



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

No. 4 1 October 2018

Message from the Financial Intelligence Unit



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An effective system for disrupting financial crime is a prerequisite for a trustworthy and transparent financial services and markets sector, which is positioned to make a sustained, consistent contribution to Latvia's overall economic growth. This is the responsibility of all sector stakeholders and is in the interest of the general public. The challenges that Latvia currently faces are part of a global issue, which needs an urgent change in approach not only at a national, but particularly at an international level.

It is my belief that small countries can play a big role in disrupting financial crime globally. Latvia is striving to set the global benchmark for easy to apply, yet prudent and risk-based supervision of its financial sector. We can draw confidence also from the knowledge that Latvia has a consistently strong track record of reforming financial institutions' operating environments to restore stability and strength following periods of turbulence, including the aftermath of the 2008 financial crisis.

In This Issue

- S&P raised its credit ratings on Latvia to 'A/A-1' from 'A-/A-2' with a stable outlook
- Latvia has reduced the level of foreign deposits by almost half
- Cabinet of Ministers has approved MONEYVAL action plan
- Global investment firm Blackstone plans to buy majority stake in Luminor, a major vote of confidence in the Latvian financial sector
- Prime Minister in Financial Times – the EU must invest in technologies that counter financial crime

Financial Sector Transformation

S&P raises Latvia's credit ratings to 'A/A-1' on sustained economic and fiscal strength

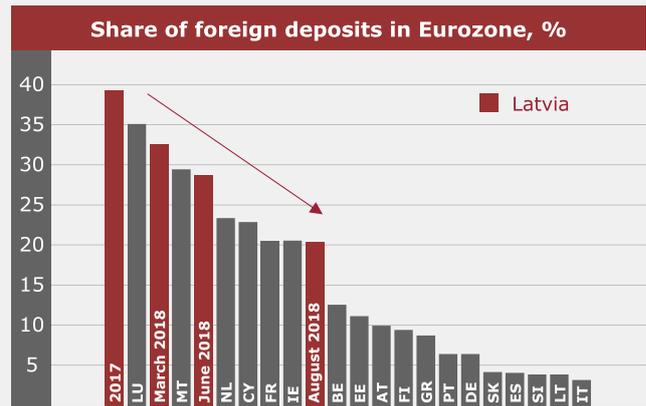
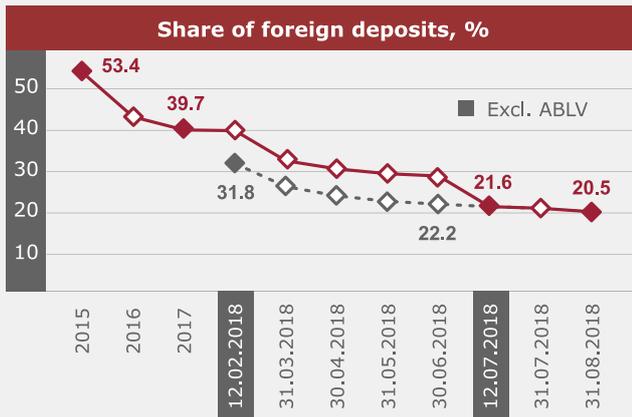
The upgrade reflects Latvia's sustained strong economic and fiscal performance, and the fact that a significant decrease in nonresident deposits (NRDs) has reduced external vulnerabilities. A robust construction sector, alongside strong inflows of EU funds, continue to lift Latvia's economy. Furthermore, the liquidation of ABLV Bank and the general wind-down of the NRD banking sector have not meaningfully weighed on Latvia's economic or fiscal performance, or its financial stability, in line with S&P's previous assumptions.

[Learn more](#)

In less than a year, Latvia has slashed foreign deposits by almost half

The share of foreign deposits in Latvian banks is currently at 20.5%, its lowest share ever and down from 39.7% in 2017. At the same time, domestic deposits have continued to grow, reaching EUR 12.4 billion at the end of August, constituting 79% share of total deposits. Latvia no longer has an unusually high share of foreign deposits compared to other Eurozone countries (see graph below, "Share of foreign deposits in Eurozone, %"). In 2017, Latvia's share of foreign deposits was the highest among Eurozone countries. Now it is similar to that of France and Ireland.

In addition, outgoing transactions of foreign customers have decreased from EUR 35.9 billion in Q4 2015 to EUR 11 billion in Q2 2018 (see graph below, "Outgoing transactions of foreign customers by currency, EUR billion"), reflecting the comprehensive change management in banking sector.



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

Source: FCMC

AML Risk Management & Compliance

MONEYVAL action plan

On 25 September, the government approved a comprehensive Action Plan on the recommendations included in MONEYVAL's 5th round of evaluation of Latvia's AML/CFT system. The plan merges existing initiatives and provides a robust framework for all government institutions involved, as well as the private sector. The government has set the following key priorities:

1. Strengthening risk-based supervision and introducing preventive measures, including management of a controlled, transparent and professional liquidation process of ABLV Bank.
2. Facilitating efficient exchange of information to contribute to ML investigation, harmonization of approaches and guidelines.
3. Providing supervisory, controlling and law enforcement institutions with adequate human resources by enhancing their analytical capability and capacity.

4. Introducing IT solutions for timely and efficient data management and sharing among institutions.
5. Improving the targeted financial sanctions system by developing a common understanding among cooperation partners about this system and the need for its operation

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Prime Minister's opinion in Financial Times

Latvia's Prime Minister Māris Kučinskis has written in the Financial Times that European and global collaboration is essential to disrupt financial crime. The Prime Minister has reflected that since financial markets are more multinational and interconnected than ever before, it is unrealistic to think that any one country or organisation alone can affect significant and lasting change.

That is why Latvia supports a comprehensive solution at EU-level – for European Banking Authority to take more responsibility for and build more capacity to fight financial crime and invest in financial crime technologies. Software already exists that can help identify and halt financial crimes, but there is significant work to be done to roll out and improve these tools. This initiative will require effective organisation and clear funding: Latvia has supported funding such an initiative in the next EU budget.

[Learn more \(Subscription Needed\)](#)

Finance Minister on CNBC - Action is needed at the national and European level

Latvian Finance Minister Dana Reizniece-Ozola, interviewed on CNBC's Squawk Box Europe, said recent money laundering scandals involving Latvian and Baltic banks had demonstrated that the European countries were not prepared to tackle money laundering and that action had to be taken at the national and European level. She said that such actions should include strengthening the European Banking Authority.

[Watch interview](#)

Closer cooperation with OECD will help to improve Latvia's AML/CFT system

On 25 September, the Government of Latvia committed to cooperating with the Organisation for Economic Co-operation and Development (OECD) to enhance the robustness and efficiency of the Latvian anti-money laundering, counter terrorism financing (AML/CFT) and targeted financial sanctions regimes. This commitment addresses specific MONEYVAL recommendations around international cooperation and will help ensure compliance with FATF standards.

A team of highly qualified experts under the auspices of the OECD will assess the current AML/CFT supervisory and governance framework of the Financial Intelligence Unit and the Financial and Capital Markets Commission. It will provide the necessary guidance in support of continued efforts by Latvian authorities and financial industry to bring the soundness, stability and reputation of financial system of Latvia up to the highest international standards.

FIU – changed supervision, increased capacity

The Cabinet of Ministers approved two draft laws on 25 September to strengthen the institutional model, functional capacity, and operational independence of the FIU. The laws would terminate the functional supervision of the General Prosecutor over the FIU, and entrust those supervisory functions to the Cabinet of Ministers with intermediation of the Minister of Interior. The Cabinet of Ministers further decided to allocate additional resources to the FIU to allow it strengthen its IT systems and hire more staff. This change in the supervisory model of the FIU will increase its efficiency and strengthen enforcement mechanisms for the fight against financial crime.

FIU Latvia participates in Egmont Group Plenary Meeting

Ilze Znotiņa, Head FIU Latvia, took part in the Egmont Group Plenary Meeting in Sydney on September 24-27, hosted by AUSTRAC, where she spoke about Latvia's progress in implementing AML/CFT reforms and the Government's action plan to ensure further improvements. Daniel Thelesklaf, Chairman of MONEY-VAL, also participated to work towards increasing effectiveness of FIUs.

[Learn more](#)

Financial Sector Development

Blackstone to acquire majority stake in Luminor

Blackstone Group L.P, one of the world's leading investment firms, is investing EUR 1 billion to acquire a 60% stake in Luminor, with an option to buy 20% from Nordea in the future.

The transaction is expected to go through in the first half of 2019 and would represent the largest majority stake acquisition of a universal bank by private equity in the last decade globally and one of the largest M&A transactions ever in the Baltics. Blackstone's entry into the Baltics is a strong vote of confidence by international investors in the Latvian financial sector.

[Learn more](#)

SEB launches a new venture capital investment program for Baltic fintechs

SEB has created a new program to identify the most promising fintech startups in Latvia, Lithuania and Estonia and provide them with financing to develop innovative solutions for customers. SEB intends to invest in 10 to 20 startups in the Baltics over the next next five years. VAL, also participated to work towards increasing effectiveness of FIUs.

[Learn more](#)

Finance Latvia Association presents the first issue of industry magazine

The Finance Latvia Association has published the inaugural issue of the first English-language magazine in the sector – Finance in Latvia. The publication is designed to promote the Latvian financial sector in Europe, to highlight the progress of reform in the sector, and to strengthen the industry’s reputation. Finance in Latvia will cover transparency, GDPR implementation, digital transformation, fintech, and other current topics. You can download the first issue [here](#).

Learn more

Contributing Institutions



Cabinet of Ministers
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State Chancellery
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Ministry of Finance
Republic of Latvia



Ministry of
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Financial and Capital
Market Commission



LATVIJAS BANKA
EIROSISTĒMA

Office for Prevention
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