



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

No. 10 18 February 2019



Krišjānis Kariņš
Prime Minister of Latvia

Message from the Prime Minister

My government is determined to do its utmost to restore the international reputation of the Latvian financial sector. We have already agreed on a set of priorities for our economy, including strengthening the rule of law, increasing our competitiveness, and attracting investment. These objectives, along with timely implementation of MONEYVAL recommendations, are the key to our country's growth and our people's prosperity.

In This Issue

- R&I agency re-affirms Latvia's foreign currency issuer rating at "A-"
- Latvian and EU share of bank deposits rises to 91% as banks continue to reorient their business models
- Government confirms managing AML/CFT risks and disrupting financial crime as the priority for Financial Sector Development Plan
- FIU participates in Egmont Group working group meetings to improve international coordination against financial crime
- European Commission forecasts Latvia to grow fastest of all the Baltic States in 2019 and 2020

Financial Sector Transformation

R&I re-affirms Republic of Latvia at "A-", stable outlook

On 4 February, Japanese credit rating agency R&I reaffirmed its "A-" foreign currency issuer rating on the Republic of Latvia. R&I first raised Latvia's rating to "A-" in January 2018. Their outlook remains stable.

The agency positively evaluated Latvia's solid economic growth, which was 4.6% in 2017 and projected to be 4.2% in 2018, and expects that private consumption and absorption of EU funds will drive further growth.

R&I has said that it will pay particular attention to the new government's fiscal policy and the process of drafting a new budget. They expect that the new government will follow the existing fiscal policy framework and that the budget plan in 2019 will be almost the same as in 2018.

R&I also noted that the liquidation of ABLV Bank and the significant decrease in non-resident deposits did not affect Latvia's economy and that the Latvian financial system is stable.

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Change management in the banking sector

On 5 February, Pēteris Putniņš, the Chairman of the Financial and Capital Market Commission (FCMC), said that the Latvian financial sector is now strongly dominated by local deposits and that banks will now focus on domestic markets.

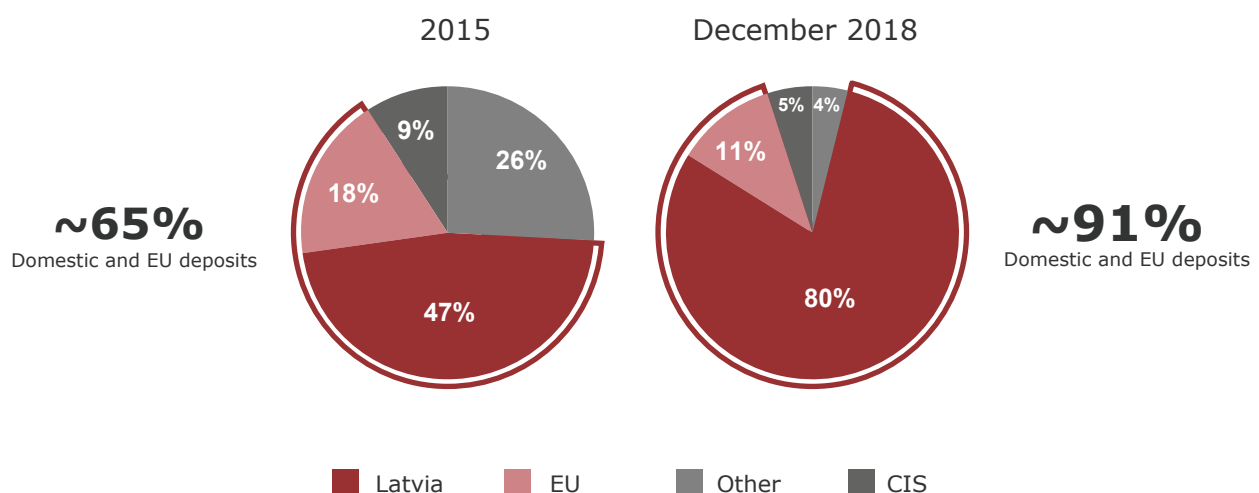
The Financial and Capital Market Commission (FCMC) has collected Q4 2018 data on the transformation process of Latvian banking sector. The FCMC believes this process, begun in 2016, has now entered its final phase.

A number of complex measures implemented in 2018 have substantially changed the Latvian banks' customer base and enabled the introduction of new business models with a further focus on the servicing and attraction of domestic and European Union (EU) customers. These measures include a decisive move away from high-risk foreign clients resulting in a sharp reduction in the volume of foreign deposits, and ending service to unwanted shell companies.

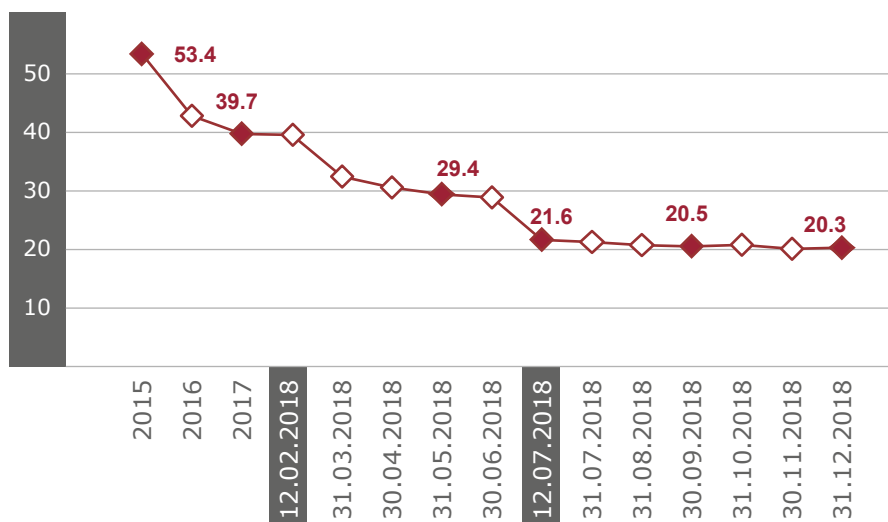
According to the FCMC data, the Latvian banking sector now exhibits a number of positive indicators:

- Domestic and EU deposits constitute 91% of deposits
- The share of non-EU foreign deposits has shrunk from 35% to 9%, while domestic deposits continue growing steadily for several years, reaching 13 billion euro by the end of 2018 (compared to 12.3 billion euro in Q3 2018)
- Euro has established its position as the prevailing currency of the Latvian financial system. Foreign customers' payments in USD have declined by more than 20 times since 2014, hitting the all-time low level in H2 2018

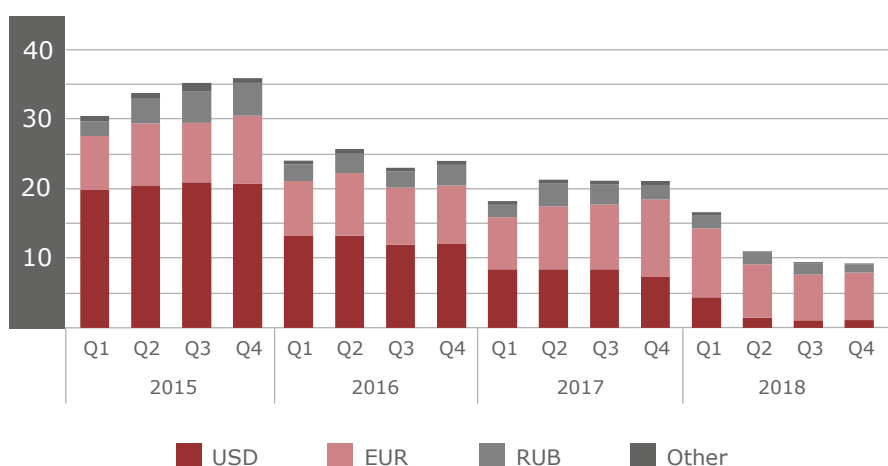
Geographical breakdown of deposits



Share of foreign deposits, %



Outgoing transactions of foreign customers by currency, EUR billions



12.02.2018. – FinCEN proposes special measures against ABLV Bank
 11.07.2018. – ECB revokes license of ABLV Bank

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Adjusted Financial Sector Development Plan of Latvia

On 12 February, the government reviewed the report prepared by the Ministry of Finance on the fulfilment of the Financial Sector Development Plan for 2017 - 2019, as well as the changes to be introduced to the plan.

The changes in the plan foresee a greater focus on a comprehensive management of AML/CFT risks and enforcing international standards to reduce financial crime.

[Learn more](#)

AML Risk Management & Compliance

FIU participates in Egmont Group working group meetings

From 28 to 31 January, the Head of the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity (FIU Latvia) Ilze Znotina and the Head of the International Cooperation Unit of FIU Latvia Karlis Matisons participated in Egmont Group's Working Group Meetings that took place in Jakarta, Indonesia. More than 300 participants from more than 100 countries gathered for this event, representing Egmont Group members, international partners, and observers.

Through its four Working Groups, the Egmont Group, an association of national Financial Intelligence Units, strives to facilitate information sharing and capacity building among FIUs. The Working Groups addressed several topics, including:

- The identification of new projects focused on building FIU knowledge, effectiveness, and operational capacity
- Important work to ensure the timely completion of all ongoing projects aimed at enhancing FIU efficiencies and capabilities
- An analysis of the impediments to bilateral and multilateral exchanges of information between FIUs
- The development of a glossary of key Egmont Group terminology to help improve the quality of information exchange
- A review of candidate member applications
- A look at The Egmont Centre of FIU Excellence and Leadership's (ECOFEL) avenues of support available to FIUs

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Ministry of Foreign Affairs organizes additional seminars on sanctions

On 30 January, the Ministry of Foreign Affairs organized a public seminar for entrepreneurs and large and medium size exporters, titled "What entrepreneurs need to know about sanctions". The seminar focused on the amendments to the Law on International and National Sanctions, including the obligation on businesses to establish internal control systems for risk management and compliance with sanctions, as well as the existing sanction regimes and types. The Ministry also presented guidelines published in January by The Wolfsberg Group, a non-governmental association of thirteen global banks, aimed at developing financial industry standards for anti-money laundering, being aware of customer bases and counter terrorist financing policies.

The Ministry of Foreign Affairs will continue to organize seminars on sanctions in the future: on 28 February, the ministry will hold a specialized seminar for sanctions supervisors, and on 4 and 11 March, two additional seminars on sanctions for entrepreneurs and exporters.

[Learn more](#)

Financial Sector Development

European Commission - Latvia to show the fastest economic growth among the Baltic States

The European Commission has forecast that Latvia will grow the fastest of all the Baltic States in 2019 and 2020. They have projected growth of 3.1 % in 2019 and 2.6 % in 2020. Latvian inflation is forecast at 2.7 % for this year and 2.1 % for next year.

Lithuania and Estonia are expected to grow identically over the next two years – 2.7 % in 2019 and 2.4 % in 2020.

[Learn more](#)

Latvia's Macro Profile by Latvijas Banka

Latvijas Banka has launched a new information platform "Latvia's Macro Profile" that will list key indicators for the Latvian economy, and compare them to neighbouring Estonia and Lithuania.

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More than half a billion EUR transferred via instant payments in 2018

In 2018, 2.4 million instant payments were made in Latvia, with a total value of EUR 494 million. The number of instant payments increased rapidly since October 2018, when Swedbank started offering the service to their customers. Currently, more than 90% of Latvian commercial banks' customers can use the service. Latvijas Banka has supported instant payment infrastructure since August 2017.

Contributing Institutions



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State Chancellery
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Ministry of Finance
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Ministry of
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Office for Prevention of
Laundering of Proceeds
Derived from Criminal Activity



Financial and Capital
Market Commission



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