Republic of Latvia

Rating report

Rating rationale

Sound institutions: Latvia's effective policymaking is anchored by its euro area membership, which ensures a robust framework for fiscal and economic policy. Its EU and NATO memberships provide robust mitigants to external security risks in the present context of the heightened geopolitical tensions.

Strong economic fundamentals despite Russia-Ukraine war: After a 0.4% contraction in 2024, the Latvian economy started to recover last year, growing by 1.7%. We forecast growth will continue to strengthen, to 2.6% in 2026 and 2.9% in 2027. Robust public and private investment trends support medium-term growth prospects, while improvements in private consumption support growth in the near-term. The medium-term growth potential remains robust, estimated at 2.0-2.5% annually, underpinned by favourable investment dynamics and continued productivity gains.

Solid fiscal position: The shocks related to Covid-19 and the escalation of Russia's war against the Ukraine have resulted in a deterioration in fiscal metrics since 2020. The fiscal deficit rose to 2.4% in 2025, up from 1.8% in 2024. It is forecast to rise to 3.4% of GDP on average over 2026-28 before gradually narrowing to about 3.0% by 2030, primarily reflecting ambitious defence expenditure commitments and sustained pressures on social transfers and interest costs. Public debt as a share of GDP is set to rise from an estimated 48.2% in 2025 up to around 51% by 2030, thus remaining among the lowest in the euro area.

Rating challenges: i) moderate income levels and exposure to external shocks, given the Latvian economy's small size and openness; and ii) unfavourable demographic trends, persistent labour shortages and long-term fiscal pressures.

Figure 1: Latvia's sovereign-rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative****	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	a-	EUR [+1]	Latvia [-0]	0	A-
Public finance risk		20%	aa			0	
External economic risk		10%	b			-1/3	
Financial stability risk		10%	aa			0	
ESG risk	Environmental factors	5%	aa			0	
	Social factors	7.5%	ccc			-1/3	
	Governance factors	12.5%	aa+			- 1/3	
Sovereign Quantitative Model*		**a**				**-1.0**	
Additional considerations						**0**	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.
**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.
***The rating committee approved an indicative SQM rating of 'a'.
****The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's Sovereign Rating Methodology.

Foreign currency

Long-term issuer rating/Outlook
A-/Stable

Senior unsecured debt/Outlook
A-/Stable

Short-term issuer rating/Outlook
S-1/Stable

Local currency

Long-term issuer rating/Outlook
A-/Stable

Senior unsecured debt/Outlook
A-/Stable

Short-term issuer rating/Outlook
S-1/Stable

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Credit strengths and challenges

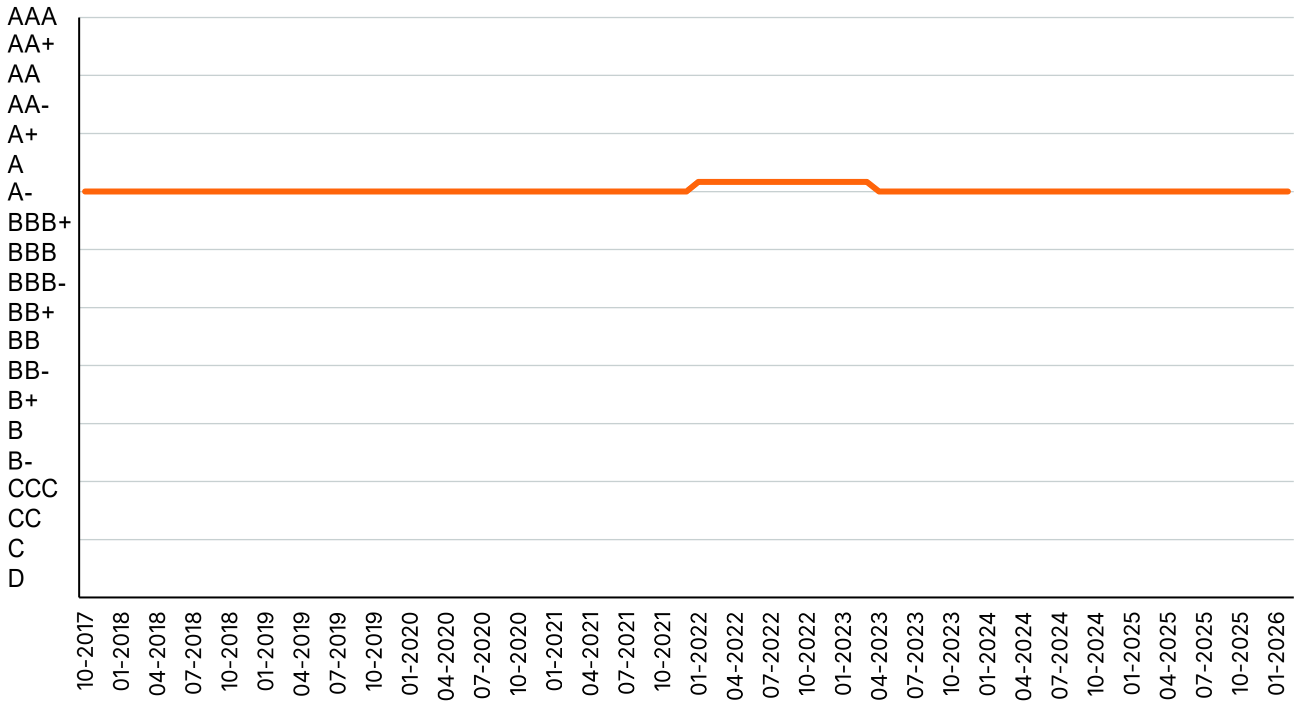
Credit strengths	Credit challenges
• Sound institutional setup, underpinned by euro area and NATO memberships • Sound economic growth prospects • Moderate public debt	• Exposure to external economic and financial shocks in a context of heightened trade and geopolitical uncertainty • Adverse demographic trends

Outlook and rating triggers

The Stable Outlook reflects the view that risks for the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
• Solid economic growth and income convergence continuing through structural reform and investment • Debt-to-GDP remaining anchored to moderate levels thanks to broadly balanced government finances • External and/or financial vulnerabilities continuing to decline	• Heightened geopolitical risk undermining macroeconomic stability • Deterioration in public debt dynamics • Increasing macroeconomic imbalances, weakening growth prospects • Deterioration in external position and/or re-emergence of financial sector risks

Figure 2: Rating history



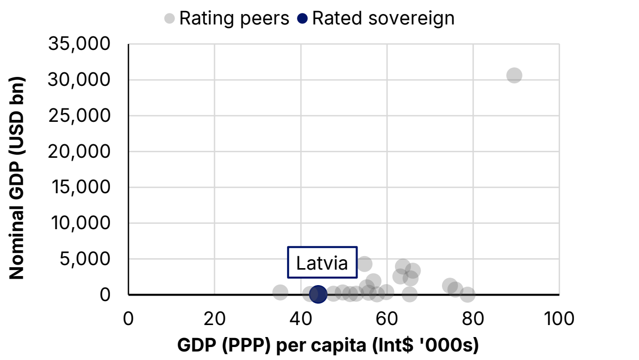
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.
Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Latvia's *Domestic Economic Risk*

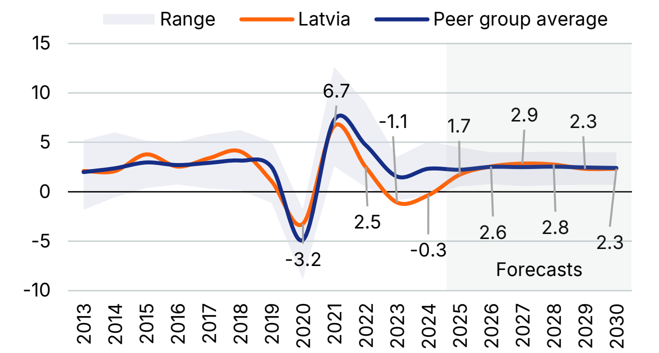
SQM[1] indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Growth potential and outlook	Neutral	0	Sound economic growth prospects, although constrained by adverse demographics and labour market bottlenecks
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank; effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Neutral	0	Limited economy size and diversification; solid productivity gains and labour market metrics

Figure 3: Nominal GDP and GDP per capita (2024E)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



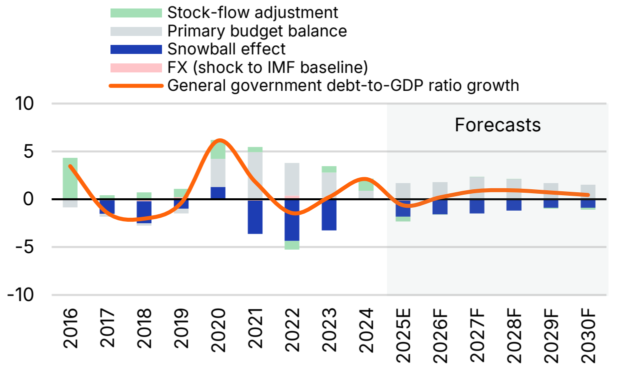
Source: IMF WEO, Eurostat, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Latvia's *Public Finance Risk*

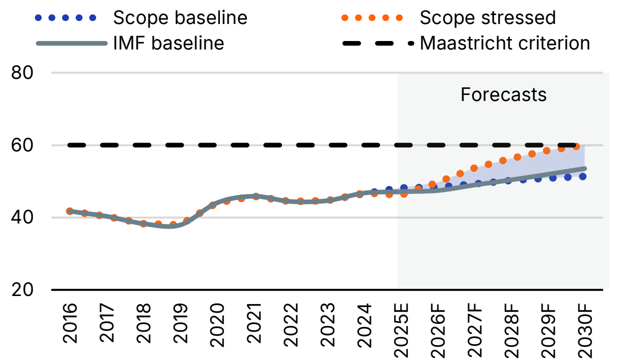
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Record of fiscal prudence, but still-large shadow economy and comparatively restricted tax base
	Long-term debt trajectory	Neutral	0	Moderate debt levels, expected to increase slowly over the medium term
	Debt profile and market access	Neutral	0	Robust debt structure, moderate funding needs, and ability to issue on favourable terms in capital markets

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

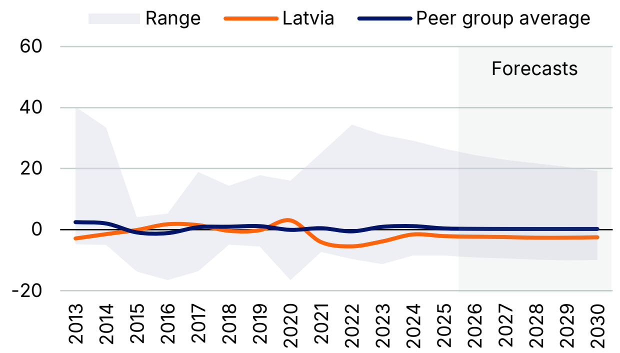
[1] Sovereign Quantitative Model

External economic risk

Overview of Scope's assessments of Latvia's *External Economic Risk*

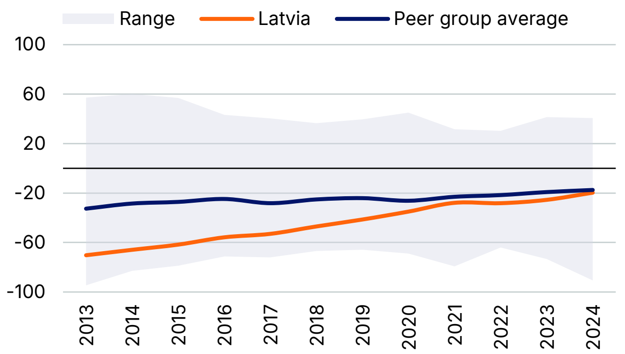
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Current account resilience	Neutral	0	Improvements in export diversification but high share of lower value-added exports
	External debt structure	Neutral	0	Elevated, albeit declining, external debt, but limited risks of capital outflows
	Resilience to short-term external shocks	Weak	- 1/3	Very small and open economy, exposed to ongoing uncertainty on global trade; euro-area membership partly mitigates exposure to external developments

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



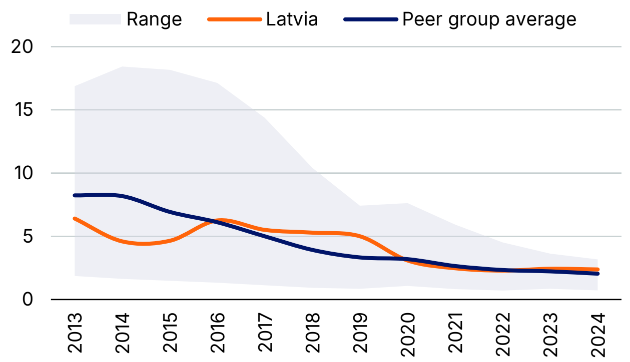
Source: Eurostat, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Latvia's *Financial Stability Risk*

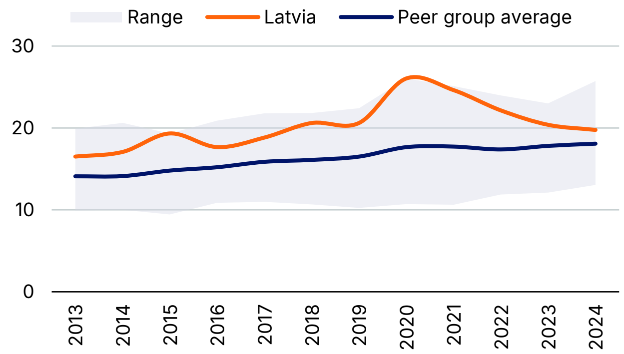
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Banking sector performance	Neutral	0	Well-capitalised and profitable banking sector with moderate non-performing loans
	Financial sector oversight and governance	Neutral	0	Oversight under the Bank of Latvia and the ECB as part of the Banking Union
	Financial imbalances	Neutral	0	Concentration and spillover risks in the banking system from Nordic banking groups, moderate private debt

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



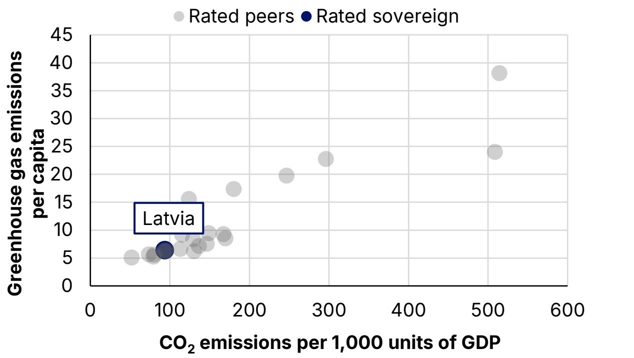
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Latvia's *ESG Risk*

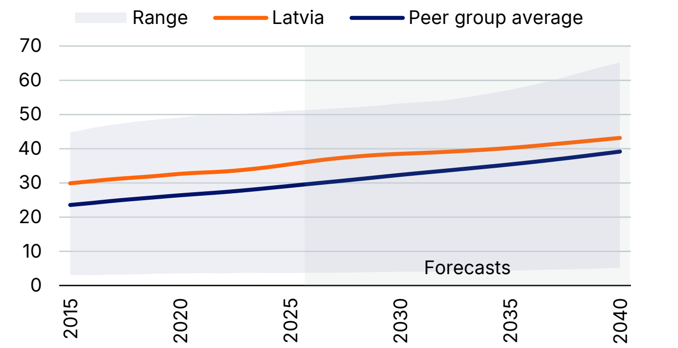
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Environmental factors	Neutral	0	Strong record in environmental sustainability and governance; ambitious policy efforts to achieve carbon neutrality by 2035
	Social factors	Weak	- 1/3	Weak demographics, though fiscal costs partly mitigated by solid pension system; strong equality, high-quality education system
	Governance factors	Weak	- 1/3	Stable governance, supported by EU, euro area and NATO memberships; heightened geopolitical uncertainty could impact domestic institutional developments

Figure 11: CO_2 emissions per capita/GDP (2023), $mtCO_2e$



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

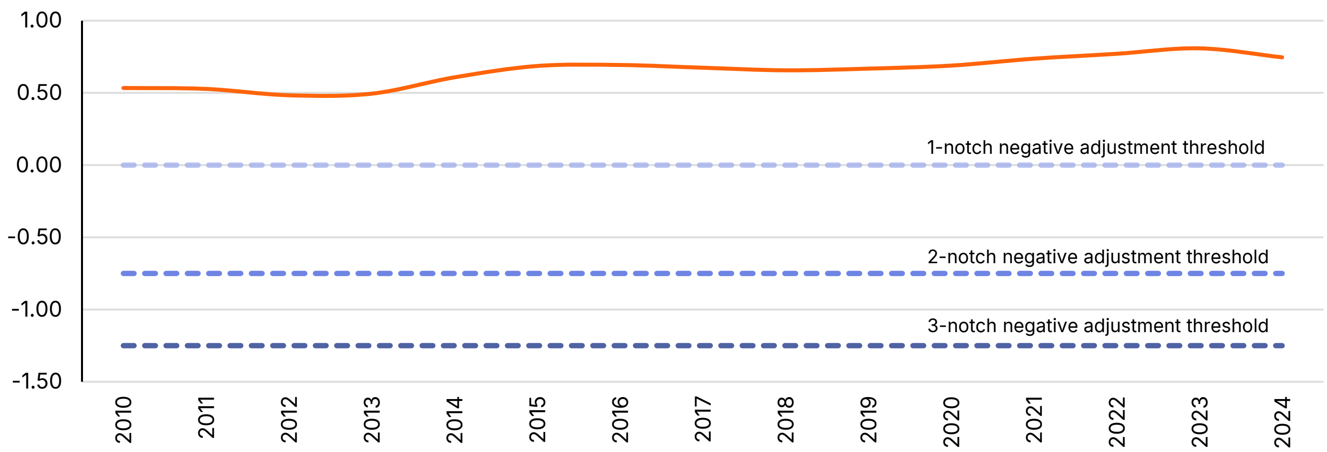
IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	**Euro**	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	**29.3**	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	**1**	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Latvia, three-year moving average



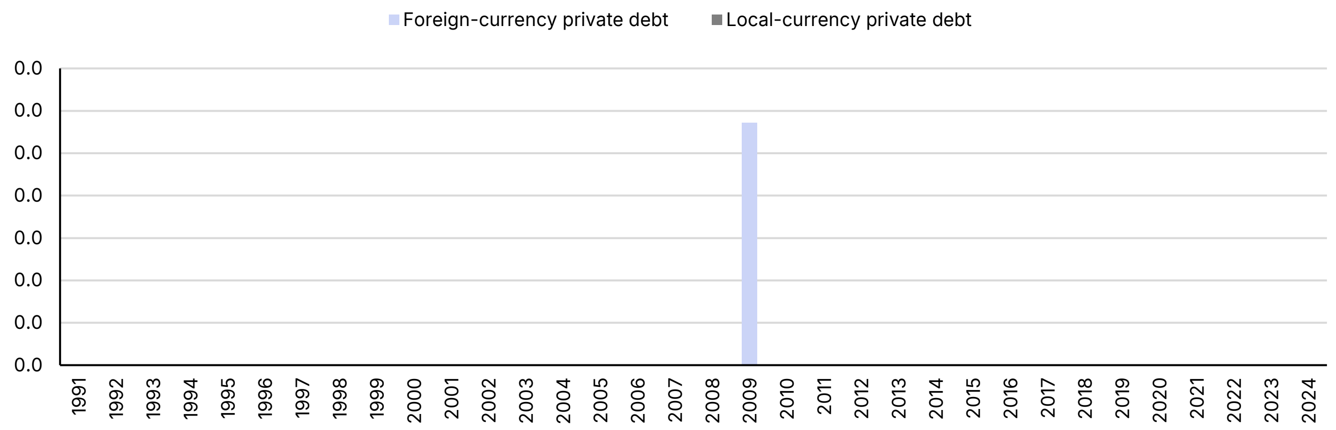
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix 1. Sovereign default history

Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under Scope's credit-rating definitions.
Source: Bank of Canada–Bank of England Sovereign Default Database, Scope Ratings.

Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
Croatia
Hungary
Poland
Slovakia

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5-year USD CDS spread (bps) as of 8 January 2026	55.4

Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers, and may therefore differ from data from national and other international statistical series and may not immediately reflect latest national updates.

Pillar	Core variable	Source	2020	2021	2022	2023	2024	2025E
Domestic Economic	**GDP per capita (PPP)**, Int$ '000s	IMF	32.6	35.4	39.0	41.4	42.5	44.1
	Nominal GDP, USD bn	IMF	33	38	38	43	44	48
	Real growth, %*	IMF	-3.5	6.9	1.8	2.9	-0.4	1.0
	CPI inflation, %	IMF	0.1	3.2	17.2	9.1	1.3	3.8
	Unemployment rate, %	WB	8.1	7.5	6.8	6.5	6.9	-
Public Finance	**Public debt**, % of GDP	IMF	44.0	45.9	44.4	44.6	46.8	47.1
	Net interest payment, % of government revenue	IMF	2.3	2.0	1.4	1.5	2.2	2.6
	Primary balance, % of GDP	IMF	-2.9	-4.9	-3.4	-2.8	-0.9	-2.4
External Economic	**Current-account balance**, % of GDP	IMF	3.0	-4.1	-5.5	-3.8	-1.6	-2.1
	Total reserves, months of imports	WB	2.9	2.3	1.6	1.8	1.8	-
	NIIP, % of GDP	IMF	-37.7	-26.7	-28.5	-26.4	-19.7	-
Financial Stability	**NPL ratio**, % of total loans	IMF	3.1	2.5	2.3	2.4	2.4	-
	Tier 1 ratio, % of risk-weighted assets**	IMF	24.0	24.1	24.1	21.0	20.4	13.6
	Credit to the private sector, % of GDP	WB	34.7	32.5	31.0	28.6	29.5	-
ESG	**CO_2 per EUR 1,000 of GDP**, $mtCO_2e$	EC	111.9	108.3	97.8	94.7	93.9	-
	Income share of bottom 50%, %	WID	18.3	18.2	18.2	18.4	-	-
	Labour-force participation rate, %	WB	78.2	75.8	76.7	76.6	76.4	-
	Old-age dependency ratio, %	UN	32.6	33.0	33.3	33.9	34.6	35.4
	Composite governance indicators* **	WB	0.9	1.0	0.9	0.9	1.0	-
	Political stability, index	WB	0.7	0.7	0.8	0.8	0.7	-

*The latest figures published by Eurostat show real growth of -3.2% in 2020, 6.7% in 2021, 2.5% in 2022, -1.1% in 2023, -0.3% in 2024. The latest estimate published by Latvian authorities show real growth of 1.7% in 2025.
**The latest figure published by Latvijas Banka shows the aggregate Tier 1 ratio as of Q3 2025 at 20.0%.
***Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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Related research

CEE Outlook 2026: growing divergence, sustained fiscal and governance challenges, December 2025

Applied methodology

Sovereign Rating Methodology, January 2025

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