to contribute to economic growth.

The distribution channel is an internet-based online portal, which is available 24 hours a day, seven days a week, operated by the Nasdaq CSD. All individuals over 18 years of age with a Latvian commercial bank cash account and online banking services are eligible for purchase of saving bonds. The records of individual saving bonds holdings are held by the Nasdaq CSD, which also provides settlements for investors and reporting to the Treasury.

At the end of 2022, Latvian residents’ demand for savings bonds increased significantly, resulting in a record high volume of outstanding savings bonds at the end of 2023 (€253 million) Retail investor interest in savings bonds was promoted due in large part to competitive conditions such as attractive interest rates consistent with general financial market trends, the opportunity to receive tax-free fixed income, state-guaranteed investment and easy-to-buy process. As at 30 April 2024 the outstanding volume of savings bonds was €274.9 million.

DEBT AND CASH MANAGEMENT STRATEGY

Latvia pursues a strategy of central Government debt and cash management through a framework of central Government debt portfolio management, central Government borrowing and liquidity management, cash investment, financial risk management and stakeholder relationship management.

Central Government debt portfolio management is aimed at optimising central Government debt service costs over the long-term while hedging and preventing financial risks in relation to the central Government debt portfolio.

Central Government borrowing and liquidity management is aimed at ensuring timely and full availability of financial resources for covering financing requirements by maintaining continuous borrowing opportunities in the international and domestic financial markets on optimal terms and conditions.

Cash investment is aimed at ensuring financially effective cash management in accordance with the basic principles of investment, observing liquidity risk management and the most favourable investment terms for permitted investment transactions.

Financial risk management is aimed at preventing an uncontrolled increase of government debt service costs and to hedge the default risk of transactions concluded within the framework of the Debt and Cash Management Strategy.

Collaboration partner relationship management is aimed at promoting diversification of the central government debt securities investor base, thus limiting the refinancing risk in the long term.

The Debt and Cash Management Strategy targets a number of key parameters, including the following:

- *Outstanding amount of central government securities sold for initial placement in the domestic financial market at the end of the five-year period.* The Debt and Cash Management Strategy envisages that the outstanding amount of central government securities sold for initial placement in the domestic financial market at the end of the five-year period should be not less than the outstanding amount at the beginning of the five-year period (the parameter is measured for a fixed five-year period i.e., from the beginning of 2020, with five-year periods from 2020 to 2024 and 2025 to 2029, and so on). Negative net borrowings are allowed provided that the parameter is met at the end of the five-year period (e.g. at the end of 2024, at the end of 2029 and so on). The parameter determines the minimum performance level, however, depending on the situation in the financial markets, the development prospects of the domestic financial market and borrowing costs therein, the amount outstanding at the end of the five-year period may be higher and shall be assessed and justified in the medium term funding plan.

- *The maturity profile of the portfolio*. The Debt and Cash Management Strategy envisages that not more than 25 per cent. of the central Government debt portfolio should mature within one year and that not more than 50 per cent. should mature within three years;

- *The fixed rate proportion*. The Debt and Cash Management Strategy envisages that not less than 60 per cent. of the central Government debt portfolio should have fixed interest rates with a maturity of more than one year. The Debt and Cash Management Strategy approved on 24 April 2024 sets new the fixed rate proportion of 85 per cent.;

- *The Macaulay Duration of the portfolio*. The Debt and Cash Management Strategy envisages that the Macaulay Duration should be within a corridor of between 5 and 9 years. The Macaulay Duration is determined as the weighted average maturity of the borrowing where the weighting constitutes the relative discounted cash flows in each period. During periods of low interest rates by mainly focusing on loans with longer maturities, this should hedge the risk of debt service costs increasing over the long term, while during periods of high interest rates by focusing on loans with shorter maturities, debt service costs should decrease in the medium term by accordingly increasing/decreasing the Macaulay Duration (years) within the acceptable limits of the Debt and Cash Management Strategy; and

- *The net debt currency composition*. The Debt and Cash Management Strategy envisages that the net debt should be 100 per cent. in euro plus or minus 5 per cent. in total and for each single currency. The net debt constitutes central Government debt at the end of the period less the amount of loans and receivables (impairment loss of guarantees are not taken into account) and includes the Treasury's cash accounts, investments in deposits and fixed income securities, loans, receivables (including receivables of derivative financial instruments which are not classified as risky from a credit risk perspective), provisions of guarantees as well as liabilities of derivative financial instruments which are not classified as risky from a credit risk perspective. Net debt currency composition excludes the IMF allocations provided to Latvia as a member of the IMF, receivables and other transactions denominated in special drawing right or SDR, which are not hedged due to the particular nature of such transactions.

The Treasury typically uses hedging instruments in order to achieve the above-mentioned parameters. The Treasury has developed and applies a cost-at-risk model, the outputs of which, along with the Treasury's expert assessment, financial market analysis, results of econometric modelling and other factors, are used to evaluate the parameters set and to determine whether the defined performance levels are optimal and financially justified over time. The strategy itself is reviewed at least annually. The current strategy was approved by the Minister of Finance on 24 April 2024.

The table below sets out the key parameters for the central Government overall debt portfolio according to the Debt and Cash Managements Strategy for the five-year period from 2020 to 2024 and the actual parameters achieved as of 31 December 2023.

Parameters	**31 December 2023**		**Strategy**	
Outstanding amount of domestic debt securities at the end of the year	€3,422.25 million(1)		Outstanding amount of government debt securities sold for initial placement in the domestic financial market at the end of the five-year period is not less than the outstanding amount at the beginning of the five-year period (2)	
Maturity profile (%) of central Government debt	1 year or less 16.0%	3 years or less 38.2%	1 year or less ≤25%	3 years or less ≤50%
Minimum share of fixed rate (3)	83.7%		≥60%	
Macaulay Duration (years) (4)	5.90 years		from 5.00 to 9.00 years	
Net debt currency composition (5)	€100.06%		€100% +/- 5%	

Source: The Treasury
Notes:
(1) The parameter is measured annually as of end of year and the outstanding amount of domestic debt securities as of 31 December 2019 was €1,172.24.08 million.
(2) For a fixed period of five years (i.e. from the beginning of 2020, e.g. 2020-2024, 2025-2029, etc.), negative net borrowings (excluding savings bonds) are allowed provided that the parameter is met at the end of the five-year period (e.g. at the end of 2024, at the end of 2029, etc.). The parameter determines the minimum performance level, however, depending on the situation in the financial markets, the development prospects of the domestic financial market and borrowing costs therein, the amount outstanding of government debt securities (excluding savings bonds) at the end of the five-year period may be higher.
(3) Fixed rate debt with a maturity in excess of one year. Takes into account applied derivatives.
(4) The Macaulay Duration in relation to each borrowing is determined as the weighted average maturity of the security where the weights are the relative discounted cash flows in each period. Takes into account applied derivatives.
(5) Central government debt at the end of the period less the amount of loans and receivables, where impairment loss of guarantees is not taken into account (including Treasury's cash accounts, investments in deposits and fixed income securities, loans, receivables (including receivables of derivative financial instruments which are not classified as risky from a credit risk perspective)), and increased by provisions for guarantees as well as liabilities of derivative financial instruments which are not classified as risky from a credit risk perspective. Net debt currency composition excludes the IMF allocations provided to Latvia as a member of the IMF, receivables and other transactions denominated in special drawing right or SDR, which are not hedged due to the particular nature of such transactions.

The table below sets out the key parameters for the central Government overall debt portfolio in respect of the Debt and Cash Management Strategy approved in July 2023 and the actual parameters achieved as of 31 March 2024. The key parameters in April will be measured against the new the Debt and Cash Management Strategy approved on 24 April 2024.;

Parameters	31 March 2024		Strategy (approved in July 2023)	
Maturity profile (%) of central Government debt	1 year or less 18.2%	3 years or less 43.3%	1 year or less ≤25%	3 years or less ≤50%
Minimum share of fixed rate (1)	81.5%		≥60%	
Macaulay Duration (years)(2)	5.68 years		from 5.00 to 9.00 years	
Net debt currency composition (3)	€100.05%		€100% +/- 5%	

(1) Fixed rate central government debt with a maturity over one year.

(2) The Macaulay Duration in relation to each borrowing is determined as the weighted average maturity of the security where the weights are the relative discounted cash flows in each period. Takes into account applied derivatives.

(3) Central government debt at the end of the period less the amount of loans and receivables, where impairment loss of guarantees is not taken into account (including Treasury's cash accounts, investments in deposits and fixed income securities, loans, receivables (including receivables of derivative financial instruments which are not classified as risky from a credit risk perspective)), and increased by provisions for guarantees as well as liabilities of derivative financial instruments which are not classified as risky from a credit risk perspective. Net debt currency composition excludes the IMF allocations provided to Latvia as a member of the IMF, receivables and other transactions denominated in special drawing right or SDR, which are not hedged due to the particular nature of such transactions.

The table below sets out the duration of debt (by numbers of years) and weighted average interest rate as at 31 December 2019, 2020, 2021, 2022, 2023 and as at 30 April 2024.

	As at 31 December					As at 30 April
	2019	2020	2021	2022	2023	2024
Duration (years)	7.61	6.62	6.55	5.85	5.90	6.04
Weighted average interest rate (in percentage)	2.03%	1.60%	0.90%	1.30%	1.79%	1.83%

Source: The Treasury

RATINGS

Since January 2019, the following rating actions have occurred:

- Standard & Poor's Credit Market Services Europe Limited upgraded Latvia's rating to A+ (stable outlook) in February 2020. On 16 December 2022, S&P Global Ratings Europe Limited affirmed the A+ credit rating level, and changed the outlook from stable to negative. The ratings and credit outlook were affirmed on 15 December 2023. The credit strengths identified with respect to the Republic included the strength of Latvia's domestic demand, its security as bolstered by membership within the EU and NATO, effective policymaking and the diversification of its economy from reliance on Russia and its moderate levels of government debt. The ratings issued by S&P Global Ratings Europe Limited are endorsed by S&P Global Ratings UK Limited;
- Moody's Investors Service Ltd. upgraded Latvia's rating to A3 (stable outlook) in February 2015 and have not changed it since. The ratings and credit outlook were affirmed on 26 December 2023. The credit strengths identified with respect to the Republic included its track record of prudent fiscal policies, moderate levels of government debt relative to GDP and high debt affordability and the track record of its institutions. The ratings issued by Moody's Investors Service Ltd. are endorsed by Moody's France S.A.S and Moody's Deutschland GmbH;
- Fitch Ratings Ltd in April 2020 affirmed Latvia's credit rating at A- level, changing the outlook to negative and in October 2020 affirmed the rating level at A-, changing to outlook back to stable.

In July 2023, Fitch Ratings Ltd affirmed the rating in A- level and changed the outlook to positive. The ratings and credit outlook were further affirmed on 12 January 2024. The credit strengths identified with respect to the Republic included its lower debt servicing costs as compared to its rating peers, its credible economic policy framework, moderate levels of private sector indebtedness, its EU and eurozone supporting policies and relatively low levels of government debt. The ratings issued by Fitch Ratings Ltd are endorsed by Fitch Ratings Ireland Limited;

- Rating and Investment Information, Inc. upgraded Latvia's rating to A from A- with a stable outlook in December 2019. The credit strengths identified with respect to the Republic included projections of a stable economic growth in the medium term, Latvia's diversification of its economy from a reliance on Russia, investments into Latvia from the EU and its low levels of government debt. The ratings and credit outlook were affirmed on 18 December 2023.

FINANCING

Taking into consideration the medium-term central Government's financing requirement, funds are expected to be raised in a timely manner in order to provide availability of resources for the central Government's total financing requirement (government debt refinancing, financing of the state budget deficit, issuing loans, as well as for maintaining liquidity at the Treasury's accounts). The estimated gross borrowing volume is indicative, subject to actual state budget execution and may change due to a number of contingencies and external factors. Borrowings in the international markets and tap issues of Notes previously issued in the international capital markets under the Programme through domestic offerings of those Notes by way of auctions in the domestic primary dealer market only will represent the most significant share of overall borrowing volumes.

STATE GUARANTEES AND LOANS GRANTED BY THE STATE

The State Budget Law sets a limit on the amount of the net increase of loans granted by the State for the respective year. Under the 2024 State Budget Law, the net increase of state loans granted was planned to be €334.4 million (including the state loan limit for municipalities in an amount of €198.73 million). In addition, under the Budget Management Law, the Minister of Finance is authorised to issue state loans in accordance with a separate decision of the Saeima, provided that the loans are taken for the purposes specified in the Budget Management Law and do not exceed 10 per cent. of nominal GDP, as specified in the annual State Budget Law.

Under the State Budget Law, the State may issue loans to local governments, special state budget executors, certain state or local government-owned companies, scientific institutes and higher education establishments that have been assigned the status of a derived public entity and port authorities.

On 31 December 2023, the total amount of State guarantees issued and outstanding was €354.6 million.

In 2020, a guarantee agreement was signed with the European Commission in the amount of €57 million for participation in the European Union support instrument "Support to Mitigate Unemployment Risks in an Emergency (SURE)". In 2022, the Republic of Latvia issued two guarantees for the support of Ukraine. According to the Article 8.2 of the Law on Assistance to Ukrainian Civilians in July, 2022, the Minister of Finance signed a guarantee agreement with the World Bank Group's International Bank for Reconstruction and Development within the framework of the project "Strengthening the administrative capacity of public expenditures in Ukraine" for the loan to €10.0 million and loan interest payments (the repayment of the loan is planned until 15 August 2040) and on 1 December 2022, the Minister of Finance signed a guarantee agreement with the European Commission, responding to the European Commission's decision to provide an additional amount of up to €5 million in exceptional micro-financial assistance to Ukraine, supported by voluntary contributions in the form of guarantees from member states of the EU. This guarantee stipulates, that until 31 December 2058, the Republic of Latvia will guarantee up to €8.1 million for the repayment of principal amount and from 2028 to 2058 for the loan interest payments.

The table below shows the cumulative amount of State guarantees outstanding and the amount of State loans outstanding as at 31 December in each of 2019, 2020, 2021, 2022, 2023 and as at 30 April 2024.

	As of 31 December					As at April 30
	2019	2020	2021	2022	2023	2024
	(€ millions)					
State guarantees outstanding	515.7	541.4	411.1	371.8	354.6	352.2
As a percentage of GDP	1.7	1.8	1.2	1.0	0.9	0.8
State loans outstanding	1,613.7	1,759.7	1,958.6	2,124.3	2,260.9	2,226.3
As a percentage of GDP	5.3	6.0	5.9	5.5	5.6	5.3

Source: The Treasury

LOCAL GOVERNMENT DEBT

Local authorities in Latvia have the right to borrow and issue guarantees according to the procedures specified by the Cabinet of Ministers. The annual State Budget Law sets a maximum amount for the total increase of such borrowings and guarantees. In order to control and supervise the financial activity of local governments in respect of its borrowings and guarantees, the Minister of Finance has established the Local Government Borrowing and Guarantee Control and Supervision Council (the Council). Local government can borrow or provide a guarantee only where such borrowing or guarantee has been accepted by the Council (with the exception of guarantees for student loans). Before approving a proposed borrowing or guarantee, the Council evaluates the relevant proposal and assesses the financial capacity of the local government concerned to repay any loans received or comply with the terms of the relevant guarantee.

The table below sets out Latvian local government borrowing by principal source as at 31 December 2019, 2020, 2021, 2022, 2023 and as at 30 April 2024.

	2019	2020	2021	2022	2023	As at 30 April 2024
	(€ millions)					
Total local government debt	1,705.0	1,767.0	1.873.7	1.951.1	1.992.1	**1.940.9**
From the Treasury	1,346.5	1,454.0	1.603.9	1.722.0	1.808.4	**1.772.3**
From other lenders	1358.5	313.0	269.8	229.1	183.7	168.6

Source: The Treasury

The Treasury is the main lender to local governments. Local governments may borrow from other lenders only if the financial terms of the other lender are more advantageous than those of the Treasury and after receiving permission from the Minister of Finance.

Under the State Budget Law for 2024 and the Budget Framework for 2024, 2025, and 2026, local governments may only borrow in limited circumstances, including in relation to the following:

- the implementation of projects co-financed by the EU, Recovery and Resilience Facility, the Emission Allowance Auction Instrument program and other providers of financial assistance;

- stabilising the finances of the local government according to the Law “On the Stabilisation of Local Government Finances and the Monitoring of the Financial Activities of Local Governments”;
- the implementation of education, road construction and internal security investment projects;
- financing investment projects launched in 2022 and 2023;
- the implementation of other significant local government investment projects with local government co-financing.

NOT FOR GENERAL CIRCULATION IN THE UNITED STATES OF AMERICA

OFFERING CIRCULAR DATED 7 JUNE 2013

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

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

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

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

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

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

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

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

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

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

Arrangers and Dealers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

U.S. INFORMATION

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

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

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

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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

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

OVERVIEW OF THE PROGRAMME

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

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

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

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

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

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

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

RISK FACTORS

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

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

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

The Notes may not be a suitable investment for all investors

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

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

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the Republic

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

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

Fixed/Floating Rate Notes

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

Index Linked Notes and Dual Currency Notes

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

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

(b) they may receive no interest;

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

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

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

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

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

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

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

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

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

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

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

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

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

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

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

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

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

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

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

The law governing the Conditions of the Notes may change

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

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

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

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

Court judgements in Latvia

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

Bearer Notes where denominations involve integral multiples: definitive bearer Notes

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

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

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

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

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

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

Risks related to the market generally

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

There may be no active trading market for the Notes

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

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

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Legal investment considerations may restrict certain investments

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

Credit ratings may not reflect all risks

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

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

FORM OF THE NOTES

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

Bearer Notes

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

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

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

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

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

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

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

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

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

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

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

Registered Notes

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

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

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

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

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

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

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

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

Transfer of Interests

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

General

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

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

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

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

APPLICABLE PRICING SUPPLEMENT

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

[*Date*]

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

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

PART A – CONTRACTUAL TERMS

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

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

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

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

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

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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

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

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

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

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

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

PROVISIONS RELATING TO REDEMPTION

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

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

GENERAL PROVISIONS APPLICABLE TO THE NOTES

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

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

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

DISTRIBUTION

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

[LISTING APPLICATION

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

[**RESPONSIBILITY**

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

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

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

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

2. RATINGS

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

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

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

4. YIELD (*Fixed Rate Notes only*)

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

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

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

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

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

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

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

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

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

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

8. OPERATIONAL INFORMATION

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

TERMS AND CONDITIONS OF THE NOTES

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

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

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

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

(ii) any Global Note;

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

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

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

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

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

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

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

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

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

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

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

1. FORM, DENOMINATION AND TITLE

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

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

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

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

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

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

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

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

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

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

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

2.2 Transfers of Registered Notes in definitive form

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

2.3 Registration of transfer upon partial redemption

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

2.4 Costs of registration

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

3. STATUS OF THE NOTES

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

4. NEGATIVE PLEDGE

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

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

5. INTEREST

5.1 Interest on Fixed Rate Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In these Conditions:

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

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

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) **Interest Payment Dates**

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

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

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

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

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

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

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

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

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

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

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

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

(b) **Rate of Interest**

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

(i) ISDA Determination for Floating Rate Notes

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

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

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

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

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

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

(ii) Screen Rate Determination for Floating Rate Notes

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

(A) the offered quotation; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

(f) **Certificates to be final**

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

5.3 Interest on Dual Currency Interest Notes

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

5.4 Accrual of interest

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

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

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

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

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

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

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

6.2 Presentation of definitive Bearer Notes and Coupons

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

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

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

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

6.3 Payments in respect of Bearer Global Notes

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

6.4 Payments in respect of Registered Notes

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

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

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

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

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

6.5 General provisions applicable to payments

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

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

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

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

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

6.6 Payment Day

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

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

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

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

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

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

6.7 Interpretation of principal and interest

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

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

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

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

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

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

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

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

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

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

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

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

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

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

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

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

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

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

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

7.4 Early Redemption Amounts

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

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

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

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

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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

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

7.5 Purchases

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

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

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

7.6 Cancellation

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

7.7 Late payment on Zero Coupon Notes

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

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

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

8. TAXATION

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

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

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

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

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

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

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

9. PRESCRIPTION

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

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

10. EVENTS OF DEFAULT

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

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

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

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

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

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

11. REPLACEMENT OF NOTES, COUPONS AND TALONS

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

12. AGENTS

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

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

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

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

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

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

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

13. EXCHANGE OF TALONS

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

14. NOTICES

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

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

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

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

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

15. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS

15.1 *General*

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

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

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

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

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

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

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

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

15.2 *Convening a meeting of Noteholders*

A meeting of Noteholders:

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

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

15.3 *Quorum and voting*

(a) Quorum at initial meeting

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

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

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

(b) Quorum at adjourned meeting

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

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

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

(c) Voting on non-Reserved Matters

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

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

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

(d) Voting on Reserved Matters

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

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

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

(e) Cross-Series Modifications

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

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

and

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

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

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

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

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

For the purposes of this Condition 15.3(e):

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

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

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

(f) *Written resolutions*

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

(g) *Binding effect*

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

(i) *Modification*

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

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

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

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

15.4 ***Reserved Matters***

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

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

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

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

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

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

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

(g) to change this definition;

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

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

16. FURTHER ISSUES

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

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

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

18.2 Jurisdiction

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

18.3 Appropriate forum

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

18.4 Service of process

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

18.5 Non-exclusivity

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

18.6 Consent to enforcement etc

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

18.7 Waiver of immunity

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

18.8 Other documents

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

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

USE OF PROCEEDS

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

BOOK-ENTRY CLEARANCE SYSTEMS

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

Book-entry Systems

DTC

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

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

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

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

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

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

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

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

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

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

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

Euroclear and Clearstream, Luxembourg

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

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

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

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

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

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

Transfers of Notes Represented by Registered Global Notes

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

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

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

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

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

TAXATION

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

Latvian Taxation

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

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

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

United States Federal Income Tax Considerations

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

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

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

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

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

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

Payments of Interest

General

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

Foreign Currency Denominated Interest

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

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

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

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

Original Issue Discount

General

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

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

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

Acquisition Premium

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

Market Discount

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

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

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

Election to Treat All Interest as Original Issue Discount

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

Variable Interest Rate Notes

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

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

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

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

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

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

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

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

Short-Term Notes

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

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

Foreign Currency Notes

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

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

Sale or Other Disposition of Notes

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

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

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

Disposition of Foreign Currency

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

Backup Withholding and Information Reporting

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

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

Disclosure Requirements

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

EU Savings Directive

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

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

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

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

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

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

Transfer Restrictions

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

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

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

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

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

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

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

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

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

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

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

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

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

Selling Restrictions

United States of America

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

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

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

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

United Kingdom

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

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

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

Latvia

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

Japan

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

Switzerland

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

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

General

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

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

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

GENERAL INFORMATION

Authorisation

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

Listing of Notes

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

Documents Available

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

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

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

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

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

Clearing Systems

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

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

Enforcement of Judgments

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

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

Dealers transacting with the Republic

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

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

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

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

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

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

Purpose of the Supplement

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

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

General Information

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

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

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

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

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

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

PURPOSE OF THE SUPPLEMENT

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

AMENDMENTS TO THE OFFERING CIRCULAR

The following amendments are made to the Offering Circular:

Notice to New Hampshire Residents

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

Risk Factors

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

Terms and Conditions of the Notes

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

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

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

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

Taxation

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

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

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

General Information

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

SUPPLEMENT DATED 22 MAY 2018 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplements dated 10 January 2014 and 31 May 2017 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

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

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

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to amend the Offering Circular to (a) include MIFID II product governance / target market language, (b) amend Condition 8 of "*Terms and Conditions of the Notes*" and (c) update the "*Taxation*", "*Authorisation*" and "*Enforcement of Judgments*" sections.

AMENDMENTS TO THE OFFERING CIRCULAR

The following amendments are made to the Offering Circular:

MiFID II Product Governance / Target Market

The following section shall be inserted on page 5 of the Offering Circular following the section entitled "U.S. Information":

> "**MIFID II PRODUCT GOVERNANCE / TARGET MARKET**
>
> The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.
>
> A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules."

The following legend shall be inserted at the beginning of the "*Applicable Pricing Supplement*" section on page 23 of the Offering Circular:

[[1]**MIFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

OR

[[2]**MIFID II product governance / Retail investors, professional investors and ECPs** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); ***EITHER***[3] [and (ii) all channels for distribution of the Notes are appropriate, including investment advice, portfolio management, non-advised sales and pure execution services] ***OR*** [4][(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and (iii) the following channels for distribution of the Notes to retail clients are appropriate - investment advice[,/ and] portfolio management[,/ and][non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable]]. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable][5].]].

[1] Legend to be included on front of the Pricing Supplement if following the ICMA1 "all bonds to all professionals" target market approach.
[2] Legend to be included on front of the Pricing Supplement if following the ICMA 2 approach.
[3] Include for bonds that are not ESMA complex.
[4] Include for certain ESMA complex bonds. This list may need to be amended, for example, if advised sales are deemed necessary. If there are advised sales, a determination of suitability will be necessary. In addition, if the Notes constitute "complex" products, pure execution services are not permitted to retail without the need to make the determination of appropriateness required under Article 25(3) of MiFID II.
[5] If the Notes constitute "complex" products, pure execution services are not permitted to retail without the need to make the determination of appropriateness required under Article 25(3) of MiFID II. If there are advised sales, a determination of suitability will be necessary."

Terms and Conditions of the Notes

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

Taxation

The section entitled "*Latvia Taxation*" on page 65 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**Latvian Taxation**

Under existing Latvian laws and regulations, all payments under the Notes: (a) to an individual who is a non-resident of Latvia; or (b) to a legal entity that is neither (i) resident in Latvia (including non-residents located, registered or incorporated in a no-tax or low-tax country or territory, provided that the payments are made at market price) nor (ii) maintains, or is engaged in trade or business through, a permanent establishment in Latvia (together **Non-Latvian Holders**) will not be subject to taxation in Latvia and no withholding of any Latvian tax will be required on any such payments.

Gains realised by Non-Latvian Holders derived from the sale or exchange of the Notes will not be subject to any Latvian income or capital gains tax.

In general, payments in the secondary market made to non-residents located, registered or incorporated in a no-tax or low-tax country or territory are subject to a withholding tax of 23 per cent. (if the payer is Latvian individual resident having obligation to withhold tax) or 20 per cent. (if the payer is a Latvian legal entity and payments for the Notes are not made at the market price). However, the Issuer does not consider that any such withholding would be required with respect to payments made by the Issuer of principal or interest in respect of Notes. Furthermore, even if the Republic was required to make any such withholding or deduction then pursuant to Condition 8 the Republic is required to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required.

Under existing Latvian laws and regulations, all payments under the Notes to an individual who is a resident of Latvia will not be subject to taxation at source in Latvia and no withholding of any Latvian tax will be required on any such payments. In addition, gains from the sale or exchange of the Notes realised by individuals who are residents of Latvia will not be subject to any Latvian income or capital gains tax.

For legal entities which are resident in Latvia or maintain a permanent establishment in Latvia, all payments under the Notes will not be subject to taxation at source in Latvia and no withholding of any Latvian tax will be required on any such payments. However, as of 1 January 2018 Latvia implemented a new corporate income tax (**CIT**) system under which retained earnings are exempt from CIT and only distributions are taxed. CIT is charged on direct profit distributions, such as dividends, and on implicit (deemed) distributions, including transfer pricing adjustments, gifts, payments not related to the business activities of the company and certain upstream group loans. Although CIT is imposed at the time of profit distributions, CIT is generally imposed on the corporation. The CIT rate on any gross profit distribution is 20 per cent. The CIT rate on the net amount of any profit distribution is determined by dividing such net amount with a coefficient of 0.8. Therefore, interest and gains realised from the sale of Notes have to be included in the taxable base of legal entities which are resident in Latvia or maintain a permanent establishment in Latvia; however, the taxation of such income will apply only upon a distribution of profits.

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

Authorisation

The section entitled "*Authorisation*" on page 79 of the Offering Circular shall be deleted in its entirety and replaced with the following:

“**Authorisation**

Under the Law on Budget and Financial Management adopted on 24 March 1994, the Regulations of the Treasury of the Republic of Latvia No. 677 issued by the Cabinet of Ministers on 3 August 2004 and the Order of Ministry of Finance of the Republic of Latvia No.339 dated 14 August 2017 “On Authorisation to the Treasury and the Signatory Authority”, the Treasury, on behalf of the Republic of Latvia, is entitled to borrow money, provided that such borrowing is in line with the Central Government Debt and Cash Management Strategy and the Funding Plan approved by the Minister of Finance. In addition, each State Budget Law sets a total debt ceiling which must not be exceeded at 31 December of the year to which the relevant State Budget Law applies. The Minister of Finance will confirm in relation to each issue of Notes under the Programme that such issue will not breach the State Budget Law for the respective year and the Law on Budget and Financial Management and conforms with the Central Government Debt and Cash Management Strategy and the Funding Plan approved by the Minister of Finance.”

Enforcement of Judgments

The section entitled “*Enforcement of Judgments*” on page 80 of the Offering Circular shall be deleted in its entirety and replaced with the following:

“**Enforcement of Judgments**

As at the date of this Offering Circular, a judgment obtained in an English court against the Republic should be enforceable against the Republic in Latvia, as Regulation (EU) No 1215/2012 of the European Parliament and the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters (recast) (the **Brussels Regulation**) is directly applicable in Latvia. According to the Brussels Regulation, a judgment given in a Member State shall be recognised in the other Member States without any special procedure being required. A judgment given in a Member State which is enforceable in that Member State shall be enforceable in the other Member States without any declaration of enforceability being required. Refusal of recognition and/or of enforcement is possible only upon application of an interested party on the grounds mentioned in the Brussels Regulation. Hence, a judgment of an English court shall be recognised and/or enforced without any recourse to the Latvian courts, unless refusal of the recognition or enforcement of a judgment is requested or granted upon request of an interested person by the Latvian court. The Brussels Regulation determines the necessary steps and documentation to commence enforcement, whereas actual enforcement of a judgment shall take place in accordance with the procedures specified in the Latvian Civil Procedure Law.”

General Information

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

SUPPLEMENT DATED 11 FEBRUARY 2019 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplements dated 10 January 2014, 31 May 2017 and 22 May 2018 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

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

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

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to amend the Offering Circular to (i) amend Condition 16 of "*Terms and Conditions of the Notes*" and (ii) update the "*Enforcement of Judgments*" section.

AMENDMENTS TO THE OFFERING CIRCULAR

The following amendments are made to the Offering Circular:

Terms and Conditions of the Notes

Condition 16 on page 58 of the Offering Circular is hereby deleted in its entirety and replaced with the following:

"**16. FURTHER ISSUES**

The Republic shall be at liberty from time to time, without the consent of the Noteholders or the Couponholders, to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes."

Enforcement of Judgments

The following paragraph shall be inserted at the end of the section entitled "*Enforcement of Judgments*" on page 80 of the Offering Circular (as amended by the supplement dated 22 May 2018):

"It is anticipated that as of the date when the United Kingdom withdraws from the European Union the Brussels Regulation will not be applicable in providing for the recognition and enforcement of judgments of English courts in the Members States of the European Union. Unless other regulation on recognition and enforcement of judgments obtained in the courts of England becomes effective in Latvia following withdrawal of the United Kingdom from the European Union, a judgment of an English court will be subject to the recognition and enforcement pursuant to the Latvian Civil

Procedure Law, which determines the necessary steps and documentation to commence enforcement, as well as the enforcement procedures. According to the Latvian Civil Procedure Law the enforcement shall not be granted if: (a) the foreign court, which made the judgment, was not competent in accordance with Latvian law to adjudicate the dispute or such dispute falls under the exclusive jurisdiction of the Latvian courts; (b) the judgment of the foreign court has not come into lawful effect; (c) the defendant was denied a possibility of defending his or her rights, in particular, where the judgment was given in default of appearance, where the defendant was not summoned to appear before court in a timely and proper manner, except if the defendant has not appealed such judgment even though he or she had the possibility to do so; (d) the judgment of the foreign court is irreconcilable with an earlier court judgment which has entered into lawful effect in Latvia in the same dispute between the same parties or with already earlier commenced court proceedings between the same parties in a Latvian court; (e) the judgment of the foreign court is irreconcilable with an earlier judgment of another foreign court which has entered into lawful effect in the same dispute between the same parties, which fulfils the conditions necessary for its recognition or which has already been recognised in Latvia; (f) the recognition of the judgment of the foreign court is contrary to public policy in Latvia; or (g) the passing of the judgment by the foreign court was not done in accordance with the application of the laws of such country as should have been applied in conformity with Latvian international private law conflict of law norms."

General Information

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

SUPPLEMENT DATED 26 MARCH 2020 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplements dated 10 January 2014, 31 May 2017, 22 May 2018 and 11 February 2019 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

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

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

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to (i) add a new risk factor entitled "*The enforcement of a judgment of an English court in Latvia may be more difficult following the United Kingdom's withdrawal from the European Union*" and (ii) update the "Enforcement of Judgments" section.

AMENDMENTS TO THE OFFERING CIRCULAR

Risk Factors

The following shall be inserted as a new risk factor between the risk factors entitled "*A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions*" and "*Court judgements in Latvia*" on page 16 of the Offering Circular in the section entitled "*Risk Factors - Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme*" starting on page 13 of the Offering Circular:

"*The enforcement of a judgment of an English court in Latvia may be more difficult following the United Kingdom's withdrawal from the European Union*

Following the United Kingdom's withdrawal from the European Union, Regulation (EU) No 1215/2012 of the European Parliament and the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters (recast) (the **Brussels Regulation**) will no longer apply to the enforcement of a judgment obtained in the courts of England in Latvia after the end of the transition period under the Article 50 Withdrawal Agreement (as defined below), including any extension of that transition period. Unless another mechanism for the recognition and enforcement of judgments obtained in the courts of England becomes effective in Latvia following the end of the transition period (e.g. through the United Kingdom acceding to the 2005 Hague Convention on Choice of Court Agreements or the 2007 Lugano Convention), a judgment of an English court will be subject to recognition and enforcement pursuant to the Latvian Civil Procedure Law, which determines the necessary steps and documentation to commence enforcement, as well as the enforcement procedures. See "*Enforcement of Judgments*" below.

The recognition and enforcement of a judgment obtained in the English courts pursuant to the Latvian Civil Procedure Law is likely to be more time consuming and costly than under the Brussels Regulation, and make the enforcement of a judgment obtained in an English court against the Republic in Latvia more difficult."

Enforcement of Judgments

The last paragraph of the section entitled "Enforcement of Judgments" on page 80 of the Offering Circular (as amended by the supplements dated 22 May 2018 and 11 February 2019) starting with "*It is anticipated that as of the date when the United Kingdom*" shall be deleted in its entirety and shall be replaced with the following:

"The Withdrawal Agreement concluded between the European Union and the United Kingdom (the **Article 50 Withdrawal Agreement**) establishing the terms of the United Kingdom's withdrawal from the European Union entered into force on 1 February 2020. Under the Article 50 Withdrawal Agreement a transition period has now commenced which will last until 31 December 2020. Pursuant to Article 67(2)(a) of the Article 50 Withdrawal Agreement, in the United Kingdom, as well as in the Member States of the European Union in situations involving the United Kingdom, the Brussels Regulation will continue to apply to the recognition and enforcement of judgments given in legal proceedings instituted before the end of the transition period, i.e. 31 December 2020 (unless extended).

Under the Article 50 Withdrawal Agreement, the transition period may, before 1 July 2020, be extended once by up to one or two years. However, the United Kingdom legislation ratifying the Article 50 Withdrawal Agreement, the European Union (Withdrawal) Act 2018 as amended by the European Union (Withdrawal Agreement) Act 2020 (as so amended, the **EUWA**)) contains a prohibition on a Minister of the Crown agreeing any extension to the transition period. Any extension to the transition period would, therefore, require the United Kingdom Parliament to pass legislation that would override the effect of the prohibition in the EUWA. Currently, it is anticipated that after the end of the transition period, the Brussels Regulation will cease to apply to recognition and enforcement of judgments in the United Kingdom, as well as in the Member States of the European Union in situations involving the United Kingdom.

Unless another mechanism for the recognition and enforcement of judgments obtained in the courts of England becomes effective in Latvia following the end of the transition period (e.g. through the United Kingdom acceding to the 2005 Hague Convention on Choice of Court Agreements or the 2007 Lugano Convention), a judgment of an English court will be subject to recognition and enforcement pursuant to the Latvian Civil Procedure Law, which determines the necessary steps and documentation to commence enforcement, as well as the enforcement procedures. According to the Latvian Civil Procedure Law the enforcement shall not be granted if: (a) the foreign court, which made the judgment, was not competent in accordance with Latvian law to adjudicate the dispute or such dispute falls under the exclusive jurisdiction of the Latvian courts; (b) the judgment of the foreign court has not come into lawful effect; (c) the defendant was denied a possibility of defending his or her rights, in particular, where the judgment was given in default of appearance, where the defendant was not summoned to appear before court in a timely and proper manner, except if the defendant has not appealed such judgment even though he or she had the possibility to do so; (d) the judgment of the foreign court is irreconcilable with an earlier court judgment which has entered into lawful effect in Latvia in the same dispute between the same parties or with already earlier commenced court proceedings between the same parties in a Latvian court; (e) the judgment of the foreign court is irreconcilable with an earlier judgment of another foreign court which has entered into lawful effect in the same dispute between the same parties, which fulfils the conditions necessary for its recognition or which has already been recognised in Latvia; (f) the recognition of the judgment of the foreign court is contrary to public policy in Latvia; or (g) the passing of the judgment by the foreign court was not done in accordance with the application of the laws of such country as should have been applied in conformity with Latvian international private law conflict of law norms."

General Information

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

SUPPLEMENT DATED 8 OCTOBER 2020 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplements dated 10 January 2014, 31 May 2017, 22 May 2018, 11 February 2019 and 26 March 2020 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

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

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

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to update the "Overview of the Programme" and "Authorisation" sections.

AMENDMENTS TO THE OFFERING CIRCULAR

Overview of the Programme

The following shall be added at the end of the section entitled "Overview of the Programme" on page 8 of the Offering Circular:

"Domestic Notes:	Notwithstanding anything to the contrary in this Offering Circular, the Issuer may from time to time offer and issue Notes to primary dealers and other Nasdaq Riga members in Latvia only (such Notes, the **domestic Notes**), which domestic Notes may be consolidated to form a single Series with an existing Series of Notes previously issued under the Programme. Each primary dealer has, in a primary dealer agreement entered into with the Issuer, agreed with the Issuer the basis upon which it may from time to time purchase such domestic Notes from the Issuer and any other Nasdaq Riga member that purchases any domestic Notes from the Issuer will also enter into an agreement with the Issuer setting out the basis upon which any such domestic Notes are to be purchased from the Issuer. The domestic Notes will be offered and sold by the Issuer to primary dealers and other Nasdaq Riga members in Latvia only and will not be offered or sold by or on behalf of the Issuer in any other jurisdiction. Any such offer and sale will by way of auction and/or direct sales, as applicable, in accordance with the applicable rules and procedures of Nasdaq Riga for the initial placement of Latvian government securities."

Authorisation

The section entitled "Authorisation" on page 79 of the Offering Circular shall be deleted in its entirety and replaced with the following:

> "**Authorisation**
>
> Under the Law on Budget and Financial Management adopted on 24 March 1994, the Regulations of the Treasury of the Republic of Latvia No. 677 issued by the Cabinet of Ministers on 3 August 2004, the Law on the Suppression of Consequences of the Spread of COVID-19 Infection adopted on 5 June 2020 and the Order of Ministry of Finance of the Republic of Latvia No.317 dated 21 August 2020 "On Authorisation to the Treasury and the Signatory Authority", the Treasury, on behalf of the Republic of Latvia, is entitled to borrow money, provided that such borrowing is in line with the Central Government Debt and Cash Management Strategy and the Funding Plan approved by the Minister of Finance. In addition, each State Budget Law sets a total debt ceiling which must not be exceeded at 31 December of the year to which the relevant State Budget Law applies. The Minister of Finance will confirm in relation to each issue of Notes under the Programme that such issue will not breach the State Budget Law for the respective year and the Law on Budget and Financial Management and conforms with the Central Government Debt and Cash Management Strategy and the Funding Plan approved by the Minister of Finance."

General Information

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

SUPPLEMENT DATED 9 MARCH 2021 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplements dated 10 January 2014, 31 May 2017, 22 May 2018, 11 February 2019, 26 March 2020 and 8 October 2020 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

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

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

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to update certain information in the Offering Circular to reflect the end of the Brexit transition period on 31 December 2020 at 11.00 pm.

AMENDMENTS TO THE OFFERING CIRCULAR

By virtue of this Supplement, the following amendments shall be made to the Offering Circular:

(a) the following paragraph shall be deemed to be inserted immediately after the paragraph entitled "MIFID II PRODUCT GOVERNANCE / TARGET MARKET" on page 5 of the Offering Circular:

"**UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET**

The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.";

(b) the following shall be inserted as a new paragraph at the end of the risk factor entitled "*Credit ratings may not reflect all risks*" on page 18 of the Offering Circular in the section entitled "*Risk Factors – Risks related to the market generally*" starting on page 17 of the Offering Circular:

"Investors regulated in the United Kingdom are subject to similar restrictions under Regulation (EC) No. 1060/2009 (as amended) as it forms part of domestic law by virtue of the European Union

(Withdrawal) Act 2018 (the **UK CRA Regulation**). As such, United Kingdom regulated investors are required to use for United Kingdom regulatory purposes ratings issued by a credit rating agency established in the United Kingdom and registered under the UK CRA Regulation. In the case of ratings issued by third country non-United Kingdom credit rating agencies, third country credit ratings can either be: (a) endorsed by a United Kingdom-registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant United Kingdom registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the United Kingdom, of existing pre- 2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Notes changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EU or the United Kingdom, as applicable, and the Notes may have a different regulatory treatment. This may result in relevant regulated investors selling the Notes which may impact the value of the Notes and any secondary market.";

(c) the following legend shall be deemed to be inserted in the "Applicable Pricing Supplement" on page 23 of the Offering Circular immediately following the paragraph headed "MIFID II product governance / Professional investors and ECPs only target market":

"**UK MIFIR product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (COBS), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.";

(d) the following legend shall be deemed to be inserted in the "Applicable Pricing Supplement" on page 23 of the Offering Circular immediately following the paragraph headed "MIFID II product governance / Retail investors, professional investors and ECPs":

"UK MIFIR product governance / Retail investors, professional investors and ECPs – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is retail clients, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **EUWA**), eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (COBS), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (**UK MiFIR**); ***EITHER*** [and (ii) all channels for distribution of the Notes are appropriate, including investment advice, portfolio management, non-advised sales and pure execution services] ***OR*** [(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and (iii) the following channels for distribution of the Notes to retail clients are appropriate - investment advice[,/ and] portfolio management[,/ and][non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under COBS, as applicable]]. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a

distributor) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under COBS, as applicable].";

(e) the risk factor "*The enforcement of a judgment of an English court in Latvia may be more difficult following the United Kingdom's withdrawal from the European Union*" on page 16 of the Offering Circular in the section entitled "*Risk Factors - Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme*" starting on page 13 of the Offering Circular (as amended by the supplement dated 26 March 2020) shall be deleted in its entirety and shall be replaced with the following:

"*The enforcement of a judgment of an English court in Latvia may be more difficult following the United Kingdom's withdrawal from the European Union*

Following the United Kingdom's withdrawal from the European Union, Regulation (EU) No 1215/2012 of the European Parliament and the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters (recast) (the **Brussels Regulation**) is no longer applicable to the enforcement of a judgment obtained in the courts of England in Latvia. On 8 April 2020, the United Kingdom applied to re-join the 2007 Lugano Convention as an independent contracting state. The United Kingdom is currently waiting for the other contracting parties to the 2007 Lugano Convention to approve its application. As a result, a judgment of an English court will be subject to recognition and enforcement pursuant to the Latvian Civil Procedure Law, which determines the necessary steps and documentation to commence enforcement, as well as the enforcement procedures. See "Enforcement of Judgments" below.

The recognition and enforcement of a judgment obtained in the English courts pursuant to the Latvian Civil Procedure Law is likely to be more time consuming and costly than under the Brussels Regulation, and make the enforcement of a judgment obtained in an English court against the Republic in Latvia more difficult."; and

(f) the section entitled "Enforcement of Judgments" on page 80 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"Following the United Kingdom's withdrawal from the European Union, the Brussels Regulation is no longer applicable to the enforcement of a judgment obtained in the courts of England in Latvia. Pursuant to Article 67(2)(a) of the Withdrawal Agreement concluded between the European Union and the United Kingdom, in the United Kingdom, as well as in the Member States of the European Union in situations involving the United Kingdom, the Brussels Regulation will continue to apply to the recognition and enforcement of judgments given in legal proceedings instituted before the end of the transition period, i.e., 31 December 2020.

A judgment of an English court given in legal proceedings in relation to the Notes instituted after the end of the transition period, i.e., 31 December 2020, will be subject to recognition and enforcement pursuant the Latvian Civil Procedure Law, which determines the necessary steps and documentation to commence enforcement, as well as the enforcement procedures.

According to the Latvian Civil Procedure Law the enforcement shall not be granted if: (a) the foreign court, which made the judgment, was not competent in accordance with Latvian law to adjudicate the dispute or such dispute falls under the exclusive jurisdiction of the Latvian courts; (b) the judgment of the foreign court has not come into lawful effect; (c) the defendant was denied a possibility of defending his or her rights, in particular, where the judgment was given in default of appearance, where the defendant was not summoned to appear before court in a timely and proper manner, except if the defendant has not appealed such judgment even though he or she had the possibility to do so; (d) the judgment of the foreign court is irreconcilable with an earlier court judgment which has entered into lawful effect in Latvia in the same dispute between the same parties or with already earlier commenced court proceedings between the same parties in a Latvian court; (e) the judgment of the foreign court is irreconcilable with an earlier judgment of another foreign court which has entered into lawful effect in the same dispute between the same parties, which fulfils the conditions necessary for its recognition or which has already been recognised in Latvia; (f) the recognition of the judgment of the foreign court is contrary to public policy in Latvia; or (g) the passing of the judgment by the foreign court was not done in accordance with the application of the laws of such country as should have been applied in conformity with Latvian international private law conflict of law norms. If none of the grounds for refusing recognition and enforcement of a foreign judgment exist, a Latvian court will recognize and enforce the foreign judgment in Latvia."

General Information

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

SUPPLEMENT DATED 1 DECEMBER 2021 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplements dated 10 January 2014, 31 May 2017, 22 May 2018, 11 February 2019, 26 March 2020, 8 October 2020 and 9 March 2021 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

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

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

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to (i) add a new risk factor headed "*The application of an amount equal to the net proceeds of Green Notes, Social Notes or Sustainability Notes as described in "Use of Proceeds" may not meet investor expectations or be suitable for an investor's investment criteria*" and (ii) update the "*Overview of the Programme*", "*Applicable Pricing Supplement*" and "*Use of Proceeds*" sections of the Offering Circular to provide for the issue of Green, Social and Sustainability Notes.

AMENDMENTS TO THE OFFERING CIRCULAR

By virtue of this Supplement, the following amendments shall be made to the Offering Circular:

The following shall be inserted below the current text on page 4 of the Offering Circular:

At the request of the Republic, ISS ESG has issued an independent second party opinion dated 30 November 2021 (the **Second Party Opinion**) on the Republic's Sustainability Bond Framework (November 2021) published on its website (https://www.kase.gov.lv/en/debt-management/securities-in-international-capital-markets/sustainable-bond-framework), including as amended, supplemented, restated or otherwise updated on such website from time to time (the **Sustainability Bond Framework**) (as further described in the section of this Offering Circular headed "*Use of Proceeds*").

Neither the Sustainability Bond Framework, the Second Party Opinion nor the contents of any of the above websites are incorporated in or form part of this Offering Circular. Neither the Republic nor the Dealers accept any responsibility for any social, environmental and sustainability assessment of any Green Notes, Social Notes or Sustainability Notes (each as defined below) and make no representation or warranty or assurance as to whether such Notes will meet any investor expectations or requirements regarding such "ESG", "green", "sustainable", "social" or similar labels. The Dealers are not responsible for the use of proceeds for any Green Notes, Social Notes or Sustainability Notes, the impact or monitoring of such use of proceeds nor the suitability or content of the Sustainability Bond Framework. Neither the Republic nor the Dealers make any representation as to the suitability of the Second Party Opinion. The Second Party Opinion is not a recommendation by the Republic, the Dealers or any other person to buy, sell or hold securities and is only current as of the date it was initially issued. Furthermore, the Second Party Opinion is for information purposes only and ISS ESG does not accept any form of liability for its content and/or any liability for loss arising from the use of the Second Party Opinion and/or the information provided therein. See also the risk factor in this Offering Circular headed, "*The application of an amount equal to the net proceeds of Green Notes, Social Notes or Sustainability Notes as described in "Use of Proceeds" may not meet investor expectations or be suitable for an investor's investment criteria*".

In the event that any Green Notes, Social Notes or Sustainability Notes are listed, included on or admitted to a dedicated "green", "environmental", "social" or "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Republic, the Dealers or any other person that such listing or admission will be obtained or maintained during the life of such Notes.

The paragraph headed "*Use Proceeds*" in the "*Overview of the Programme*" section on page 12 of the Offering Circular shall be deleted and replaced with the following:

"Use of Proceeds:	The net proceeds from each issue of Notes will be used for the refinancing of indebtedness and general funding purposes of the Republic. Alternatively, in the case of any Notes where the "*Reasons for the Offer*" in the applicable Pricing Supplement are stated to be for "green", "social" or "sustainability" purposes", such net proceeds will be used as specified in the applicable Pricing Supplement and as further described in "*Use of Proceeds*".

Risk Factors

The following shall be inserted as a new risk factor after the risk factor entitled "*Notes issued at a substantial discount or premium*" on page 14 of the Offering Circular:

"*The application of an amount equal to the net proceeds of Green Notes, Social Notes or Sustainability Notes as described in "Use of Proceeds" may not meet investor expectations or be suitable for an investor's investment criteria*

Prospective investors in any Notes where the "*Reasons for the Offer*" in the applicable Pricing Supplement are stated to be for "green", "social" or "sustainability" purposes as described in "*Use of Proceeds*" below (**Green Notes**, **Social Notes** or **Sustainability Notes**, respectively), should have regard to the information in "*Use of Proceeds*" regarding the use of an amount equal to the net proceeds of those Notes and must determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary.

In particular, no assurance is given by the Republic or the Dealers that the use of such proceeds for any Eligible Expenditures (as defined in the "*Use of Proceeds*" section below) will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental or sustainability impact of any project or uses, the subject of or related to, the Republic's Sustainability Bond Framework.

Furthermore, it should be noted that there is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green", "social" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green", "social" or "sustainable" or such other equivalent label and, if developed in the future, the Green Notes, Social Notes or Sustainability Notes issued under this Programme may not comply with any such definition or label.

A basis for the determination of such "green" project definition has been established in the EU with the publication in the Official Journal of the EU on 22nd June, 2020 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18th June, 2020 (the **Sustainable Finance Taxonomy Regulation**) on the establishment of a framework to facilitate sustainable investment (the **EU Sustainable Finance Taxonomy**). The EU Sustainable Finance Taxonomy is subject to further development by way of the implementation by the European Commission through delegated regulations of technical screening criteria for the environmental objectives set out in the Sustainable Finance Taxonomy Regulation. Until the technical screening criteria for the objectives of the EU Sustainable Taxonomy have been finalised, it is not known whether the Republic's Sustainability Bond Framework will satisfy those criteria. Accordingly, alignment with the EU Sustainable Finance Taxonomy, once the technical screening criteria are established, is not certain and no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Expenditures will meet any or all investor expectations regarding such "green", "social" or "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Expenditures.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any report, assessment, opinion or certification of any third party (whether or not solicited by the Republic) which may or may not be made available in connection with the issue of any Green Notes, Social Notes and/or Sustainability Notes (including the Second Party Opinion) and any Eligible Expenditures, and whether any of them fulfil any environmental, social, sustainability and/or other criteria.

Any such report, assessment, opinion (including, but not limited to, the Second Party Opinion) or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Offering Circular. Any such report, assessment, opinion or certification is not, nor should be deemed to be, a recommendation by the Republic, the Dealers or any other person to buy, sell or hold any such Notes. Any such report, assessment, opinion or certification is only current as of the date it was issued and the criteria and/or considerations that underlie such report, assessment, opinion or certification may change at any time. Prospective investors must determine for themselves the relevance of any such report, assessment, opinion or certification and/or the information contained therein and/or the provider of such report, assessment, opinion or certification for the purpose of any investment in any such Notes. Currently, the providers of such reports, assessments, opinions and certifications are not subject to any specific oversight or regulatory or other regime.

In the event that any Green Notes, Social Notes and/or Sustainability Notes are listed or admitted to trading on any dedicated "green", "environmental", "social" or "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Republic, the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. Furthermore, the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Republic, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

While it is the intention of the Republic to apply an amount equal to the net proceeds of any Green Notes, Social Notes and Sustainability Notes for Eligible Expenditures and obtain and publish the relevant reports, assessments, opinions and certifications in, or substantially in, the manner described in "*Use of Proceeds*", there can be no assurance that the Republic will be able to do this and there is no contractual or regulatory obligation for it to do so. Nor can there be any assurance that any Eligible Expenditures will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment or any social criteria) as originally expected or anticipated by the Republic.

Any such event or failure to allocate an amount equal to the net proceeds of any issue of Green Notes, Social Notes and/or Sustainability Notes for any Eligible Expenditures or to obtain and publish any such reports, assessments, opinions and certifications, will not constitute an event of default under the relevant Notes or give rise to any other claim of a holder of such Notes against the Republic. The withdrawal of any report, assessment, opinion or certification as described above, or any such report, assessment, opinion or certification attesting that the Republic is not complying in whole or in part with any matters for which such report, assessment, opinion or certification is reporting, assessing, opining or certifying on, and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market, as detailed above, may have a material adverse effect on the value of such Notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose."

Applicable Pricing Supplement

The following shall be added as a new paragraph 5(iii) in the "Applicable Pricing Supplement" section on page 23 of the Offering Circular:

"[(iii)	Reasons for the Offer:	[The Notes are [Green/Social/Sustainability] Notes as described, and as this term is defined, in the Offering Circular and the proceeds from the issue of the Notes are intended to be used for ["green"/"social"/"sustainability"] purposes as described in the "*Use of Proceeds*" section of the Offering Circular.][6]

6 To be included for Green/Social/Sustainability Notes."

Use of Proceeds

The section entitled "Use of Proceeds" on page 60 of the Offering Circular shall be deleted in its entirety and replaced with the following:

" **USE OF PROCEEDS**

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

Alternatively, where the Notes are stated to be "Green", "Social" or "Sustainability" Notes in "*Reasons for the Offer*" in Part A of the applicable Pricing Supplement and it is stated that the proceeds from the issue of the Notes are intended to be used for "green", "social" or "sustainability" purposes as described in this "*Use of Proceeds*" section (**Green Notes**, **Social Notes** or **Sustainability Notes**, respectively), an amount equal to the net proceeds from each such issue of Notes will be used as so stated and described below.

The Republic has published the Sustainability Bond Framework (defined below), which has been prepared in accordance with the guidelines specified in the 2021 edition of the Green Bond Principles published by the International Capital Market Association (**ICMA**), the 2021 edition of the ICMA Social Bond Principles and the 2021 edition of the ICMA Sustainability Bond Guidelines. The technical screening criteria from the published EU Taxonomy Regulation and the EU Taxonomy Delegated Acts on Climate Change Mitigation and Adaptation have also been taken into consideration.

Under the Sustainability Bond Framework, the Issuer may issue Green Notes, Social Notes or Sustainability Notes to finance and/or refinance Eligible Expenditures (as defined below).

For any Green Notes, Social Notes or Sustainability Notes, an amount equal to the net proceeds from each issue of such Notes is intended to be allocated in accordance with the Sustainability Bond Framework to relevant Eligible Expenditures (as defined below and further described in the Sustainability Bond Framework) from the State budget of the Republic (a) incurred in the two budget years preceding; (b) incurred in the same budget year or (c) expected to be incurred in the two budget years following, the Issue Date in each case of the relevant Tranche of such Green Notes, Social Notes or Sustainability Notes.

Eligible Expenditures will be expenditures aligning with (a) in the case of Green Notes, the Eligible Green Categories, (b) in the case of Social Notes, the Eligible Social Categories and (c) in the case of Sustainability Notes, the Eligible Green Categories and/or Eligible Social Categories, in each case as defined below, and may include investment expenditures and operational expenditures (for example, current expenditures, transfers, subsidies and grants).

Eligible Expenditures will exclude expenditures already financed via a dedicated funding source, including European Union funds or any other green or social financing, in order to avoid potential "double counting", and expenditures relating to:

- rail infrastructure dedicated solely for the transportation of fossil fuels;
- power generation with greenhouse gas emissions above 100g CO_2/kWh and nuclear power;
- the production, transmission and distribution of fossil fuels; and
- the armament, tobacco, alcohol or gaming industries.

Eligible Green Categories means the categories of energy efficiency for buildings, climate change adaptation, renewable energy, circular economy, clean transportation, sustainable water management, land use and living natural resources and/or terrestrial and aquatic biodiversity conservation, each as further described in the Sustainability Bond Framework.

Eligible Social Categories means the categories of access to essential services in the areas of education, social inclusion and/or affordable basic infrastructure, each as further described in the Sustainability Bond Framework.

The **Sustainability Bond Framework** means the Sustainability Bond Framework (November 2021) of the Republic published on its website (https://www.kase.gov.lv/en/debt-management/securities-in-international-capital-markets/sustainable-bond-framework), including as amended, supplemented, restated or otherwise updated on such website from time to time.

Pending full allocation, the net proceeds of the Green Notes, Social Notes and Sustainability Notes will be managed in accordance with the regulatory framework of the Treasury of the Republic of Latvia.

The Republic intends to allocate the proceeds of such Notes at its earliest convenience and on a best efforts basis to reach full allocation within two years of the Issue Date of each Tranche of such Notes.

In the event that some expenditures are withdrawn (for any reason) from the portfolio of Eligible Expenditures, the Republic will reallocate, on a best efforts basis, such proceeds to other Eligible Expenditures, as soon as reasonably practicable.

For each issuance of Green Notes, Social Notes and Sustainability Notes, the Republic intends to produce and publish (i) an allocation report (**Allocation Report**) and (ii) an impact report (**Impact Report**) at least annually until one year following full allocation of the proceeds of the relevant Tranche of such Notes.

The allocation report will include a detailed breakdown of proceeds allocated to each of the Eligible Expenditures from the Latvian State budget and the balance of unallocated proceeds at the end of the reporting period (if any).

The Impact Report will provide detailed information on the associated environmental impact metrics and outcomes of the Eligible Expenditures, subject to the availability of suitable information and data, as further described in the Sustainability Bond Framework.

The Republic has obtained an independent second party opinion from ISS ESG on the Sustainability Bond Framework the **Second Party Opinion**), commenting on:

- the consistency on the use of proceeds of the Green Notes, Social Notes or Sustainability Notes with the Republic's sustainability strategy;
- the alignment of the Sustainability Bond Framework with the Green Bond Principles 2021, Social Bond Principles 2021 and Sustainability Bond Guidelines 2021, as administered by ICMA; and
- the sustainability quality of the issuance of Green Notes, Social Notes or Sustainability Notes and the contribution to the Sustainable Development Goals defined by the United Nations.

This Second Party Opinion is published on the Republic's website at https://www.kase.gov.lv/en/debt-management/securities-in-international-capital-markets/sustainable-bond-framework.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of the Second Party Opinion and in particular, as to whether any Eligible Expenditures fulfil any environmental, green, social or sustainability criteria. The Second Party Opinion is not a recommendation to buy, sell or hold the Notes.

In addition, the Republic intends to engage an independent third party to provide assurance on the Allocation Reports, confirming that an amount equal to the net proceeds of the relevant Green Notes, Social Notes or Sustainability Notes have been allocated in compliance with the criteria and objectives of the Sustainability Bond Framework.

Neither the Sustainability Bond Framework, Second Party Opinion nor any of the above reports or contents of any of the above websites are incorporated in or form part of this Offering Circular.

Prospective Investors in any Green Notes, Social Notes or Sustainability Notes should also refer to "*Risk Factors - Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme - Risks related to the structure of a particular issue of Notes - The application of an amount equal to the net proceeds of Green Notes, Social Notes or Sustainability Notes as described in "Use of Proceeds" may not meet investor expectations or be suitable for an investor's investment criteria"*."

General Information

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

SUPPLEMENT DATED 20 MAY 2024 TO THE OFFERING CIRCULAR DATED 7 JUNE 2013

REPUBLIC OF LATVIA, ACTING THROUGH THE TREASURY

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Offering Circular dated 7 June 2013 as supplemented by the supplements dated 10 January 2014, 31 May 2017, 22 May 2018, 11 February 2019, 26 March 2020, 8 October 2020, 9 March 2021 and 1 December 2021 (as so supplemented, the **Offering Circular**) is prepared in connection with the Global Medium Term Note Programme (the **Programme**) established by Republic of Latvia, acting through the Treasury (the **Issuer**).

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

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

PURPOSE OF THE SUPPLEMENT

The purpose of this Supplement is to update the sub-section headed (i) "*United States Federal Income Tax Considerations*" under the "*Taxation*" section and (ii) "*Authorisation*" under the "*General Information*" section of the Offering Circular.

AMENDMENTS TO THE OFFERING CIRCULAR

By virtue of this Supplement, the following amendments shall be made to the Offering Circular:

Taxation

The sub-section headed "*United States Federal Income Tax Considerations*" on pages 65 to 73 in the section entitled "*Taxation*" of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**United States Federal Income Tax Considerations**

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders (as defined below) acquiring, holding and disposing of Notes. This summary addresses only the U.S. federal income tax considerations for initial purchasers of Notes at their issue price (as defined below) that will hold the Notes as capital assets (generally, property held for investment). This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the **Code**), final, temporary and proposed U.S. Treasury regulations, and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect.

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

For the purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source or (iv) a trust that is subject to U.S. tax on its worldwide income regardless of its source. A "**Non-U.S. Holder**" is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership.

If a partnership (or any other entity or arrangement treated as fiscally transparent for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisers as to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Notes.

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

Payments of Interest

General

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

Foreign Currency Denominated Interest

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

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

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

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

Original Issue Discount

General

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

A Note, other than a Note with a term of one year or less (a **Short-Term Note**), will be treated as issued with OID (a **Discount Note**) if the excess of the Note's "stated redemption price at maturity" over its issue price is at least a de minimis amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an **instalment obligation**) will generally be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25% of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the "**issue price**" of a Note under the applicable Pricing Supplement will be the first price at which a substantial amount of such Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The "**stated redemption price at maturity**" of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest". A "**qualified stated interest**" payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "Variable Interest Rate Notes"), applied to the outstanding principal amount of the

Note. Solely for the purpose of determining whether a Note has OID, the Republic will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. If a Note has de minimis OID, a U.S. Holder must include the de minimis amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under "—Election to Treat All Interest as Original Issue Discount". A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's de minimis OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

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

Acquisition Premium

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

Market Discount

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

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

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

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium”, in which case the amount required to be included in the U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year. Special rules may limit the amount of bond premium that can be amortised during certain accrual periods in the case of Notes that are subject to optional redemption. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a capital loss when the Note matures.

Election to Treat All Interest as Original Issue Discount

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

Variable Interest Rate Notes

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

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

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

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

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

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

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

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

Short-Term Notes

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

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

Foreign Currency Notes

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

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

Sale or Other Disposition of Notes

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

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

Gain or loss recognized by a U.S. Holder on the sale or other disposition of a Note that is attributable to changes in exchange rates (generally measured based on the difference in the U.S. Dollar value of the purchase price of the Notes between the time they were acquired and their disposition) will be treated as U.S. source ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction.

Disposition of Foreign Currency

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

Non-U.S. Holders

A Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Notes and gain from the sale, redemption or other disposition of the Notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the U.S. (and, if a treaty applies, such payment is attributable to the conduct of a trade or business through a permanent establishment or fixed base in the United States); or (ii) in the case of any gain realised on the sale or other disposition of a Note by an individual Non-U.S. Holder, that Holder is present in the U.S. for 183 days or more in the taxable year of the sale or other disposition and certain other conditions are met.

Backup Withholding and Information Reporting

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

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

Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding.

Disclosure Requirements

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

Authorisation

The sub-section headed "*Authorisation*" on page 79 in the section entitled "*General Information*" of the Offering Circular shall be deleted in its entirety and replaced with the following:

"**Authorisation**

Under the Law on Budget and Financial Management adopted on 24 March 1994, the Regulations of the Treasury of the Republic of Latvia No. 677 issued by the Cabinet of Ministers on 3 August 2004 and the Order of Ministry of Finance of the Republic of Latvia No.317 dated 21 August 2020 "On Authorisation to the Treasury and the Signatory Authority", the Treasury, on behalf of the Republic of Latvia, is entitled to borrow money, provided that such borrowing is in line with the Central Government Debt and Cash Management Strategy and the Funding Plan approved by the Minister of Finance. In addition, each Law on the State Budget for the Current Year and on the Medium-term Budget Framework sets a total debt ceiling which must not be exceeded at 31 December of the year to which the relevant Law on the State Budget for the Current Year and on the Medium-term Budget Framework applies. The Minister of Finance will confirm in relation to each issue of Notes under the Programme that such issue will not breach the Law on the State Budget for the Current Year and on the Medium-term Budget Framework for the respective year and the Law on Budget and Financial Management and conforms with the Central Government Debt and Cash Management Strategy and the Funding Plan approved by the Minister of Finance."

General Information

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