Rating Object	Rating Information	
REPUBLIC OF LATVIA	Assigned Ratings/Outlook: **A /stable**	Type: Monitoring, Unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	26-08-2016 10-05-2024 "Sovereign Ratings" "Rating Criteria and Definitions"

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Rating Action

Neuss, 10 May 2024

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "A" for the Republic of Latvia. Creditreform Rating has also affirmed Latvia's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "A". The outlook is stable.

Key Rating Drivers

1. While downside risks linked to the geopolitical situation persist, Latvia's energy supply diversification and measures to enhance energy security have proceeded well; after last year's recessionary phase, we expect the Latvian economy to experience a moderate rebound this year, followed by more vivid expansion in 2025, likely supported by the easing of monetary policy

2. With a timely absorption of EU funds remaining key, medium-term growth prospects are buttressed by the further roll-out of reforms and investments under the Recovery and Resilience Plan (RRP), which should enable resuming income convergence towards the EU level; continued strong wage growth may adversely affect cost competitiveness at some point, and unfavorable demographics and skill shortages pose challenges

3. Favorable institutional set-up, flanked by benefits from EU/EMU and NATO membership; advancing AML/CFT and cyber security frameworks add to Latvia's overall generally strong institutional quality; notwithstanding ongoing challenges in terms of government stability, we expect coherent policymaking based on broad consensus over security and structural reform priorities

4. Fiscal risks remain limited on the back of a relatively moderate debt-to-GDP ratio, a track record of fiscal discipline, and still high, albeit deteriorating, debt affordability; with expected deficits in the general government balance this year and next, we assume the public debt ratio to move higher, but nevertheless leave substantial fiscal leeway to react to external shocks

5. Vulnerabilities arising from Latvia's status as a small and open economy are partly balanced by the expected ongoing inflow of EU funds and foreign direct investment; current account deficits expected to persist, but to moderate from recent crisis-distorted levels

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

The sovereign's generally solid macroeconomic profile is backed by a higher degree of diversification over recent years, adding to economic resilience. Given its small size and high degree of openness, Latvia's macro-financial variables are subject to volatility. Income convergence towards EU levels has stalled amid successive shocks, but should gain traction in the medium term, aided by the absorption of EU funds. While we assess medium-term perspectives as generally positive, cost competitiveness remains to be monitored in light of buoyant wage growth, and potential growth could be somewhat constrained by lackluster credit growth and unfavorable demographics. Vulnerabilities related to energy market disruptions have diminished considerably, thanks to the authorities' determined action to diversify energy supply. Moreover, a low level of indebtedness in the private sector increases the capacity to absorb shocks.

Latvia's economy has weathered the recent succession of shocks relatively well, but slipped into a recession in 2023, shrinking by 0.3% in 2023. The contraction in real GDP was due to negative contributions in private consumption and net exports, reflecting high consumer price inflation, adverse effects from the high interest rate environment, and weak external demand. Public consumption and gross fixed capital formation added positively to growth last year. On a q-o-q basis, real GDP resumed growth in the final quarter of last year, expanding by 0.4%, fueled mainly by fixed investment and private consumption. As a side note, national accounts data dating back to 2018 have been subject to a large-scale revision.

Drawing on preliminary data, GDP recorded a 0.8% q-o-q expansion in the first quarter of 2024, mirroring brightening sentiment in particular in the service sector, as well as, to some extent, regarding export expectations. Looking ahead, more moderate inflation rates and buoyant wage growth should result in higher disposable income and encourage households to adjust their spending behavior accordingly, additionally aided by a tight labor market.

After averaging 9.1% in 2023 (EA: 5.4%), inflation has come down markedly over recent months due to sizeable base effects and further declining energy prices. As of Mar-24, the HICP rate stood at 1.0% (EA: 2.4%), whereas core inflation (excluding energy, food, alcohol and tobacco) remained at a higher level of 3.8% (EA: 2.9%). Although wages may not continue to increase as strongly as last year (11.9% in 2023, Central Statistical Bureau of Latvia), pay rises look set to be substantial again, likely boosting real wages. In this context, it is also worth noting that the monthly minimum wage rose from EUR 620 to EUR 700 with effect from 2024.

Latvia's unemployment rate remained on a downward path in 2023. Averaging 6.5% (LFS-adj., 2022: 6.9%), the rate was roughly in line with the euro area level. However, weak economic activity in 2023 has translated into slowing employment growth. Posting at 0.1% in 2023, it nearly came to a standstill, comparing unfavorably to the euro area as a whole and to the other Baltic States. With regard to structural labor market developments, we point out that labor participation (2023: 76.6%, Eurostat) has not yet reached its pre-pandemic level, but continues to exceed the euro area level.

[1] This rating update takes into account information available until 07 May 2024.

We believe that the boost to investment from the implementation of RRP measures and the multi-year project Rail Baltica will continue to offset, to some extent, the still adverse impact from high interest rates on investment. Given our expectations for monetary policy rate cuts by the ECB in the further course of the year, prospects for investment to gain some traction next year are improving. While Latvia's partly sluggish absorption of EU funds in the past highlights some uncertainty around our expectations, the European Commission (EC) endorsed Latvia's modified RRP in Dec-23. Respective pre-financing (EUR 26.9mn) was disbursed in Jan-24. The amended plan comprises a volume of EUR 1.97bn in grants and now contains a REPowerEU chapter. Moreover, in between the approval of the updated plan and the disbursement of the pre-financing, Latvia submitted a second payment request under the RRF worth EUR 335.7mn in grants, underscoring that headway is being made in tapping available funds. In addition, Latvia can access EU funds to the tune of EUR 4.4bn under the 2021-2027 multiannual financial framework.

With positive effects from the expected shift in monetary policy taking time to come through, we anticipate net external trade to pose a small drag on real GDP growth this year, as demand from main trading partners has yet to recover from the recent external shocks, likely limiting export impulses in the current year. A tangible positive effect from net exports is thus more likely to be felt in 2025. On the whole, we tentatively pencil in real GDP growth of 1.9% in 2024 and 2.8% in 2025. Uncertainty around these forecasts remains considerable, primarily against the backdrop of the ongoing geopolitical tensions.

We note that, amid the challenging economic environment over recent years, Latvia's income convergence process towards EU levels has more or less stalled, with GDP per capita estimated to be at USD 40,003 last year, or 70% of the weighted EU average in 2023 (IMF data, PPP terms). That said, this is still above its pre-pandemic level in 2019 (68% of the EU average). While we are generally confident that convergence will resume and gain some momentum over the medium term, latest developments seem to emphasize the key role of timely absorption of EU funds along with the related implementation of measures to foster productivity and, ultimately, potential growth.

Whilst low debt levels in the private sector offer some shock-absorbing capacity, access to finance for SMEs still constitutes a challenge on the credit supply side. This compounds currently adverse cyclical effects from tight lending conditions, reflected in slowing, or even declining, lending to non-financial corporates (NFCs) during the last year. In 2022, the gap toward the Baltic peers remained pronounced when it came to businesses' gross domestic spending on R&D.

Given the predicted decline in Latvia's population in the medium-to-longer term, labor supply shortages could pose a drag on potential growth. With regard to 2024 and 2025, potential growth is estimated to move at 2.1% in 2024 and 2.2% in 2025, exceeding Latvia's long-term average of 1.1% p.a. over 2010-2019 (AMECO data). Latest net migration trends point to a slowdown, and in the case of 2022, even to a positive net migration balance. However, a large number of refugees from Ukraine seems to have been the main reason for the positive migration balance, underscoring uncertainty over sustainable positive effects to Latvia's labor market.

Focusing on developments concerning Latvia's cost competitiveness, we note that significant wage growth outpaced the likewise considerable rise in real labor productivity per person over 2013-2022, resulting in a sharp increase in real unit labor costs. In 2023, real labor productivity per person fell slightly y-o-y, but still compared favorably against the sovereign's main trading partners and the euro area as a whole. While the somewhat unfavorable trend in real unit labor

costs has so far not been reflected in a declining global export market share of Latvia's goods and services, we continue to flag that sustained higher wage growth compared to productivity poses the risk of affecting Latvia's cost competitiveness and structurally weigh on export growth. At the same time, it has to be acknowledged that competitive wages remain an important catalyst for attracting and retaining talent to address skill shortages.

Qualitative indicators on the business environment and metrics gauging competitiveness from a non-cost perspective suggest that Latvia has room for improvement. Following a decline in its performance in 'Business Efficiency' (down 20 places) and 'Government Efficiency' (down 11 places), Latvia slipped by 16 positions to rank 51 (out of 64 economies) in the 2023 IMD World Competitiveness Ranking.

On a more positive note, Latvia improved its performance regarding the World Intellectual Property Organization's Global Innovation Index, being ranked 37th (out of 132 countries) in 2023. With this, it continues to move in the lower half among EU members concerning this indicator. While classified as an emerging innovator by the European Commission in its European Innovation Scoreboard 2023, e-government services are more widely used than in the EU on average, illustrating that the digitalization of public services is well on track.

Meanwhile, Latvia has made significant progress in diversifying its energy supply away from Russia. In particular, gas is now supplied via a floating LNG terminal in the port of Klaipeda and a pipeline between Poland and Lithuania known as the Gas Interconnection Poland-Lithuania (GIPL). Moreover, with the large underground gas storage facility Inčukalns, Latvia's energy security seems significantly strengthened.

While the Inkoo LNG terminal in Finland represents a further option to secure its energy supply, Latvia and Estonia signed a memorandum of understanding in May-23 over close cooperation in the event of gas supply disruptions, which should, in our view, strengthen the ability of the countries to respond swiftly if such an event should occur. Together with its Baltic neighbors, Latvia also signed a declaration in Aug-23 over the synchronization of electricity grids to Western Europe by Feb-2025, marking another step towards energy independence from Russia.

Institutional Structure

We continue to consider the sovereign's credit rating to be buttressed by its favorable institutional setup, which includes the advantages associated with EU/EMU and NATO membership. The latter counterbalances, to some extent, risks related to Latvia's shared borders with Russia and Belarus. Despite a volatile domestic political backdrop, we expect broad consensus over security priorities, as well as commitment to the implementation of RRP measures. We assess efforts made with regard to the strengthening of the anti-corruption and AML/CFT framework, as well as concrete steps to address cyber security risks, as positive.

The latest set of the World Bank's Worldwide Governance Indicators (WGIs), our preferred gauge for assessing a sovereign's institutional quality, confirms Latvia's generally strong institutional framework. Referring to the base year 2022, Latvia's relative rank in terms of 'Voice and Accountability' has seen a second consecutive improvement. Despite slipping somewhat regarding the three WGIs 'Government Effectiveness', 'Rule of Law' and 'Control of Corruption', Latvia's performance remains broadly in line with the respective median rank of our A-rated sovereigns.

Following souring relations between the coalition parties, Prime Minister Kariņš (New Unity) resigned in Aug-23, and a new coalition was formed in Sep-23 consisting of New Unity, the Union of Greens and Farmers, and The Progressives, with Evika Siliņa of the New Unity party taking over as Prime Minister. While these developments add to the impression of domestic political volatility in recent years, we think that defense and security will remain top political priorities alongside further advancements of structural reforms including health and education.

As noted in the EC Rule of Law report (Jul-23), the Latvian judiciary performs efficiently. According to the 2023 EU Justice Scoreboard, the length of court proceedings and the number of pending cases in 2021 was among the EU's lowest. As part of enhancing the quality and the level of digitalization of the justice system, the functionality of the e-Case Management system has been improved, and work is underway to implement an online dispute resolution system. With a view to Latvia's anti-corruption framework, the new Corruption Prevention and Combating Action Plan 2023-2025 has been adopted after some delay. We understand that an update of the National Risk Assessment on money laundering and terrorist financing is being prepared, demonstrating authorities' commitment to further improving Latvia's AML/CFT framework.

In a bid to address rising risks around cyber security, the Latvian government approved the 'Latvian cyber security strategy 2023-2026' in March 2024 and agreed on a draft 'National Cyber Security Law', to provide guidelines and establish a National Cyber Security Center as a main point of contact on cyber security issues. Among other stipulations, essential and critical service providers are to register by 1 April 2025.

Turning to greening the economy, Latvia remains one of the EU's frontrunners concerning the generation of energy from renewable sources, with the corresponding share increasing slightly to 43.3% in 2022 (EU: 23.0%, Eurostat data). Initiatives such as the Estonia-Latvian joint offshore wind farm project ELWIND and the joint onshore project 'Latvian wind parks' between Latvenergo and Latvijas valsts meži look set to further enhance the capacity of renewable energy production in the medium term. By European comparison, Latvia exhibited a relatively low amount of greenhouse gas emissions per capita, posting at 5.6 tons in 2022 (EU: 7.8 tons per capita). At the same time, we note that Latvia's eco-innovation performance was below the EU average in 2022, according to the respective EC indicator, hinting at some scope to catch up in this regard.

Fiscal Sustainability

Our credit assessment is underpinned by relatively low risks to fiscal sustainability, with ample room for maneuver to respond to external shocks, given that Latvia displays one of the EU's lowest public debt ratios and benefits from substantial EU funding. With spending priorities regarding security, education and health likely to cause the general government balance to show deficits this year and next, we expect the debt-to-GDP ratio to edge up, although at a comparatively moderate level. Despite increased interest costs, public debt remains affordable, and a track record of fiscal prudence lends credibility to the authorities' commitment to fiscal consolidation. We will closely monitor any progress related to strengthening cyber resilience and curbing the shadow economy.

Based on the latest update of government financial statistics, Latvia's general government deficit has more than halved over the past year, to 2.2% of GDP in 2023 (Eurostat), a more favorable outcome than we had projected in our last review (-3.5% of GDP, May-23). Although this represents the second consecutive improvement in the fiscal balance, the current level still reflects

the adverse repercussions from the successive shocks of the last few years, as it compares with an average deficit of -0.9% of GDP p.a. over the period 2012-2019.

The higher outturn in total general government revenue in 2023 (+12.3% vis-à-vis 2022) was partly driven by a broad-based increase in net social contributions and current taxes on income and wealth, and additionally boosted by dividend payments by state-owned companies. Higher public wages added to the overall increase in total general government outlays (+5.2% in 2023), noting that spending growth was slowed by a considerable decline in subsidies (-15.9%) following the phasing out of various support measures.

Drawing on the Stability Program 2024-2028 published in Apr-24 (SP24), the budgetary impact of the pandemic decreased to EUR 77mn in 2023 (2022: EUR 966mn), whilst the amount of support related to energy totaled EUR 454mn (2022: EUR 604mn). Combined with the expenditure for Ukraine (EUR 68mn in 2023), the support measures account for an aggregate 1.5% of GDP in 2023, down from 4.3% of GDP in 2022. Government spending on these three blocks is envisaged to be reduced further this year to 0.4% of our estimated 2024 GDP. However, structural expenditure, with a main focus on security/defense, health care and education, is set to drive total general government outlays in the medium term.

According to the Draft Budgetary Plan 2024 (DBP24), the allocated funding to these prioritized areas amounts to EUR 486.2mn in 2024 (or 1.2% of our estimated 2024 GDP). Moreover, salary increases in the public sector are set to weigh on government expenditure. Revenue-increasing measures envisaged in the DBP24 include an amendment to the corporate income tax law imposing a surcharge of 20% on profits made by credit institutions and consumer lending service providers, increases of several excise duties, spillover effects from higher public wages, and dividend payments from state joint-stock companies. Over the medium term, defense spending is to be stepped up gradually to 3.7% of GDP in 2027-2028 (SP24).

Overall, we expect general government deficits to prevail in the near term. More specifically, we project the headline deficit to post at 2.7% of GDP in 2024 and to moderate to about 2.1% of GDP in 2025. Focusing on further structural aspects regarding the revenue side, we note that Latvia's VAT compliance gap as a percent of the VTTL was reduced by 1.7 p.p. to 7.3% in 2021 and is forecast to have decreased further in 2022 (4.0%), as outlined in the EC's VAT gap report 2023. While this would illustrate the continuation of a positive trend, recent estimates of the size of the shadow economy in Latvia suggest that it remained the most pronounced among the Baltics (2022: 26.5% of GDP, Stockholm School of Economics). That said, efforts to tackle this issue remain underway, with the Shadow Economy Curtailment Plan for 2024-2027 (Ministry of Finance), e.g., proposing to introduce B2B electronic invoicing by the end of 2025.

Latvia's general government debt-to-GDP ratio rose to 43.6% of GDP in 2023 from 41.8% of GDP in 2022, partly on the back of lower nominal GDP, remaining above its pre-pandemic level (2019: 36.7% of GDP). However, the debt level remains one of the lowest in the euro area, with the average public debt ratio of the euro area more than twice as high as Latvia's (EA: 88.6% of GDP). We expect that the debt-to-GDP ratio will rise to 44.7% of GDP in 2024, and further to 45.0% of GDP in 2025.

Contingent liability risks remain rather limited, with public guarantees amounting to 1.4% of GDP in 2023 (SP24). In this context, we are aware that the state joint stock company airBaltic successfully issued bonds of EUR 340mn this May, which will be used to refinance a Eurobond

of EUR 200mn (0.5% of our estimated 2024 GDP). Meanwhile, the Rail Baltica project seems to be consuming more resources than originally anticipated.

Having proved resilient to the recent series of shocks, Latvia's predominantly foreign-owned banking sector remains healthy, as indicated by relevant metrics gauging asset quality, capitalization and profitability. As a case in point, the NPL ratio edged down further to 0.4% in Q4-23, representing the EU's second-lowest level (EBA data). Notwithstanding a noticeable decrease in the CET1 ratio, Latvian banks remain well capitalized, with the respective ratio standing at 20.4% in Q4-23 (EU: 16.0%). Rising interest rates have left their mark on the profitability of banks, and recent stress tests seem to confirm the resilience of Latvian financial institutions to shocks, although we would reiterate the presence of some concentration risk. While the banking sector's exposure to Russia and Belarus was limited (Nov-23, Bank of Latvia), cyber attacks remain a risk to the stability of the financial system.

Recent credit developments reflect markedly curbed dynamics due to tighter capital market financing conditions. Meanwhile, following the decision by the Bank of Latvia to pursue a 'positive neutral' approach, macroprudential measures have been activated, with the CCyB to be lifted to 0.5% in Dec-24 and further to 1.0% in Jun-25. We expect the ECB to start lowering its monetary policy rates in June, and the main refinancing rate to stand at 3.40% by year-end, taking into account that the difference between the rate of the main refinancing operations and the deposit facility rate will be reduced from currently 50 bp to 15 bp from Sep-24.

Foreign Exposure

The sovereign's creditworthiness remains to some degree adversely affected by risks to foreign exposure. Apart from displaying repeated current account deficits and a negative NIIP, the country's small size and significant degree of openness imply increased vulnerability to disruptions in trade flows, as seen in recent years. Geopolitical events and the related shift in energy markets corroborate this view. While we expect current account deficits to persist, we think that incoming EU funds and net incoming foreign direct investment will contribute to keeping external risks contained.

Concluding 2023 with a deficit of -4.0% of GDP, Latvia's current account balance improved slightly compared to 2022 (-4.8% of GDP) on the back of a narrowing goods deficit and an increase in the secondary income balance. Looking ahead, the current account deficit should slightly decrease amid an accelerated economic pace among main trading partners. Geopolitical tensions and possible renewed spikes to energy prices continue to pose risks.

Latvia's position as a net external debtor did not change considerably in 2023, with the NIIP standing at -24.6% of GDP in 2023 (2022: -26.8% of GDP). Inflows of foreign direct investment (FDI) maintained their upward trajectory, resulting in a slightly more negative net position, attenuating external risks. Additional incoming EU funds are set to flank this going forward.

Rating Outlook and Sensitivity

Our rating outlook on the Republic of Latvia's long-term credit ratings is stable. This reflects our view that downside risks to the macroeconomic outlook and foreign exposure are largely balanced by fiscal space to address ongoing challenges posed by geopolitical events, whilst enjoying benefits linked to being fully embedded in European institutions and the Western defense alliance.

We could lower the sovereign's outlook or rating if the medium-term growth outlook deteriorates markedly, translating into a reversal of the convergence process and weighing on public finances. Downward pressure on the rating or the outlook could also arise from substantial delays in the implementation of RRP measures, which could prevent any improvements to or worsen productivity and potential growth. Further escalation of the wars in Ukraine and the Middle East could also warrant a negative rating action.

Conversely, a positive rating action could be prompted by continued limited fallout from geopolitical tensions and strong economic growth performance, possibly induced by faster-than-expected RRP execution and EU fund absorption, with tangible positive effects to underlying growth and a quick resumption of the convergence process. A substantial reduction in the debt-to-GDP ratio could also cause us to consider raising the rating or the outlook.

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Ratings*

Long-term sovereign rating	A /stable
Foreign currency senior unsecured long-term debt	A /stable
Local currency senior unsecured long-term debt	A /stable

*) Unsolicited

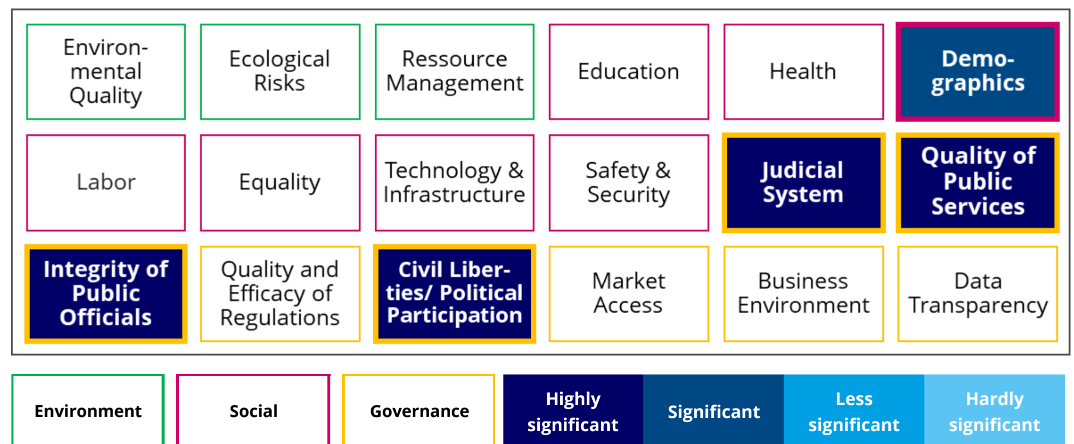
ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box



The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Indicators or projections providing insight into likely demographic developments and related cost represent a social component affecting our rating or adjustments thereof. We

regard the ESG factor 'Demographics' as significant since it has a bearing on the economy's potential growth.

While Covid-19 may exert adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2018	2019	2020	2021	2022	2023e	2024e
Macroeconomic Performance							
Real GDP growth	4.0	0.6	-3.5	6.7	3.0	-0.3	1.9
GDP per capita (PPP, USD)	30,639	31,572	31,064	34,940	38,863	40,002	41,730
Credit to the private sector/GDP	40.7	38.3	37.3	37.3	35.0	33.8	n/a
Unemployment rate	7.4	6.3	8.1	7.6	6.9	6.5	n/a
Real unit labor costs (index 2015=100)	106.3	109.2	112.9	107.8	106.7	110.2	110.6
World Competitiveness Ranking (rank)	40	40	41	38	35	51	n/a
Life expectancy at birth (years)	75.1	75.7	75.7	73.1	74.5	75.9	n/a
Institutional Structure							
WGI Rule of Law (score)	0.9	1.0	0.9	1.0	0.9	n/a	n/a
WGI Control of Corruption (score)	0.3	0.5	0.7	0.7	0.7	n/a	n/a
WGI Voice and Accountability (score)	0.8	0.9	0.9	0.9	0.9	n/a	n/a
WGI Government Effectiveness (score)	1.0	1.1	0.8	0.8	0.7	n/a	n/a
HICP inflation rate, y-o-y change	2.6	2.7	0.1	3.2	17.2	9.1	1.8
GHG emissions (tons of CO_2 equivalent p.c.)	6.1	6.1	5.6	5.8	5.6	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP	-0.7	-0.5	-4.4	-7.2	-4.6	-2.2	-2.7
General government gross debt/GDP	37.0	36.7	42.7	44.4	41.8	43.6	44.7
Interest/revenue	1.9	1.8	1.7	1.3	1.2	1.6	n/a
Debt/revenue	96.0	96.8	112.3	118.5	115.2	112.5	n/a
Total residual maturity of debt securities (years)	8.4	9.9	8.8	8.9	7.6	7.2	n/a
Foreign exposure							
Current account balance/GDP	-0.2	-0.6	2.9	-3.9	-4.8	-4.0	n/a
International reserves/imports	22.2	23.6	28.7	22.5	15.1	18.2	n/a
NIIP/GDP	-45.1	-40.1	-34.0	-27.3	-26.8	-24.6	n/a
External debt/GDP	123.3	117.1	122.1	110.5	102.3	98.5	n/a

Sources: IMF, World Bank, IMD, Eurostat, AMECO, ECB, Central Statistical Bureau of Latvia, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	26.08.2016	A /stable
Monitoring	18.08.2017	A /stable
Monitoring	29.06.2018	A /stable
Monitoring	03.07.2019	A /stable
Monitoring	26.06.2020	A /stable
Monitoring	11.06.2021	A /stable
Monitoring	10.06.2022	A/ stable
Monitoring	12.05.2023	A /stable
Monitoring	10.05.2024	A /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Ministry of Finance and Bank of Latvia participated in the credit rating process as they provided additional information and commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of the Ministry of Finance and the Bank of Latvia during their review. However, the rating outcome as well as the related outlook remained unchanged.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models, and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, World Intellectual Property Organization (WIPO), IMD Business School, Central Statistical Bureau of Latvia, Central Bank of Latvia, Republic of Latvia - Ministry of Finance, Ministry of Economic, Fiscal Discipline Council, GRECO, Moneyval, Stockholm School of Economics.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main

arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision."

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website.

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