

Latvia

Despite the repeated outbreak of Covid-19 and the restrictions set to reduce morbidity, the gross domestic product (GDP) in 2021 has increased the Latvian economy by 4.7%, significantly exceeding the forecast at the beginning of 2021.

The international credit rating agency S&P Global Ratings (S&P) affirmed Latvia's credit rating at the current high A+ level with a stable outlook. S&P noted that current Latvia's credit rating is underpinned by Latvia's generally effective economic policymaking, its EU and NATO membership, solid external profile, as well as moderate government debt and favorable financing conditions. According to the agency's view, the stable outlook balances the rising macroeconomic risks to Latvia's small and open economy stemming from the Russia-Ukraine conflict against the medium-term growth prospects and strong public balance sheet.

In 2021, 16 banks were operating in Latvia, including 12 credit institutions registered in Latvia, and four branches of credit institutions registered elsewhere in the EU as well as one holding company. The Latvian banking sector is dominated by Nordic banking groups.

Latvian banks lead in digital advancements. Latvia was the first in the euro area to use *SCT Inst payments* – innovative, modern, lightning-fast bank transfers, which are available at any time of the day, including weekends and holidays. More banks have joined the instant payment scheme and in 2021 instant payments have become available more than 90% of banks customers and have become a standard payment method rather than an exclusive service and make up 50.3% of all SEPA payments between banks who have implemented instant payments.

An innovative service – *Proxy Registry "Instant Links"* – is also available, which provides the possibility to make payments, indicating only the beneficiary's mobile phone number, without the account number. The number of participants and transferred funds in Instant Links is increasing each year making it an easy and customer friendly way of making payments.

Contactless payments are preferred by the customers of banks in Latvia which make up 77% out of all payments made by bank-issued cards compared to 69% in 2020.

At the end of 2020, banks had attracted €20.1 billion in deposits, which is 7.1% more than at the end of 2020. Under the influence of high uncertainty and limited consumption opportunities during Covid-19 restrictions, domestic household deposits increased by 15.2%. The total increase in deposits also determined the increase in banking sector assets by €1.0 billion or 4.2%.

Concluding 2021, the total loan portfolio of the banking sector increased by 12.1% compared to 2020. A noticeable increase in lending activity in the domestic household segment. In 2021, the volume of loans issued to domestic customers, compared to 2020, grew by 7.5% or €862 million. This was mainly determined by the growth of the portfolio of loans granted to domestic households (mostly housing loans). The quality of loans shows that, in general, the Latvian banking sector has been resilient to the economic shock caused by Covid-19. The quality of issued loans improved during the year - the proportion of non-performing loans (NPL) gradually decreased, reaching 3.6%, unlikely to pay 2.1%, > 90 overdue – 1.5%.

Total assets of banks have increased by 4.2% compared to 2020 and amount to €25.3 billion in 2021. It is the largest value in the last four-year period. However, the return on equity was 10.2% (EU average – 7.7%) as well as CET1 capital ratio was 23.2% (EU average – 15.7%). The total profit of banks in Latvia in 2021 increased by 94% making €292 million compared to the results of 2020.

The Latvian banking sector is stable, resilient, and well-capitalized. It is committed to embedding a culture of compliance while developing products and services that support the economy being shaped by environmental, social as well as governance challenges.

The banking sector is secured with the necessary preconditions to work with a clear awareness of the specific risks in Latvia. Reforms that have taken place since 2018 resulted in one of the most effective financial crime prevention systems. Latvia as the first from member states successfully implemented all 40 of the Financial Action Task Force recommendations, as well as introduced a public-private partnership (sharing names, not only typologies) and a fully available register of ultimate beneficial owners (with a few verification mechanisms). Latvia has clear regulations for sanctions implementation and consequently is following not only UN and EU sanctions, but also national sanctions and sanctions determined by a member state of EU or NATO, which significantly affects the interests of the financial and capital market (like U.S. OFAC sanctions), as mandatory by law.

Prohibition for credit institutions and payment institutions to cooperate with high-risk shell companies is in force therefore all accounts in credit institutions of prohibited shell arrangements are either blocked or arrested or closed. Risk-based approach, use of innovative technologies, access to information and public-private partnership are seen as cornerstones in the banking industry.