



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

No. 7 26 November 2018



Māris Kučinskis
Prime Minister of Latvia

Message from the Government

My Government has prioritised disrupting financial crime by tackling money laundering and the financing of terrorism. Latvian state institutions are collaborating closely with the private sector to reduce risks in the financial services industry, stop business with high-risk shell companies and ensure better access to information about beneficial owners. My Government has laid the foundations on which all institutions can build to ensure that Latvia thrives as an open, competitive economy under the rule of law.

In This Issue

- DBRS agency confirmed Latvia's ratings at A (low).
- New business models in banking sector: financial institutions focus on EU and EEA customers and ending service to most non-EEA customers.
- Change management in banking sector – continued reduction in foreign deposits.
- FCMC enforcement measures– four companies fined in October and November.
- Latvian leadership in modern payment services.

Financial Sector Transformation

DBRS Confirms Republic of Latvia at A (low), Stable Trend

DBRS Ratings Limited has confirmed the Republic of Latvia's Long-Term Foreign and Local Currency – Issuer Ratings at A (low) and Short-Term Foreign and Local Currency – Issuer Ratings at R-1 (low). The trends on all ratings are Stable.

The ratings are underpinned by Latvia's political consensus on the benefits of stable macroeconomic policy-making, including judicious fiscal management and a low level of public debt, and its institutional benefits derived from membership in the European Union (EU) and the Euro area. DBRS considers Latvia well-positioned in its current rating range. Continued efforts by the Latvian government to strengthen the country's financial system and reduce domestic economic vulnerabilities could place upward pressure on the ratings. Over the medium-term, effective execution of a reform agenda to bring Latvia's income and productivity levels toward the European average could also be credit positive.

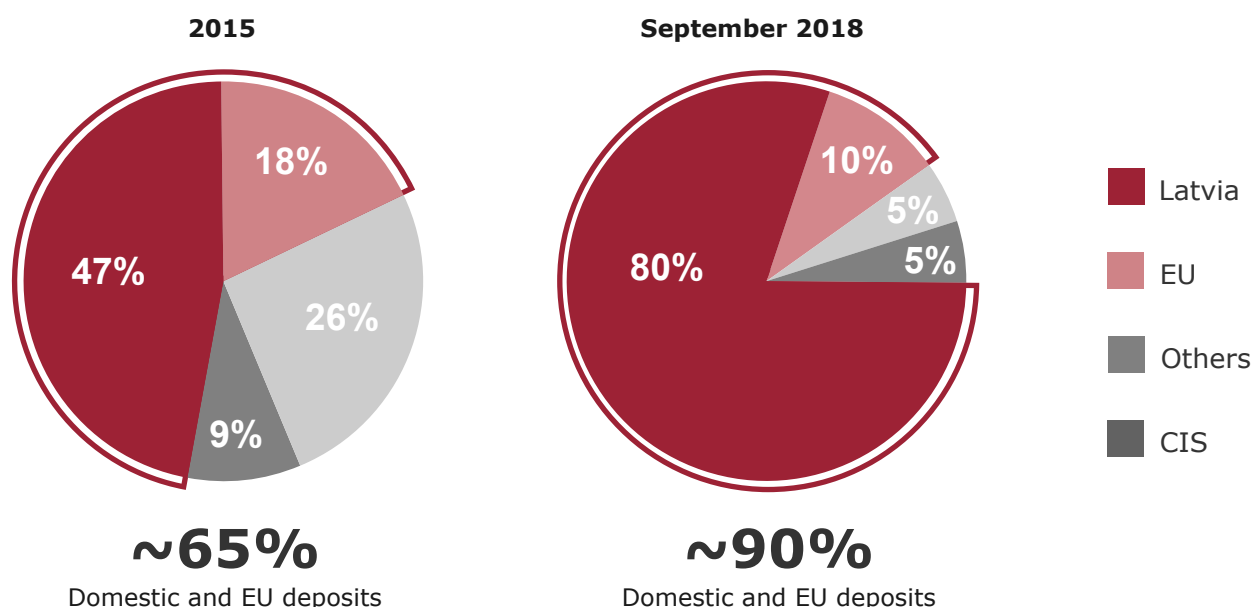
FCMC is finalising the implementation of new business models in the banking sector

The FCMC instructed banks earlier in the year to reduce their foreign deposits. Latvian banks have delivered a dramatic decrease in foreign customer deposits, with **domestic deposits (80%) and deposits from European Union member states (10%) dominating.**

The Latvian banking sector is now focusing on attracting the EU and EEA customers and ending service to customers outside this economic area. Latvian banks are concentrating on traditional banking services, and developing new channels to reach customers, including through new financial technologies. The banks are looking to expand their business with Latvian SMEs that would need credit, and are also hoping to expand in the Baltic States and wider EU.

FCMC reports that banks have been taking active measures to implement these new business approaches and integrating these new models into their business strategies. The future performance of the banks will indicate whether or not they have the capacity to execute the transition to these new business models.

Geographical breakdown of deposits



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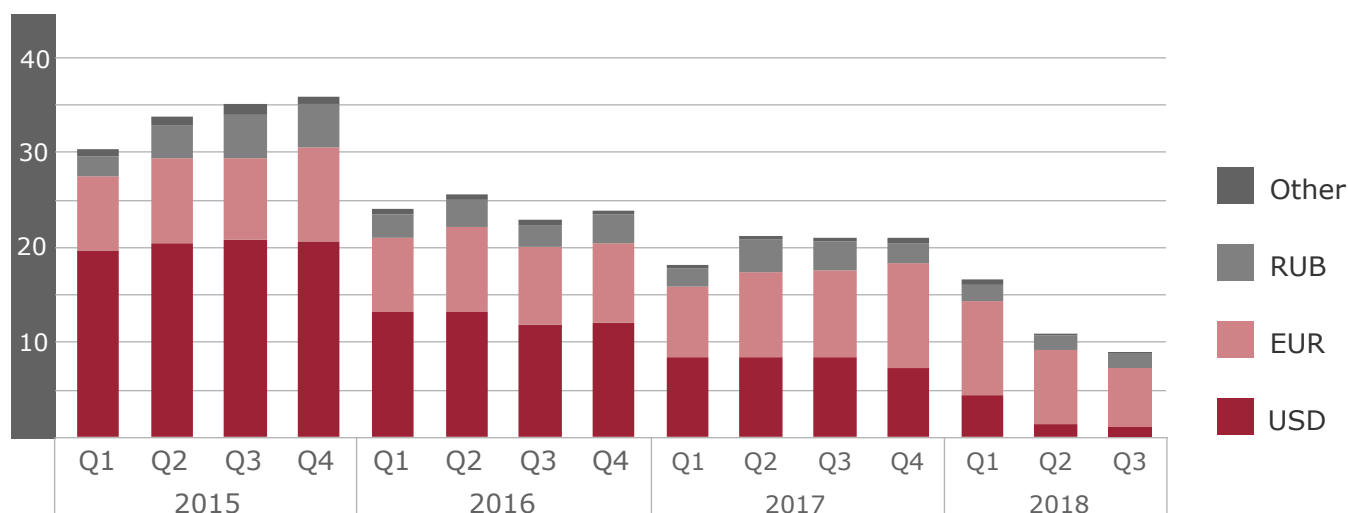
Change management in the banking sector

Latvian banks have also voluntarily reduced their interests in the high-risk customer segment. In less than a year the share of foreign deposits has fallen from 39.9% in September 2017 to 20.5% in September 2018. The level of foreign deposits is now stabilizing around 20%. Non-EU deposits have decreased from 25% in September 2017 to 10% in September 2018.

Foreign customer payments have also shrunk substantially with the enforcement of measures to disrupt financial crime. Payments in US dollars in Latvian banks have declined more than 10 times in Q3 2018 compared to Q3 2015. The euro has strengthened its dominance as a payment currency in the Latvian financial sector.

Latvian domestic deposits have continued to grow, irrespective of the changes in the foreign customer segment.

Outgoing transactions of foreign customers by currency, EUR billions



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AML Risk Management & Compliance

FIU organizes high-level international capacity building workshop on AML/CFT for law enforcement institutions

Financial Intelligence Unit of Latvia in cooperation with Latvian School of Public administration is organizing a high-level workshop on investigation of corruption and AML cases, and search and seizure of criminal assets. The workshop will happen on 27 – 30 November and will feature an active discussion between local and foreign experts and developing a common understanding on effective investigation of Latvian financial crimes. This will include a focus on defining Latvia's main priorities for disrupting financial crime in 2019.

The main lecturers and moderators include:

- **Yehuda Shaffer** - former head of Israel's FIU, later the Prosecutor General's Deputy specialising in financial crime, and head of Israel's MONEYVAL delegation until 2018, currently expert on AML/CFT issues, including training MONEYVAL national assessment experts in applying FATF standards.
- **Jean-Bernard Schmid** - Swiss prosecutor on financial and corruption crime.

Financial Sector Development

Latvia – euro area leader in modern payment services

Latvia was the first euro area country to introduce instant payments. Currently, more than 90% of Latvian commercial bank customers can use these interbank transfers, just a year after their roll-out. The pan-European platform joining 12 countries now handles more than 5 million transactions, including more than 100 000 instant payments a day processed in certain days in October.

Swedbank AS has launched instant payments that are now available between customers of the three large commercial banks, AS Citadele banka, AS SEB banka and Swedbank AS, as well as between the customers of those commercial banks and the financial institutions of other euro area countries that have also introduced instant payments, including Latvijas Banka.

As instant payments continue to develop, commercial banks and financial sector companies soon expect to start offering their customers an option to execute instant payments based on their mobile phone number.

[Learn more](#)

Central Government Debt Management – Q3 2018

In the 3rd quarter of 2018, the Treasury of Republic of Latvia issued dual-tranche Eurobonds worth EUR 350 million on international capital markets. The issue will cover financing requirements for the current calendar year, and debt repayments for the first half of next year.

Government domestic bond auctions also remain heavily oversubscribed, with the demand at the latest auction for 5-year T-bonds more than four times the amount offered.

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Finance Latvia Association Lending Index

In the period between the Year 2015 and 2018, the ability and willingness of businesses to borrow funds has significantly increased, according to the Finance Latvia Association Lending Index of the business segment. During this period, the lending index for businesses has increased twice as fast as it has increased for individuals. Both Latvian companies and Latvian residents are generally cautious, and the ability to borrow remains higher than the willingness to borrow.

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Contributing Institutions



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State Chancellery
Republic of Latvia



Ministry of Finance
Republic of Latvia



Ministry of
Foreign Affairs
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Financial and Capital
Market Commission



LATVIJAS BANKA
EIROSISTĒMA

Office for Prevention
of Laundering of Proceeds
Derived from Criminal Activity



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