



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

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Message from the FIU

On behalf of the public and private sector representatives responsible for implementing reforms in Latvia's anti-financial crime system, I would like to express my sincere gratitude to the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, MONEYVAL, for its efforts last summer to carry out the Mutual Evaluation Report of Latvia. The assessment was more than a mere reactionary measure – it was an opportunity to implement radical changes in our anti-money laundering, counter terrorism and proliferation financing (AML/CTF/CPF) systems. The Latvian Government and all respective authorities considered the reform of the financial sector a matter of national priority and security. For this reason, the measures were designed not only to report to MONEYVAL and the Financial Action Task Force (FATF), but also to ensure the sustainability and resilience of our financial sector. The changes that have already been carried out are firmly entrenched, and sure to be long-lasting.

At the 59th plenary meeting of MONEYVAL last week, the Latvian delegation outlined the progress that has already been made in rectifying technical deficiencies and improving compliance with FATF standards. The results of the follow-up report will be communicated separately.

These combined efforts are directed towards protecting the legal interests of Latvia's citizens and entrepreneurs, as well as ensuring the stability of the global financial system and protecting Europe's common market.

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Financial Sector Transformation

Latvia submits AML progress report

Financial Intelligence Unit of Latvia (FIU) has submitted its progress report to the FATF regarding the improvement of systems related to AML/CTF/CPF, as recommended by MONEYVAL experts. The report demonstrates the great work undertaken by Latvia's responsible authorities since the end of 2017.

According to the report, the number of criminal proceedings for ML during the first nine months of 2019 has increased by 158%, compared to 2017 – while the number of criminal proceedings prosecuted in the first nine months of 2019 has increased by 255%, compared to 2017. The amount of funds FIU has frozen during the first 10 months of 2019 totals EUR 275.8 million.

[Learn more](#)

FCMC imposes EUR 1.6 million fine and a number of legal obligations on JSC "Baltic International Bank"

On November 29, the Board of the Financial and Capital Market Commission (FCMC) decided to impose a fine of EUR 1.5 million on the "Baltic International Bank" JSC for deficiencies in its internal control system. The bank is also subject to a number of legal obligations, including the submission of an action plan to the FCMC to address the breaches and shortcomings. It will also be required to carry out an independent review of its internal control system.

[Learn more](#)

Latvia joins international coalition to advance beneficial ownership transparency

On November 28, Minister of Justice Jānis Bordāns and Chief State Notary of the Register of Enterprises Guna Paidere endorsed Great Britain's initiative to advance beneficial ownership transparency. The initiative requires the registration of beneficial owners including all potential legal entities, published in a standardised and freely accessible 'open data' format.

In light of the progress already made by Latvian institutions, the country was invited in May 2019 to become one of the first to join the coalition, alongside Denmark, Slovakia, Norway, Armenia, Mexico and Ukraine.

"The endorsement of the initiative is not just a statement of our will, but a binding document underscoring Latvia's commitment to beneficial ownership transparency at an international level," says Minister of Justice Jānis Bordāns.

Parliament adopts tougher rules on origin of holdings in criminal investigations

On November 21, Latvia's Parliament (Saeima) adopted amendments to the Criminal Law in the final reading, which would allow for more thorough and effective investigation of financial/economic crimes. The amendments stipulate that any person/s involved in criminal proceedings need to meet stricter regulations for justifying the legal origin of any acquired holdings. If evidence is presented during the process that demonstrate the holdings have been illegally acquired, or if the person being investigated is unable to prove the origin, then they will be considered proven illegal.

"This rule eliminates situations where a person dishonestly delays the process to receive government compensation for frozen assets. The right to defence will not be restricted. Throughout the entire process, the person in question possesses the right to submit evidence that proves the legal origin of holdings," says Legal Committee Chair Juta Striķe.

Finance Minister and US ambassador discuss financial sector reform

On November 21, Minister for Finance Jānis Reirs met with newly-appointed US ambassador to Latvia, John Leslie Carwile. They discussed Latvia's progress in applying MONEYVAL recommendations, cooperation between the two countries, and other sectoral developments.

As part of US ambassador's visit, Jānis Reirs named fixing the financial sector as Latvia's top priority.

"We are clearly aware that a stable, transparent and well-supervised financial sector is the basis for sustainable growth and prosperity for all Latvian residents. Minimisation and control of ML risks, as well as the prevention of financial crimes, are the highest political priorities of the Latvian government," says Jānis Reirs.

The Sanctions Coordination Council meets US delegation

On November 20, the Ministry of Foreign Affairs hosted a significant meeting of the Sanctions Coordination Council, during which, members of the Council representing Latvia's public authorities and the private and non-governmental sector discussed the enforcement of sanctions set by the U.S. Office of Foreign Assets Control (OFAC) in Latvia.

Participants discussed the possible avenues of cooperation with representatives from the U.S. State Department and OFAC, including the necessity for ad-hoc consultations in instances where OFAC sanctions would have an effect on existing contracts involving Latvian businesses. The meeting also helped to improve understanding and strengthen cooperation between the U.S. and Latvian public authorities in the field of sanctions.

Latvia backs launch of single EU supervisory mechanism for AML

Ministry of Finance has backed proposals to create a single European Union (EU) supervisory mechanism for AML/CFT.

The Ministers for Finance of Latvia, France, Germany, Italy, Spain, and the Netherlands have agreed upon a joint approach towards setting up such a supervisory mechanism. The joint statement has been sent to the Minister for Finance of Finland (which currently holds the EU presidency), the President of the EU Economic and Financial Affairs Council (ECOFIN), and the Vice-President of the European Commission Valdis Dombrovskis.

[Learn more](#)

Experts discuss new compliance culture environment and importance of foreign investment

On November 5, the Finance Latvia Association came together with the Swedish Chamber of Commerce to discuss the compliance landscape in Latvia, the importance of direct foreign investment, and the need for trusted and established financial services.

Local and international experts discussed new challenges facing the Nordic-Baltic financial sector, including concerns around the culture of compliance and the numerous integration issues hindering businesses across the marketplace.

[Learn more](#)

Register of Enterprises data to be available online and free of charge

On November 14, the Parliament (Saeima) adopted amendments to the Law on the Register of Enterprises of Latvia, stating that – as of January 7, 2020 – up-to-date information on legal persons, including beneficial owners, will be available for free online at <https://info.ur.gov.lv>. From 2021, this information will also be provided in Open Data format.

These amendments will change the way customer information is provided. Previously, issuance of information was paid for by those who requested it, but as of January 7, 2020, the issuance of information will be financed from the State budget.

Latvia has opened a new page on accessibility, public access and transparency of information stored in the Register of Enterprises.

AML Risk Management & Compliance

OFAC imposes sanctions on Latvian natural and legal persons

On December 9, the United States Office of Foreign Assets Control (OFAC), part of the Department of Treasury, has imposed sanctions on Latvian national Aivars Lembergs. This includes the sanctioning of four Latvian entities connected to him: the Ventspils Development Agency, the Business Development Association, the Latvian Transit Business Association and the Ventspils Freeport Authority.

Latvia's Ministry of Foreign Affairs is required by law to observe US sanctions in the financial and capital market, including banks. US sanctions are also observed in public procurement, in the field of public and private partnership and in the context of the European Union (EU) funds and other foreign financial aid.

The OFAC has issued the sanction as part of the Global Magnitsky Sanctions Regulations. This provides a 30-day period to wind down transactions involving the four blocked entities. Natural persons who have transacted with these entities are currently subject to the temporary freezing of assets, while it is determined whether or not there are legal grounds for seizing assets or applying further sanctions.

[Learn more](#)

Latvia launches criminal proceedings against Russian citizens for ML

The Tax and Customs Police Department of State Revenue Service (SRS) has launched two criminal proceedings, for ML and the transfer of money across the border of the Republic of Latvia.

Based on information obtained through risk analysis, passenger customs controls were carried out at Riga airport on flights originating from Moscow and St. Petersburg. Two passengers, both citizens of the Russian Federation, were attempting to import cash valued at EUR 103,975 (RUB 10,000). The source of the funds will be explained in the pre-trial investigation.

In accordance with Section 19 of the Criminal Procedure Law, no person shall be deemed guilty until the fault of the criminal offence has been determined in accordance with the procedures specified in the Criminal Procedure Law.

Financial Sector Development

Parliament implements state budget for 2020

On November 14, Latvia's Parliament (Saeima) implemented the Law on the State Budget for 2020; the Law on Medium-Term Budget Framework for 2020, 2021 and 2022; as well as amendments to 26 other budget-related laws.

The consolidated state budget revenue for 2020 is estimated at EUR 9.9 billion, with expenditure totalling EUR 10 billion. The general budget revenue in 2020 is estimated at EUR 6.9 billion, and expenditure at EUR 7.2 billion. The general government budget deficit for 2020 is set at 0.3% of gross domestic product (GDP).

The European Commission has found Latvia's budgetary plans for next year to be "broadly compliant" with the requirements for 2020 under the Stability and Growth Pact, but notes that public expenditure cannot be increased faster because of reduced tax revenue.

[Learn more](#)

Credit rating agency R&I upgrades Latvia

On December 2, Japanese credit rating agency R&I upgraded Latvia's credit rating from A- to A, and assigned a stable rating outlook.

According to R&I, Latvia's economy is expected to continue growing, buoyed by solid domestic demand. The labour market is strong, and wages are rising steadily. Thanks to disciplined fiscal management, fiscal deficits are narrowing, and the government debt ratio remains low. While non-resident banking services have been contracting, resident banking services have become the dominant business of Latvian banks. To reflect the increased stability of the country's financial system, R&I has, therefore, upgraded Latvia's Foreign Currency Issuer rating to A.

[Learn more](#)

New leadership for the Finance Latvia Association

Ms. Sanita Bajāre has been elected as the new Head of the Finance Latvia Association following approval from the Association's Council.

A total of 20 candidates applied for, or were approached about, the position.

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Local capital banks set to increase lending volumes

On October 9, the Finance Latvia Association held a media breakfast to discuss the transformation of local capital banking business models, their place in the financial market, and their contribution to the Latvian economy.

During the event, Dmitrijs Latiševs – member of the Council of the Finance Latvia Association and Chairman of BlueOrange Bank Board – discussed the transformation of local capital banks, while Viktors Bolbats – Chairman of the board of Baltic International Bank – discussed the demand for services provided by local capital banks, both domestically and internationally. He also presented the possibility of local capital banks crediting Latvia's economy with over EUR 220 million next year.

Media participants noted that significant efforts were made in 2018 concerning risk reduction. In line with today's requirements, banks have completely abandoned high-risk customer service, investing significant funds in customer and performance testing.

Latvia's GDP to increase by 2.3% in 2019

According to a recent forecast from the OECD, Latvia's gross domestic product (GDP) will rise 2.3% this year, and 2.5% in 2020. The country's consumer price index is expected to grow 2.9% during 2019 and 2.3% next year, while the unemployment rate is projected at 6.4% for 2019 and 2020.

Lending among Latvian businesses reaches record high

In 2019, borrowing among Latvian companies reached its highest level in four years, according to the Finance Latvia Association's Lending Index in the business segment.

This has mainly been driven by the country's overall economic growth, which, although slow, remains positive and is reflected in GDP growth and an increase in corporate profits and capital gains. Although the lending climate is strong and Latvian businesses can easily borrow, their willingness to do so is, currently, not quite as high.

[Learn more](#)

Popularity of contactless payments continues to surge

In Latvia, nearly 75% of the population now hold a contactless card, with 23% of people able to make contactless payments via their mobile phone, bracelet, watch, or other smart device. According to a survey of Latvian residents organized by Mastercard and the Finance Latvia Association, people are more inclined to use contactless alternatives to making transactions, as they feel it's the safest and most secure payment form.

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