Creditreform Rating

Press Release: Neuss, 03 July 2019

Creditreform Rating affirms the Republic of Latvia's ratings at A /stable

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "A" for the Republic of Latvia. Creditreform Rating has also affirmed Latvia's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "A". The outlook is stable.

Latvia's sovereign ratings and the related rating outlook were published on 03 July 2019 at 11:30pm CET. According to Creditreform Rating's Sovereign Rating Calendar 2019, the publication was originally scheduled for 28 June 2019. The deviation from the announced publication date is due to IT-related issues and changes in responsibilities on the side of the Latvian Ministry of Finance (MoF).

More specifically, we had sent our draft report to the MoF on 27 June, as EU regulation requires credit rating agencies to inform the rated entity before publication of the credit rating or the rating outlook to give the rated entity an opportunity to draw attention to any factual errors. However, as the up to this point responsible points of contact had obviously left the Ministry and there appeared to be server-side difficulties at the MoF, there was uncertainty whether MoF took note of our draft report. Since we wanted to make sure that MoF received our report before publication and has the chance to comment on the draft report, we postponed the publication of the sovereign rating.

MoF was informed of the deviation from the publication date in a timely manner, and took notice of the postponement. Moreover, responsibilities at MoF were clarified. Indeed, MoF eventually participated in the credit rating process, as it provided additional information and commented on a draft version of the rating report.

Thus, the published report represents an updated version, which was augmented in response to the factual remarks of MoF during their review. However, the rating outcome as well as the related outlook remained unchanged.

The Republic of Latvia's A ratings mainly reflect strong and improving fiscal metrics and a generally strong institutional framework, while the solid macroeconomic performance profile is somewhat balanced by risk factors pertaining to its small open economy and demographic developments. The key rating drivers are:

1. Brisk economic expansion in 2018 buttressed by strong ESI fund absorption; expectation of moderating but still robust GDP

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growth in 2019/20, underpinned by healthy consumption and investment activity; high degree of macroeconomic volatility

2. Per capita income convergence towards EU levels progressed in 2018 and this development should continue in the near term; considerable medium- to long-term challenges pertaining to adverse demographics, while rapid wage growth could put cost-competitiveness at risk in the event of slowing productivity growth

3. Generally high institutional quality, though institutional set-up needs to be enhanced to close gap towards EU levels; although the new government is composed of parties covering a wide political spectrum, we expect current fiscal and economic policies to be largely maintained

4. Widening fiscal deficit in 2018, mainly driven by capital expenditures and implementation of health care and tax reform measures; we expect the deficit to narrow again in view of less expansionary fiscal policy stance; strong debt affordability metrics and moderate government debt, which is set to decline further

5. Moderating but still elevated susceptibility to external shocks due to high degree of trade openness, significant share of external government debt; risks associated with improving but still negative NIIP somewhat mitigated by rising FDI-share in external liabilities

The rating outlook on Latvia's sovereign ratings is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – will remain fundamentally unchanged in the next twelve months.

Visit www.creditreform-rating.de to read the full rating report, which contains the rating outcome as well as the reasons for the rating decision and the related outlook.