

Latvia

In 2023, the geopolitical situation, increasing prices, and rising interest rates weighed heavily on Latvia's economic development. The country's GDP fell by 0.3% compared to 2022¹. The trend reversed with the GDP growth recovering in 2024 to 0.6%, and it is expected to reach 2.6% in 2025².

Latvia's A+ credit rating was affirmed by S&P Global. The agency bases the maintenance of Latvia's credit rating at A+ on the capacity of the Latvian government, membership of the Eurozone, and moderate public debt levels. The agency also mentioned the continued indirect risks from Russia's war in Ukraine, which could lead to an increase in public defence spending and put downward pressure on the economy and public finances. The Agency noted that NATO's enhanced presence in the Baltic States is facilitating closer cooperation in addressing national security risks, including cyber-security, and welcomed Latvia's energy independence from Russia³.

In 2023, 13 banks were operating in Latvia, including 9 credit institutions registered in Latvia, and four branches of credit institutions registered elsewhere in the EU, as well as one financial holding company. The Latvian banking sector is dominated by the Nordic banking groups⁴. The banking system in Latvia is well-capitalized and profitable. By the end of 2023, the CET1 ratio of the banking system reached 19.99%, and the average RoE exceeded 19.95%⁵.

Latvia is a leader in digital banking innovations and was the first in the Eurozone to introduce *SCT Inst* payments. These modern, lightning-fast transfers are available 24/7, including weekends and holidays. By 2023, over 90% of customers had access to instant payments, which have become a standard service. Last year, 52.9 million instant payments worth €22.4 billion were made through the Bank of Latvia's Electronic Clearing System. Instant payments remain on a stable path, with 31% of bank customers using them daily⁶. Over 19% of bank customers reported using smartphones for payments, and 68% used contactless cards⁷.

Latvia's residents significantly increased their savings in 2023. The volume of fixed-term deposits increased from €2.6 billion to €5 billion. The total deposit portfolio increased from €21.8 billion to €22 billion over the year⁸.

Meanwhile, the value of 2nd pillar pension assets reached €7.1 billion at the end of 2023; €1.4 billion more than at the end of 2022⁹. The number of members of the 2nd pension pillar reached 1.3 million¹⁰. The number of members in the voluntary 3rd pension pillar also increased, and the amount of savings rose by 21.2% to €0.8 billion at the end of 2023¹¹.

¹ <https://stat.gov.lv/lv/statistikas-temas/valsts-ekonomika/ikp-istermina/preses-relizes/20753-iekaszemes-kopprodukts-2023?themeCode=IK>

² <https://www.bank.lv/darbibas-jomas/monetaras-politikas-istenosana/prognozes>

³ <https://www.kase.gov.lv/jaunumi/sp-global-apstiprina-latvijas-kreditreitingu-limeni>

⁴ <https://www.bank.lv/en/operational-areas/credit-register/participant>

⁵ Latvijas Banka data "Supervisory statistics on credit institutions 2023"

⁶ <https://www.bank.lv/en/news-and-events/news-and-articles/news/16597-payment-radar-the-ratio-of-non-cash-to-cash-payments-in-latvia-is-73-to-27>

⁷ <https://www.bank.lv/en/news-and-events/news-and-articles/news/16597-payment-radar-the-ratio-of-non-cash-to-cash-payments-in-latvia-is-73-to-27>

⁸ Finance Latvia Association compiled data on the financial sector in Latvia

⁹ Latvijas Banka data

¹⁰ <https://www.manapensija.lv/lv/pensiju-2-limenis/aktualie-dati/>

¹¹ Latvijas Banka data

The total loan portfolio slightly increased to €15.6 billion, with 57% of loans granted to companies and 43% to retail customers. Approximately one-third of the loans to individuals were mortgages¹².

Latvian bank sector assets amounted to €28.4 billion at the end of 2023¹³. Latvia's banking sector continues to embrace technological innovations, with the use of artificial intelligence increasing significantly. Several banks, insurers, and investment firms now use AI, alongside market participants from various other segments of the financial market, including insurance brokers, payment institutions, and private pension funds¹⁴. AI solutions not only provide better methods for processing data and improving customer experience but also simplify, speed up, and redefine traditional processes, making them more efficient. Market participants are already using AI solutions for a wide range of purposes such as claims management, pricing and underwriting, customer service, product design and development, sales and distribution and marketing, as well as everyday tasks.

Latvia has implemented one of Europe's most robust financial crime prevention frameworks. Since 2018, Latvia has successfully implemented the recommendations of the Financial Action Task Force (FATF). The country introduced a public-private partnership that allows for the sharing of detailed information, including not just typologies but also specific names, creating one of the most comprehensive systems for the prevention of money laundering. Latvia also maintains a fully accessible register of ultimate beneficial owners, with several verification mechanisms. The country rigorously enforces sanctions, adhering to the UN and the EU sanctions as well as national sanctions from the EU and NATO member states, including the U.S. OFAC sanctions. Latvia has prohibited credit and payment institutions from cooperating with high-risk shell companies, leading to the blocking, arrest, or closure of such accounts. The use of a risk-based approach, access to information, innovative technologies, and strong public-private partnerships are key pillars supporting the resilience and security of Latvia's banking sector.

Contributor: Finance Latvia Association – Lauma Brūvere lauma.bruvere@financelatvia.eu

¹² Finance Latvia Association compiled data on the financial sector in Latvia

¹³ Finance Latvia Association compiled data on the financial sector in Latvia

¹⁴ <https://fintechlatvia.eu/lv/jaunumi/ertak-atrak-efektivak-latvijas-finansu-tirgus-dalibnieku-izmantotas-inovacijas/>