

Republic of Latvia

This annex refers to the release of the monitoring note of 23 July 2021

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

Implied rating of core variable scorecard (CVS)		a+
Reserve currency adjustment		1
Weight	Qualitative scorecard (QS) for long-term issuer ratings	
20%	Growth potential of the economy	Weak
	Monetary policy framework	Neutral
	Macro-economic stability and sustainability	Weak
20%	Fiscal policy framework	Weak
	Debt sustainability	Neutral
	Debt profile and market access	Neutral
20%	Current account resilience	Weak
	External debt structure	Weak
	Resilience to short-term shocks	Weak
20%	Banking sector performance	Neutral
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Neutral
	Social risks	Weak
	Institutional and political risks	Neutral
QS adjustment (notches)		-3
Additional considerations (notches)		0
Final rating		A- STA

Annex II: Selected indicators

	2016	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD '000s)	14.3	15.6	17.8	17.7	17.6	19.8	21.6
Real GDP, % change	2.4	3.3	4.0	2.0	-3.6	3.6	5.2
Unemployment rate, %	9.6	8.7	7.4	6.3	8.1	8.0	6.8
HICP, % change	0.1	2.9	2.6	2.7	0.1	2.0	2.0
Policy rate, %, EOP*	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-
Fiscal balance, % of GDP	0.2	-0.8	-0.8	-0.6	-4.5	-6.7	-2.9
Government debt, % of GDP, EOP	40.4	39.0	37.1	37.0	43.5	48.5	47.0
Current account balance, % of GDP	1.6	1.3	-0.3	-0.7	3.3	0.5	0.5

Yearly averages except where stated otherwise

Source: Macrobond, European Commission, IMF, Central Statistical Bureau of Latvia, Bank of Latvia, Scope Ratings GmbH

Annex III: Economic development and default indicators

IMF Development Classification²

AE

5y USD CDS spread (bps) as of 21 July 2021

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¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com

² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Latvia	July 2021	Assessment	Rationale
Peers*	Estonia, Lithuania, Slovenia, Czech Republic, Poland, Russia, Belgium		
Domestic economic risk	Growth potential	Weak	Medium-run growth potential faces challenges from adverse demographics
	Monetary policy framework	Neutral	ECB is a highly credible and effective central bank; appropriate central bank response during the pandemic
	Macro-economic stability & sustainability	Weak	Limited economic diversification, shortages of skilled labour
Public finance risk	Fiscal policy framework	Weak	Track record of fiscal prudence, but still-sizeable shadow economy and comparatively restricted tax base
	Debt sustainability	Neutral	Moderate but rising debt levels
	Debt profile & market access	Neutral	Favourable debt structure, ability to issue on favourable terms
External economic risk	Current account resilience	Weak	Improvements in export diversification but high share of lower value-added exports
	External debt structure	Weak	Elevated external debt levels, still high share of short-term external debt
	Resilience to short-term shocks	Weak	Very small-open economy, high short-term external debt
Financial stability risk	Banking sector performance	Neutral	Well-capitalised and profitable banking sector with moderate NPLs; profitability and asset quality impacted by Covid-19 crisis
	Banking sector oversight	Neutral	Oversight under the Bank of Latvia and the ECB as part of Banking Union
	Financial imbalances	Weak	Concentration and spill-over risks in the banking system from dominant Nordic banking groups
ESG risk	Environmental risks	Neutral	Relatively high share of renewable energy in energy consumption, transition risks in line with peers
	Social risks	Weak	Above-EU-average poverty ratio, relatively high income inequality, demographic declines
	Institutional and political risks	Neutral	Stable governance framework, supported by EU and euro area memberships

*Peers relate to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard.