



Cabinet of Ministers  
Republic of Latvia

## Latvian Financial Sector Update

No. 13 14 May 2019



**Mārtiņš Bondars**

Chairman of the Budget and Finance (Taxation) Committee

### Message from the Chairman of the Budget and Finance (Taxation) Committee

The Budget and Finance (Taxation) Committee of the Latvian Parliament (Saeima) has gone forward with the government's ambitious proposals to overhaul the financial sector to ensure the exemplary compliance with international standards.

At the beginning of May, the Saeima supported in principle amendments to the Law on the Financial and Capital Market Commission, which provides for several measures to strengthen the prevention of money laundering and terrorist financing. The Saeima has also supported the related amendments to the Credit Institutions Law to strengthen obligations on banks and other companies to ensure compliance.

My committee and Parliament will continue to work on these changes to ensure that Latvia's financial sector supports sustainable economic growth for the whole country.

### In This Issue

- Latvian parliament passes first reading of amendments to overhaul financial sector regulation
- The share of foreign deposits in Latvian banks remains at 9%, down from 35% in 2015
- FIU Latvia freezes EUR 83.2 million assets in first four months of 2019, up five times on the same period in 2018
- Heads of the Nordic and Baltic financial supervisors to enhance the cooperation between the authorities with the aim of fighting money laundering and terrorist financing
- The FCMC fines several banks for not submitting and publishing audited annual reports on time
- Eurostat figures show that Latvian Government debt is the 4th lowest in the Eurozone

### Financial Sector Transformation

#### **Latvian Parliament presses onward with amendments to the AML/CFT and FCMC Law**

On April and May, Latvian Parliament agreed in principle on several legislative changes to overhaul financial sector regulations and strengthen institutions who are fighting financial crime.

On 25 April, Latvian Parliament (Saeima) passed the first reading of AML/CFT Law amendments to

rename the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity to Financial Intelligence Unit to align with EU standards, as well as extend the mandate of the Enterprise Register.

On 2 May, Latvian Parliament (Saeima) also passed the first reading of amendments to the powers of the Financial and Capital Market Commission (FCMC), which is designed to strengthen the capacity of competent authorities to combat money laundering and terrorism financing more effectively.

The bills are a key part of the financial sector regulation overhaul announced by Prime Minister Krišjānis Kariņš.

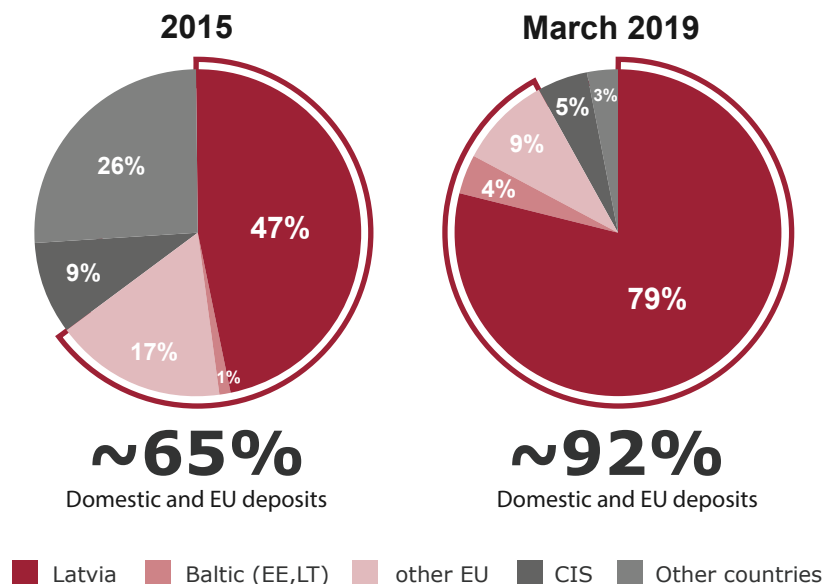
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## Change management in the banking sector in Q1

Domestic and European Union (EU) deposits now comprise 91% of all deposits in Latvia. The banking sector has successfully refocused on Latvian customers, a key part of the financial reform process.

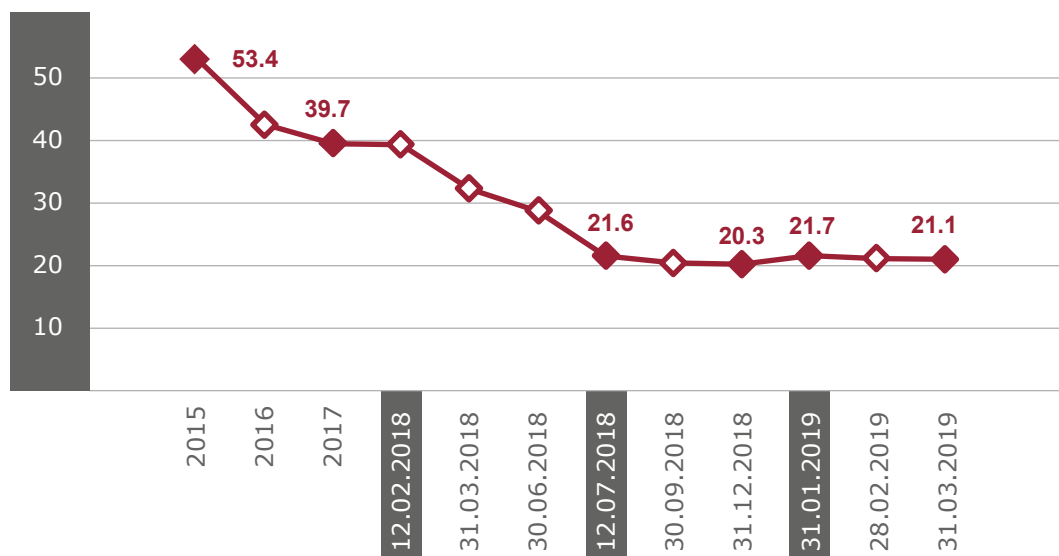
Banks continue to assess their customer bases, in line with the new business models the FCMC approved this March that have been designed to reduce systemic risk.

### Geographical breakdown of deposits

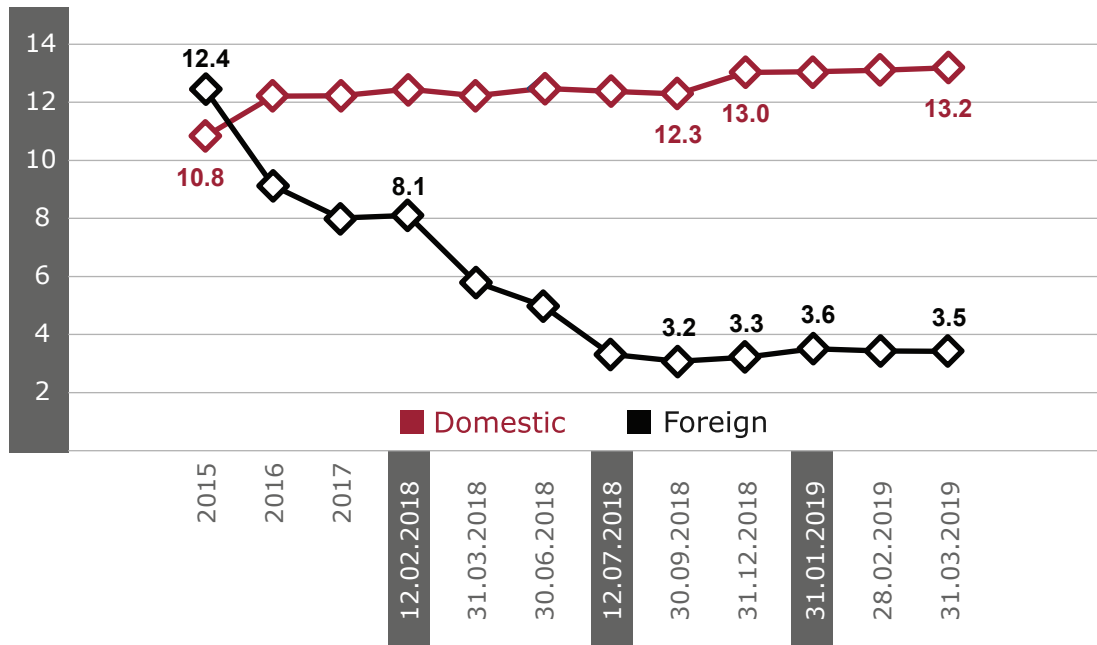


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### Share of foreign deposits, %



## Deposits (EUR billions)



12.02.2018. – FINCEN proposes special measures against ABLV

11.07.2018. – ECB revokes license of ABLV

31.01.2019. – AB Citadele banka's (Lithuania) change of legal status from subsidiary to branch as from 01.01.2019

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## Plenary of European Covered Bond Council

The European Covered Bond Council held its plenary meeting in Riga from 23 to 24 April. Representatives of the European financial industry discussed the regulation of European covered bonds, the development of environmentally friendly mortgage instruments, and the creation of a Baltic covered bond framework.

Covered bonds are an important and effective source of long-term funding for European banks, and they contribute to the financing of mortgage and public sector loans.

Finance Minister Jānis Reirs said at the session that "it is our aspiration to join the international covered-bond market, which could unlock better funding for our banks in the future and improve financial stability, with its shock-absorption capacity."

## AML Risk Management & Compliance

### FIU Latvia freezes EUR 83.2 million assets in first four months of 2019

Financial Intelligence Unit (FIU) continues to improve its results - during the first 4 months of 2019 it has frozen EUR 83.2 million, compared to EUR 16.7 million in the same period in 2018 and EUR 101.5 million in all of 2018. The Head of FIU Ilze Znotiņa attributed the rise to improved training for FIU employees and investments in the latest technologies for information analysis and processing: "The FIU is committed to supporting Latvia's ongoing reform process by deploying our people and our technology to ensure the highest standards of compliance in the financial sector."

## **Nordic and Baltic financial supervisors enhance cooperation to fight money laundering**

On 8 May, the heads of the Nordic and Baltic financial supervisors met in Stockholm. They agreed on measures to enhance the cooperation between the authorities with the aim of fighting money laundering and terrorist financing.

As the first step in this process, the existing model for cross-border cooperation on anti-money laundering supervision will be strengthened.

The authorities agreed on the following actions:

A permanent working group will be established with representatives from each country's financial supervisory authority (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania Norway and Sweden) to maintain regular contact and exchange information and best practice in money laundering prevention.

A Memorandum of Understanding (MoU) will be jointly drafted to formalise the continued, long-term cooperation.

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## **FIU publishes Annual Report for 2018**

On April, the Latvian FIU published its Annual Report for 2018.

The FIU received 6,617 reports of suspicious transactions in total. Of these, the FIU conducted a financial intelligence analysis on 3, 203 cases. For 470 cases, the FIU forwarded information to Latvian law enforcement agencies or to foreign FIUs. The FIU also froze a record amount of financial assets in 2018 – EUR 101.5 million – as part of the organisation's commitment to supporting the overhaul of the financial sector.

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## **FCMC fines banks for missing reporting deadlines**

On 30 April, the FCMC board fined a number of banks for non-submission and non-disclosure of audited annual reports within the statutory period. The Credit Institutions Law requires that a credit institution prepares public statements within a specified period in order to inform the public about its activities and financial indicators.

[Learn more](#)

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## **Latvian State Security Service publishes its 2018 Annual Report**

On April Latvian State Security Service (VVD) published its Annual Report on activities in 2018.

In 2018, VDD conducted a detailed risk assessment and making recommendations for draft regulations to improve sanctions compliance and to prevent terrorist financing, as recommended by the MONEYVAL committee.

[Learn more](#)

## **The meeting of VDD's Counterterrorism Centre expert advisory council**

On 3 May, the expert advisory council of Latvian State Security Service's (VDD) Counterterrorism Centre met to review progress in preventing terrorist financing and radicalization.

Advisory council participants were briefed about the results in the field of terrorist financing prevention, while also discussing the required future measures.

The VDD has developed guidelines for the prevention of terrorist financing and proliferation for people who are subject to AML/CTF rules for the supervisory institutions. The VDD has also expanded training for personnel from the monitoring and control institutions and is developing a prevention of terrorist financing strategy.

[Learn more](#)

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## **The Ministry of Foreign Affairs seminar on sanctions application and compliance**

On 30 April and 7 May, the Ministry of Foreign Affairs held seminars on sanction-related topics titled "Sanctions in Latvia: Application and Compliance" to explain the purpose and nature of sanctions, and the duty of any natural person and legal entity to comply with them.

The Ministry of Foreign Affairs also noted that on 1 May amendments to the Law On International Sanctions and National Sanctions came into force that require subjects of the Financial and Capital Market Commission, the State Revenues Service, and the Consumer Rights Protection Centre to perform sanctions risk assessments and establish internal control systems to ensure compliance with sanctions.

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## **Financial Sector Development**

### **Finance Minister participates in EBRD Annual Meeting**

On 8 and 9 May, Latvian Finance Minister Jānis Reirs participated in the Annual Meeting and Business Forum of European Bank for Reconstruction and Development (EBRD) in Sarajevo. During the meeting, ministers discussed the EBRD's activities and priorities for 2021-2025. Mr. Reirs called on the leadership of the EBRD to strengthen its involvement in the countries in which it currently operates, including Latvia, rather than to extend its geographical scope.

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## **Spring 2019 Economic Forecast by the European Commission**

On 7 May, the European Commission published its Spring 2019 Economic Forecast. In 2018, Latvia's GDP growth reached 4.8%, marking the peak of the current investment cycle. Strong employment and wage growth fuelled private consumption, while investment grew at double-digit rates for the second year.

Growth is set to slow this year as investment moderates and employment stabilises. Exports are expected to pick up slightly despite the slower external demand growth. Inflation is forecast to rise to 2.8% in 2019 before declining to 2.4% in 2020. The government deficit is set to fall from 1.0% of GDP in 2018 to 0.6% in 2019 and 2020.

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## **Latvian Government's debt – amongst the lowest in the EU**

According to recent figures from Eurostat, Latvian Government's debt is amongst the lowest in the EU at 35.9% of GDP at the end of 2018. It is the 4th lowest in the Eurozone and the 8th lowest in the EU. General government deficit was at 1% of GDP in 2018.

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## **Industry Event "EU Sustainable Finance: Briefing by Technical Expert Group"**

On 7 May, the Finance Latvia Association in cooperation with the European Commission held an industry event on technical elements of the implementation of the European Union Sustainable Finance regulation in Latvia.

The aim of the event was to initiate awareness and dialogue on the EU sustainable financing Action Plan and regulatory proposals, and to inform financial sector participants about the impact this legislation will have on them. The event was attended by 30 participants – Finance Latvia members, representatives from Latvijas Banka, the Ministry of Economics, the State Audit Office, and others.

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## **Finance Latvia Association Lending Index**

The Lending Index of the Finance Latvia Association has shown that the demand and ability of the Latvian population to apply for loans have grown at its fastest rate of the last three years. This has been driven by strong overall economic growth increasing Latvians' financial stability and optimism.

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