

# Republic of Latvia

## Rating report

### Rating rationale

**Sound institutions:** Latvia's effective policymaking is anchored by its euro area membership, which ensures a robust framework for fiscal and economic policy. Its EU and NATO memberships strongly mitigate external security risks in the present context of the heightened geopolitical tensions.

**Strong economic fundamentals despite Russia-Ukraine war:** After contracting by 0.3% in 2023, we forecast the Latvian economy to expand by 1.6% in 2024 and 2.2% in 2025. This recovery should be supported by a gradual rebound in private consumption amid decelerating inflation and robust wage growth, and by strong public investment. The medium-term growth potential remains robust, at an estimated 2.5% annually, underpinned by favourable investment dynamics and continued productivity gains.

**Solid fiscal position:** The shocks related to Covid-19 and the war in Ukraine have resulted in a deterioration in fiscal metrics since 2020. We expect the fiscal deficit to widen to 2.8% in 2024, before gradually narrowing to about 2.0% over subsequent years. Public debt is set to remain stable at around 44% of GDP over a forecast horizon ending in 2029, thus remaining at one of lowest levels in the euro area.

**Rating challenges:** i) moderate income levels and exposure to external shocks, given the Latvian economy's small size and openness; and ii) unfavourable demographic trends, persistent labour shortages and long-term fiscal pressures.

**Figure 1: Latvia's sovereign-rating drivers**

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	bbb	EUR	Latvia	0	A-
Public finance risk	20%	aa			0	
External economic risk	10%	ccc			0	
Financial stability risk	10%	aaa			0	
ESG risk	Environmental factors	5%	[+1]	[-0]	0	
	Social factors	7.5%			- 1/3	
	Governance factors	12.5%	aa			
<b>Sovereign Quantitative Model</b>			<b>a</b>		<b>-1</b>	
<b>Additional considerations</b>					<b>0</b>	

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket. \*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index. \*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Foreign currency

Long-term issuer rating/Outlook

A-/Stable

Senior unsecured debt

A-/Stable

Short-term issuer rating/Outlook

S-1/Stable

### Local currency

Long-term issuer rating/Outlook

A-/Stable

Senior unsecured debt

A-/Stable

Short-term issuer rating/Outlook

S-1/Stable

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### Credit strengths and challenges

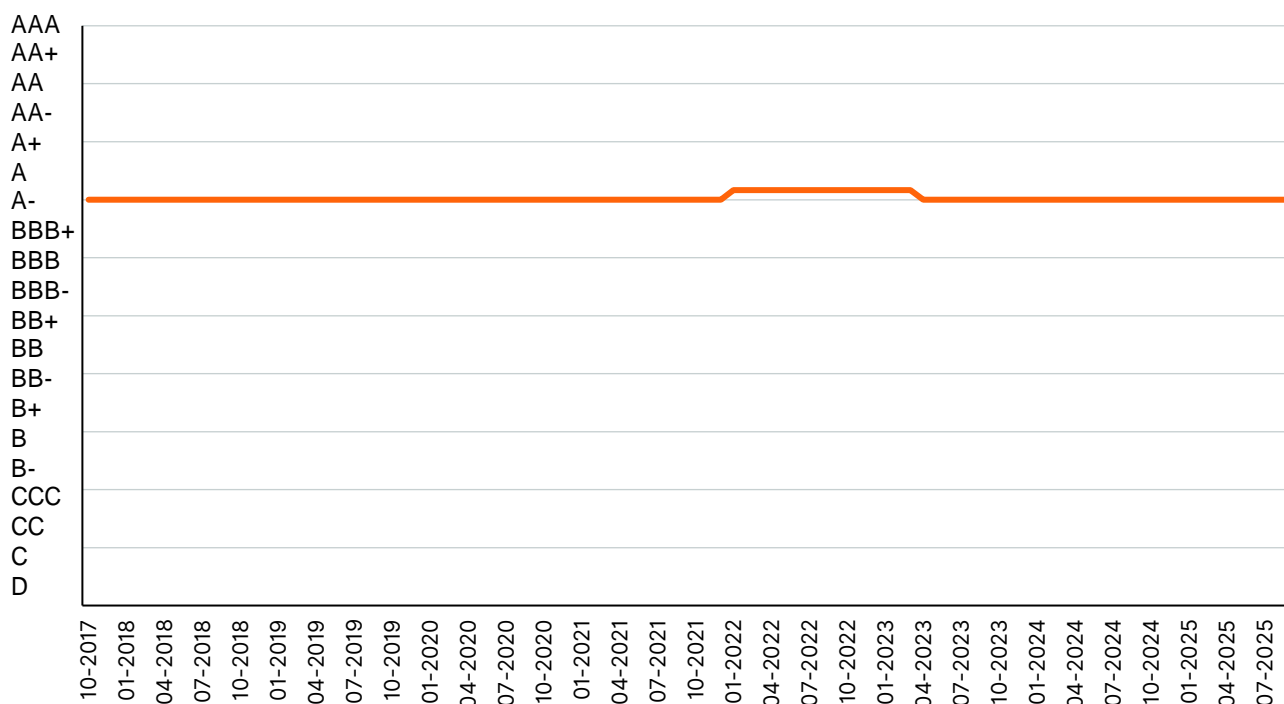
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>• Sound institutional setup, underpinned by memberships in the euro area and NATO</li> <li>• Solid economic growth prospects</li> <li>• Moderate public debt</li> </ul>	<ul style="list-style-type: none"> <li>• Exposure to external economic and financial shocks</li> <li>• Adverse demographic trends</li> </ul>

### Outlook and rating triggers

The Positive Outlook reflects Scope's view that risks to the ratings are tilted to the upside.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>• Solid economic growth and income convergence continuing through structural reform and investment</li> <li>• Debt-to-GDP remaining anchored to moderate levels thanks to broadly balanced government finances</li> <li>• External and/or financial vulnerabilities continuing to decline</li> </ul>	<ul style="list-style-type: none"> <li>• Heightened geopolitical risk undermining macroeconomic stability</li> <li>• Deterioration in public debt dynamics</li> <li>• Increasing macroeconomic imbalances, weakening growth prospects</li> <li>• Deterioration in external position and/or re-emergence of financial sector risks</li> </ul>

Figure 2: Rating history<sup>1</sup>



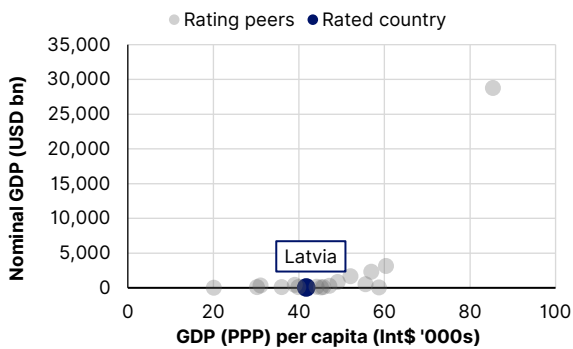
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Latvia's Domestic Economic Risk

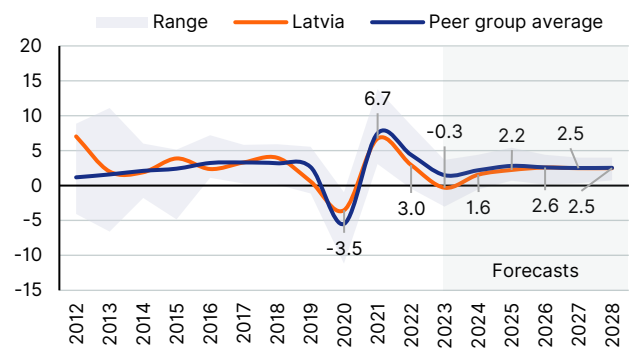
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Neutral	0	Solid economic growth prospects, although constrained by adverse demographics and labour market bottlenecks
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank; effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Neutral	0	Limited economy size and diversification; solid productivity gains and labour market metrics

Figure 3: Nominal GDP and GDP per capita (2024F)



Source: IMF World Economic Outlook (WEO) forecasts, Scope Ratings

Figure 4: Real GDP growth, %



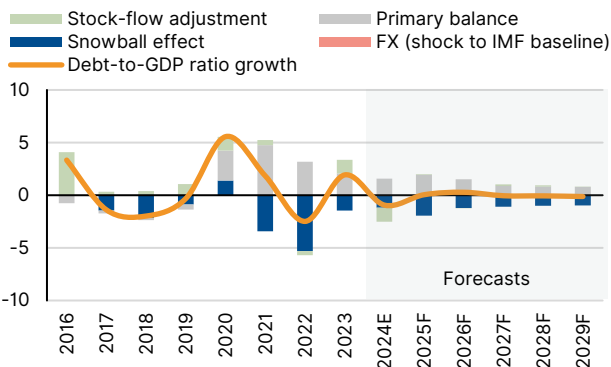
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Latvia's Public Finance Risk

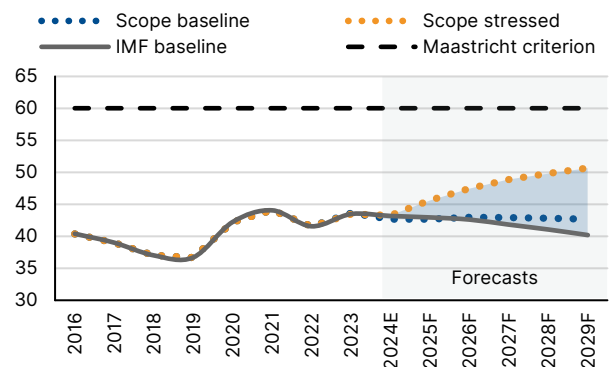
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Record of fiscal prudence, but large shadow economy and comparatively restricted tax base
	Long-term debt trajectory	Neutral	0	Moderate debt levels, expected to remain stable in the medium term
	Debt profile and market access	Neutral	0	Robust debt structure, moderate funding needs, and ability to issue on favourable terms in capital markets

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

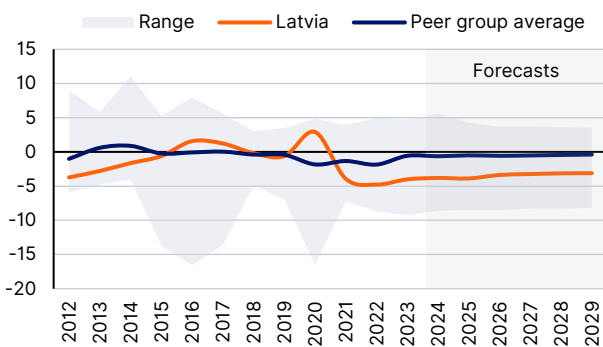
\*Sovereign Quantitative Model.

## External economic risk

### Overview of Scope's assessments of Latvia's External Economic Risk

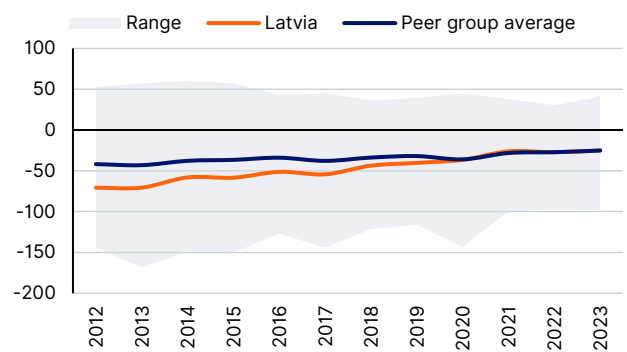
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Neutral	0	Improvements in export diversification but high share of lower value-added exports
	External debt structure	Neutral	0	Elevated, albeit declining, external debt, but limited risks of capital outflows
	Resilience to short-term external shocks	Neutral	0	Very small and open economy; euro-area membership mitigates exposure to international markets

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



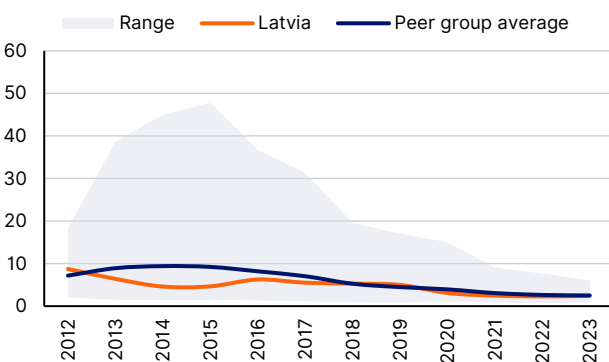
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Latvia's Financial Stability Risk

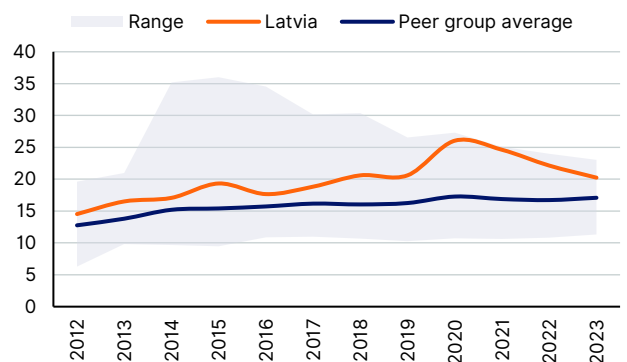
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised and profitable banking sector with moderate non-performing loans
	Financial sector oversight and governance	Neutral	0	Oversight under the Bank of Latvia and the ECB as part of the Banking Union
	Financial imbalances	Neutral	0	Concentration and spillover risks in the banking system from Nordic banking groups, moderate private debt

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



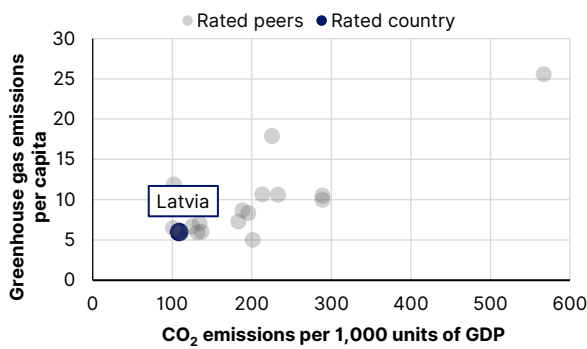
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Latvia's ESG Risk

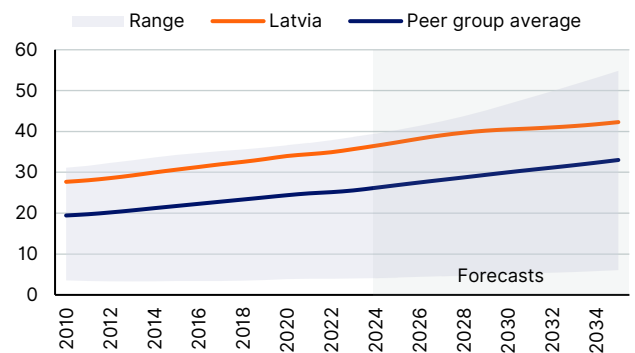
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental factors	Neutral	0	High share of renewables in the energy mix; transition risks in line with peers
	Social factors	Weak	-1/3	Inclusive labour market but still elevated poverty and income inequality; unfavourable demographic trends
	Governance factors	Weak	-1/3	Stable governance, supported by EU, euro area and NATO memberships; heightened geopolitical uncertainty could impact domestic institutional developments

Figure 11: CO<sub>2</sub> emissions per capita/GDP (2022), mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

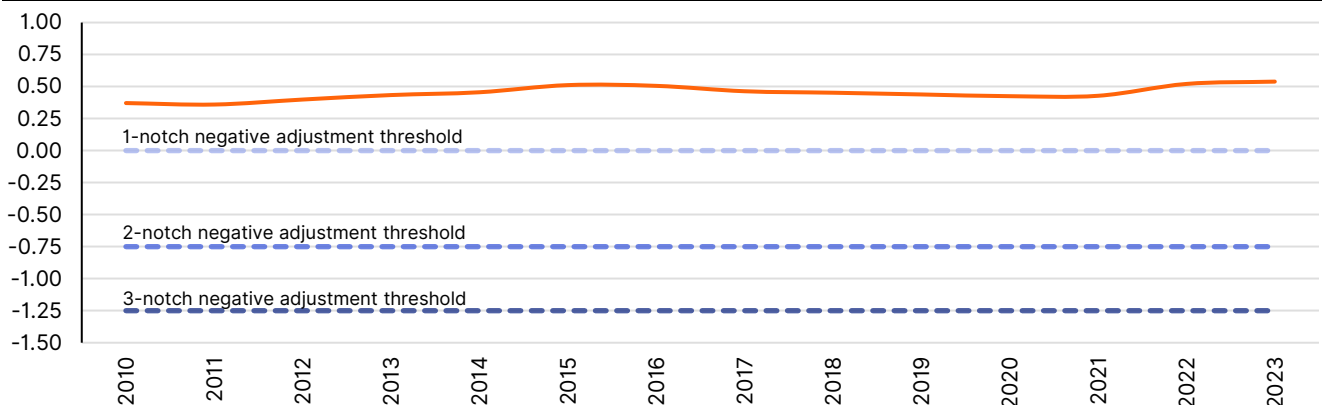
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Latvia, 3-year moving average



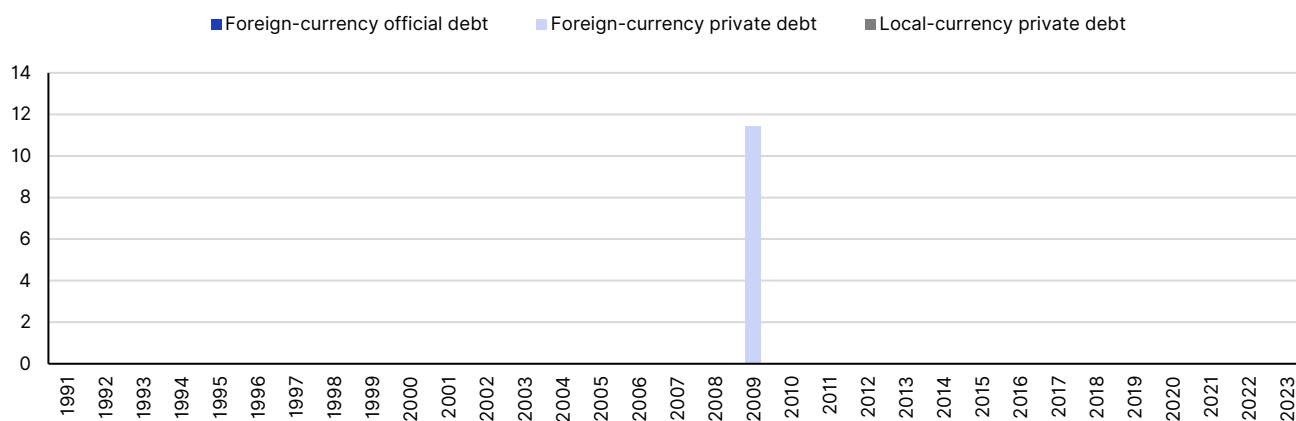
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

### Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
Croatia
Cyprus
Estonia
Poland
Portugal
Slovakia

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 17 September 2024	62.3

## Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope’s quantitative model, in line with Scope’s Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023E
Domestic Economic	<b>GDP per capita (PPP), Int\$ '000s</b>	IMF	30.6	31.6	31.1	34.9	38.9	40.0
	<b>Nominal GDP, USD bn</b>	IMF	34	34	34	39	40	44
	<b>Real growth, %</b>	IMF	4.0	0.6	-3.5	6.7	3.0	-0.3
	<b>CPI inflation, %</b>	IMF	2.6	2.7	0.1	3.2	17.2	9.1
	<b>Unemployment rate, %</b>	WB	7.4	6.3	8.1	7.5	6.8	6.5
Public Finance	<b>Public debt, % of GDP</b>	IMF	37.0	36.7	42.2	44.0	41.5	43.5
	<b>Net interest payments, % of government revenue</b>	IMF	2.5	2.3	2.3	2.0	1.4	1.6
	<b>Primary balance, % of GDP</b>	IMF	0.2	0.5	-2.9	-4.8	-3.2	-2.1
External Economic	<b>Current-account balance, % of GDP</b>	IMF	-0.2	-0.6	2.9	-3.9	-4.8	-4.0
	<b>Total reserves, months of imports</b>	WB	2.2	2.3	2.9	2.3	1.6	1.8
	<b>NIIP, % of GDP</b>	IMF	-43.7	-40.3	-36.5	-26.1	-27.2	-
Financial Stability	<b>NPL ratio, % of total loans</b>	IMF	5.3	5.0	3.1	2.5	2.3	2.4
	<b>Tier 1 ratio, % of risk-weighted assets</b>	IMF	20.1	21.5	24.0	24.1	24.1	21.0
	<b>Credit to the private sector, % of GDP</b>	WB	36.6	34.5	33.7	31.4	29.1	28.0
ESG	<b>CO<sub>2</sub> per EUR 1,000 of GDP, mtCO<sub>2</sub>e</b>	EC	139.5	132.5	124.8	119.7	108.8	-
	<b>Income share of bottom 50%, %</b>	WID	18.0	17.8	18.5	18.6	18.6	-
	<b>Labour-force participation rate, %</b>	WB	78.3	78.0	79.0	76.6	77.7	-
	<b>Old-age dependency ratio, %</b>	UN	32.6	33.2	34.0	34.4	34.9	35.7
	<b>Composite governance indicators*</b>	WB	0.8	0.9	0.9	0.9	0.9	-
	<b>Political stability, index</b>	WB	0.4	0.4	0.5	0.7	0.5	-

\*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.*

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