



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

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Prime Minister of Latvia

Message from the Prime Minister of Latvia

I am delighted that the overhaul of Latvia's financial sector supervision has been a resounding success – and the goal set a year ago to re-establish the reputation of our country and create a strong and robust anti-money laundering system has been met. This does not mean that we will stop striving towards further growth and progress to implement the decisions made. I extend my personal thanks to all the experts, institutions and organisations involved for their tremendous work and dedication. By working together, we can achieve big goals.

And more good news, Latvia's credit rating has been raised to A+, an unprecedented achievement that underlines our country's continued economic development.

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Financial Sector Transformation

Latvia will not be subject to 'enhanced surveillance' following introduction of new financial crime prevention system

Following the successful implementation of a new financial crime prevention system, Latvia will not be subject to 'enhanced surveillance' or included in the so-called 'grey list', concluded the Financial Action Task Force (FATF) during its plenary session in Paris on February 21.

Latvia is the first MONEYVAL member state that has successfully implemented all FATF recommendations.

Head of the Financial Intelligence Unit, Head of the Moneyval and FATF delegation Ilze Znotiņa, says: "The ability to establish an effective control and surveillance mechanism that prevents people from exploiting our own financial system for criminal activity is the responsibility of every state, including Latvia. It is a matter of national reputation, self-respect and honour. We have established a stable and secure system that prevents terrorist and proliferation financiers from manipulating the Latvian financial system for criminal gain, achieved a high level of transparency of legal entities, and significantly strengthened the capacity and knowledge of Latvian law enforcement agencies. On the other hand, the legislator has understood and recognised the threats already caused, or likely to be caused, by economic crimes if the state does not have the will and proper legal regulation to combat them. Today, we are able to showcase to the world a set of results that were unimaginable until a couple of years ago."

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FCMC pledges to strengthen risk-based approach to combating financial crime

The Financial and Capital Market Commission's (FCMC) has cited the strengthening of a risk-based approach as its primary focus for combating financial crime. It is also committed to establishing a common understanding across the Latvian financial sector concerning regulatory framework and sanctions related to the prevention of money laundering and terrorism financing.

Santa Purgaile, the FCMC Chairwoman, says: "I am pleased that the work of Latvian authorities has brought the result we all were hoping for. However, our work towards combating financial crime must be further strengthened by refining the nuances of awareness and attempting to reach a shared understanding around the application of regulatory enactments. The problems outlined by the recipients of services provided by the financial sector clearly demonstrate the need to strengthen a risk-based approach. I hope the development of the manual and intense consultation process will be productive and be a stepping stone for further development of the Latvian financial sector."

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Latvian regulatory framework for AML/CTF/CPF complies with international standards set by FATF

On January 22, the European Council's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) addressed deficiencies identified in areas related to 11 recommendations previously set by the Financial Action Task Force (FATF). Encouragingly, Latvia is now 'compliant' with seven of the 40 recommendations set by the FATF, and 'largely compliant' with 33.

Ilze Znotiņa, Head of the Financial Intelligence Unit (FIU) Latvia, states: "MONEYVAL's expert assessment provided an opportunity for Latvia to implement a number of radical and intensive, yet entirely necessary, changes in a short period of time, demonstrating our impressive ability to work as a team. To date, all changes made are firmly anchored in the regulatory framework and are considered to be lasting. But we must not stop – it's critical we continue work towards creating and fostering a safer, better-organised and more prosperous Latvia."

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Managing FATF and MONEYVAL processes – one of 2019's key tasks for the FIU

Financial Intelligence Unit (FIU) has listed the introduction of international standards for the prevention of ML/TF/PF in Latvia as the main task it carried out during 2019. This included the implementation and monitoring of recommendations laid out by MONEYVAL in its 2018 report; the establishment of a framework ensuring the participation of all institutions involved in an effort to prevent and combat economic crime; and significant strengthening of international cooperation.

Two reports were prepared under the direction of the FIU. The first report, released on August 30 2019, outlined the progress made in meeting Latvia's technical compliance requirements (introduction of international standards de jure) and was submitted to MONEYVAL experts. The second report, launched on November 11 2019, covered Latvia's effectiveness progress (introduction of international standards de facto), and was submitted to the FATF.

In addition to these processes, the FIU issued 362 freezing orders during 2019, preventing the dissipation of potentially-criminal proceeds totaling EUR 345.98 million (the largest historical volume of criminal proceeds ever frozen in Latvia, three times greater than 2018). Additionally, 15 real estate properties and 4 bank safes/vaults were also frozen last year.

Latvia supports effective cross-border coordination of measures against ML/TF/PF at EU level

In recent years, cooperation and institutional framework at the European Union level has proved insufficient. Latvia, therefore, will continue to advocate better cross-border coordination of measures against financial crime, as well as strengthening supervisory and control authorities at EU level, said Latvian Foreign Minister Edgars Rinkēvičs at the 2020 Nordic and Baltic Regional Information-Sharing Symposium.

Rinkēvičs emphasised that money laundering and the financing of terrorism and proliferation (ML/TF/PF) are largely cross-border crimes, and that the measures taken by a single country alone, therefore, might not be sufficient to combat them. Crime prevention calls for international effort and support.

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Collaboration strengthens between financial sectors in Baltic states

On January 24, the Financial and Capital Market Commission (FCMC) held a meeting between the financial sector supervisory authorities from Latvia, Estonia, and Lithuania to discuss market, supervisory, and cooperation developments.

"Because so many supervisory issues extend beyond the scope of Latvia's domain, close cooperation between the Baltic states is crucial to the entire region. At the same time, although the financial and capital markets of Latvia, Lithuania and Estonia each possess their own distinguishable characteristics, they are relatively small – meaning the Baltic states' markets are often regarded by the international business community as a single unit. Therefore, adopting a common understanding, similar supervisory approach, and the same best practices are essential for strengthening the Baltic financial and capital markets, further enhancing their development," stresses Santa Purgaile, The Chairperson of the FCMC.

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AML Risk Management & Compliance

Law enforcement authorities investigate EUR 50 million money laundering case

At the end of January, several criminal investigations were held relating to the legalisation of EUR 50 million in soon-to-be liquidated ABLV Bank. A number of urgent procedural activities are currently taking

place, including at least 30 searches across the Republic of Latvia and other foreign states, in cooperation with the law enforcement institutions of numerous countries potentially involved. These will be carried out by specialised prosecutor offices for organised crime and other branches; the Corruption Prevention and Combating Bureau; the State Police's Organised Crime Control Board; the State Revenue Service's Tax and Customs Administration; and the Finance and Capital Market Commission.

The offence under investigation relates to the proceeds of crime acquired abroad, mainly in Russia and Belarus, which was subsequently legalised by the accused criminals through companies established in several countries and through payments for fake transactions.

This is an active case involving interrogations and the investigation of large quantities of removed materials. There are currently at least 13 persons undergoing criminal proceedings and entitled to a defence.

SRS initiates criminal proceedings regarding transfer of USD 90 100 of potentially criminally-obtained cash

In January – and in cooperation with the State Border Guard and the Customs Board of State Revenue Service (SRS), Moscow – Riga passenger customs control identified a possible money laundering incident. The check was made on the basis of risk information that non-declared cash may have entered the customs territory of the European Community while crossing the State border of the Republic of Latvia.

During checks, it was established that the luggage of a Russian citizen holding a Latvian residence permit (born in 1980) contained cash amounting to USD 90 100. In the interests of the investigation, no further information shall be provided at this time.

The fight against money laundering, including the limitation of the transfer of criminal money across the State border of the Republic of Latvia, is one of the key priorities of the SRS this year. In 2019, 47 criminal proceedings were launched by the SRS Tax and Customs Police Office regarding the non-declaration of cash or false declaration and/or legalisation of proceeds from crime.

FIU demonstrates Latvia's compliance with the Egmont Group principles

Representatives of the Latvian Financial Intelligence Unit (FIU) participated in the annual meeting of The Egmont Group of Financial Intelligence Units, where their work on international cooperation was presented to foreign partners, demonstrating Latvia's compliance with the principles of the Egmont Group and FATF's 40th recommendation.

With over 450 representatives from global financial intelligence units in attendance, the FIU was also able to organise the third meeting of the International Financial Intelligence Taskforce (IFIT), dedicated to sharing experience of sophisticated cross-border money laundering schemes.

The meeting also focused on identifying new typologies and potential risks in money laundering cases where virtual assets and FinTech business models were exploited.

Financial Sector Development

History made as Latvia's credit rating upgraded to highest-ever level

On February 22, international credit rating agency S&P Global Ratings (S&P) elevated Latvia's credit rating from 'A' to 'A+', also assigning the country with a 'stable outlook'.

The upgrade represents the highest level Latvia has ever been awarded since the credit rating was first assigned to the Republic of Latvia in 1997.

"This is a historic moment for our country. For the first time in Latvia's history, we have been evaluated with such high credit rating. Importantly, this also represents an international-level affirmation of Latvia's public finance policy, and is a globally-recognised credential. With Latvia now rightly regarded

as a reliable and secure partner, our new credit rating will help attract the kind of global investments that will help our country thrive in the coming years," highlights Minister of Finance Jānis Reirs.

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Candidates nominated for the vacant positions on the Council of Latvijas Banka

With the aim of introducing a more effective management model, Mārtiņš Kazāks, Governor of Latvijas Banka, has nominated candidates for a number of vacant positions on the Latvijas Banka Council.

Mārtiņš Kazāks presented an official letter to Ināra Mūrniece, Speaker of the Saeima (Parliament) of the Republic of Latvia, requesting the Saeima to appoint Māris Kālis, Chairman of the Board of Latvijas Banka, and Zita Zariņa, a member of the Council of the State Audit Office, to the positions of Deputy Governor and Member of the Council of Latvijas Banka respectively.

The 'Member of the Council' position became vacant when the Saeima appointed Mārtiņš Kazāks Governor of Latvijas Banka, whereas the term of office of Zoja Razmusa, the current Deputy Governor of Latvijas Banka, will expire on March 12, 2020.

[Learn more](#)

European Commission predicts Latvia will enjoy second-highest economic growth in Baltics this year

The European Commission's latest economic forecasts suggest that Latvia's gross domestic product (GDP) this year will rise by 2.3%, which is the second-highest economic growth among the Baltic states behind Estonia.

Additional forecasts released by the European Commission on February 13 also predicted that Latvia's economic growth will reach 2.4% next year, while inflation is projected at 2.3% this year, and 2.2% in 2021.

According to a flash estimate made by the Central Statistical Bureau (CSB), Latvia's GDP value increased by 1.1% in Q4 2019 when compared to Q4 2018. (seasonally and calendar non-adjusted data)

Latvian banking sector profitability remains high during Q4 2019

The transformation of Latvia's banking business model is still ongoing, with the banking sector's profitability rates remaining high during Q4 2019.

Payments and deposits both show a seasonal increase during the last quarter of 2019. Overall, the amount of foreign deposits made at Latvian banks is stable, while changes to deposit structure continues to change. Deposits from EU member states are increasing – while those from countries, including CIS members, outside the EU are decreasing.

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European Central Bank withdraws JSC PNB Banka's authorisation

On February 17, the European Central Bank (ECB) withdrew authorisation to JSC PNB Banka to continue operating. The ECB decision was taken following a proposal submitted by the Latvian Financial and Capital Market Commission (FCMC) on September 12 2019.

The proposal took into account the decision by the City of Riga Vidzeme District Court to declare the bank insolvent on September 12 2019. It should also be noted that, on August 15 2019, the FCMC decided to suspend the provision of financial services by JSC PNB Banka, following a decision by the ECB (the direct supervisor of JSC PNB Banka) on the same day that declared the bank as failing or likely to fail. The proposal also included a decision by the European Single Resolution Board not to take resolution of JSC PNB Banka (i.e. not to take actions to stabilise the bank's activities).

The judgement made by the ECB took effect the day after it notified the Supervised Entity.

[Learn more](#)

Latvijas Banka forecasts unemployment rate at 6.3% in 2020

According to Latvijas Banka forecasts, the unemployment rate is expected to be 6.3% in 2020 (6.9% in June 2020).

The Macroeconomic Developments Report by Latvijas Banka described how unemployment rates continued to decline in 2019. The perception around the dynamics of unemployment has not changed, as labour demands remain high despite a slower economic growth rate.

Due to the continuously high labour demand, the average remuneration continues to rise, falling only slightly behind the year-on-year trend, and despite the deceleration of the economic growth rate. Employers cite the requirement to include salary details in job advertisements as an additional factor encouraging employees to move to higher-paid jobs, and also as an additional factor contributing to wage growth (particularly for lower-level employees).

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Latvia's retail trade turnover increases by 2.3% in 2019

According to calendar adjusted data (at constant prices) compiled by the Central Statistical Bureau (CSB), total retail trade turnover in 2019 rose by 2.3% compared to 2018.

Turnover of retail trade in food products increased by 1.2%; turnover of retail trade in non-food products, except for retail sale of automotive fuel, rose by 4%; and turnover of retail sale of automotive fuel decreased by 0.4%.

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