

Latvijas Banka: Annual Report 2024



© Latvijas Banka, 2025

The source is to be indicated when reproduced.

Design: Ozols Ir

Photos: SIA "BALTIC PICTURES",
I. Gabaliņa, I. Stūrmanis,
E. Pālens, E. Trifanova, P. Čurkste,
Z. Bitere, I. Leiniša, M. Užāns,
Archive of Latvijas Banka

The cut-off date is 29 May 2025

ISSN 1407-1797

www.bank.lv

Contents

Foreword.....	4
Latvijas Banka in 2024.....	6
Management and organisation	7
Mission, vision, values and strategy.....	7
Management principles and development	9
Human resources	10
Financial resources.....	12
Risk management	15
Sustainability	18
Advice for Latvijas Banka's areas of responsibility	22
Topics of the year	24
Economic environment and monetary policy.....	24
Availability of financial services	32
Financial stability and macroprudential policy	38
Financial sector supervision.....	43
Security of financial services (critical financial services).....	94
The resolution mechanism	97
Compensation disbursement schemes	99
Investment management.....	101
Payment and settlement systems.....	110
Cash circulation.....	114
Data management, statistics, and the Credit Register.....	122
Cooperation with international and foreign institutions	126
Financial literacy.....	130
Financial Statements of Latvijas Banka for the Year Ended 31 December 2024	132
Appendices	133
Appendix 1. Month-End Balance Sheets of Latvijas Banka for 2024	133
Appendix 2. Balance Sheets of Latvijas Banka for the Years 2020–2024.....	135
Appendix 3. Profit and Loss Statements of Latvijas Banka for the Years 2020–2024.....	136
Appendix 4. Latvijas Banka's Publications and Major Publications by the Experts of Latvijas Banka in 2024.....	137
Appendix 5. Glossary	139
Abbreviations	144

Foreword



The Annual Report serves as an opportunity to look at the bigger picture behind the countless daily tasks, highlight the results achieved, and outline the key directions for our work in the years to come. The focused, forward-looking, and sustained efforts of recent years to reform and strengthen Latvijas Banka have established a strong foundation for the continued development of both Latvijas Banka and the broader Latvian financial system. Our activities have led to exceptional results, with a great deal of accomplishments in 2024.

I would like to highlight just a few of these areas.

The availability of cash is strong, the network of ATMs is secure, a new network of critical ATMs has been established with higher resilience in crisis situations. We are among the leaders in modern payments, not only in our region, but also across the entire euro area. Our established and well-maintained instant payment infrastructure is convenient, secure, and popular. Interbank payments are cheap and increasingly used by the population and businesses alike. Last year, we passed significant milestones towards ensuring that, from 2025 onward, people will be able to use their payment cards to buy food, medication, and fuel even during internet outages. This means that both cash and non-cash payment methods will remain available for transactions even in times of crisis.

During our time on the Governing Council of the ECB, we swiftly tamed the exceedingly high inflation caused by Russia's unjustified invasion of Ukraine. This enabled a cumulative reduction of 100 basis points across key interest rates over the past year, helping ease financing costs for borrowers. In turn, lower inflation underpins greater purchasing power for the population, supporting economic growth.

Since 2023, following the integration of the Financial and Capital Market Commission, Latvijas Banka's responsibilities have expanded to encompass the regulation and oversight of the financial sector. In two years, we have moved beyond the lowest point both in terms of lending and the approach of commercial banks towards their customers. The side effects of the capital repairs have largely been resolved: regulation has been simplified, manuals revised, account accessibility is no longer a systemic issue, and the number of customer complaints is shrinking. We will persist in our efforts to ensure that honest customers are treated with respect, without facing disproportionate burdens from regulatory requirements.

Lending is currently expanding at a significantly faster rate than the economy. Loans are becoming more affordable – just a few years ago, the average markup on new mortgages from commercial banks was 2.5%, whereas it is now around 1.5% and continues to decline. At the request of Latvijas Banka, the process of re-crediting private mortgages was streamlined, with a similar solution for corporate lending also initiated last year. The regulation, developed by Latvijas Banka and approved by the Saeima, will require commercial banks to expand their presence in regions, bringing commercial banks closer to their customers, resulting in enhanced access to financial services.

We have developed and submitted proposals (currently under examination by the Saeima) aimed at boosting the returns on the 2nd pillar pension scheme to deliver a more than 60 million euro benefit to individuals. In record time, we introduced regulatory changes at the euro area level, enabling FinTech companies to connect to Latvijas Banka's payment systems starting in 2025 – paving the way for the development of a powerful and internationally significant FinTech sector in Latvia.

These efforts deliver tangible and practical benefits to each individual and business in Latvia. I am pleased that the public values our efforts. Surveys suggest that two-thirds of Latvia's population trust Latvijas Banka. At the end of 2019, when I assumed the role of Governor of Latvijas Banka, the institution's reputation had been tarnished. We have completely turned this around – today, Latvijas Banka stands as one of the leading institutions in Latvia: powerful, dynamic, and modern. Our work is also recognised internationally – Latvijas Banka's views and analyses are regularly featured on financial news channels and in agency publications across Europe.

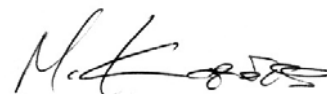
However, numerous challenges persist, and considerable work still lies ahead. A multitude of risks remains, and global uncertainty is at an elevated level – driven in particular by sharp geopolitical shifts, tariff wars, and rapid technological advancements. We will persist in our dedicated efforts to serve Latvia's best interests, and in the years to come, we will focus our efforts on three directions.

The first direction is a secure and crisis-resilient financial sector and payment systems.

The second direction is the accessibility of financial services – more affordable, modern, and tailored financial products for various customer groups, supported by extensive regional coverage, and a diverse financial sector ecosystem, underpinned by a well-developed non-bank sector.

The third direction is an innovative, efficient, and technologically advanced central bank. It entails data management aligned with the highest global standards, coupled with the use of artificial intelligence tools.

I would like to express my GRATITUDE to each member of Latvijas Banka's team for their contributions, and I wish them energy and strength in 2025. We are a powerful, strong, smart, and purpose-driven team. Together, we can achieve remarkable success!



Mārtiņš Kazāks
Governor of Latvijas Banka

12 May 2025

Latvijas Banka in 2024

5.4 → 2.4

Average annual inflation in the euro area has fallen to **2.4%**, moving closer to the target  1.3%

↓ 4 x

Euro interest rates have been cut four times, by a total of **100 basis points**, thereby reducing borrowing costs and supporting economic growth



Legislative proposals aim to simplify corporate refinancing



A secure and accessible financial sector – regulation to govern the regional representation of ATM networks and banks has been developed



Non-bank payment providers have gained access to Latvijas Banka's payment system



The Crypto-Asset Market Regulation (MiCA) has been implemented, enabling the licensing of crypto-asset service providers

at least
60

Proposed amendments to the second-pillar pension regulation have been designed to enable future retirees to save **60 million euro** over the next decade



The Digital Euro Forum has been established to enhance public readiness in Latvia for the future adoption of the digital euro

944

The total capital and reserves of Latvijas Banka have increased by one third – to **944 million euro**



A total of **56 million euro** has been appropriated to the state budget

Management and organisation

Mission, vision, values and strategy

The mission of Latvijas Banka is to work for the benefit of Latvia.

Our values



Brave in addressing challenges

We are flexible in making changes and doing so in a purposeful and targeted manner. We encourage each other and people around us to be brave, to accept challenges and to look for new solutions.



United in humanity

We are very conscious of the power of teamwork, and we achieve the best results through cooperation. Our team is united by humanity. We have a deep sense of responsibility and we live up to our promises.



Powerful in development

We improve ourselves and inspire others to do the same, so that we can collectively contribute to progress in Latvia.

Strategic development directions for 2023–2026



A secure and developed financial sector

A favourable environment for financial market participants to provide financial services, introduce new products, and run high-quality operations

Close cooperation with decision-makers to apply well-considered policy in the financial sector

Proportionate regulation and effective supervision of the financial sector



Forward-looking decisions at both the national and individual economic levels

Enhancement of the bank's analytical and research skills both in Latvia and internationally

Promotion of financial literacy and knowledge of economics among the public and businesses

Analysis and understanding of priority topics that are important for society



Sustainability of the financial system and economy

Implementation of the principles of sustainability in the financial sector and the economy

Construction of a regulatory environment that supports sustainability

Sustainable behaviour in the day-to-day work of the bank



An effective and innovative central bank

Skilful data management that extracts maximum value from information

Ever increasing efficiency through the use of new technologies

Development of a culture of innovation



Meaningful career opportunities for professionals

An inclusive and flexible working environment that promotes the well-being of employees

Development of employee skills and talent

Work that meets all the organisation's values

Management principles and development

The management structure of Latvijas Banka comprises:

- the Council of Latvijas Banka, which is a collegial decision-making body that manages Latvijas Banka;
- departments, responsible for achieving results through the execution of functions and processes defined for the bank;
- committees and commissions.

The Council of Latvijas Banka is the main decision-making body of Latvijas Banka. The term of office for the Governor, the Deputy Governors, and other members of the Council of Latvijas Banka is five years.

The membership of the Council of Latvijas Banka at the end of 2024 was as follows:

- Governor Mārtiņš Kazāks (until 20 December 2024; on 6 February 2025, he was re-elected as Governor of Latvijas Banka for a second term);
- Deputy Governor Māris Kālis (from 21 December 2024 to 6 February 2025, he was Acting Governor of Latvijas Banka);
- Deputy Governor Santa Purgaile;
- other members of the Council: Kristīne Černaja-Mežmale, Ilze Posuma, and Zita Zariņa.



Mārtiņš Kazāks



Māris Kālis



Santa Purgaile



Kristīne Černaja-Mežmale



Ilze Posuma



Zita Zariņa

Human resources

There were 531 employees working at Latvijas Banka at the end of 2024, including 12 employees with a fixed-term employment contract (at the end of 2023 – 531 employees and 8 fixed-term employees respectively).

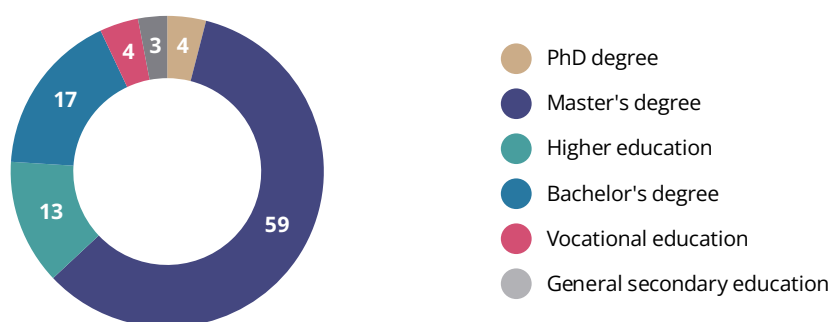
At the end of 2024, 46% of Latvijas Banka's employees were men and 54% were women (at the end of 2023 – 47% and 53% respectively). Regarding managers, 46% were men and 54% were women.

A Counsellor of Latvijas Banka worked at the Permanent Representation of the Republic of Latvia to the EU in 2024.

Similar to previous years, Latvijas Banka organised training sessions for employees to foster their professional development and growth, while also enhancing their expertise. Staff training costs at Latvijas Banka were 1.5% of the total spending on staff remuneration in 2024, and 1.2% in 2023.

At the end of 2024, 93% of Latvijas Banka's employees had completed higher education, and 4% of them held a PhD degree – unchanged from 2023.

Chart 1. Education of Latvijas Banka's employees (at the end of 2024; %)



According to data from a survey to identify the most attractive employer conducted by SIA TNS Latvia in 2024, Latvijas Banka was highly rated as an attractive employer, securing 2nd place among all companies and institutions in the financial sector. Employees recognised Latvijas Banka as a stable and trustworthy employer with a solid reputation, placing it 7th among the most attractive employers in Latvia.

In 2024, Latvijas Banka was awarded the status "Family-friendly workplace" under a programme implemented by the Society Integration Foundation.

Latvijas Banka also earned bronze status in the diversity assessment conducted under the Society Integration Foundation's employers' movement "Power in Diversity!". This status is awarded in recognition of strong performance in the implementation of diversity principles and a demonstrated commitment to fostering an inclusive work environment.

In 2024, Latvijas Banka launched a dedicated career website and introduced a state-of-the-art system for candidate selection and management. In the reporting year, Latvijas Banka welcomed 39 new colleagues to its team. A total of 1122 candidates demonstrated their interest in joining Latvijas Banka through selection competitions.

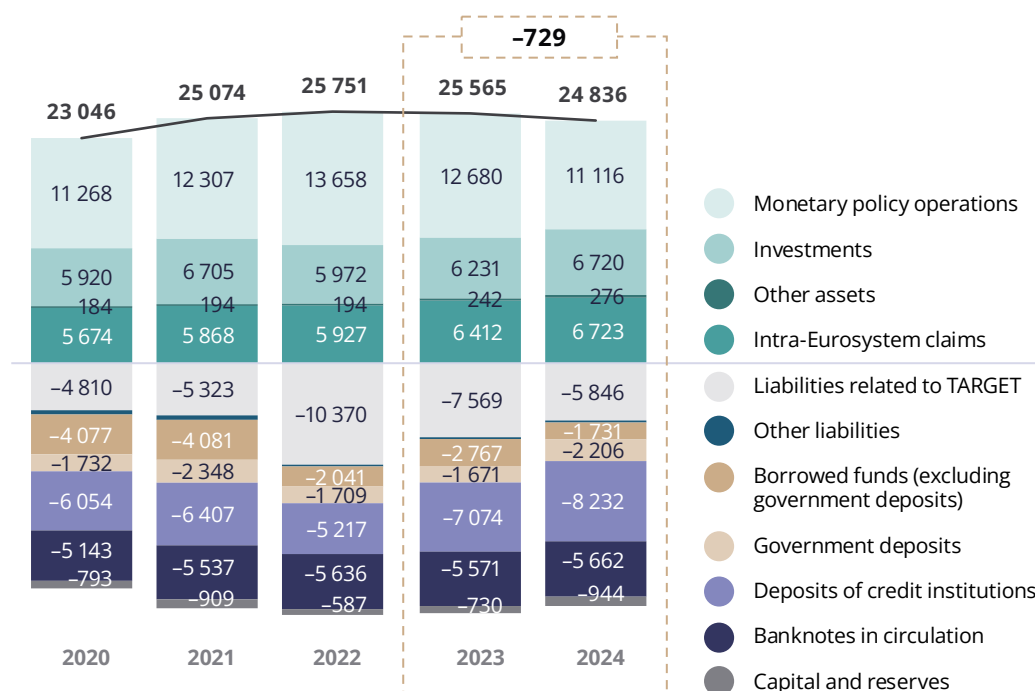
15 students participated in Latvijas Banka's summer internship programme, while 23 students attended Latvijas Banka's Shadow Day, promoting the institution's recognition as an employer among the youth audience.

In the reporting year, Latvijas Banka launched a competency development programme for managers, future managers, and experts, with 72 employees participating. The programme received an average rating of 8.6 out of 10 from participants.

Financial resources

The financial management system of Latvijas Banka has been developed to support decision-making processes, financial risk management, and efficient use of financial resources. The major financial transactions of Latvijas Banka are centred around the management of financial assets and the execution of monetary policy.

Chart 2. Balance sheet of Latvijas Banka (assets/liabilities (-); millions of euro)



The assets of Latvijas Banka saw a decline of 729 million euro in 2024. The main changes in assets and liabilities were as follows:

- the balance sheet item "Securities held for monetary policy purposes" experienced a 1470 million euro decrease due to the redemption of securities purchased by Latvijas Banka under the public sector purchase programme and the pandemic emergency purchase programme. The amount of

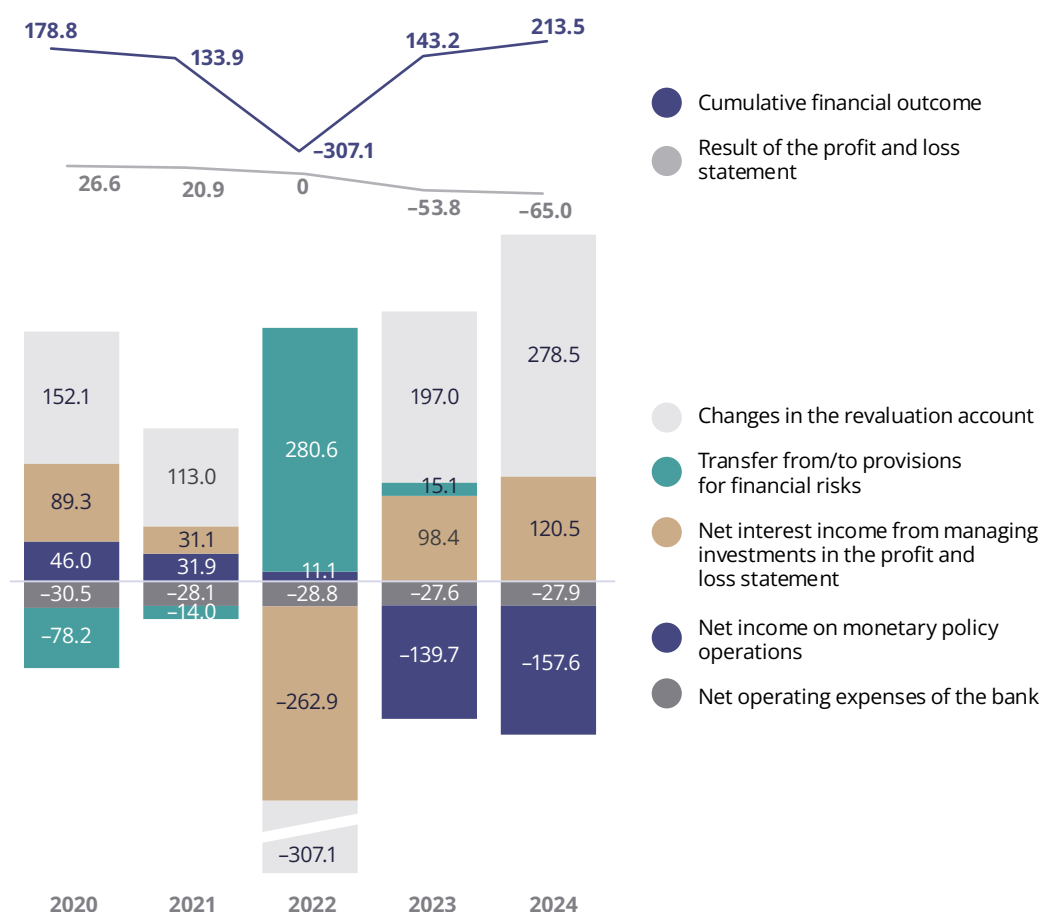
loans granted to credit institutions by Latvijas Banka as a result of longer-term refinancing operations dropped by 93 million euro following their repayment.

- due to cross-border payments, liabilities to the ECB for the settlement result in TARGET declined by 2801 million euro;
- the volume of credit institutions' deposits amounted to 1723 million euro, mainly owing to an increase in the Eurosystem's deposit facility used by credit institutions to make overnight deposits at a pre-specified interest rate.

Latvijas Banka concluded 2024 with financial results that exceeded expectations, despite the negative results of monetary policy operations stemming from the interest rate hikes implemented by the Governing Council of the ECB in previous years to curb inflation in the euro area. The total recognised gains of Latvijas Banka amounted to 214 million euro (143 million euro in 2023), leading to an increase in Latvijas Banka's capital and reserves by 30% (to 944 million euro).

Through effective management of Latvijas Banka's gold and financial investments, their value rose by 399 million euro or 7% over the year, notably surpassing the increase in the value of the respective investments in 2023 (296 million euro).

Chart 3. Overall financial result of Latvijas Banka (millions of euro)



Although euro interest rates have been significantly reduced since June 2024, the average euro interest rate for the year remained higher than in 2023. This led to a further increase in Latvijas Banka's net monetary policy operation expenses compared to 2023, rising to 158 million euro (140 million euro in

2023). Interest expenses on deposits from Latvian credit institutions totalled 238 million euro (174 million euro in 2023), while interest expenses on deposits from the Latvian government amounted to 41 million euro (45 million euro in 2023).

The increase in the market value of financial investments achieved in 2024, totalling 399 million euro, includes 120 million euro reflected in the profit and loss statement. Meanwhile, 279 million euro, in accordance with Eurosystem accounting principles, is recorded in the total capital and reserves as a revaluation reserve, rather than being reflected in the profit and loss statement. Therefore, despite a positive overall recognised profit of 214 million euro, a loss of 65 million euro was recorded in the profit and loss statement. In accordance with the Law on Latvijas Banka, the loss is covered by the reserve capital set aside for such situations, ensuring that the central bank's ability to fulfil its responsibilities remains unaffected and without incurring expenses for the state.



Risk management

Latvijas Banka manages **strategic, financial, and operational risks**. Latvijas Banka's risk management goal and basic principles are set out in the *Risk Management Policy of Latvijas Banka* adopted by the Council of Latvijas Banka.

Strategic risks

Latvijas Banka manages strategic risks to minimise potential negative impacts on its strategic development directions and core tasks.

The strategic risk management process assesses risks related to geopolitical, political, or economic developments both in Latvia and globally. It also considers the definition and achievement of Latvijas Banka's strategic development directions, the prioritisation of tasks, and the allocation of resources during the formulation of Latvijas Banka's strategy and work plans. Additionally, the process addresses decision-making that can impact the implementation of Latvijas Banka's strategic development directions and the fulfilment of its tasks.

Strategic risk assessment is an integral part of the periodic review of Latvijas Banka's strategic directions, as well as the management of financial and operational risks.

Financial risks

Latvijas Banka's objective is to preserve the value of investments over the medium and long term, ensure adequate liquidity, generate income, and adhere to sustainability principles (see also the [Risk Management](#) sub-section in the *Investment Management* section). Latvijas Banka manages investments and executes the Eurosystem's unified monetary policy operations, making it primarily exposed to the following financial risks: market risk (price, interest rate, and currency risks), credit, and liquidity risks.

Adverse changes in financial market factors or a counterparty default can negatively impact Latvijas Banka's financial position and operational financial results. To mitigate the potential adverse impact of financial risks, Latvijas Banka manages these risks by establishing limits and parameters. On the basis of reasonable risk estimates, the Council of Latvijas Banka decides on provisions for financial risks associated with Latvijas Banka's investment management and other financial transactions, as well as the use of these provisions if the risks above materialise.

Recognising the long-term potential impact of climate change on Latvijas Banka's financial performance, Latvijas Banka has implemented a climate change risk management framework. As the sector evolves, adjustments are anticipated in Latvijas Banka's climate change risk management framework, the composition of its financial assets, and the disclosure of sustainability parameters.

Operational risks

Latvijas Banka manages operational risks with the objective of ensuring high-quality outcomes for processes and projects within defined timeframes, while maintaining the continuous, secure, and efficient execution of operations. This approach aims to minimise potential adverse effects on Latvijas Banka's ability to fulfil its tasks, protect its reputation, preserve financial standing, and safeguard operational financial results. All operational risks are addressed within a unified and comprehensive operational risk management framework.

In 2024, operational risk management at Latvijas Banka focused on strengthening the institution's operational resilience and management of cybersecurity and information security risks, with careful consideration of existing risks and ongoing technological advancements. In 2024, operational risks were effectively managed, with the implementation of targeted mitigation measures keeping risk exposure within acceptable levels.

Major operational risks	Objective of governance
Compliance risks, including the prevention of conflicts of interests, anti-corruption controls, protection of personal data, prevention of money laundering as well as terrorism and proliferation financing, and ensuring the protection of the work environment	To ensure compliance with the requirements in the legal acts governing the operation of Latvijas Banka and its staff, as well as their conduct in executing their official duties and responsibilities.
Business continuity risks	To mitigate potential adverse effects on the execution of critical processes, the disruption of which could have significant repercussions for the Latvian financial system or hinder the effective fulfilment of Latvijas Banka's tasks. This includes ensuring the uninterrupted execution of critical processes or the prompt and complete restoration of them in the event of any disruption or interruption, as well as the efficient management of incidents.
Physical security risks	To ensure the physical security of individuals on the premises of Latvijas Banka and of the premises themselves, including the transportation of valuables and of events organised by Latvijas Banka. The priority is to protect the life and health of individuals.
Information security risks	To prevent unauthorised disclosure or misuse of confidential information, classifying that information by its degree of confidentiality and ensuring appropriate protection for it is essential. It is equally important to ensure that these protective measures do not hinder Latvijas Banka in providing non-classified information to its cooperation partners and the public.
Risks related to information systems, including cyber security risks	To reduce any potential negative impact on the availability, security, and integrity of Latvijas Banka's information systems. Latvijas Banka classifies its information systems according to their criticality to the Bank's operations, as well as the confidentiality, integrity, and availability requirements of the data they process. Each classification level is assigned corresponding to physical and logical security.

Latvijas Banka manages operational risks across processes and projects by classifying the processes and risks and assessing how those risks could affect the outcomes of the process or project, and by using this classification to decide on and execute the most effective actions for ensuring appropriate risk management. The Operational Risk Management Department is in charge of maintaining a common operational risk management framework, organising the processes of operational risk management and incident management, as well as providing regular information on operational risk management as required by Latvijas Banka's legal acts. The Operational Risk Management Committee of Latvijas Banka coordinates operational risk management at the bank.

Latvijas Banka educates its employees on risk management, aiming to ensure the continuous development and maintenance of relevant knowledge and skills. To support this, regular training sessions and tests are conducted.

Sustainability

The year 2024 marked significant progress in the field of sustainability, both at the EU level – with the entry into force of the [Nature Restoration Regulation](#) and the applicability of the [Corporate Sustainability Reporting Directive](#) – and in Latvia, where the Ministry of Climate and Energy assumed responsibility for environmental protection and advanced key initiatives in climate policy. In parallel, Latvijas Banka, as anticipated, continued to advance its sustainability efforts, aligning with the evolving national landscape, and played an active role in shaping environmental, nature protection, and climate policies.

Latvijas Banka further elevated its environmental and social ambitions across key sustainability domains, supervising financial market participants, reducing its carbon footprint, and strengthening diversity, equity, and inclusion (DEI). Since mid-2024, Latvijas Banka has committed to sourcing electricity from renewable energy sources or high-efficiency cogeneration. This transition will have a substantial impact on reducing greenhouse gas emissions. In the realm of public procurements, Latvijas Banka has been a strong proponent of green public procurements, which saw a dramatic increase from just 2% of total public procurements in 2022 to 56% in 2024. A series of measures have been implemented to mitigate environmental impact, including energy efficiency enhancement solutions, improvements in waste recycling, and a business travel data analysis tool.

The [Sustainable Governance Award](#) was presented for the fourth time on 11 December 2024. The event celebrated companies that showcased outstanding performance in the award nominations and facilitated discussions on the [role of governance in sustainability processes](#), alongside the [ethical aspects of sustainable corporate governance](#). The award aims to reinforce the practical application of the Latvian [Corporate Governance Code](#) and sustainability principles among Latvian companies.

Several articles were published to raise awareness among stakeholders about the latest advancements in the field of sustainability. Evidence of sustainable performance is increasingly becoming a competitiveness factor for businesses. Thus, in 2024, Latvijas Banka continued to publish materials fostering discussions on progress towards sustainability across sectors, such as [construction](#), the [forestry and wood industry](#), [paper production](#) and [printing](#), as well as [transport](#), [mobility](#), and [safeguarding natural values](#).

In the realm of social sustainability, Latvijas Banka focused on raising awareness among young people concerning the importance of [building up personal savings](#). Latvijas Banka's experts examined aspects of [human capital](#) and the challenges of improving quality of life, while also analysing the [impact of childhood living conditions on income levels](#) and whether [women and men are equally compensated for their work](#).

In response to the rising losses from natural disasters in Latvia, a [study](#) was conducted on the protection of Latvian households through climate risk insurance. Latvijas Banka further advanced its research efforts on various sustainability-related topics, such as enhancing its [modelling toolkit](#) to better assess the economic impact of the green transition.

Throughout the reporting year, Latvijas Banka played an active role in international forums and organisations dedicated to advancing the greening of the financial system, including:

- the ECB working groups on climate change, carbon footprint, business travel, sustainable and responsible investments in non-monetary policy portfolios, and statistics;
- the EBA working group on sustainable finance;
- the ESMA working groups on sustainability reporting and regulation;
- interinstitutional working groups;
- the Network for Greening the Financial System¹ (NGFS) working groups on sustainable financial investments and corporate governance, climate scenarios, research, and biodiversity.

Key sustainability milestones achieved in 2024

Research and modelling toolkit	The modelling toolkit was further enhanced to analyse the effectiveness of various policies in delivering the green transition . A study was conducted on inequality of opportunities , or how childhood living conditions influence income levels in adulthood. A series of articles covering a broad spectrum of sustainability-related topics were published.
Macroprudential supervision	Latvijas Banka released an explanatory article outlining the implementation of its decision to ease credit standards for loans aimed at financing the purchase of energy-efficient housing.
Financial stability analysis, including stress testing, scenarios and models	An analysis was conducted to examine the correlation between the renovation activity of multi-apartment buildings and the income levels of residents across Latvia's cities, parishes, and Riga neighbourhoods.
Supervision of financial market participants	<p>Latvijas Banka maintained its involvement in the DG REFORM TSI project on environmental, social, and governance (ESG) risk management in the financial sector. As part of the project, Latvia's ESG regulatory framework for the financial sector received a positive assessment, confirming its alignment with EU requirements. Recommendations were also provided to enhance the supervision of ESG risk management. Latvijas Banka shared its expertise with other EU supervisory authorities regarding the application of energy efficiency data in the banking sector.</p> <p>Annual questionnaires were administered to monitor the compliance of financial market participants' activities. Drawing from prior experience and ongoing dialogue with market participants, the content and questions of the questionnaire were refined.</p> <p>The sectors of insurance, pension management, investment fund and alternative investment fund managers, as well as investment firms underwent a thematic review focused on sustainability-related disclosures. The key challenges identified in the review included adding the newly required volume of information to websites, ensuring that disclosures are presented in simple, concise language, and adhering to a consistent approach. Following the conclusion of the review, experience-sharing sessions were held with market participants. The integration of sustainability considerations into the supervisory review and assessment process</p>

¹ The Network for Greening the Financial System (NGFS) is a group of central banks and supervisors committed to sharing best practices, advancing climate and environmental risk management in the financial sector, and mobilising finance to facilitate the transition to a sustainable economy.

	<p>(SREP) for credit institutions progressed further. The SREP business model methodology for less significant credit institutions was revised through the integration of a dedicated sub-module addressing climate risk. The assessment is carried out to a high standard, and where appropriate, qualitative requirements or recommendations are issued to market participants to improve their sustainability risk management process.</p> <p>The Sustainability Breakfast events continued their role in raising awareness among financial market participants. The events assessed the financial sector's progress in meeting supervisory expectations, while also addressing topics, such as the impact of natural disasters on Latvia's economy and the insurance sector, and the protection of Latvia's households through climate risk insurance.</p>
Climate-related data and statistics	<p>The ECB's data on sustainable securities were integrated with Latvia's existing information on individual securities issues and holdings. Efforts were also made to ensure that Latvijas Banka's experts have access to the data through a centralised repository within the Data Lake.</p> <p>The calculation of financed carbon emissions by credit institutions was initiated, employing the following methodologies and data sources:</p> <ul style="list-style-type: none"> • the ECB's calculation method; • data from Latvijas Banka's Credit Register on loans issued to legal persons, submitted to the ECB under the AnaCredit framework; • data on individual securities issues and holdings transmitted to central securities databases. <p>This enabled Latvijas Banka to assess the quality of data on greenhouse gas emissions generated by major businesses and financed by credit institutions.</p>
Cash and market infrastructure	<p>The 1, 2, and 20 cent coins were exchanged between Latvijas Banka and the Central Bank of Ireland, resulting in significant savings of carbon emissions by reducing the need for new coin production.</p> <p>Nine tonnes of finely shredded banknotes were handed over to AS Rīgas Siltums for incineration in high-efficiency cogeneration furnaces. This approach represents the most efficient disposal method currently available.</p> <p>Innovative ideas for processing finely shredded banknotes into high value-added products were unveiled during the hackathon. Team "Pitch and Plane" was announced as the winner by the jury, receiving support to further develop their idea. The team developed a creative approach to transform shredded banknotes into interior components, panels, sound-absorbing panels, and furniture.</p> <p>In cash-related procurements, Latvijas Banka assessed bidders' compliance with sustainability criteria, placing particular emphasis on the use of recyclable and compostable materials in the production and packaging of collector and circulation coins, the use of renewable energy sources, energy consumption reduction, and the ability to regulate equipment downtime parameters in the procurement of cash-processing equipment.</p>
Investments	<p>A second report on climate-related financial disclosures was published, in alignment with the Eurosystem's unified stance on climate-related disclosures.</p> <p>The integration of sustainability strategies into investment portfolios was further advanced, encompassing the adaptation of portfolios to align with EU sustainability standards.</p>
Social responsibility policy	<p>As an employer, Latvijas Banka made continued strides in strengthening an inclusive working environment, for example, it:</p> <ul style="list-style-type: none"> • empowered employees with knowledge concerning the role of DEI in fostering a positive work environment; • conducted in-depth discussions within the management team to define the organisation's DEI target, thereby enhancing more informed decision-making in the future;

	<ul style="list-style-type: none"> • identified challenges associated with integrating the younger generation of employees, with the aim of positioning the organisation as an open and accessible employer for youth and improving intergenerational cooperation; • incorporated DEI aspects into regular surveys on the work environment and organisational culture encouraging feedback. One key area for improvement identified by employees was the need for greater management support in fostering diversity and an inclusive working environment; • implemented two efficient and cutting-edge personnel management systems, designed to ensure objective decision-making in staff selection; • resumed onboarding training for new staff; • conducted a comprehensive, anonymous, and voluntary survey on an inclusive work environment, providing the groundwork for establishing a dedicated working group and defining inclusivity principles in 2025. <p>Latvijas Banka undertook preparatory steps for the implementation of the EU Pay Transparency Directive, with the aim of ensuring transparency in wage setting, eliminating gender-based pay disparities, and promoting equal remuneration for work of equal or comparable value.</p> <p>In 2023, Latvijas Banka made a significant leap in the Official Monetary and Financial Institutions Forum's (OMFIF) Gender Balance Index, advancing from 139th to 35th place. Meanwhile, in 2024, Latvijas Banka surged to an outstanding 2nd place in the OMFIF Gender Balance Index.</p> <p>Latvijas Banka earned bronze status in the diversity assessment conducted under the Society Integration Foundation's employers' movement <i>Power in Diversity!</i>. This distinction is awarded in recognition of outstanding performance in implementing diversity principles and commitment to excellence in cultivating an inclusive work environment. As an employer, Latvijas Banka was also honoured with the "Family-friendly workplace" status.</p> <p>Over the course of two years, Latvijas Banka's strengths and areas for improvement have remained unchanged: its strengths include clear tasks, feedback and evaluation, while the area for improvement is employee workload.</p>
Knowledge enhancement and capacity	<p>Employees enhanced their knowledge of sustainability by participating in initiatives, such as nature restoration activity <i>Doing Good for Nature</i>, the sustainable mobility challenge <i>Walking Around the Globe</i>, and the <i>Don't Eat the Planet</i> campaign. Additionally, employees engaged in educational seminars organised by Latvijas Banka and stayed informed through the regularly published newsletter <i>Sustainability News</i>.</p> <p>Financial literacy and public awareness of sustainable finance were advanced through the addition of a dedicated sustainable finance section on Latvijas Banka's website naudasskola.lv, the publication of podcasts explaining key sustainable finance topics for the public, and the organisation of a unique debate in cooperation with the Stockholm School of Economics in Riga – entitled <i>Green Arguments: Debating Sustainable Finance</i>.</p>

Advice for Latvijas Banka's areas of responsibility

One of the tasks of Latvijas Banka is to advise the Saeima and the Cabinet of the Republic of Latvia on monetary policy and on aspects of economic policy that are associated with Latvia's participation in the euro area, as well as other issues related to the work of Latvijas Banka.

In 2024, officials and employees of Latvijas Banka held regular meetings with members of the Saeima and the government of the Republic of Latvia. They also participated in committee meetings of the Saeima and the Cabinet of the Republic of Latvia, and in the work of several committees and working groups established by the government to give opinions on financial and economic development.

In its analysis of Latvia's economic development prospects, Latvijas Banka provided comprehensive analytical and data-driven support, offering expert advice to the Saeima and the government on issues affecting the country's economy and development, including tax policy, social protection, education, foreign trade, human capital development, to name a few.

Latvijas Banka continued its analysis of the Latvian financial sector's role in the country's economy, focusing on the accessibility of funding and financial services, while equipping policymakers with insights into existing barriers and presenting proposals for improvement.

Following analysis and proposals by Latvijas Banka, regulatory amendments were introduced to enable more convenient and cost-effective refinancing of private mortgages. In 2024, at the initiative of Latvijas Banka, work began on developing laws and regulations aimed at removing barriers to the refinancing of loans and leases for legal persons. As a result of discussions with policymakers, amendments to the Commercial Law were drafted. The inter-institutional coordination and refinement of the amendments will continue throughout 2025.

To enhance access to financial services and prevent excessive risk aversion, a strategic framework for the proportionate and practical application of AML/CFT requirements to honest customers was developed in cooperation with the Ministry of Finance in 2024. As a result, various institutions implemented measures to enhance access to financial services by tackling systemic issues within this area. For example, Latvijas Banka conducted a horizontal review of all credit institutions, identifying deficiencies and directing them to develop corrective action plans, while also monitoring the implementation of these plans.

In 2024, an analysis of financial services availability in the regions was conducted, alongside a detailed examination of the challenges surrounding mortgage lending in these areas. Based on the findings, proposals for improvements, including amendments to laws and regulations, were formulated and

presented to policymakers. As a result, starting in 2026, access to financial services across will improve significantly.

Latvijas Banka cooperated with the Investment and Development Agency of Latvia to advocate for the interests of potential foreign financial market participants seeking to provide services in Latvia, aiming to bolster competition within the financial sector.

Experts of Latvijas Banka engaged in various working groups and professional organisations, as well as in collaborative efforts with relevant ministries and institutions. Their involvement included sharing expertise, offering advice, and providing support and proposals. This contribution extended to the drafting and amendment of regulatory acts across a broad range of areas within their scope of competence, including:

- economic forecasts;
- government expenditure and the programming and uptake of EU funds;
- enhancement of the state-funded pension scheme;
- development of the financial sector, including specific segments, such as FinTech companies, credit unions, pension funds, alternative investment funds, insurance, and reinsurance firms, etc.;
- financial literacy and reducing financial fraud;
- critical financial services;
- deposit protection;
- cash;
- digital euro;
- AML/CFTP;
- strengthening and effective enforcement of sanctions against Russia and Belarus.

Latvijas Banka submitted its opinion to the Constitutional Court in response to claims from natural persons and a legal person concerning amendments to the Consumer Rights Protection Law. These amendments relate to proposed support measures for mortgage borrowers, as well as to matters regarding the determination of land rent in cases of compulsory lease.

Employees of Latvijas Banka continued to participate in their capacity as experts in the Working Group for the Preparation of the Notification of the General Government Budget Deficit and Debt chaired by the CSB, compiling the notification data for the general government budget deficit and debt for 2023 and dealing with the methodological issues related to the compilation of these data.

Throughout the reporting year, Latvijas Banka continued to support the government in advancing Latvia's active engagement with the EU, OECD, and MONEYVAL, while also facilitating information exchange with international credit rating agencies and preparing for the Republic of Latvia's borrowing transactions.

In the autumn of 2024, Latvijas Banka initiated the coordination process for developing Latvia's financial technology strategy, with further progress anticipated throughout 2025. Latvijas Banka actively cooperates with the Ministry of Finance, the Ministry of Economics, the Investment and Development Agency of Latvia, the Riga Investment and Tourism Agency, and other public institutions, as well as industry associations and business representatives, in shaping the development of the strategy. The Ministry of Finance intends to submit the strategy for approval in the first half of 2025.

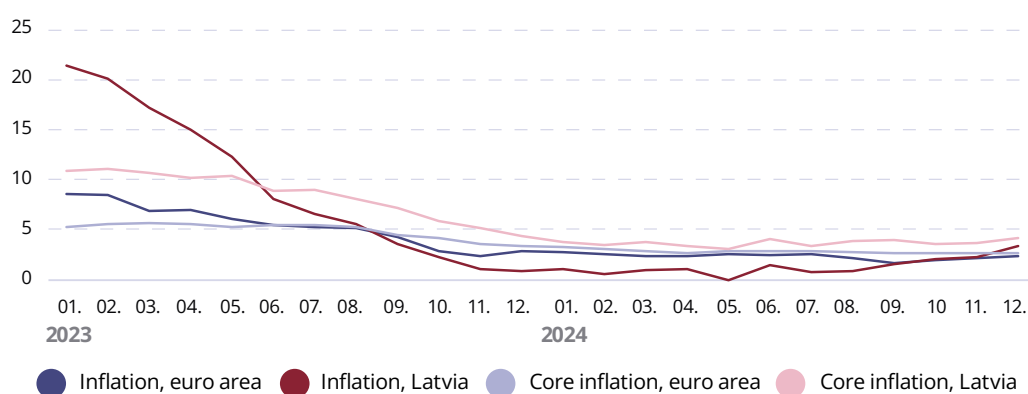
Topics of the year

Economic environment and monetary policy

Monetary policy: inflation is approaching its target, interest rates are falling

In 2024, inflation in the euro area continued to move towards the ECB's medium-term target of 2%. Inflation in Latvia was low, with prices rising by 1.3% over the year. Compared to previous years, the slower price growth in the euro area and Latvia was partly affected by the reduction of previous external shocks (increase in oil and food prices); nevertheless, core inflation also continued to move towards its target.

Chart 4. Headline and core inflation in the euro area and Latvia (%)



Source: Eurostat.

The ECB's past monetary policy tightening played an important role. With inflation declining significantly and approaching the 2% medium-term target, the Governing Council of the ECB stopped raising interest rates in 2024 and started to gradually ease them in the middle of the year, yet monetary policy remained restrictive. This helped keep inflation expectations firmly anchored to the 2% target and prevented price fluctuations, caused by temporary and transitory factors, from turning into lasting and sustained price increases.

As concluded in Latvijas Banka's [working paper](#), the interest rate increases implemented in 2022 and 2023 had a significantly stronger impact on inflation than in previous monetary policy tightening cycles in the euro area. Importantly, the convergence of inflation towards the central bank target was achieved without an excessive slowdown in economic growth. As a result, the sacrifice ratio was at a historically low (most favourable) level.

Chart 5. Sacrifice ratio of monetary policy



Source: Latvijas Banka's calculations.

Note. The chart shows the sacrifice ratio. It is calculated by dividing the maximum response of real GDP to a traditional monetary policy shock by its maximum impact on inflation derived from impulse response functions, using structural vector autoregression with time-varying parameters and stochastic volatility.

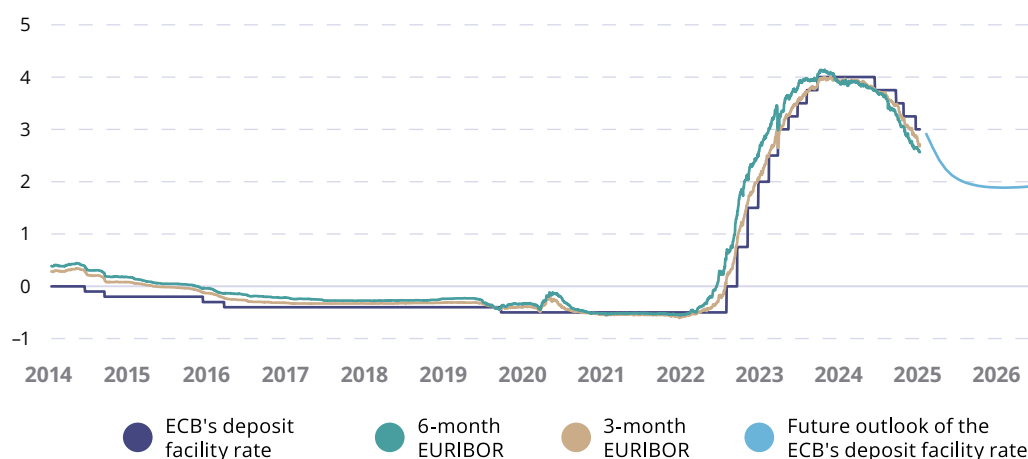
While central banks managed to prevent economic recessions in euro area countries and the overall labour market remained strong, economic growth in the euro area was weak. The outlooks for economic growth and the medium-term were revised downwards on several occasions during the year. This was driven both by external factors (escalation of geopolitical conflicts, trade tensions, and rising protectionism) and by the still high uncertainty surrounding the future economic course in the US and elsewhere. The sluggish economic activity in the euro area is also explained by a fragile recovery of domestic demand, with high consumer caution and a tendency to accumulate savings. Industry experienced a downturn due to both cyclical and structural factors, thus highlighting the problem of structurally weak competitiveness in the euro area. The strategic document "[On the Future of European Competitiveness](#)" prepared for the EC by Mario Draghi and published in autumn sets out the necessary steps at the EU and national level in three areas – innovation, decarbonisation, and competitiveness, as well as reducing security and resource dependencies – to restore resilient and sustainable growth in the region.

In response to the high level of uncertainty, the change in the ECB's monetary policy (interest rate cuts) was implemented gradually and continued to be based on pre-established principles, taking into account:

- the Governing Council's updated assessment of the inflation outlook;
- the dynamics of underlying inflation, excluding more volatile prices;

- the strength of monetary policy transmission, avoiding forward guidance. As a result, financial market participants paid great attention to data and interest rates were volatile at times, but overall market expectations are in line with inflation moving towards the 2% target during 2025.

Chart 6. Deposit facility rate and its future expectations; 3-month and 6-month EURIBOR



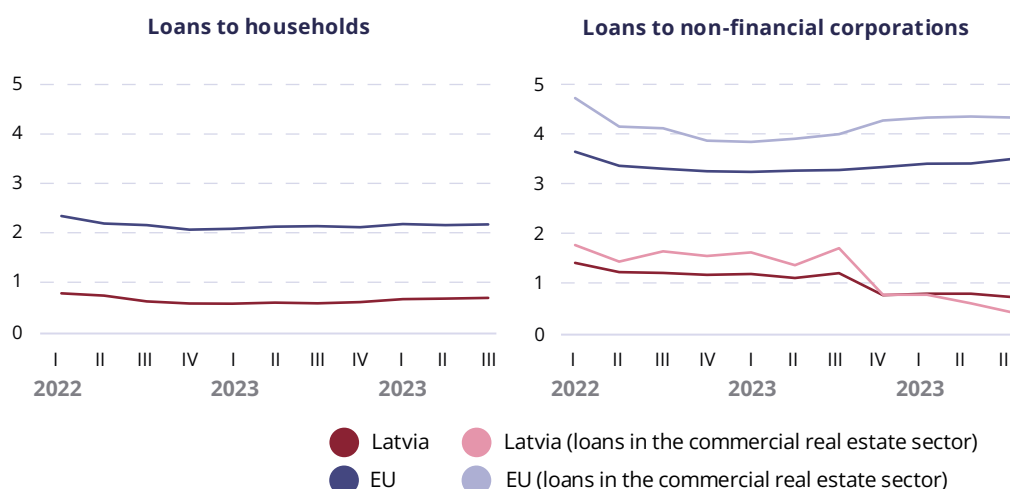
Sources: Bloomberg, Latvijas Banka's calculations.

Note. The spread between the ECB's deposit facility rate and the €STR is assumed to remain at the average level of 2024.

Overall, since the change of monetary policy, the main challenge for the ECB and the euro area national central banks has been to find the right balance between developments in the real economy, the financial sector, and inflation:

- An overly rapid slowdown in economic activity may also have a negative impact on medium-term inflation, so the aim of reducing interest rates is to support economic growth by avoiding protracted periods of low growth. At the same time, growth is held back by structural problems in the euro area and may also be affected by supply shocks, which complicate the work of monetary policymakers.
- The decline in inflation was uneven across all components. Overall, inflation fell rather rapidly since reaching its peak in autumn 2022; however, the inflation component of domestic demand – services inflation – remained resilient, mainly owing to strong wage growth. This created uncertainty as to how quickly headline inflation would return to the 2% target and thus warranted caution also in terms of interest rate cuts.
- A successful and effective monetary policy depends on the stability of the financial sector, as it facilitates the transmission of monetary policy changes to the real economy. Excessively long implementation of an overly tight policy may weaken the financial sector and make it less responsive to policy changes, which has led to an increased focus on the functioning of the financial sector. Despite the steep increase in interest rates in 2022–2023, the ratio of non-performing loans in bank loan portfolios increased marginally in most cases, while profitability improved significantly. This points to the ability of banks to provide credit to the economy and support its growth.

Chart 7. Non-performing loans in Latvia and the largest banks in the EU on average (%)



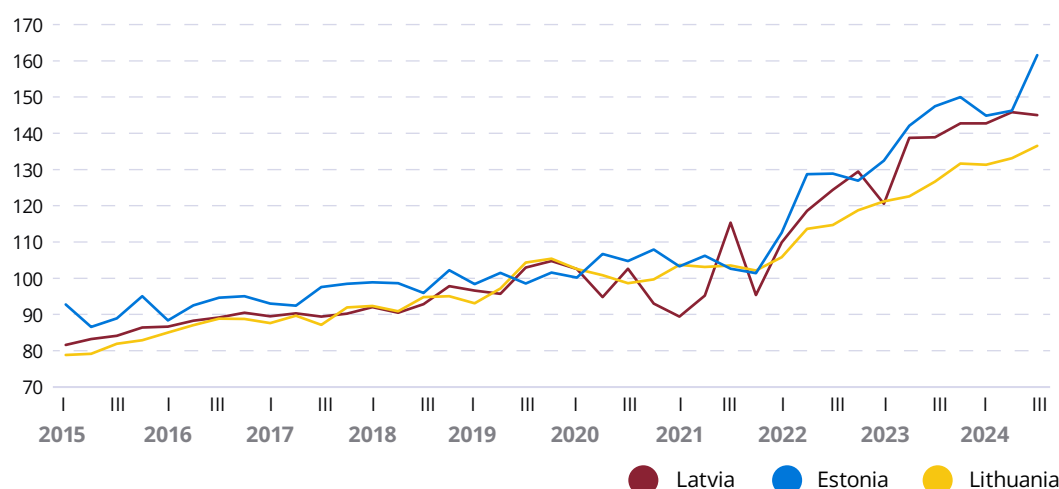
Source: EBA.

The Latvian economy: interest rate declines (an enabling factor) vs external developments and structural changes (a limiting factor)

In addition to the reversal of monetary policy, the Latvian economy continued to be affected by the still unfavourable developments in the external environment. Uncertainty related to the escalation of global geopolitical tensions and persistent warfare in Ukraine remained high. External demand was weak in a number of important trading partners, including a decline in construction activity in the Scandinavian countries. As a result, the Latvian economy stagnated. Latvijas Banka's macroeconomic analysis covered both internal and external factors in order to understand to what extent weak growth was driven by cyclical or structural factors, and to be able to offer appropriate policy recommendations to policymakers.

Growth forecasts of European countries and other main export partners of Latvia were significantly lowered in the course of 2024. Estonia and Germany experienced a recession which significantly hampered export growth. However, the persistently rapid increase in labour costs, far ahead of productivity, has also started to adversely affect the competitiveness of exporters.

Chart 8. Unit labour costs in manufacturing in the Baltic States
(index, 2019 = 100)

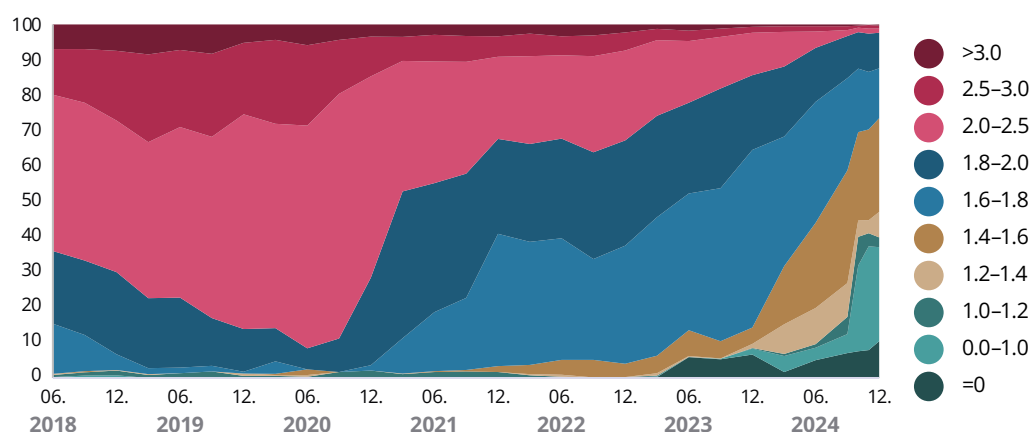


Source: Eurostat.

Income growth and low inflation created favourable conditions for consumption, and the decline in interest rates supported lending activity in Latvia. However, similarly to the external sector, domestic demand was dampened by the geopolitical situation and the persistently tight credit supply in the banking sector. This included the low risk appetite of the financial sector, as evidenced by the high share of financially constrained companies and high collateral requirements on the part of lenders (see the report *Financing of the Economy 2024* for more details).

Lending activity in Latvia remained subdued and interest rates were among the highest in the euro area countries. At the same time, housing loan segment showed some positive developments, of which the most notable is the decline in lending rate markups. For instance, in 2018, households willing to receive a loan for house purchase or construction were subject to a markup of about 2.4%, but in late 2024, the average markup stood at 1.5%.

Chart 9. Markups of new mortgages by volume (%)



Source: Credit Register of Latvijas Banka.

Note. Including loans with a reduced rate or a 0% markup applied on a temporary basis. At the time of issuing such loans, there is no information about the markup to be applied following the discount period.

Meanwhile, the corporate lending segment showed little sign of positive change. Lending rates remained high, driven by substantial markups and a predominance of variable interest rate loans. This concern was echoed during an [expert discussion](#), where it was highlighted that even successful Latvian companies – particularly those oriented toward exports and performing well in international markets – face severe challenges in obtaining the necessary financing from the Latvian banking sector.

To improve the lending conditions, competition in corporate lending must also be intensified, with one option being a reduction in loan refinancing costs, which currently pose a significant obstacle to firm mobility between banks. For companies, loan refinancing costs include not only the fee for the new loan agreement (around 1% of the loan amount), but also a fee for early repayment (around 1.5–2% of the outstanding loan amount). These costs constitute a substantial financial burden, discouraging firms from seeking more favourable terms from competing lenders. To address this issue, Latvijas Banka has put forward legislative proposals aimed at lowering these barriers and promoting a more competitive lending environment.

The challenges faced by Latvia are not unique – similar patterns are evident in the corporate lending markets of Lithuania and Estonia. These regional dynamics were a focal point of the 2024 Economic Conference *Financing a Better Future. The Vital Role of Finance in Achieving Sustainable Growth*, which explored pathways toward a more robust and competitive financial system. The conference concluded that much remains to be done to move towards a single EU banking sector and capital market that would provide European companies with wider and more attractive access to financing. However, while this progress is slow, solutions to improve the availability of financing can also be found at the national level. One example of this is Latvia. At the beginning of 2024, on the initiative of Latvijas Banka, legislative amendments were made to remove barriers to the mobility of mortgage borrowers and thus promote competition in the lending market.



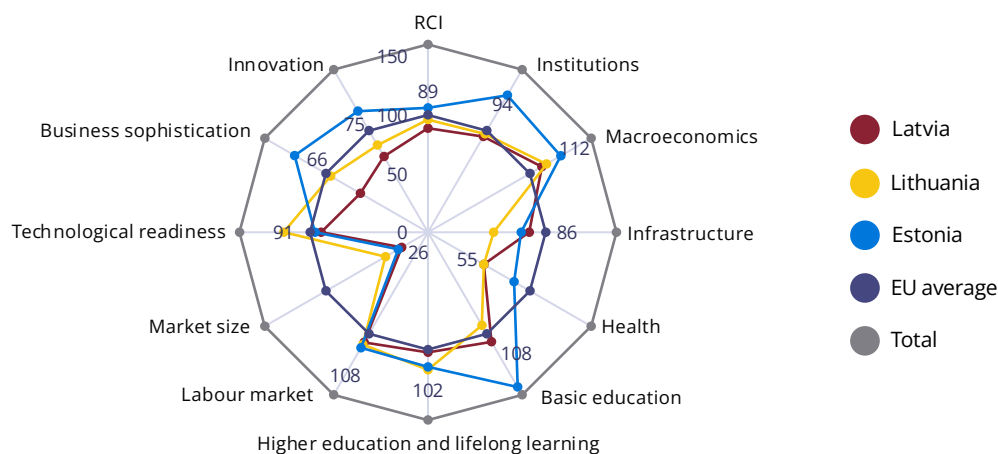
Latvijas Banka's Economic Conference *Financing a Better Future. The Vital Role of Finance in Achieving Sustainable Growth*, 2 October 2024.

However, the weak growth of the Latvian economy in recent years cannot be fully explained by the high interest rates and the low risk appetite of the banking sector. Similarly to the euro area as a whole, faster economic growth in Latvia is hampered by a number of structural problems and challenges that require unique solutions. Otherwise, even with the best financial conditions, the Latvian economy will continue to stagnate in the long term.

This was the focus of the expert discussion [How to achieve SUSTAINED growth in the Latvian economy?](#) Latvia's economy can certainly grow faster than the typical 2–3% per year. Overall, the income level in the economy is determined by the interaction of three factors: how successfully we use labour resources, how much we invest in development, and how wisely we are able to use the available labour force and capital.

In each of the areas, work should be carried out to promote stable economic growth, increasing the wealth of the country and its people.

Chart 10. European Union Regional Competitiveness Index RCI (EU average = 100)



Source: EC.

For example, strengthening human capital – in particular by reducing early working-age mortality, activating internal labour reserves, promoting the quality of education and the health of the population, as well as attracting highly qualified workers from abroad – can significantly increase the growth rate of the economy. Greater investment and innovation would also make a major contribution to economic growth.

Latvijas Banka has also assessed [the economic impact of the recent tax reform](#) implemented by the government. The findings indicate a positive short-term effect, primarily driven by increased private consumption stemming from higher net wages. However, the reform is not expected to deliver lasting structural improvements and is unlikely to enhance the long-term competitiveness of the Latvian economy.

The reduction of contributions to the second pension pillar represents a particularly adverse development. In 2024, a decision was made to reduce the tax burden on labour, partly financed by reallocating contributions from the second pillar to the first. As of 2025, these contributions are adjusted to 15% and 5% respectively. Consequently, instead of strengthening the pension system and improving pension substitutability in the future, these legislative changes are heading in the opposite direction. By shifting contributions to the first pillar, the state also assumes increased long-term pension liabilities, which will raise future pension-related expenditures from the public budget. Moreover, these changes set an unfavourable precedent that [risks undermining public confidence in the Latvian pension system](#).

Research

Research is an essential tool for Latvijas Banka's economic analysis, helping formulate evidence-based monetary policy, while also contributing to structural and fiscal policies.

In 2024, eight working papers were published in Latvijas Banka's scientific outlets. Additionally, Latvijas Banka's researchers were among the authors of the working papers published in three ECB publications. The results of these and other working papers were presented at international scientific conferences and academic seminars, including in Suomen Pankki, Banca d'Italia, and Deutsche Bundesbank. The quality of

the working papers authored by Latvijas Banka's researchers is also confirmed by six publications in high-profile international scientific journals, such as American Economic Journal: Macroeconomics.

The working papers improve our understanding of economic developments and identify the necessary policy interventions. For example, the working papers related to monetary policy helped explain [the reasons for high inflation in the Baltic States](#), as well as understand how the desired monetary policy response changes in the light of uncertainty regarding [the mechanism of inflation expectations formation](#).

In the area of fiscal policy, Latvijas Banka's researchers, in cooperation with researchers from the University of Lisbon, drew attention to the risks associated with the high [level of government debt in developed countries](#). The working paper concluded that rising debt levels have not been reflected in higher insolvency risks, as the average maturity of public debt has also increased significantly. While governments currently – with longer public debt maturities – have more freedom to borrow without negative consequences, higher interest rates are set to increase debt servicing costs eventually.

Researchers of Latvijas Banka also continued to analyse the effectiveness of various crisis support measures. An analysis of [the effect of job retention schemes on employment](#) concluded that employees benefiting from the job retention scheme were statistically significantly more likely to remain in their current job than equivalent employees who did not receive such support. At the same time, the relatively low benefit ceiling reduced the attractiveness of benefits for higher-skilled and better-paid workers and thus motivated companies to redirect support to lower-skilled workers. This in turn led to a deterioration in the skills profile of employees in companies that benefited from the job retention scheme. These lessons should be taken into account when using similar support measures in the future.

Other working papers covered topics related to sustainable economic growth. Latvijas Banka continued to improve its modelling toolkit for [analysing the economic impact of the green transition](#), as well as to analyse various issues related to social sustainability. One working paper focused on inequality of opportunities or how childhood living conditions [influence income levels in adulthood](#). The results suggest that a significant share of income inequality (around 11%) is due to unequal living conditions during childhood.

Availability of financial services

In 2024, Latvijas Banka paid increased attention to the issue of improved availability of financial services, which also includes the availability of financial services across the regions and the possibility to receive various financial services at an appropriate price. As a result, targeted measures were taken in 2024 to ensure that the availability of financial services was not a systemic problem. Progress is also confirmed by the statistical data on positive developments in the decline in the number of terminated business relationships, with financial institutions becoming less likely to decide to terminate a business relationship. The issue of the availability of financial services is pertinent not only in Latvia. Taking into account the regular tightening of various international requirements, it is also a global matter. For example, the US has developed a strategy to facilitate the availability of financial services. The international organisation Financial Action Task Force (FATF) in its research on financial institutions' decisions to terminate business relationships with customers has also concluded that this is a complex issue affected not only by anti-money laundering requirements, but also by aspects such as profitability, reputational risks, and the lower risk appetite of financial institutions.²

Dialogue with market participants

In 2024, Latvijas Banka:

- organised individual working sessions with the staff of all credit institutions and major financial institutions in other sectors to explain and discuss cases where the application of AML/CFTP requirements has been excessive;
- supplemented the [AML/CFTP Guide](#) which provides practical explanations and examples in order to help financial institutions comply with legislative requirements in a proportionate manner while avoiding their excessive application;
- sent an explanatory letter to all credit institutions on the areas where Latvijas Banka expects further improvements in the availability of financial services. The areas related to the availability of financial services that deserve particular emphasis were communication with customers, transparency of pricing policies, proactive offering of a basic account, and product diversification, which could limit the use of an individual product, resulting in less information requirements from customers.

² See <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-action-to-tackle-de-risking.html>.

Supervisory activities

In 2024, Latvijas Banka carried out a horizontal inspection of all credit institutions regarding their ability to manage risks in a proportionate manner, ensuring that legislative requirements were not applied in an exaggerated manner and that appropriate financial services were available for different groups of customers at an appropriate price. As a result, the credit institutions in which deficiencies were identified drew up remedial plans. Consequently, the availability of financial services does not exist as a systemic problem, and each issue is addressed individually.

Historically, AML/CFTP inspections focused primarily on the ability of financial institutions to comply with AML/CFTP requirements. In 2024, additional attention was paid to the ability to apply these requirements in a proportionate manner, i.e. whether a financial institution is able to identify the most important risks and does not apply supervisory measures in an exaggerated manner, without assessing them in the context of risks.

At the same time, Latvijas Banka actively offered mediation processes in cases where customers complained that financial institutions were imposing exaggerated requirements on them.

Improvement of the regulatory framework

After assessing the barriers to the regulatory framework that most often hinder the application of a risk-based approach, Latvijas Banka amended its regulatory acts in 2024 to ensure that the framework allows a financial institution to apply a risk-based approach more effectively in practice. The key amendments were as follows.

- The financial institution will be able to set a deadline for customer due diligence on an individual basis. Until now, if the financial institution was unable to obtain the information necessary for customer due diligence within the set deadline, the business relationship with the customer had to be terminated. The new procedure will allow the financial institution to extend the customer due diligence period on an individual basis, when necessary, if it is related to objective circumstances. At the same time, the financial institution remains obliged to carry out customer due diligence within a reasonable time frame.
- The financial institution will only be required to carry out related customer due diligence in high-risk cases where due diligence is applicable. The previous procedure did not specify that the analysis of related customer groups depended on the risk level. This will facilitate customer due diligence for related customer groups that do not show signs of increased risk.
- The financial institution will no longer be obliged to assess and justify the customer's relationship with Latvia in all cases.

Availability of financial services across regions

In 2024, Latvijas Banka organised several [discussions in the regions of Latvia](#) to discuss the developments of the Latvian economy and the availability of financial services across the regions. During these engagements with local governments, businesses, and residents, a recurring concern emerged: the shortage of quality housing and the limited availability of housing loans are major barriers to attracting employees. These constraints, in turn, were widely recognised as key impediments to regional economic growth.

This is also confirmed by Latvijas Banka's analysis which shows that the availability of financing across Latvian municipalities is very uneven. The amount of outstanding housing loans in Pierīga municipalities comes close to the euro area average. Meanwhile, in other regions of Latvia, lending activity remains sluggish, accounting for no more than 10% of municipal GDP, including the State cities and municipalities with a high level of economic activity. Overall, in nearly half of Latvia's municipalities, the amount of outstanding housing loans does not exceed 3% of the municipality's GDP (see the report [Financing of the Economy 2024](#) for more details).

Regional disparities stem from several structural issues that hinder lending activity in the housing market, including the widespread shadow economy, the gap between real estate valuations and construction costs, as well as various loan supply constraints (minimum amount, etc.). To address these issues, a wide range of measures is needed, including the involvement of the state and local governments. The following [proposals](#) of Latvijas Banka to promote housing lending across the regions were sent to the government in autumn 2024.

- **The shadow economy** remains a persistent challenge, manifesting not only through the use of envelope wages and limited access to formal financing, but also through the under-reporting of actual transaction values. This practice is often driven by attempts to conceal income, evade taxes, and avoid paying the state fee associated with registering property rights in the Land Register.

The under-reporting of actual transaction values has detrimental effects on both honest market participants and the housing market as a whole. When a substantial share of transactions is deliberately undervalued, it undermines the accurate assessment of real property values – an essential factor in the process of granting housing loans. As a result, the recorded transaction values used for valuation purposes often fall short of the actual construction or purchase costs of new housing. This mismatch restricts the loan amounts that can be issued, thereby impeding the development of new housing and constraining activity in the secondary market. The problem is particularly acute in smaller municipalities, where the already limited volume of transactions further complicates reliable property valuation, amplifying the impact of under-reporting on credit availability and market development.

To address this issue, policy measures are necessary to encourage parties involved to report the true values of their transactions. One such measure is to reduce the state fee for registering property rights in the Land Register, which is significantly higher in Latvia than in Lithuania and

Estonia. In Latvia, the full amount of the state fee is 1.5% of the transaction value³, while in Estonia, it ranges from 0.1% to 0.2%⁴, and in Lithuania, it is a fixed payment of 17 to 34 euro⁵.

Currently, a reduced (0.5%) fee in Latvia is only applicable to certain groups of the public, such as persons holding the Latvian Honorary Family Certificate⁶ and persons who acquire real estate under state assistance in the purchase or construction of residential space (the guarantee programme of AS Attīstības finanšu institūcija Altum (Altum)).⁷

- Another key factor hindering housing lending and real estate market activity in Latvia's regions is **the disparity between real estate valuations and construction costs**. While real estate prices (market values) vary significantly across Latvia's municipalities, construction costs remain relatively uniform. This hampers the construction of new residential buildings in the regions, the renovation of the housing stock, and the overall development of the housing market. To tackle this problem, it is necessary to reduce the costs of constructing new residential buildings in the regions. During Latvijas Banka's discussions with regional companies, residents, and local governments, some ideas were presented that should be assessed in depth, such as allowing private builders to construct multi-apartment buildings on municipal land or exploring the possibility of reducing the VAT rate for first-time real estate market transactions.
- The analysis conducted by Latvijas Banka suggests that the **willingness of credit institutions to grant retail housing loans in the regions is rather limited**. This is also confirmed by the fact that only a very small share of transactions for relatively small amounts are financed by bank loans – the number of transactions financed by loans secured by real estate collateral does not exceed 1% of the total transactions amounting up to 20 000 euro (to compare – more than half of the transactions for the amount over 60 000 euro are financed by secured loans). Instead, retail housing loans or unsecured housing loans are offered, accounting for nearly 15% of the entire housing loan portfolio at the end of 2023. The interest rates on these loans are on average 2–3 times higher than on secured loans.

The unavailability of reasonably priced loans is an issue, especially in the regions. To address this, Altum could establish a secured loan programme for property purchases. Latvijas Banka has discussed this proposal with the Ministry of Economy and Altum and supports the development of such a programme. Through direct lending, the programme would address a market failure by enhancing housing loan availability in the regions, while still maintaining the market for unsecured loans intended for repairs as well as other purposes that are unrelated to the purchase of a property. In developing such a programme, it should be anticipated that if active private sector involvement in financing housing purchase transactions is observed during the programme's operation, the programme could be terminated.

³ Yet, no more than 50 000 euro.

⁴ See <https://www.riigiteataja.ee/en/eli/519022016005/consolide> and <https://www.riigiteataja.ee/tolkelisa/5270/2202/4001/annex2.pdf#>.

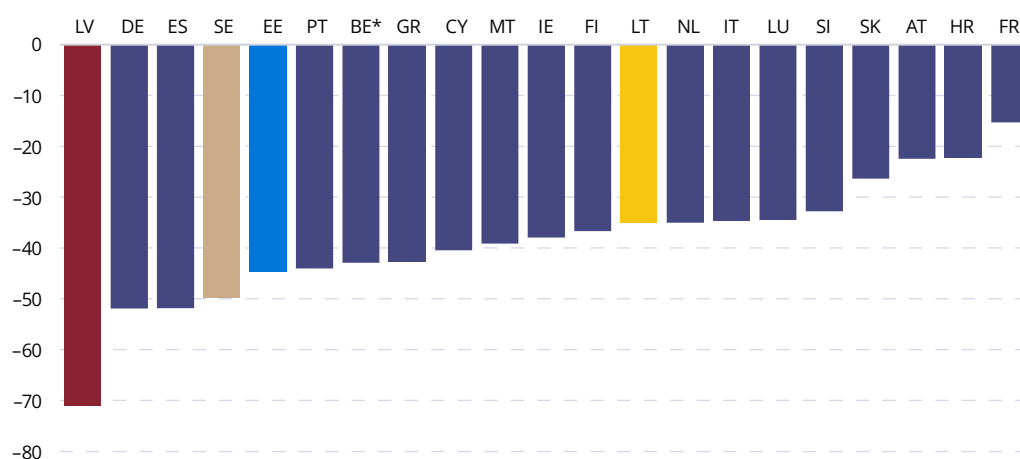
⁵ See <https://www.registrucentras.lt/p/1532>.

⁶ The Honorary Family Certificate is granted to large families that take care of at least three children under the age of 18 as well as adults under the age of 24 if they are in the process of obtaining general, professional, or higher education, or serving 11 months in the National Defence Service and families that take care of a child with a disability or an adult under the age of 24 assigned group I or II disability.

⁷ The reduced 0.5% fee rate applies if, together with the request for the corroboration of property rights, the person submits a request for the corroboration of a mortgage, with the attached collateral agreement containing a credit institution's certification that state assistance in the purchase or construction of residential space is provided to a person who lives with and maintains at least one child or is pregnant or to the expected child's father, or state assistance in the purchase or construction of residential space is provided to a soldier serving in the National Armed Forces.

The significant variation in housing lending underscores a broader decline in the availability of financial services across Latvia's regions. With the reduction in cash transactions and the expansion of digital services, the number of bank branches has fallen sharply in Latvia. While this trend is evident across other parts of the euro area, the most significant percentage decline has occurred in Latvia.

Chart 11. Number of credit institution branches per 100 000 adults (2014–2022; changes; %)



Source: IMF.

* Information on Belgium is available only for 2021.

The reduction in bank branches has notable side effects, including for lending. The issuance of new loans requires a thorough assessment and often personalised solutions. This is especially true for small and medium-sized enterprises. As banks reduce the number of their branches, their ability to understand the plans and needs of local businesses diminishes, compounding the issues connected to accessing credit. [Sveriges Riksbank](#) provides evidence of this issue, noting that municipalities most affected by the reduction in bank branches have experienced significant declines in access to credit and weakening economic activity.

With reductions in bank branches, the range of services offered, and working hours, remote service solutions provided by banks are becoming increasingly important in the provision of financial services. Residents with sufficient digital skills and a willingness to reap the benefits offered by remote services welcome such changes and are able to adapt to them. However, digital transformation as a whole has failed to reach a stage of development where a complete transition to remote solutions is possible, and the risk of financial exclusion for certain groups in society is increasing (see also the OECD [Economic Survey](#) of April 2024).

Promoting the availability of financial services across the regions of Latvia and financial inclusion requires a balanced approach that envisages the continued coexistence of both remote and in-person methods of providing financial services. Addressing this issue, Latvijas Banka developed a regulatory framework in 2024. It lays down requirements for banks to provide in-person services, outlining both general conditions for the provision of financial services, aimed at promoting customer-friendly service delivery, and mandatory in-person services, along with their provision requirements, which significant banks must ensure for their customers. Additionally, it includes requirements for cash availability (an ATM network).

Banks must comply with the requirements regarding cash availability as of 2025 and for other financial services as of 2026. This framework will be implemented in 2025.



With the new framework coming into force, a greater regional presence of banks will be ensured. It aims to promote economic development throughout Latvia, as well as the provision of financial services in the manner desired by Latvian entrepreneurs and residents. Although we will not return to the past, with a bank branch operating in almost every city five days a week, as many residents use financial services digitally and will not change their habits, rational and flexible solutions will be sought to improve the regional presence of banks.

Ilze Posuma

Member of the Council of Latvijas Banka

Areas of activity

Financial stability and macroprudential policy

One of the tasks of Latvijas Banka is [to contribute](#) to the stability of Latvia's financial system.

- In 2024 and 2025, Latvijas Banka holds the presidency of the Nordic-Baltic Macroprudential Forum, bringing together the central banks and supervisory authorities of the region to cooperate on financial stability and macroprudential policy issues.
- In cooperation with the Ministry of Finance, international institutions, and the relevant authorities of the neighbouring countries, a joint Nordic-Baltic [crisis simulation exercise](#) was prepared and implemented in September 2024.
- During the reporting year, Latvijas Banka worked on analytical areas of public relevance, with a focus on lending and related factors.
- Latvijas Banka provided consultations to the government and estimates concerning the windfall tax to be imposed on banks in the process of drafting the Law on Solidarity Contribution.
- Latvijas Banka has reviewed its macroprudential policy framework and revised the analytical framework used for assessing the cyclical risks and setting the countercyclical buffer (CCyB) rate.

Financial stability assessment⁸

Systemic risks⁹:

- persistently weak economic activity and tight financial conditions that potentially affect bank customers and asset quality as well as limit economic recovery;
- persistently weak investment environment and insufficient lending support to investment;
- dependence on developments and policies in parent banks and their home countries;
- cyber-attacks and other large-scale unexpected disruptions in financial intermediation, including activities implemented to achieve geopolitical objectives.

Potential systemic vulnerabilities:

- unsustainable development of the housing market, including weak investment in housing stock renovation (delaying investment will result in larger costs and higher financing cyclicality, thereby undermining financial stability);
- climate-related and other natural risks, including loss of biodiversity (growing climate change and shifts in the resources available to the economy will result in greater investment needed for adaptation and climate effects mitigation measures, and may render certain existing economic activities unviable, thereby undermining financial stability).

Macroprudential policy

In 2024, Latvijas Banka reviewed its macroprudential policy framework and revised the analytical framework for assessing the cyclical risks and setting the CCyB rate.

Latvijas Banka carried out quarterly assessments of cyclical risks and the appropriateness of the set CCyB rate. In line with the cyclical risk assessments, the cyclical component of the CCyB rate was kept at zero. At the same time, within the framework of the positive neutral CCyB approach introduced on 18 December 2024, banks are to comply with Latvijas Banka's decision on applying a 0.5% CCyB rate adopted on 18 December 2023.

In 2024, Latvijas Banka also conducted its annual assessment of the identification of other systemically important institutions (O-SIIs) and O-SII buffers applicable to them. The relative significance of two O-SIIs as compared with other O-SIIs was assessed as declining; therefore, their capital buffers were reduced.

⁸ See [FSP_2024_EN.pdf](#).

⁹ Systemic risk: a risk of disruptions in the financial system with the potential to have significant negative consequences for the discharge of the functions of the financial system as a whole and for the real economy (within a year).

Cooperation with public authorities and international institutions on financial stability

In the reporting year, Latvijas Banka was extensively involved in drafting the Law on Solidarity Contribution and provided the required consultations to the responsible ministries and the Saeima, including:

- an opinion on the most effective ways of calibrating the contribution;
- an in-depth data-based analysis on the potential impact of the solidarity contribution on the profitability of credit institutions.

At the 2024 meeting of the Macprudential Council, the managements of Latvijas Banka and the Ministry of Finance discussed the most significant systemic risks to financial stability as well as topical issues in macroprudential policy.



Elmārs Zakulis

Head of the Financial Stability
and Macprudential Policy
Department

With interest rates declining from their previous all-time highs, 2024, in a way, marked an end to a serious stress test on all borrowers. Currently, it can be concluded that Latvia has successfully coped with this stress test scenario.

By organising multiple international events dedicated to this topic, leading initiatives aimed at the smart reinforcement of financial stability, and actively sharing experience with European counterparts, Latvia, to a certain extent, acted as the regional centre in the field of macroprudential policy.

Latvijas Banka continued to actively consult the government, the Saeima, and other institutions on financial sector taxation issues which are closely linked to interest rate developments, by helping to find and implement the best solutions serving the common interests of Latvia's society.

Close cooperation on improvements to the state funded pension scheme continued with the public institutions of the Republic of Latvia, with a view to enhancing the long-term return on its assets and income replacement upon retirement. Latvijas Banka also cooperated with the responsible ministries in drafting legislation aimed at reviewing the caps on state funded pension scheme management fees. This included the channelling of a larger share of the economy-of-scale savings generated in asset management to the state funded pension scheme participants.

Latvijas Banka provided its opinion to the Constitutional Court on the proposed amendments to the Consumer Rights Protection Law, on support to mortgage borrowers, as well as changes to the corporate

income tax, differences between the types of financing used for ensuring the business of credit institutions and that of consumer lending service providers, and on circumstances distinguishing the business model of credit institutions from other business models used in lending services.

Considering the close links between the economies, financial sectors, and the geographical links between the Nordic and Baltic states, Latvijas Banka continued its active participation in Nordic-Baltic cooperation forums on financial stability in 2024. The Governor of Latvijas Banka chaired the Nordic-Baltic Macroprudential Forum (NBMF) which brings together the central banks and supervisory authorities of the respective countries to cooperate on financial stability and macroprudential policy issues.

Within the NBMF, Latvijas Banka, together with Lietuvos Bankas, continued to chair the work stream on borrower-based measures or BBMs measures aimed at preventing borrowers' insolvency risks (among them one of the most widely known is the debt service to income ratio (DSTI)). Considering the proven effectiveness of these measures in limiting borrower insolvency risks during high inflation in past years, and rapidly rising interest rates, the main areas explored by the work stream were calibration of those instruments, impact assessment, and more effective implementation practices.

Latvijas Banka's experts are regular participants on the NBMF's work stream on capital buffer instruments. The work stream is used to exchange experience regarding capital buffer calibration approaches, impact assessments as well as application practices across the countries.

In the reporting year, Latvijas Banka contributed to the assessment of the euro area's systemic risks to financial stability and its macroprudential policy by participating in the work of the Financial Stability Committee, comprising representatives of the ECB and national central banks and supervisory authorities of the Banking Union, and its sub-groups. Latvijas Banka also participated in the Advisory Technical Committee of the ESRB and its working groups, providing input into drafting policy and analysis documents, and preparing opinions at the EU level.

Together with the ECB and the ESRB, Latvijas Banka organised a research workshop in Riga on the financial stability implications of high interest rates, where eight papers on various aspects of the impact of those high rates were presented. The audience included more than 100 on-site and remote participants from the ECB, ESRB, ESMA, EBA, IMF, Latvijas Banka, and other EU central banks and supervisory authorities as well as academia.

Latvijas hosted the annual workshop for financial stability on a rotational basis in 2024, where participants exchanged the latest research findings in the area of financial stability.

Latvijas Banka continued to participate in the Nordic-Baltic Stability Group¹⁰ (NBSG) sub-stream on legal impediments to information exchange between the functions and institutions involved in financial crisis prevention in the Nordic and Baltic countries as well as the ECB.

Latvijas Banka had an active role in developing the scenario for the Nordic-Baltic financial crisis simulation exercise in 2024. The objective was to test the crisis management competence of institutions and their ability to take coordinated decisions in high uncertainty and time-constrained circumstances, in order to improve the countries' financial crisis preparedness, achieve maximum effectiveness of action plans, and strengthen long-term financial stability. The exercise was conducted in September, with almost 450 online participants from the central banks, supervisory and resolution authorities, and finance ministries of

¹⁰ A cooperation group bringing together central banks, supervisory and resolution authorities, and finance ministries of the Nordic and Baltic states for the purpose of cross-border crisis coordination, information development and exchange.

Latvia, Denmark, Estonia, Finland, Iceland, Lithuania, Norway, and Sweden as well as from the EU institutions – EC, ECB, SRB and EBA. The crisis simulation exercise was also observed by the IMF.

In 2024, Latvijas Banka shared its experience with integrating macroprudential policy sustainability factors in Latvia's DSTI and DTI (debt to income) ratios, presenting its practical experience at both international training events organised by the Joint Vienna Institute and bilateral discussions with counterparts from other central banks.

Latvijas Banka shared its experience with the positive neutral cyclical buffer approach with the ECB Task Force and participated in preparing its report on using the CCyB early in the cycle in EEA countries¹¹.

Latvijas Banka also continued to be actively involved in the work of the NGFS through its participation in the assessment of short-term climate scenarios.

Analytical research and publications

Latvijas Banka continued to analyse a very broad range of topics related to financial stability and macroprudential policy in 2024. Significant attention was paid to lending and the factors affecting it, like borrowers' creditworthiness, interest rate developments, [housing availability](#), and [housing loans](#), including loans for [energy efficient](#) housing.

By combining various data sources, the borrowers' vulnerability analysis framework was prepared using State Revenue Service data. Additionally, the impact of the corporate income tax reform was analysed based on the financial performance data of companies.

Latvijas Banka introduced further improvements to its macroeconomic credit risk stress testing methodology by using [the GaR model for developing stress test scenarios](#). The model enables building scenarios with a pre-defined probability, eliminating the need to identify the specific shocks behind the respective GDP developments. The incorporation of credit institutions' profit forecasts as a risk-absorbing factor in the stress testing methodology was further enhanced by complementing the methodology with the potential effects of the Law on Solidarity Contribution.

In 2024, Latvijas Banka also continued to analyse and publish articles on other developments pertinent to the context of financial stability – on the use of machine learning tools in evaluating the [Baltic stock exchange issuer announcements](#) and their [impact on stock pricing](#) as well as [detecting anomalies in the cross-border payments of bank customers](#). [The latest developments in crypto-assets](#) were also examined. In addition, [the profitability of credit institutions](#) was assessed.

¹¹ Joint ECB/ESRB report on using the countercyclical capital buffer to build resilience early in the cycle.

Financial sector supervision

Licensing developments

21 May 2024 marked a significant event in Latvia's finance industry: a new credit licence was issued for the first time in a prolonged period, with AS INDEXO Banka the recipient. The entry of a new market player in the credit institutions sector should strengthen competition and innovations, while offering more choice to consumers in the field of financial services. Meanwhile, Signet Bank AS finalised its purchase of LPB Bank, and LPB Bank officially changed its name to AS Magnetiq Bank on 19 April 2024.

There were also some changes in the cooperative credit unions sector. Latvijas Banka withdrew the licences of several credit unions in 2024. The licence of Pūņu cooperative credit union was withdrawn because of serious irregularities identified in its operation by Latvijas Banka. The licences of the cooperative credit union ŠĶILBĒNI, Lielvārde cooperative union, and Veselava cooperative credit union were withdrawn based on their decision to wind down their operations as credit unions.

Three insurance brokers were registered by Latvijas Banka in the insurance sector in 2024: SIA PROTECTUS, Agento SIA, and SIA Partner Broker. At the same time, the registrations of the following seven insurance brokers were withdrawn: SIA JVC Risk management & Insurance, SIA FORTS servisa grupa, limited liability company Sanfreim, limited liability company MAI Insurance brokers, limited liability company BALTIJAS MĀRKETINGA KOMPĀNIJA, UNIBROKKER SIA, and limited liability company LATEKO APDROŠINĀŠANAS

BROKERS. In most cases, insurance brokers themselves had decided to cancel their entry in the Register of Insurance and Reinsurance Brokers maintained by Latvijas Banka, as they were no longer engaged in insurance distribution. In one case, the insurance broker underwent a reorganisation through a merger with another insurance broker and, in another case, the portfolio was transferred to a different insurance broker.

In the area of payment services, two new electronic money institution licences were issued by Latvijas Banka in 2024: to SIA Paytegra, which enables a wide range of payments for catering and subscription services to schools across Latvia; and another to TigSiPay SIA, which offers payment account services, including cash withdrawals, as well as the ability to make payments, including direct debits and card payments.

As regards investment services, a new investment firm entered the market in the reporting year, as a licence was granted to Boku Securities SIA.

In response to the company's request, Latvijas Banka withdrew the licence for providing alternative investment fund management services previously granted to the investment management joint stock company INVL Asset Management, on account of the fact that it was not providing the services outlined in its licence, was not managing any alternative investment funds, and had no future business plans in this segment. At the same time, the company still maintains its licence for providing investment management services. Based on the companies' decision to wind down their operations in this segment and their request, the registration of three alternative funds managers was cancelled: limited liability company Alfa Asset Management AIFP, SIA BaltCap AIFP, and SIA AIFP Imprimatur Capital Fund Management.

One authorisation was granted in the crowdfunding service providers sector by Latvijas Banka in 2024, to SIA LANDE Platform. As a result, there were three crowdfunding service providers operating in Latvia at the end of the reporting year.

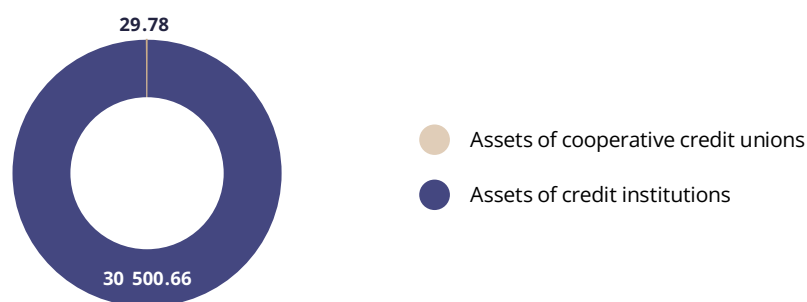
Microprudential supervision and operational compliance monitoring

Prudential supervision of the credit institutions sector

As at the end of 2024, the following institutions were operating in Latvia:



- 10 credit institutions, including 1 newly-established credit institution;
- 4 branches of credit institutions registered in other Member States;
- 25 cooperative credit unions.

Chart 12. Assets of credit institutions and cooperative credit unions (end of 2024; millions of euro)



Supervisory priorities for credit institutions

In line with Latvijas Banka's supervisory priorities and focus areas, in 2024, prudential supervision of credit institutions was focused on:

- 
 good governance, including the operational efficiency of internal control and management functions, as well as the quality of risk management, including ICT risks;
- 
 sustainability of business models in a transition economy, including sustainability risk management, digitalisation, and innovations;



operational and financial resilience, including the impact of risks on asset quality and profitability, the quality of strategy documents, ICT security management, and operational resilience as well as outsourcing management.

When setting the supervisory priorities and focus areas as well as planning the supervisory activities, Latvijas Banka factored in the persistent uncertainty caused by the impact from the geopolitical and macroeconomic environment. Supervisors also focussed on the credit institutions' preparedness to address emerging risks in the fields of sustainability, digitalisation, artificial intelligence, and other areas.

In the course of 2024, the Credit Institutions Supervision Department conducted 15 horizontal off-site activities (inspections and surveys) and several follow-up activities. The most significant were:



A quality inspection of the credit institutions' risk reports, as the comprehensive risk reports are a significant information source for taking top quality, timely, and forward-looking management decisions at credit institutions, which, in turn, ensures good governance and supports the sound operation of credit institutions in the long-term. The inspection identified examples of good practices and aspects to be improved, as well as defining the supervisory expectations, to be published on Latvijas Banka's website¹².



An inspection on compliance with the new regulations on management of the interest rate risk in the non-trading book (IRRBB) was performed, and conducted based on the credit institutions' self-assessments.

The inspection identified gaps to be addressed by individual credit institutions.



A quality inspection of internal audit plans: this activity was a follow-up to the dialogue on the internal audit function's quality, this time focussing on internal audit plans. Latvijas Banka did not identify any overarching drawbacks; therefore, the results of the inspection were communicated to individual credit institutions.



A quarterly focus on performance results in the credit institutions segment and changes in risk scores, with a particular focus on the impact of interest rate developments as well as changes in asset quality was carried out.



Activities related to sustainability: Latvijas Banka developed a self-assessment questionnaire for credit institutions to assess their progress in integrating sustainability issues in the credit institution's operations as well as compliance with the supervisory expectations regarding sustainability. The conclusions, and some individual recommendations, were discussed with the board members of credit institutions in focussed dialogues.

Supervisory Review and Evaluation Process (SREP)

The annual supervisory review and evaluation process (UPNP) was successfully conducted in 2024. Within its framework, the Credit Institutions Supervision Department completed a comprehensive risk assessment. Supervisors continued with improvements to the application of the proportionality approach,

¹² A summary of Latvijas Banka's inspection results and examples of good practices are available at [Inspection results and good practices of Latvijas Banka](#).

in order to have a stronger focus on the specific challenges and the highest risk areas of each individual credit institution.

- management quality and robustness of the internal control system, including adequacy of organisational design, quality of internal audits functions as well as integration of sustainability risks in the overall risk management framework;
- credit risk (in the context of both sovereign risk and individual portfolios) and its management, including the work conducted by the internal audit in the field of credit risk;
- ICT risk management and MLTPF and sanctions risk.

The overall results of the risk assessment suggest that credit institutions are sound and resilient to potential shocks, as their capital and liquidity ratios have remained strong. At the same time, external factors, like geopolitical risks, macroeconomic uncertainty as well as changes in the regulatory framework, for example, the implementation of the [Digital Operational Resilience Act \(DORA\)](#) and [Markets in Crypto-Assets Regulation \(MiCA\)](#), and regulation regarding sustainability, continue to pose challenges for credit institutions.

Latvijas Banka issued the following requirements to seven credit institutions, including credit institutions under the direct supervision of the ECB's Single Supervisory Mechanism (SSM):

- new quantitative requirements;
 - own funds requirements to cover the risks inherent or potentially inherent in their business;
 - recommended capital buffer requirements (P2G);
- qualitative requirements and recommendations.

The overall SREP score is assigned ranging from 1 to 4, and the following risk scores were valid for Latvia's credit institutions, including those under direct ECB SSM supervision in 2024:

Chart 13. Risk scores within the framework of 2024 SREP



Qualitative requirements and recommendations issued to credit institutions within the framework of the SREP are distributed across risks and areas as follows:

Risk/area	Requirements (number)	Recommendations (number)
Business model		3
Internal governance	2	4
Credit risk		7
MLCTF risks		1
ICT risks	2	1
Liquidity risk		1
Sustainability risks		1

These requirements and recommendations are aimed at improving compliance with the requirements of Latvian and EU legislation, the risk management processes in individual credit institutions as well as further supporting the long-term operational resilience and soundness of credit institutions.

Single supervisory mechanism

Latvijas Banka continued active participation in the ECB's SSM in 2024, ensuring a risk-based approach to credit institution supervision aimed at strengthening stability and resilience. Latvijas Banka conducted the supervision of both significant and less significant institutions in cooperation with the ECB, with a particular focus on the credit institutions' internal governance quality and their ability to adapt to the evolving economic and geopolitical environment.

Within the framework of the ECB's SSM, Latvijas Banka continued to provide significant support in the ongoing supervision of Latvia's three largest credit institutions, i.e. Swedbank AS, AS SEB banka, and AS Citadele banka. These credit institutions are directly supervised by the ECB as significant institutions, and their supervision is conducted by the joint supervisory teams consisting of supervisory experts from both the ECB and Latvijas Banka.

Latvijas Banka's experts also continued active engagement on the ECB's committees and task forces, contributing to the development of the ECB's common supervisory methodology and harmonisation of the regulatory framework within the European banking union.

Latvijas Banka's representative to the ECB's Supervisory Board participated in decision-making concerning the euro area's significant credit institutions and the supervisory methodology. Overall, 2174 supervisory decisions

were taken by the ECB's SSM in 2024. They concerned issues like own funds of credit institutions, internal models, SREP, qualifying holdings, and fit and proper assessments.

Participation in the ECB's SSM supervisory culture project

In 2024, the ECB's SSM started actively working on defining the concept of a common supervisory culture of the SSM. Latvijas Banka responded to the ECB's invitation to engage in this complicated and, at the same time, very valuable activity. Within this stream, Latvijas Banka's representatives shared the experience gained in the process of the integration of FCMC into Latvijas Banka as well as the values project of Latvijas Banka with their ECB counterparts. They also provided hands-on support to the ECB's team in its activities. In September, Latvijas Banka participated at the supervisory culture conference hosted by the ECB, where it presented its approach to other supervisory authorities of the SSM member states.



It is vital to strengthen a supervisory culture which is not just looking for someone to blame. It is a culture in which employees are confident to undertake responsibility; therefore, cultivating trust and fostering psychological security is very important. This does not mean skipping responsibility for omissions. The supervisors are still acting according to the highest professional and ethical standards, while smartly using available resources to focus on the areas where the risks are higher (risk-based approach).

Santa Purgaile
Deputy Governor of Latvijas Banka

Supervision of cooperative credit unions

In order to promote the development of the cooperative credit unions sector, Latvijas Banka drafted proposals for significant legislative amendments to the Law on Credit Unions, including provisions to allow for an opportunity to grant loans to a broader range of legal entities. In parallel, work on other initiatives supporting the growth of this financial market sector continued, including the design of the operational framework for a central cooperative credit union.

As an awareness raising measure for the credit unions sector, a briefing was organised in October 2024, where Latvijas Banka presented the latest supervisory information on the results of its horizontal review to the cooperative credit unions, namely, on the most common shortcomings, good practices, and supervisory expectations as well as the challenges related to the quality of reporting, licensing news, and changes in regulatory requirements.

Insurance supervision

As at the end of 2024, 17 insurers were operating in Latvia:

- 2 life insurance undertakings;
- 4 non-life insurance undertakings;
- 4 branches of life insurers from other member states;
- 7 branches of non-life insurers from other member states.

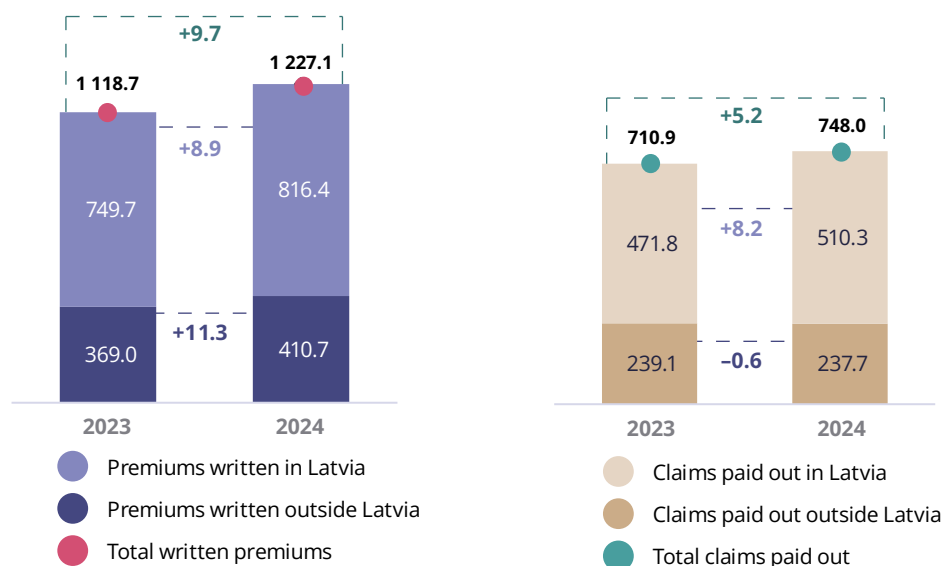
The register of insurance and reinsurance brokers maintained by Latvijas Banka contained entries on 77 insurance and reinsurance brokers, which is four less than at the end of 2023.

Insurance premiums and paid-out claims continued to grow in the insurance market in 2024.

In 2024, the premiums written and claims paid out in the insurance sector grew by 8.9% and 8.2% respectively compared to 2023. With the inflationary pressures on insurance services easing in 2024, the rate of increase in insurance premiums and claims was more moderate than in the previous two years.

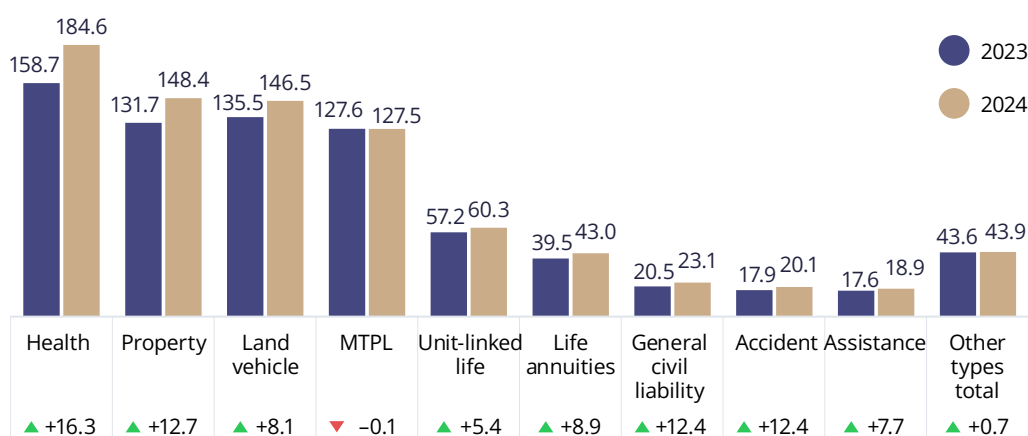
Insurance premiums written abroad (in Lithuania, Estonia, Poland, France, and Italy) by the six insurance undertakings registered in Latvia increased by 11.3% in 2024 year-on-year. With the amount of claims paid out remaining broadly unchanged, the performance indicators of the insurance undertakings improved.

Chart 14. Gross premiums written and claims paid out by insurers (amount; millions of euro; annual growth; %)



The four largest types of insurance – health, property, land vehicle, and compulsory civil liability insurance of motor vehicle owners (OCTA) – accounted for 74% of total premiums written in Latvia's insurance market in 2024.

Chart 15. Gross premiums written in Latvia by type of insurance (amount; millions of euro; annual growth; %)



In 2024, the most significant increase in Latvia was observed for:

Insurance premiums:

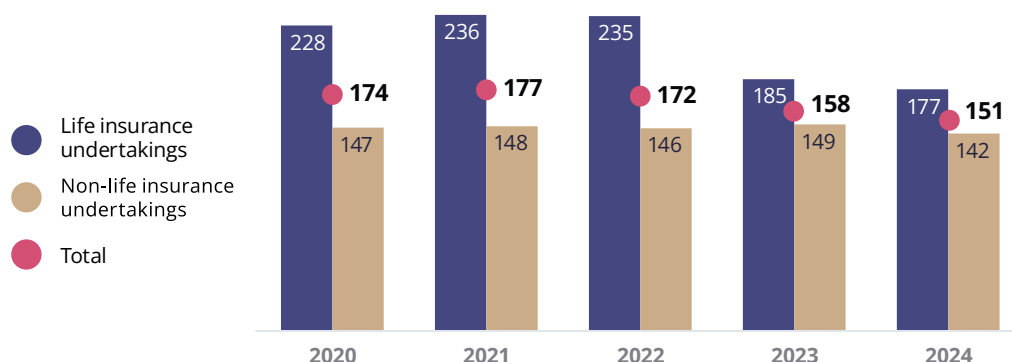
- health insurance – by 16.3%;
- life risk insurance – by 14.2%;
- property insurance – by 12.7%.

Claims paid out:

- travel insurance – by 18.0%;
- MTPL insurance – by 14.0%;
- property insurance – by 11.0%.

The increase in claims paid out in 2024 is associated with inflation effects, but also with a larger number of claims due to natural disasters.

Chart 16. Solvency capital ratios of insurance undertakings (%)



The profits earned in 2024 by the six insurance undertakings registered in Latvia totalled 59.4 million euro. Their solvency capital ratios remained firmly above the minimum requirement and reached 151% as of the end of 2024 (the minimum limit is 100%).



Global climate change affects the well-being of the population as a whole and economic growth. Climate-related risks are becoming a serious challenge also for the insurance sector. Increasingly frequent and devastating natural disasters over the most recent years have exerted pressure on the sustainability of the insurers' business models.

Evija Dundure

Head of the Insurance and Pension Supervision Department

Supervisory focus on climate risk impact assessment

Losses caused by natural disasters have grown significantly over the most recent years:

- In 2023, claims paid out to cover the losses caused by natural disasters across all insurance types totalled 23.8 million euro.
- In 2024, roughly 24.8 million euro was paid out in claims to cover the losses caused by a single event, a July thunderstorm with severe rainfall.

In 2024, Latvijas Banka:

- compiled data on losses caused by natural disasters and claims paid out in property insurance to assess the impact on the insurers and the insured;
- conducted a comprehensive survey to learn about the experience and perceptions of Latvia's population regarding property insurance;
- evaluated the [accessibility of regulations on property insurance for individuals established by several insurers](#) operating in Latvia, from various aspects of using plain language, including whether the insurance regulations have been drafted in a clear, plain, and easy-to-understand language and can be easily understood by the policyholders;
- organised [a discussion for insurance sector professionals](#), during which Latvijas Banka:
 - presented the conclusions of its research;
 - discussed the role of insurance in reducing losses caused by natural disasters;
 - identified the lessons learned in relation to the flooding caused by the 2024 summer storm and severe rainfall;
 - discussed the potential solutions to address the challenges faced by the sector;
- prepared proposals for amendments to the Insurance Contract Law and the Insurance and Reinsurance Distribution Law, in order to improve policyholders' understanding of insurance contracts.

The statistics concerning losses caused by natural disasters and insurance claims, the results of the population survey, and the conclusions drawn from the discussion are significant for the entire insurance sector. They support the sector's development and improve the quality of insurance services to the population.

Accessibility, transparency, and understandability of information about insurance services provided to customers is a decisive factor in raising the level of customers' understanding of insurance services. Insurers should review the language used in their documents, simplifying the terms and conditions of insurance contracts and making them clearer and easier to understand for policyholders. The adoption and implementation of the proposed amendments to the Insurance Contract Law and the Insurance and Reinsurance Distribution Law will lead to providing clearer and easier-to-understand information to the insured at the time of purchasing insurance services.

Completeness of information provided to customers

To provide an adequate level of protection to their customers, insurers must design effective product oversight and governance processes while reinforcing the trust of their customers by offering clear and understandable information concerning the financial products and the service provider.

In 2024, Latvijas Banka:

- conducted an [off-site inspection](#) of operational compliance of ancillary insurance intermediaries registered by insurers, in order to check how carefully and responsibly the insurers assess any potential and already registered ancillary insurance intermediaries and what controls they have in place to verify that intermediaries comply with the requirements of the Insurance and Reinsurance Distribution Law;
- participated in a horizontal review coordinated by the EIOPA and conducted using the [mystery shopping technique](#), within the framework of which the volume of information about life insurance investment products provided to customers by insurers of several European countries and its quality at the consultation stage was evaluated.

The operational compliance of ancillary insurance intermediaries registered by insurers revealed several inconsistencies in the registers maintained by the insurers. This was an indication of weaknesses in the registration process and oversight of intermediaries' operations. The identified gaps were subsequently closed. Recommendations provided by Latvijas Banka will help the insurers to gain a better understanding of important aspects in their cooperation with ancillary insurance intermediaries and improve controls over their operations. To prevent the emergence of similar shortcomings in the future, the most effective solution in Latvia would be the creation of a single register of insurance agents and ancillary insurance intermediaries, making it more user-friendly and understandable, also to the insured.

Legal acts set the requirements for information to be provided to customers prior to concluding the contract as well as the procedure for finding out the customer's demands and needs and evaluating insurance investment products to see if they are appropriate and suitable for the customer. The inspections at the consultation stage during the sales process of life insurance investment products revealed some areas requiring improvements in the information provided to customers. Latvijas Banka presented its conclusions and provided recommendations for improvements of those aspects to each market participant involved on an individual basis.

Insurance products meeting the needs of customers

Insurers are obliged to both develop products that meet the needs of their customers and regularly check that their products are still appropriate for their target market and suit the needs and demands of their customers.

In 2024, Latvijas Banka continued to evaluate the value for money that life insurance with savings offered by insurers generates to customers:

- it updated its assessment of life insurance with savings products through an analysis of the investment performance and changes in customer costs associated with the product in the previous period;
- it conducted an in-depth assessment of insurers whose products were considered to entail elevated risks by examining the implemented product design, management, and oversight measures and processes.

Insurers regularly evaluate and compare the performance of various investment options and review the proposals to their customers. Considering the above, Latvijas Banka also identified two positive tendencies:

- return on customers' investment has improved;
- overall costs to customers continue to decline.

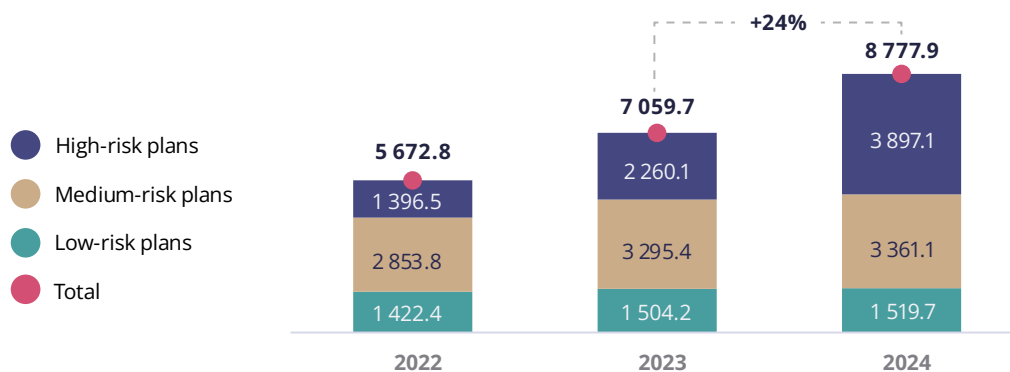
Latvijas Banka will continue to assess the value for money of insurance products offered to customers in 2025, it will extend the scope of its analysis to include the travel insurance products on offer. The suitability of those products in the light of customers' needs and interests as well as their distribution process will be evaluated.

Supervision of second pillar pension managers

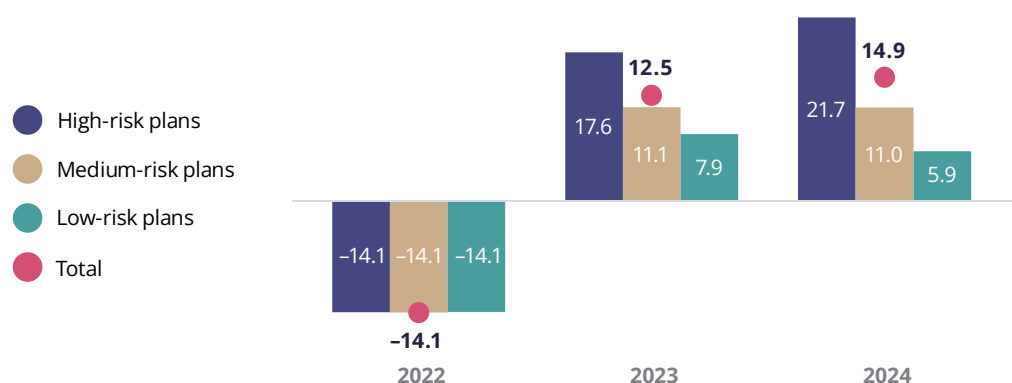
At the end of 2024, 8 state funded pension scheme asset managers were operating in Latvia, offering the second pillar pension scheme participants 33 investment plans of various risk degrees. Most of them (17) were high-risk investment plans with equities accounting for up to 75% or even 100% of their investment portfolios.

Total net state funded pension assets increased by 24% in 2024. This solid growth was supported by a favourable macroeconomic environment and expanding financial markets as well as higher wages, resulting in larger mandatory pension contributions.

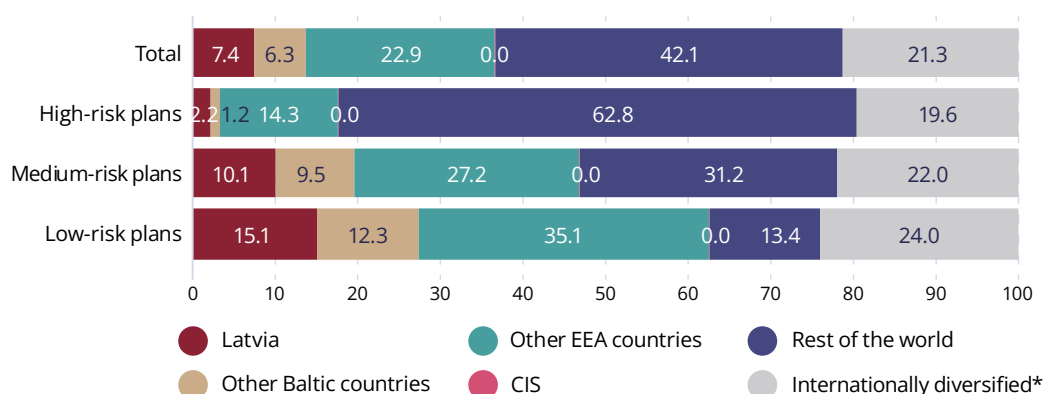
Chart 17. Developments in net assets of the state funded pension scheme (millions of euro)



The overall return on investment plans was 14.9% in 2024, including 21.7% for high-risk plans, 11.0% for medium-risk plans, and 5.9% for low-risk plans. These results reflect successful asset management strategies, favourable market conditions, and sound investment portfolios.

Chart 18. Return on state funded pension plans (%)

The returns of high-risk plans can be explained by the overall favourable stock market developments in 2024. When adjusting their investment strategies, investment managers paid more attention to higher-growth regions and sectors outside the EEA.

Chart 19. Investment shares by country (31 December 2024; %)

* Investment funds with no particular geographical focus, investing in several regions.

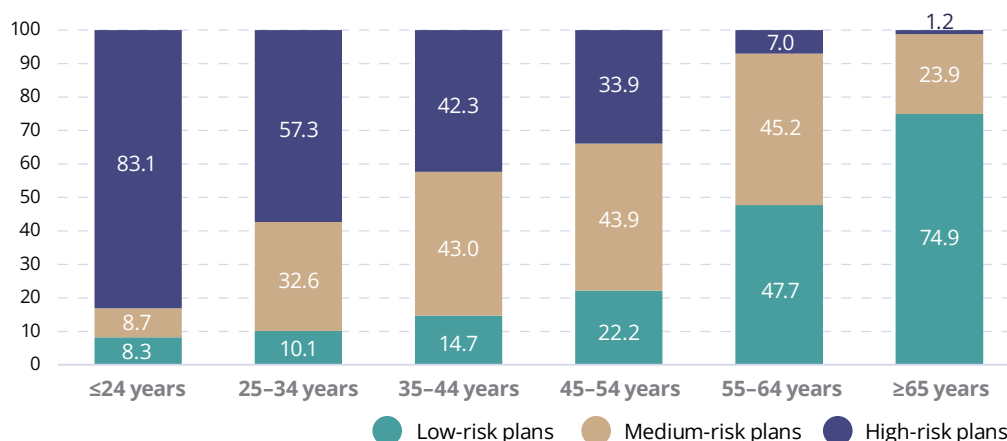
Given the high returns, most plans exceeded the excess profit threshold and received variable investment performance-related commissions. Therefore, the overall management expenses of the plans in 2024 were higher than in 2023 and amounted to 0.56% of assets.

Chart 20. Investment plan management costs (%)

On 1 July 2024, a new obligation entered into force [for the managers of the state funded pension scheme assets](#) to assess the age-appropriateness of the investment plan chosen by a participant of the funded pension scheme and to notify the participant at least once a year if the chosen investment plan is inadequate as well as suggest the most age-appropriate investment plan for the participant. This means that a manager should first identify which of its investment plans are appropriate for each age group of the state funded pension scheme participants and whether the plan for each individual participant falls into the appropriate age group. Participants who have joined pension plans inappropriate for their age should be duly informed to ensure appropriateness.

Latvijas Banka believes that a uniform approach to establishing the age groups of the state funded pension scheme and the appropriate pension plans will create equal conditions for the participants of the pension plans. In order to help asset managers to match the ages of the state funded pension scheme participants with appropriate investment plans, Latvijas Banka developed [recommendations for identifying age-appropriate investment plans for state funded pension scheme participants](#), inviting all pension asset managers to take them into consideration.

Chart 21. State funded pension scheme participants by type of plan (31 December 2024; %)



In preparation for the implementation of the new requirements, Latvijas Banka evaluated the readiness of investment management companies to identify participants' needs and to make sure that the participants check that their chosen plan is age-appropriate, and select a different plan if necessary.

Having evaluated the submitted information, Latvijas Banka concluded that:

- initially, the participants who can be easily reached through digital communication channels are identified;
- customers are approached via mail, but this means of communication is considered very expensive;
- there is a risk that some participants won't be approached, as not everyone can be reached at their declared residence;
- the quality of consultations will have a significant role to play, considering that the number of participants willing to change their investment plan to an age-appropriate one meeting their needs could be significant.

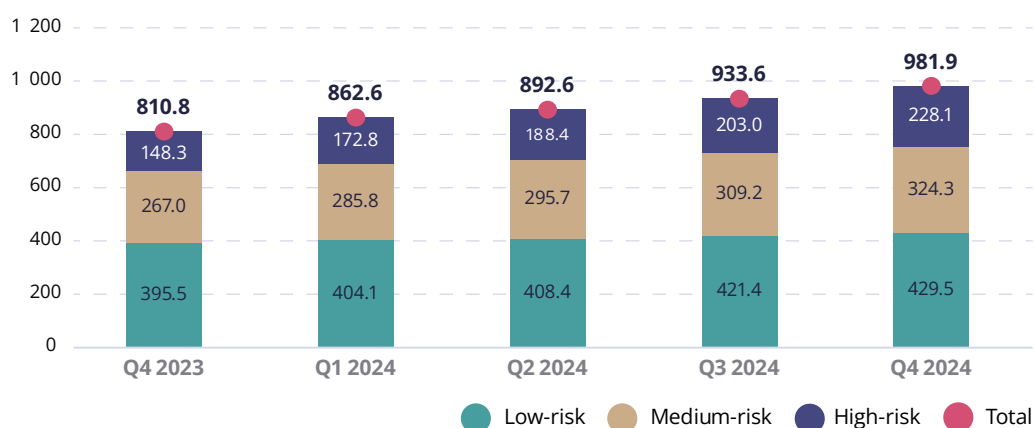
An important reason for a higher overall return on the state funded pension scheme as compared to 2023 was the participants' preference for investment in high-risk plans. Latvijas Banka concluded that reaching

out to the participants had a positive effect, as in July 2024 over 24 000 participants joined more appropriate, high-risk plans, that generated the highest return in 2024.

Supervision of private pension funds managing third pillar pensions

Private pension funds concluded 2024 with an impressive 21.1% increase in net assets, reaching 981.9 million euro and rapidly approaching the 1 billion euro mark.

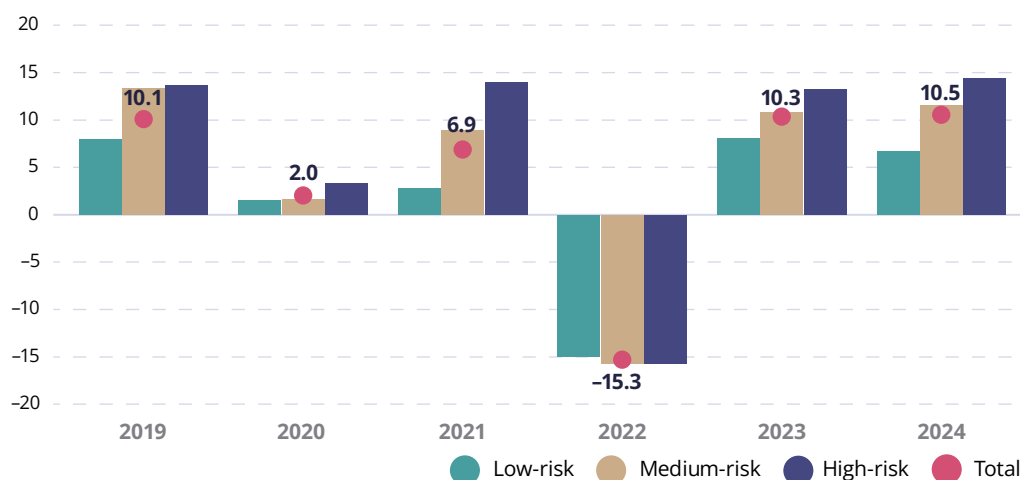
Chart 22. Developments in net assets of private pension funds (millions of euro)



Growth was supported by a 19.4% increase in participants' contributions, reaching 135.5 million in 2024, and a positive average rate of return on the pension plans (10.5%).

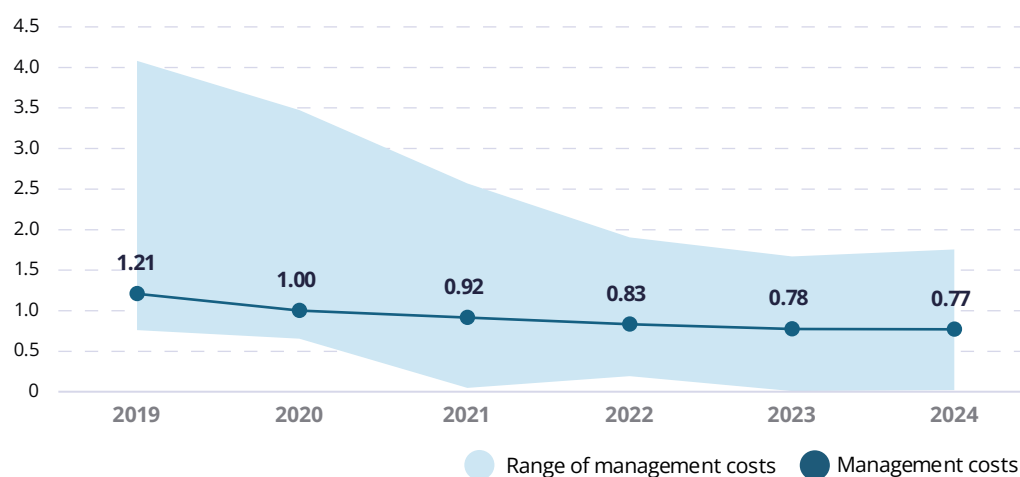
With contributions increasing, disbursements of the additional pension capital also grew, reaching 57 million euro at the end of 2024. The highest number of capital withdrawal applications was received towards year-end, when disbursements increased by 88% in comparison with the fourth quarter of 2023. This steep, short-lived, rise in the number of applications can be attributed to the scheduled change in the personal income tax on capital gains which was raised from 20% to 25.5% as of 1 January 2025. Although a part of pension plan participants opted early capital withdrawals due to this reason, the higher number of withdrawal applications did not affect the stability of private pension plans, as suggested by the sharp increase in total net assets and contributions.

The high rate of return across all risk category plans was an important factor behind the successful performance of pension plans. High-risk pension plans (up to 100% investment in shares) generated the highest returns, at an average of 14.5%, in 2024. They were followed by medium-risk pension plans (up to 50% investment in shares) with a capital increase of 11.6%, whereas low-risk pension plans (up to 25% investment in shares) generated a 6.7% return.

Chart 23. Annual return of private pension plans (%)

2024 saw a continuation of the tendency for plan participants to shift their accumulated assets to higher-risk pension plans. During the year, the number of participants in high-risk plans increased by 29%, and contributions to these plans grew by 45% compared to the previous year. At the same time, the number of low-risk pension plan participants declined by 1%, while contributions remained on an upward trajectory, rising by 5%.

Pension plan management costs continued to decrease, following the previous years' trend, reaching a new all-time low of 0.77% of asset value (0.78% in 2023).

Chart 24. Pension plan management costs of private pension funds (%)

Supervisory focus was on a value for money assessment of participant investment in pension funds. It covered the following main areas:

- equal and transparent approach to all participants of plans;
- proportionality of commissions and fees;
- appropriateness of pension plans in light of participants needs.

Due to the large scope of this assessment, it is scheduled for completion in the first half of 2025.

Supervision of alternative investment funds and managers thereof

There were 27 alternative investment fund (AIF) managers operating in Latvia at the end of 2024, including 24 registered AIF managers and 3 licensed AIF managers. Although no new AIF managers were registered or licensed in 2024, at the turn of the year, 3 new AIF manager registration applications were received.

By attracting investor funding and making investments, 9 new AIFs launched operations, and 16 AIFs were newly registered in 2024.

Private equity remained the dominant investment strategy, but AIFs offering investment in debt securities, including corporate bonds and loan funds also entered the market.

In order to enhance the management of AIFs and investors' trust, Latvijas Banka engaged in active cooperation with the Finance Latvia Association and Latvian Private Equity and Venture Capital Association in 2024 by organising meetings and discussions and compiling proposals on improvements to the investment environment in the context of AIFs receiving state funded pension plan assets. At the end of the project, Latvijas Banka prepared proposals for amendments to the Law on State Funded Pensions concerning the investment of the state funded pension scheme assets in AIFs and submitted them to the Ministry of Welfare and the Ministry of Finance.

Latvijas Banka also advised associations of market participants on the development of guidelines for improved AIF risk management to strengthen cooperation between AIF managers and second pillar pension managers.

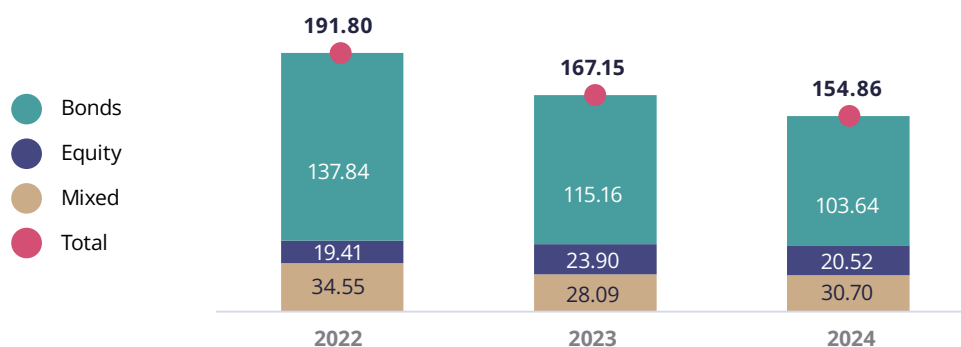
Supervision of investment funds

At the end of 2024, there were two managers of undertakings for collective investment in transferable securities (funds) operating in Latvia, managing 13 funds, including 6 bond funds, 4 mixed funds, and 3 equity funds.

In 2024, funds, including actively managed funds established and registered in Latvia, were still facing the challenges associated with increasing their investor appeal. According to [information collected by the ECB](#), fund managers continued to be dominated by the simplicity, clarity, ease of access, and cost attractiveness of the product offered by passively managed ETFs, as opposed to actively managed funds.

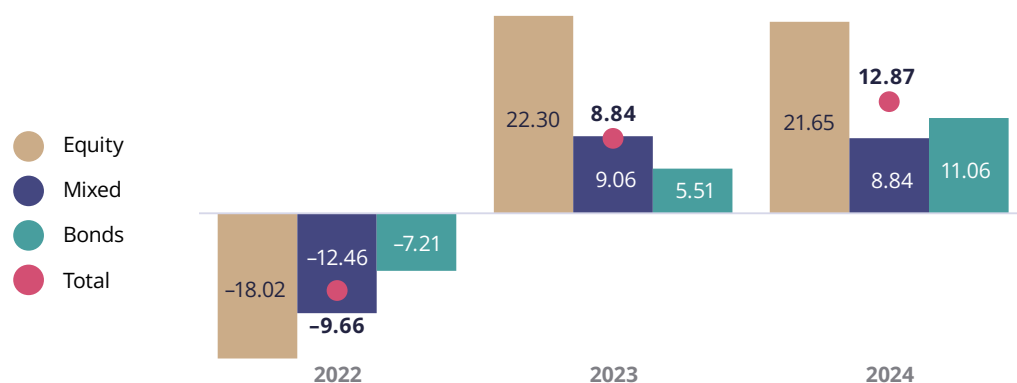
Although the securities market conditions in 2024 were favourable for raising capital, with buyback transactions on a rise, the net asset value of funds decreased by 7% year-on-year in the reporting year, to 154.86 million euro at the end of 2024, with bond funds maintaining their dominant position.

Chart 25. Net assets by fund type (millions of euro)



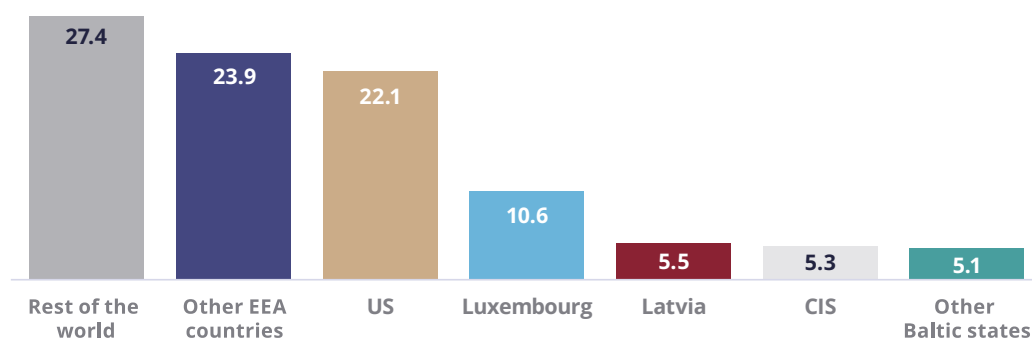
The funds' return remained positive in 2024. Equity funds generated the highest return at 21.65%, while the largest increase in comparison with 2023 was reported for bond funds, from 5.51% in 2023 to 11.06% in 2024.

Chart 26. Returns of investment funds (%)



At the end of 2024, more than half of the funds' assets (54.8%) were invested in securities issued outside the EU. Moreover, 22.1% of the Latvian funds' investments were made in securities issued by US companies. 34% of the assets were invested in EEA countries (excluding the Baltic states).

Chart 27. Geographical distribution of the funds' investments (31 December 2024; %)



Only 5.5% of the funds' total assets were invested in Latvia and 5.1% in other Baltic states.

In 2024, the off-site supervision of Latvijas Banka focused on strengthening the governance system, namely, fund managers were tasked with addressing weaknesses and making improvements in internal controls, including the management of conflicts of interest, ensuring compliance and risk management.

Supervision of payment institutions and electronic money institutions

Two new licences, to TigSiPay SIA and SIA Paytegra, were issued by Latvijas Banka in 2024 in the sector of payment institutions and electronic money institutions. That brought the number of institutions operating in the sector at the end of 2024 to 12 (8 electronic money institutions and 4 payment institutions).

Overall, the level of risk in the sector remained low. Latvijas Banka revised and improved its regular risk assessment methodology to enhance the effectiveness of supervision and accuracy of risk assessment. The sector's performance and future growth potential are affected by medium-high macroeconomic and financial services availability risks. Market and liquidity risks are assessed as medium, and there are no

high risks with a critical impact on the sector as a whole. The overall level of risk for payment institutions and electronic money institutions was taken into account when setting and planning the supervisory priorities for 2024, and the intensity of supervision in specific areas was tailored to this level; the principle of proportionality was also observed in supervision.

The focus of supervision in 2024 was on:

- segregated holding of customer funds and protection thereof;
- monitoring solvency and financial stability;
- annual strategic interviews on the execution of business plans, operational performance, risk management, and cooperation with credit institutions.

The value of payments (except electronic money payments) made in the payment institutions and electronic money institutions sector declined slightly by 5.3% in 2024 as compared to 2023. This is due to a slight decrease in the value of payments reported by individual market participants. Nevertheless, the gross revenues of payment institutions and electronic money institutions related to the provision of payment services remained stable for a second year.

Chart 28. Payments made in electronic money institutions and payment institutions, except e-money payments (millions of euro)

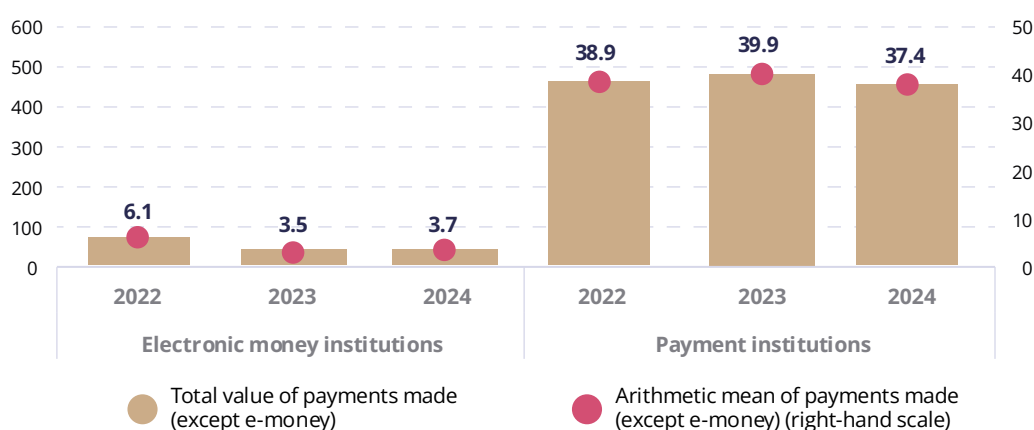
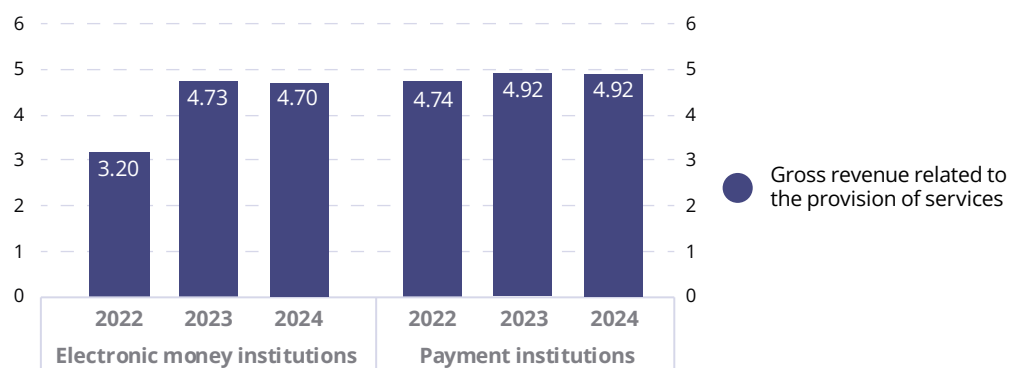


Chart 29. Income from services of electronic money institutions and payment institutions (millions of euro)



The value of e-money payments has sharply increased over the most recent years. In 2023, payments increased by more than 13 million euro (57%) in comparison with 2022, whereas in 2024 they grew by more than 15 million euro (40.3%) in comparison with 2023. The average amount of e-money in circulation also increased by 13.8% as compared to 2023 (583 thousand euro at the end of 2024). In the non-bank segment, the value of payments was stable and followed similar trends to those of payments by credit institutions. Given the business model specifics of electronic money institutions, the total value of payments made with electronic money was consistent with the total amount of redeemed electronic money.

Chart 30. E-money circulation in electronic money institutions (millions of euro)

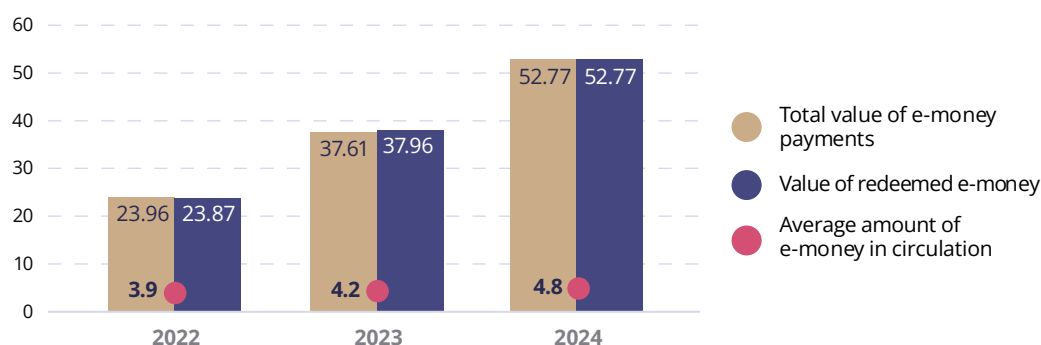
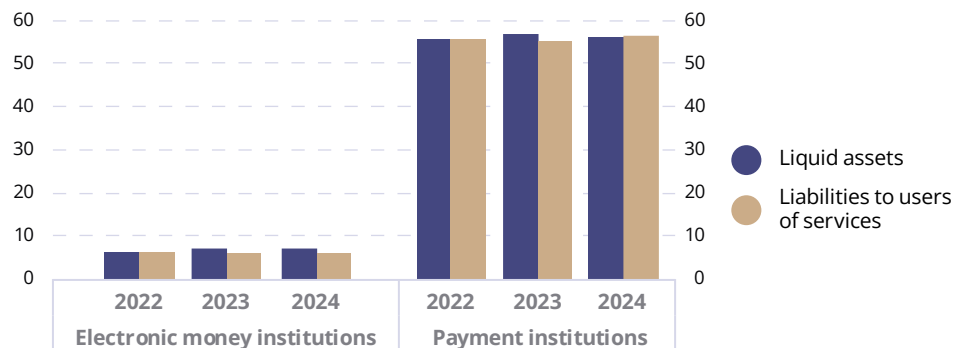


Chart 31. Liquid assets and current liabilities of electronic money institutions and payment institutions (millions of euro)



The sector's liabilities to customers have been stable year from year, and there is sufficient coverage to cover customer balances in full.

Latvia's market participants comply with the regulatory requirements with regard to protecting customer funds. The most common method of protecting customer funds in Latvia's market is the segregated holding of customer funds in accounts with credit institutions, although other methods, such as investment in low-risk liquid securities are also allowed by the regulation, with one payment institution having chosen this method for protecting its customer funds. Market participants use a diversified approach for the custody of customer funds, using both the services of several credit institutions and making the above-mentioned investments in securities. In 2024, supervision was again focused on the cooperation of payment institutions and electronic money institutions with credit institutions, to monitor risks related to the availability of financial services.

Solvency ratios for this sector were overall above the regulatory requirements at the end of 2024. Own funds were in line with the individual requirements set for the institutions. The aggregate gross profit

ratios of payment institutions and electronic money institutions stabilised in the post-pandemic period, reflecting the sustainability and resilience of the market participants' business models. The return on equity for this sector was also positive at the end of 2024. Nevertheless, in cases when compliance with the solvency ratios (primarily, own funds) in an institution was insufficient or when there was a negative trend, enhanced supervision was applied on an individual basis. In 2024, Latvijas Banka issued a warning to one electronic money institution for failure to meet capital requirements and continued with an enhanced supervision of that institution to stabilise its operation.

Overall, the market was characterised by development in the reporting year, as new products and services emerged, new opportunities were explored, and businesses upscaled.

Supervision of crowdfunding service providers

At the beginning of 2024, Latvijas Banka issued an authorisation to the crowdfunding service provider SIA LANDE Platform, previously operating under the transitional regime within the common EU regulatory framework. Consequently, in 2024, three authorisations for the provision of crowdfunding services were issued in Latvia.

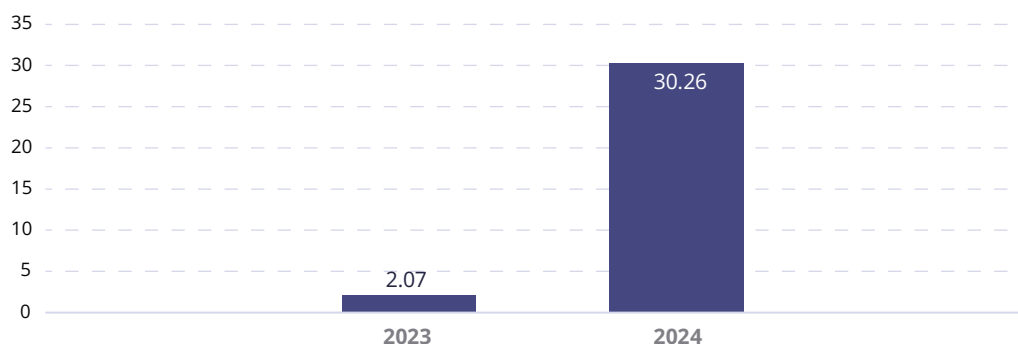
When planning its supervisory activities for the crowdfunding service providers sector in 2024, Latvijas Banka identified investor protection issues as a priority. Therefore, the focus was on examining the information that service providers must disclose in accordance with regulatory requirements. Latvijas Banka concluded that service providers generally make the required disclosures.

Annual strategy interviews were conducted with market participants in this sector to discuss their operational strategies and the implementation of their business plans. Furthermore, discussions also focused on whether financial performance targets were met, ensuring operational continuity, the risks faced by service providers and their management. Market participants noted that in 2024 they were able to raise more funding for the projects announced or that the funding amount did not decrease. This leads to a conclusion that the sector has potential in the area of alternative financing. At the same time, crowdfunding service providers also highlighted several preferable changes to regulatory acts that would allow them to operate more efficiently.

During 2024, it was obvious that crowdfunding service providers were conquering a niche in the field of alternative financing services and were generally able to attract investors to finance the projects announced.

The total amount raised for projects financed by crowdfunding service providers in 2024 was 30.3 million euro. The amount increased by 28.2 million euro in comparison with 2023 (in 2023, 2.1 million euro was raised). This increase should be viewed in the context of a change in the number of crowdfunding service providers and the time of year when they received authorisation.

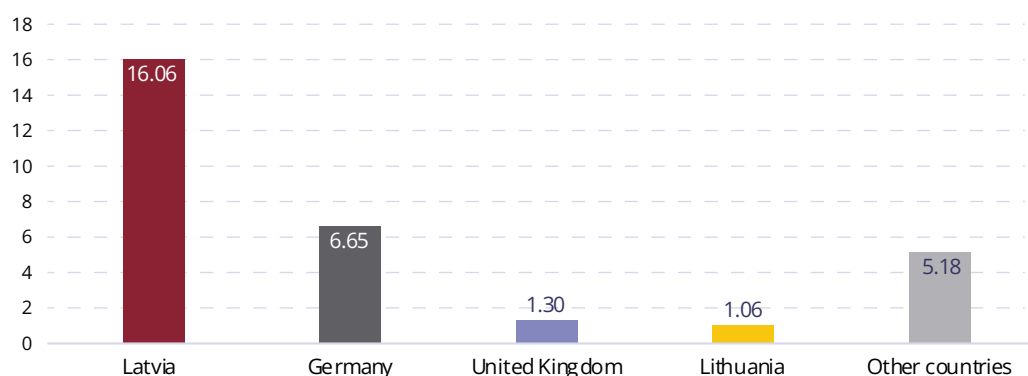
Nevertheless, the total amount raised for projects suggests the potential of this alternative financing segment.

Chart 32. Projects financed by crowdfunding service providers (millions of euro)

By the type of investor, investments made by inexperienced investors dominated in 2024, accounting for 29.1 million euro or 96.1% of total investments. Professional investors invested 0.8 million euro or 2.6% of total investments, and experienced investors invested 0.4 million euro or 1.3% of total investments.

Chart 33. Investments by type of investment (millions of euro)

When considering investor country, more than half of the investments in 2024 were made by Latvian investors, i.e. 16.1 million euro or 53.1% of total investments. They were followed by German investors with 6.7 million euro or 22%, British investors with 1.3 million euro or 4.3%, and Lithuanian investors with 1.1 million euro or 3.5% of total investments. Investors from no other country made investments reaching at least 3% of total investments, but their combined investments amounted to 5.2 million euro or 17.1% of total investments.

Chart 34. Investments by investor country (millions of euro)

Supervision of foreign exchange trading companies

There were 15 foreign exchange trading companies operating in Latvia at the end of 2024.

Strategy meetings were held during the year to discuss business development opportunities, main challenges, and risk factors in this sector. Some companies expressed interest in expanding the range of services, focusing on the implementation of automated solutions. Latvia provided both individual consultations in this process and cooperated with other state institutions in providing them. At the end of the year, one foreign exchange trading company launched an automated foreign exchange trading facility as well as commenced the development of a remote foreign exchange trading facility via an internet platform. During the reporting year, discussions were held on the availability of banking services for foreign exchange trading companies. Latvijas Banka developed a new risk analysis methodology, including an annual presentation of a sectoral risk assessment. Discussions and individual meetings of sector participants were also organised to discuss their business models, challenges, and development opportunities.

The focus of supervisory activities was on:

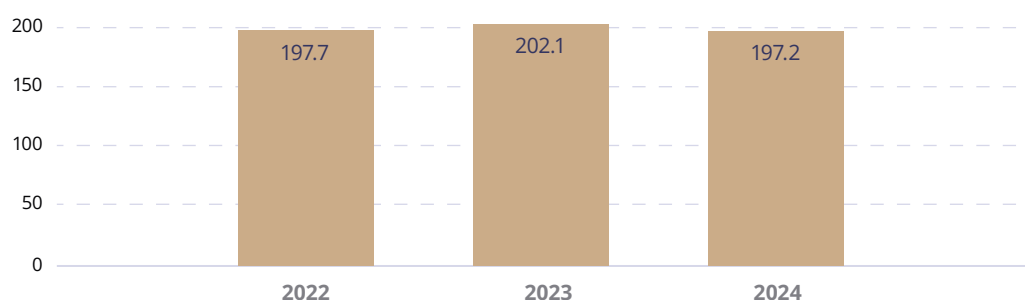
- risk assessment;
- management culture;
- staff qualifications;
- due diligence process.

In 2024, Latvijas Banka conducted full on-site inspections of two foreign exchange trading companies, excluding the AML/CFT area. In addition, a horizontal review was carried out in three companies, including AML/CFT aspects.

As a result of the inspections, both low-impact and significant gaps were identified, and foreign exchange trading companies worked on improving their operational processes. Regular work on company data analysis also continued during the year.

The value of foreign exchange transactions carried out by foreign exchange trading companies has been generally stable over the past three years. In 2024, it decreased slightly by 2.4%, as compared to 2023 (197.2 million euro in 2024 and 202.1 million euro in 2023) and was broadly at the same level as the value of transactions in 2022 (197.7 million euro).

Chart 35. Value of foreign exchange transactions carried out by foreign exchange trading companies (millions of euro)

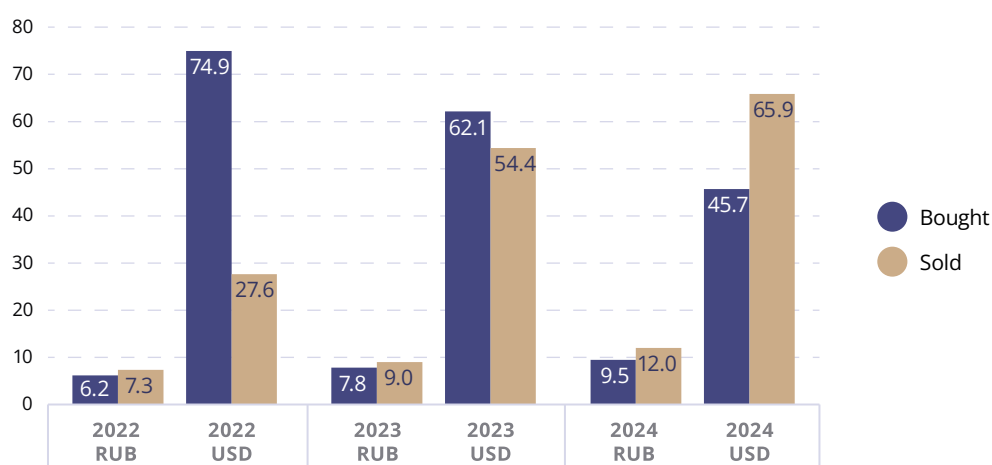


Looking by currency, the US dollar dominated in 2024, as in the previous years, with exchange transactions (buying and selling) totalling 111.5 million euro and accounting for more than half, 56.6%, of all transactions. It was followed by the British pound sterling, with transactions amounting to 28 million euro or 14.2% of all transactions, and the Russian rouble, with transactions amounting to 21.5 million euro or 10.9% of all transactions. For other currencies, exchange transactions did not exceed 5% of the total transaction value.

At the same time, there was a decrease in the value of total transactions (buying and selling) in the US dollar and British pound sterling in 2024 as compared to 2023: by 4.3% for the US dollar and by 9.3% for the British pound sterling. In contrast, the value of transactions in Russian roubles increased by 27.7% in 2024 as compared to 2023.

Given the geopolitical situation and amendments to the Immigration Law, in 2023, transactions related to the sale of real estate belonging to Russian and Belarusian citizens and these persons leaving Latvia increased. As a result, the value of the US dollar and Russian rouble sales transactions rose significantly, while the value of the US dollar buying transactions decreased. In 2024, the number of such transactions declined, while the value of the US dollar and Russian rouble sales transactions continued to rise. Compared to 2023, the value of Russian rouble sales increased by 33.5%, while the value of buying transactions grew by 21%. At the same time, the value of US dollar sales increased by 21.1%, while the volume of buying transactions decreased by 26.5%.

Chart 36. Value of US dollar and Russian rouble buying and selling transactions (millions of euro)



The management of trading risks for Scandinavian currencies in Latvia and elsewhere in Europe was adjusted by reducing the cash holdings in these currencies. Foreign exchange trading companies reviewed their internal policies, and several companies stopped trading Scandinavian currencies in order to reduce risks.

Supervision of investment service providers

At the end of the reporting year, authorisation to provide investment services in Latvia was granted to 10 investment firms (IF) licensed in Latvia, 10 credit institutions registered in Latvia, and one branch of a credit institution from an EU Member State, and also to seven investment management companies registered in Latvia. In accordance with the principle of freedom to provide services, more than 600 investment service providers from EEA countries also had the right to provide investment services.

In 2024, Latvijas Banka issued one new IF license, to Boku Securities SIA.

Supervision of investment services was focused on the following issues in 2024:

- Supervisory Review and Evaluation Process in two IFs;
- in-depth inspections of three individual market participants (two IFs and one credit institution);
- licensing of a new investment service provider;
- an off-site horizontal thematic review of investment service providers on compliance with disclosure requirements for sustainability issues;
- participation in ESMA's common supervisory action on integration of sustainability aspects in market participants' operations and compliance with product management requirements regarding sustainability aspects;
- evaluation of the reports submitted by market participants and data quality control;
- addressing complaints received about investment service providers;
- conducting a sectoral risk assessment.

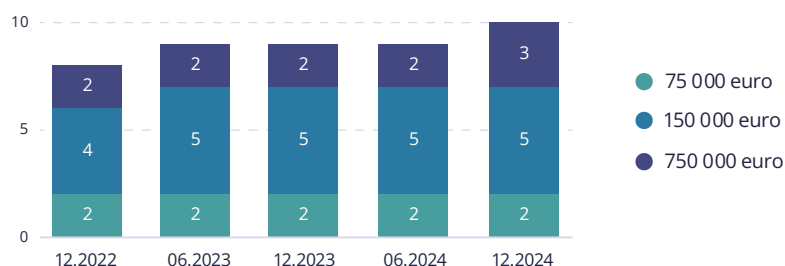
Summary

Number of IFs **10**

Annual changes in capital **+27.0%**

Annual changes in number of customers **+9.0%**

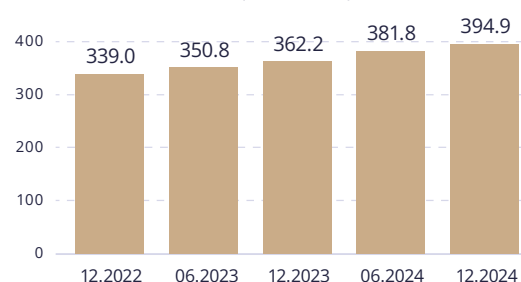
Number of IFs by size of initial capital



Capital and reserves (millions of euro)



Number of customers (thousands)



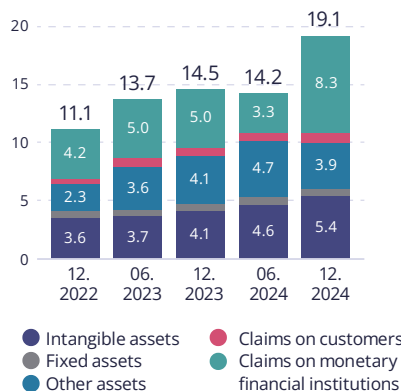
Assets

Assets (millions of euro) **19.1**

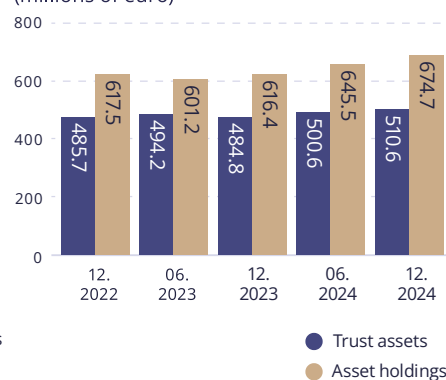
Annual changes (millions of euro) **+4.6**

Annual changes **+31.3%**

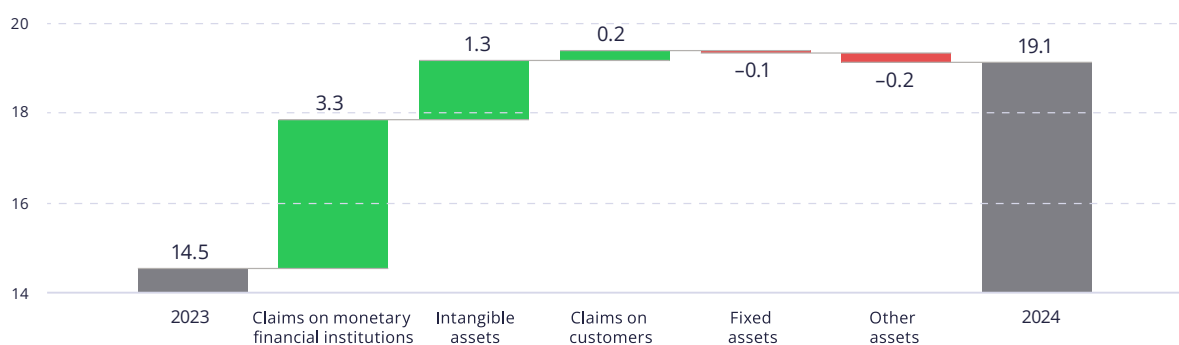
Assets (millions of euro)

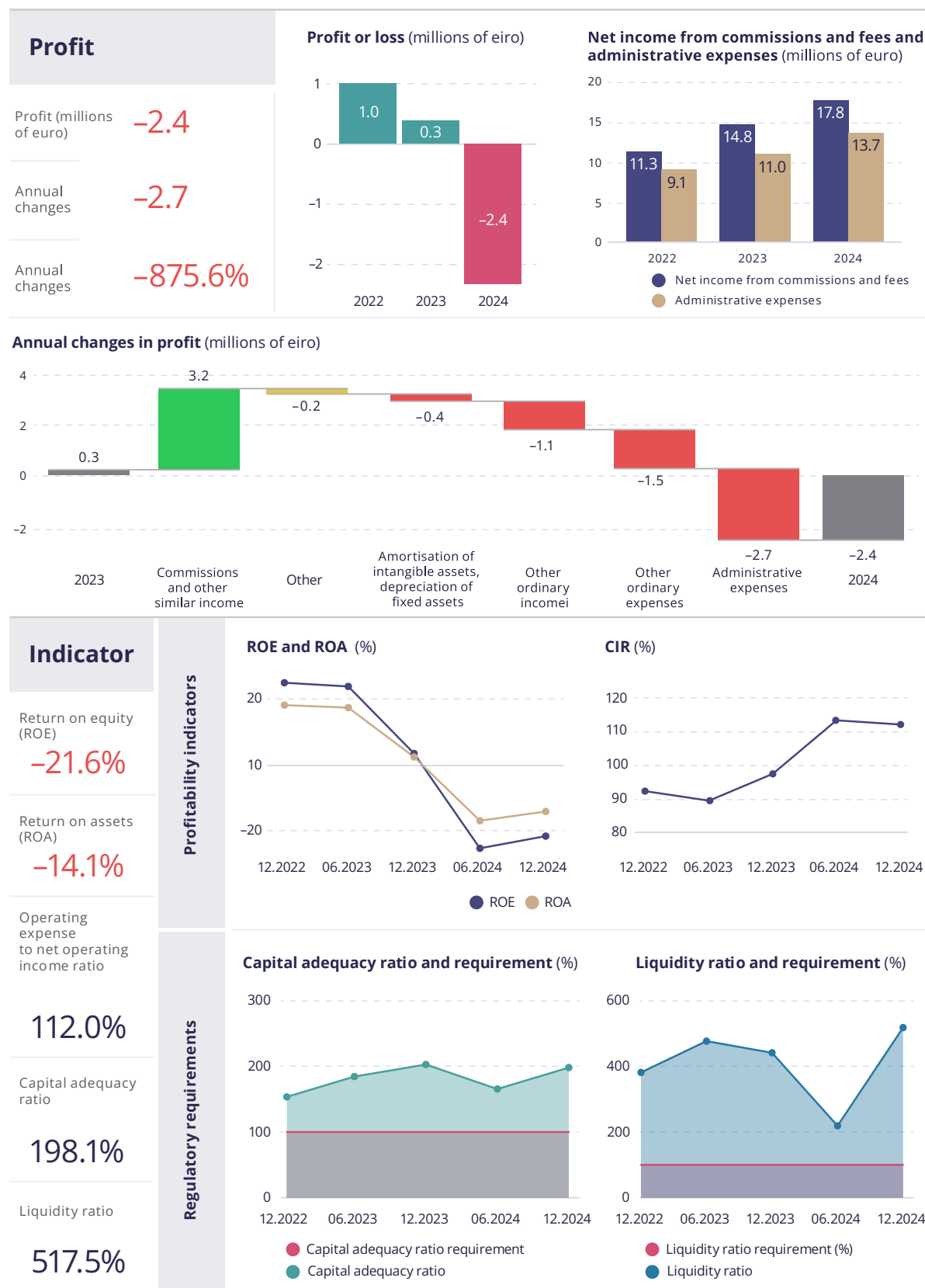


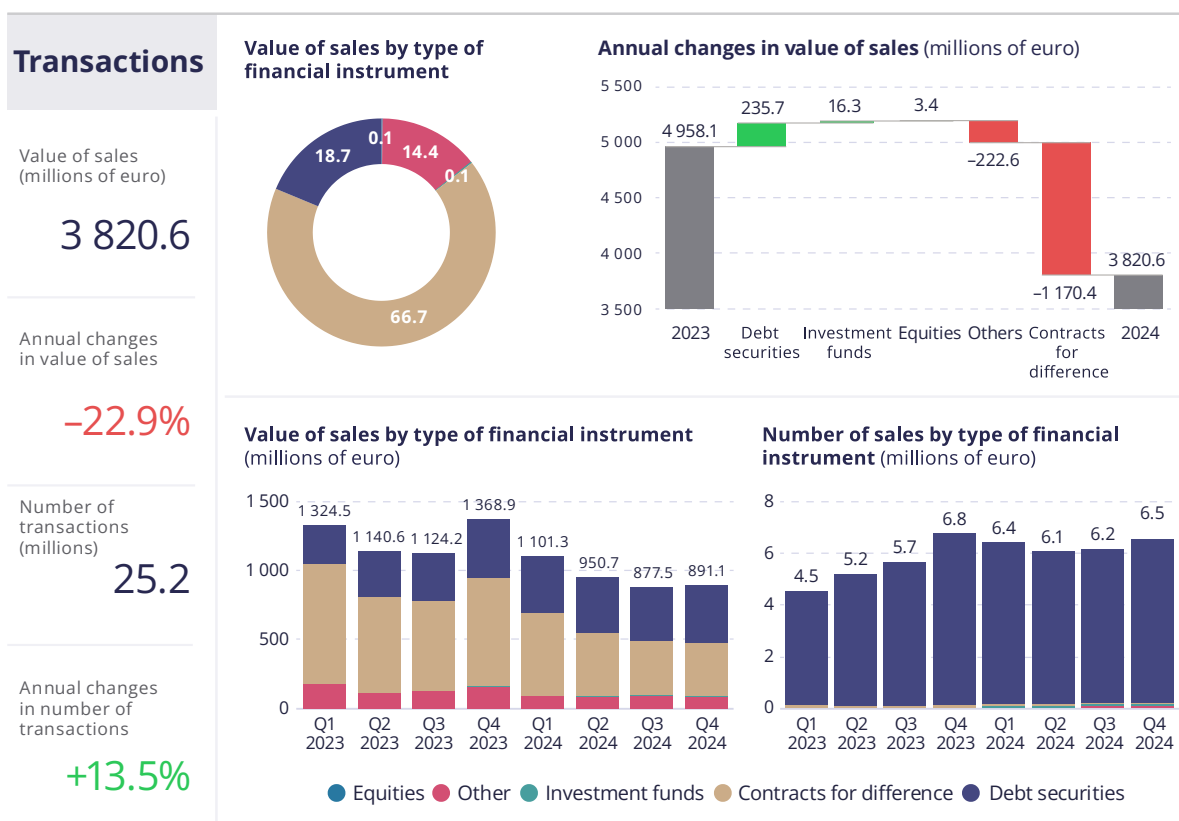
Assets in management and custody (millions of euro)



Annual changes in assets (millions of euro)







Supervision of the trading venues for financial instruments and the Central Securities Depository

In 2024, the focus in supervision of the regulated market operator joint stock company Nasdaq Riga and the multilateral trading system, or the alternative market, First North Latvia, was on the following areas:

- pre- and post-trade disclosures;
- cooperation in the context of new issuers entering the market and issuers leaving the market;
- ensuring adequate trading in financial instruments;
- supervision of trading in financial instruments;
- the operational adequacy of IT systems and the prevention of incidents;
- assessment of the regulations and decisions of the joint stock company Nasdaq Riga.

In 2024, supervision of the Central Securities Depository Nasdaq CSD SE focused on:

- development and testing of the central securities depository risk assessment methodology, as well as the first risk assessment carried out in accordance with the new methodology (assessed areas and risks: business model, financing of operations, IT risks, risks to capital, governance, and internal controls);
- regular off-site supervisory activities, covering evaluation of the statements, reports, and other information submitted, and meetings with the responsible staff of Nasdaq CSD SE;
- cooperation within the Nasdaq CSD SE supervisory college between the supervisory authorities and the central banks of Lithuania, Estonia, and Iceland (two meetings of the supervisory college were held).

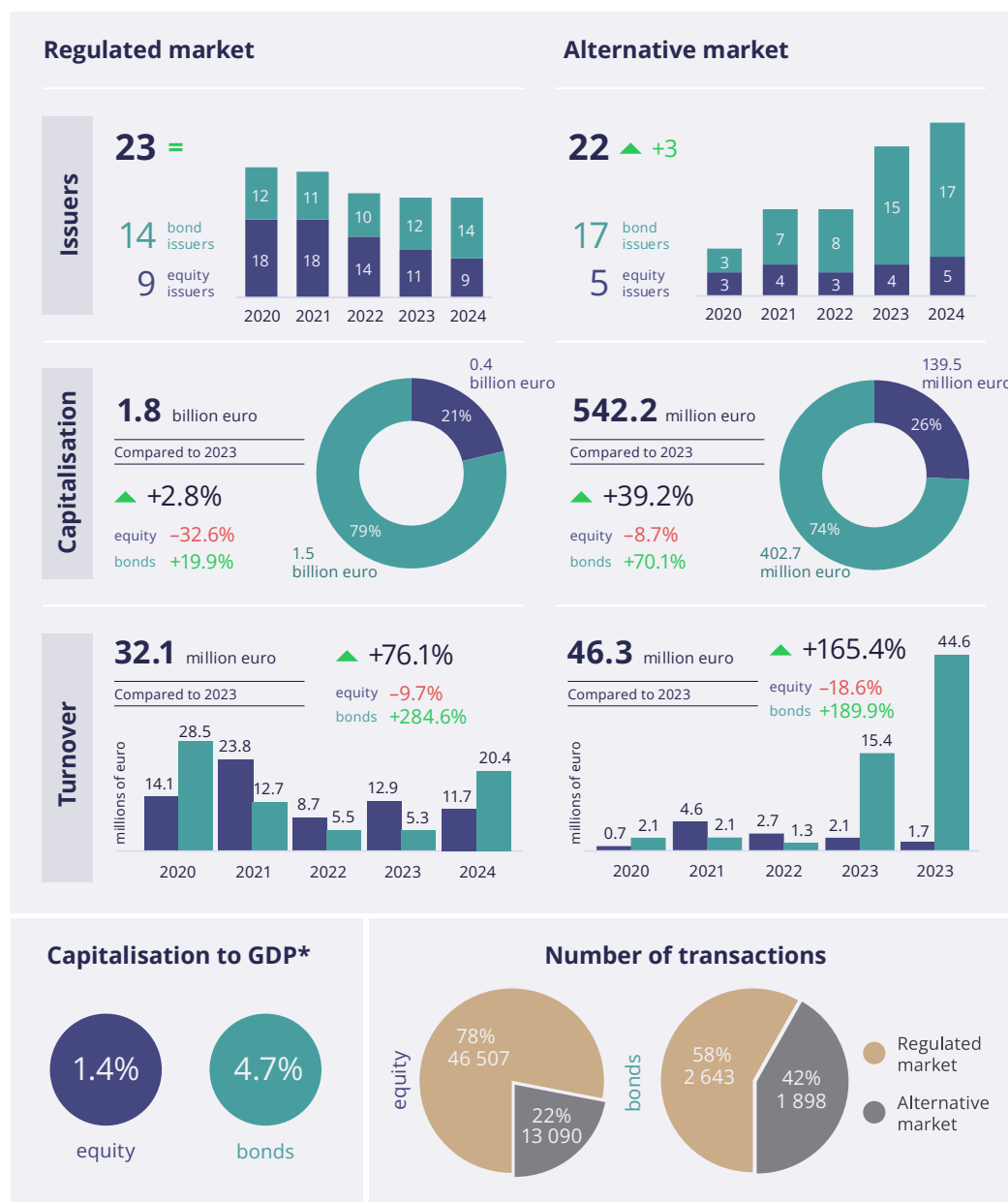
Supervision of issuers

The focus regarding supervision of issuers in 2024 was on:

- timely disclosure of regulated information;
- in-depth inspections of annual statements and interim reports;
- verifying compliance with the single electronic reporting format;
- verifying notifications on corporate governance;
- inspection of non-financial statements and submission of remuneration reports;
- compliance assessment of prospectuses for public offerings;
- an inspection of the work on audit committees;
- an inspection on shareholder disclosures;
- a horizontal review on early bond redemptions;
- a horizontal review on tenure limitations of auditors engaged by issuers;
- webinars and presentations on the application of regulatory requirements;
- an inspection regarding the maximum audit engagement duration for the certified auditors and certified auditor companies engaged by the issuer.

In 2024, Latvijas Banka started two administrative proceedings against issuers. The first was started for failure to publish annual statements in due time and for not disclosing information on the submitted shareholder holdings notifications. A sanction, i.e. a fine of 11 500 euro was applied to the issuer. The second administrative proceeding was initiated against the issuer for failure to comply with the share buyback obligation specified in the Share Buy-Back Law. The decision in the case was still pending in 2024.

Latvian capital market indicators 2024



Source: <https://nasdaqbaltic.com/lv/>.

* GDP for 2024 has been estimated based on Latvijas Banka's forecasts of +0.6% of GDP at 2023 current prices, see <https://www.bank.lv/en/operational-areas/task-monetary-policy/forecasts>.

At the end of 2024, securities of 23 regulated market issuers were approved to trade in the Latvian capital market, and securities of 22 issuers in the alternative market.

The total capitalisation of the regulated market at the end of 2024 was 1.8 billion euro, whereas the turnover was 32.1 million euro, which was 76.1% higher than in 2023.

The total capitalisation of the alternative market at the end of 2024 was 542.2 million euro, whereas the turnover was 46.3 million euro, which was 165.4% higher than in 2023.

The total capitalisation of the equity market to GDP at the end of the reporting year was 1.4%, while that of the bond market was 4.7%. Overall, positive trends were observed in the development of the market, especially in the area of bond issuance.

Capital market development was one of Latvijas Banka's priorities for 2024, and several activities were carried out to promote it. On 7 February 2024, the fourth Latvian Capital Market Forum organised by Latvijas Banka, titled *Powerful Businesses – More Capable State*, took place. The objective of the forum was to familiarise companies with the trends, opportunities, and experience of various companies in the capital market of Latvia as well as to encourage expert discussions and cooperation between institutions. These efforts aim to facilitate access to development financing, leading to the growth of strong companies as well as enhancing Latvia's competitiveness and overall economy.



Latvian Capital Market Forum *Powerful Businesses – More Capable State*, 7 February 2024.

The Securities Sandbox, a support tool for companies wanting to raise financing in the Latvian capital market, continued to operate in the reporting year. The Securities Sandbox is administered by Latvijas Banka, the key Latvian capital market participants and experts participate in the Securities Sandbox working group on a voluntary basis and *pro bono*. By the end of 2024, eight companies had used the support tool.

In 2024, the implementation of the [10-step programme](#) for the development of the Latvian capital market continued, and most of the tasks (90%) were broadly completed. To continue with promoting the capital market development, Latvijas Banka, in cooperation with capital market participants and experts, developed a new 10-step programme for capital market development in 2024, which will include new measures, the implementation of which is essential for the further development of the Latvian capital market.

On 11 December 2024, the [Sustainable Governance Award](#) presentation ceremony was held. It was the fourth annual ceremony. Overall, 28 candidate applications were received. The aim of the award is to buttress the sustainability of businesses in Latvia and to advance the practical implementation of the

Latvian Corporate Governance Code in Latvian companies, promoting operational efficiency and long-term value growth as well as shining a positive public light on businesses with a sustainable governance model.



The Latvian Sustainable Governance Award presentation ceremony, 11 December 2024.

Active cooperation across the Baltic states continued in the reporting year, and several awareness events were held for existing and potential market participants.

Supervision of trading in financial instruments and investor activities

Supervision of trading in financial instruments and investor activities in 2024 focused on:

- supervision of trading in financial instruments;
- a review of reports on suspicious transactions and orders submitted by market participants;
- in-depth inspections of suspicious transactions such as market manipulation or insider dealing;
- cooperation and information exchange with the supervisory authorities of other countries;
- timely and correct submission of investor notifications.

In 2024, Latvijas Banka imposed administrative sanctions on individuals involved in three cases for market manipulation at trading venues and insider dealing.

Supervision of information and communication technology and security risk management

The importance of ICT security and cyber risk supervision

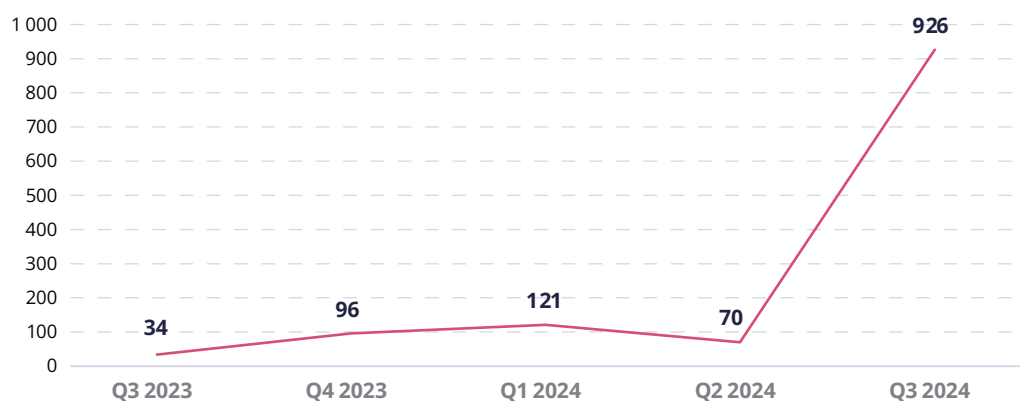
A secure, sound, and trustworthy financial market is one of Latvijas Banka's supervisory priorities. Market participants are tasked with developing and improving their capabilities to protect themselves against growing and changing digital threats. Therefore, every financial market participant, and especially significant financial service providers, must be prepared to operate in crisis situations and recover their operations following a significant cyber incident.

In the reporting year, Latvijas Banka conducted focused on-site inspections, off-site horizontal and thematic reviews, and participated in a cyber resilience stress test of significant EU credit institutions organised by the ECB.

In addition, it implemented various activities to raise the awareness of financial market participants, advising them on the development of cybersecurity management capabilities, organising workshops, webinars, and providing individual consultations.

Compared to other EU Member States, Latvia's cyberspace experienced the highest intensity of cyber-attacks ever in 2024, when hostile state actors, and cyber activists supported by them, mainly targeted public institutions and the public sector. Nevertheless, there was also a high risk of attacks targeting the financial market infrastructure. As the general public should always have access to at least a minimum level of critical financial services, Latvijas Banka continued adjusting to the changing geopolitical environment in 2024 by incorporating the financial sector into the national cybersecurity strategy.

Chart 37. Number of significant threats with a broad impact



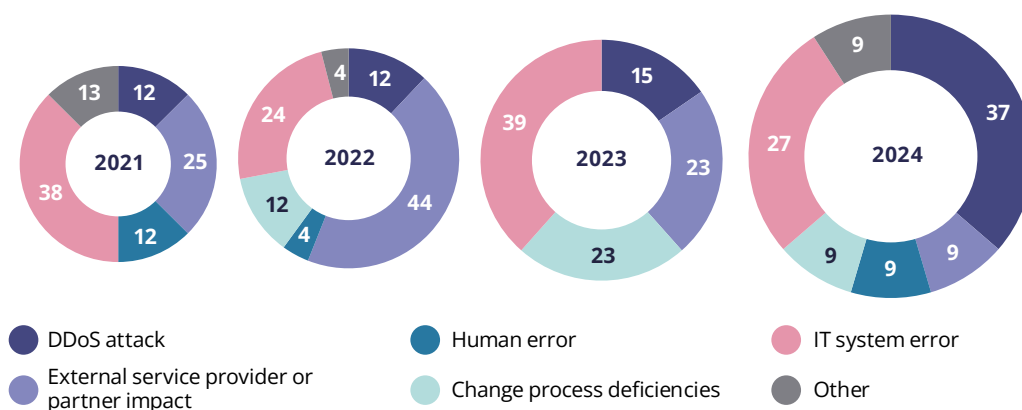
Source: CERT.LV Activity Report for Q3 2024.

According to the European Union Agency for Cybersecurity (ENISA), the top threats creating risks, also for financial market participants in 2024, were the distributed denial-of-service (DDoS) attacks and ransomware, followed by social engineering and threats against data, including information manipulation, supply chain attacks, and malware.

ICT incident effects and trends

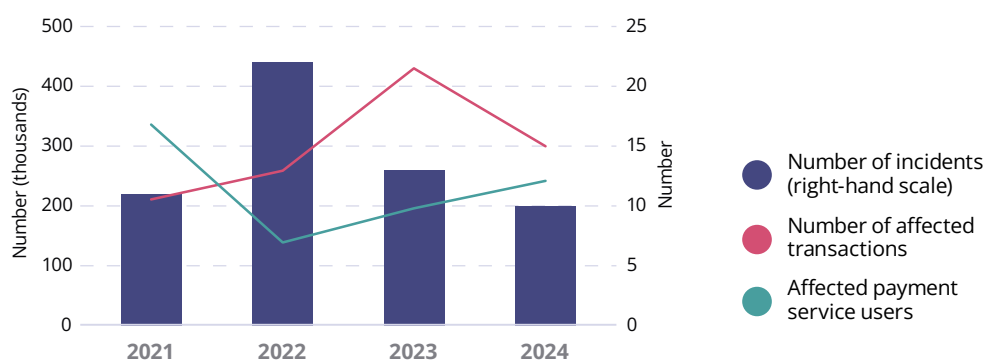
Despite the high intensity of cyber-attacks in Latvia's cyberspace, also affecting financial market participants, the situation was overall well-managed, and the number of significant ICT incidents was low in 2024. Latvijas Banka received reports on 10 significant payment service incidents, and the reasons were mainly related to DDoS attacks, operational risks, or third-party management, when customer access to individual financial services was temporarily affected.

Chart 38. Causes of significant payment-services-related ICT incidents



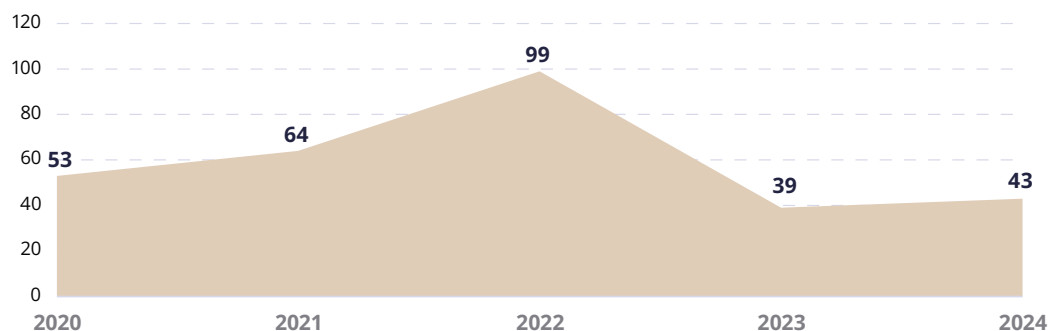
Like in 2023, market participants with a more advanced degree of maturity regarding their security incident management capabilities were able to detect the incidents more promptly and take response to contain and prevent them.

Chart 39. Number and impact of significant payment-services-related ICT incidents



In the event of a cyber-attack, it is important to be able to implement adequate defence activities, and the new [regulation](#) on digital operational resilience for the financial sector is aimed at enhancing market participants' ICT security management maturity, promoting a higher level of cyber resilience.

Information manipulation was used to a significant extent in Russia's war of aggression against the supporters of Ukraine, and false news about having accessed classified information from targeted organisations in Latvia were spread in cyberspace quite often. No such cases and incidents involving financial market participants under Latvijas Banka's supervision were identified in 2024.

Chart 40. Downtime caused by significant payment-services-related ICT incidents (hours)

Since cyber-attacks are often targeted against Latvian cyberspace as a whole rather than at specific organisations, even less significant financial market participants need to develop and improve their operational risk management process in order to be able to timely review their existing controls and identify any emerging risks, for example, in the field of financial fraud..

Focus areas in the supervision of financial market operations

In the field of ICT and security risk management, Latvijas Banka conducted six inspections of market participants in 2024:

- two on-site inspections as scheduled in the 2024 plan of inspections;
- one thematic review of outsourcing management;
- three off-site horizontal reviews in the field of ICT and security risks.

The inspections focussed on changes in critical systems, management of operational risks and business continuity, and the practical implementation of the three lines of defence against ICT and security risks in the internal controls system.

Latvijas Banka continued to draw the attention of financial market participants to the timely identification of external service providers and subcontractors. This was done to manage the risks arising from the use of insecure technologies, resulting in insufficiently effective security measures, and, ultimately, leading to potential geopolitical threats due to such cooperation. The attention of financial market participants was also drawn to the timely planning of internal audit activities and regular inspections in the field of ICT management and security.

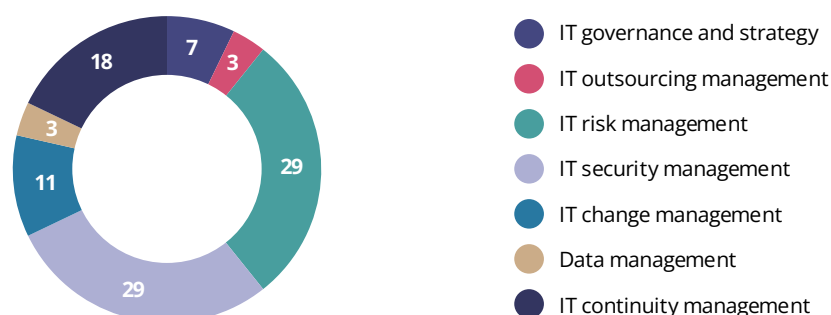
During the inspections of less significant credit institutions, Latvijas Banka evaluated the functioning of the internal controls system and the implementation of the three lines of the defence system in accordance with good practices. Therefore, the focus was on assessing the capacity of the ICT security function and on ICT and operational risks management issues as well as implementing good practices in managing the ICT security vulnerabilities and penetration testing. The inspections improved the senior management's awareness that a corporate culture should be created where every employee of the organisation is responsible for cybersecurity.

Over the most recent years, external cybersecurity threats have increased significantly, and the regulatory changes also mean that the capacity of the ICT security function of credit institutions will need to be strengthened. As the shortage of cybersecurity specialists equally affects the financial sector, it is difficult for less significant credit institutions to find additional appropriately qualified specialists in both ICT security management and ICT auditing areas to ensure regulatory compliance and constant ICT security management.

Therefore, the shortcomings and gaps identified by the inspections of less significant credit institutions were mainly related to delays in developing and updating internal documentation on ICT management, conducting timely ICT risk analysis as well as planning ICT business continuity tests and engaging an internal auditor to conduct an independent assessment of ICT management.

The inspections did not reveal any critical shortcomings, and Latvijas Banka concluded that credit institutions are overall making improvements to enhance their ICT security processes, although they should reduce the mismatches between the documented processes and their practices and strengthen the supervision of external ICT service providers.

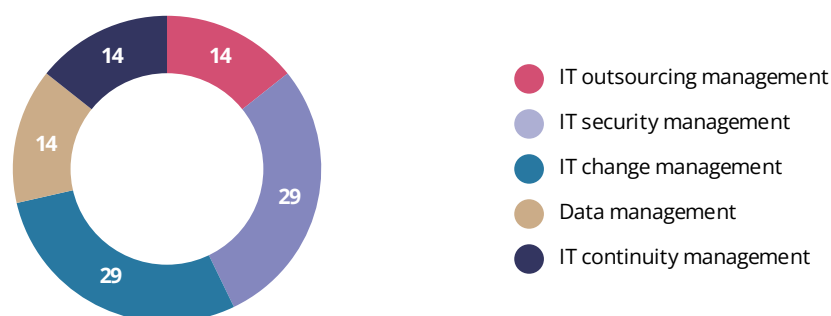
Chart 41. Shortcomings in ICT risk management – credit institutions (%)



Supervision of ICT risks in investment firms assessed the use and management of outsourcing, including cloud services, as well as the risks of change management, data integrity, and business continuity. Activities were particularly focussed on the performance of investment firms in the areas of ICT governance, risk management, and ICT security, in order to gain assurance that the sector is able to ensure data protection and compliance with regulatory requirements in the management of third-party ICT services.

The inspections identified that these market participants mainly need to make improvements in their internal control systems to strengthen the internal controls in ICT risk management, ICT change management, ICT incident management, and ICT security management in general. Investment firms should also reduce the mismatches between the documented processes and their practices and strengthen the supervision of external ICT service providers, in order to reduce the number of ICT incidents arising in relation to operational disruptions in ICT infrastructures and failures of supplied software.

Chart 42. Shortcomings in ICT risk management – investment firms (%)

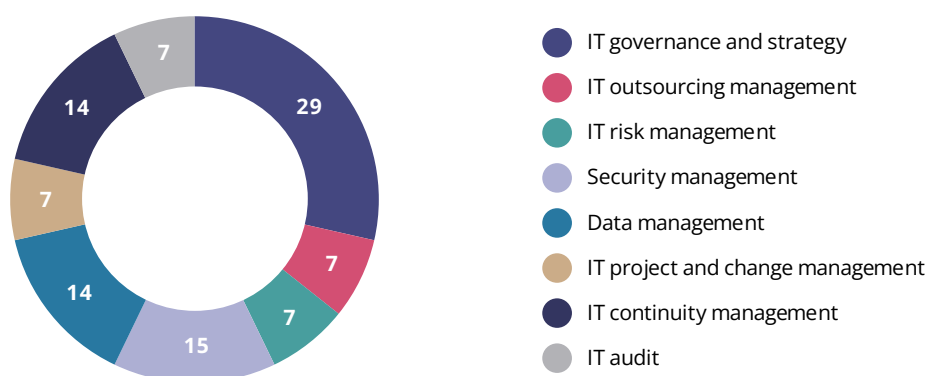


The supervisory activities for payment institutions and electronic money institutions were focused on the management of payment services risks by evaluating the most recent payment-services-related risk

assessments of payment service providers submitted to Latvijas Banka, in order to gain assurance that payment institutions and electronic money institutions responded to those risks with adequate risk mitigation measures and put the necessary control mechanisms in place.

Participants of this market sector highlighted external attacks, outdated infrastructure, insufficient personnel and insufficient competences, and inadequate change management as the main risks related to the provision of payment services. From the information on risk mitigation measures provided by market participants, it was concluded that the residual risk is not high and, in addition to higher external cyber threats, a significant part of risks is also caused by internal threats. Therefore, payment institutions and electronic money institutions must also strengthen their internal controls in the field of ICT governance and ICT security in order to eliminate shortcomings in the context of conflicting documented processes and practices and to strengthen the monitoring of the quality of external ICT services, especially in cases when ICT governance and ICT security functions are outsourced.

Chart 43. Shortcomings in ICT risk management – payment institutions and electronic money institutions (%)



Latvijas Banka did not conduct an ICT security risk assessment of the insurance sector in 2024, as the insurance sector was assessed as a priority in 2023 and no high risks were identified. Although no information was received in 2024 concerning any ICT incidents that could affect customer access to insurance services, taking into account the changes in the external threat environment

and the tightening of the regulatory requirements, this sector also needs to make improvements to ensure that their ICT security processes are prepared to adequately manage the risks associated with external ICT service providers.

Limiting financial fraud

There was a significant increase in the number of social engineering attacks in 2024, which is associated with the growing possibilities provided by artificial intelligence in the implementation of more effective phishing campaigns. This was additionally facilitated by certain threat actors who were able to offer their professional knowledge and skills as a service, for example, fraud as a service.

In 2024, fraudsters stepped up their attacks on the Latvian-speaking audience, as was predicted, with artificial intelligence being increasingly used in the preparation of phishing letters and messages. According to major credit institutions, the proportion of prevented financial fraud cases in 2024 was significantly higher than that of successful fraud cases, however, the total amount defrauded from Latvia's population grew to 15.5 million euro.

In 2024, Latvijas Banka conducted an in-depth situational analysis on at least 28 customer complaints to determine whether credit institutions had taken all measures required by the regulations to prevent the loss of customer funds. Regarding some cases of financial fraud, Latvijas Banka requested additional explanations from the credit institutions, in order to gain assurance that the actions to prevent financial fraud are sufficiently effective. This resulted in requesting the credit institutions to fully or partially compensate the affected clients for the loss of funds.



Marine Krasovska
Head of the Financial Technology
Supervision Department

In cooperation with the Finance Latvia Association, Latvijas Banka developed guidelines for financial fraud risk management and mitigation in 2024 to promote a common approach across credit institutions and implement good practices in financial fraud risk management as well as to promote cooperation in combating financial fraud among credit institutions. These guidelines can be used by credit institutions as well as other financial market participants who are interested in implementing good practices in the field of financial fraud risk management.

Latvijas Banka's achievements in implementing the new regulation

In 2024, the development of the second level regulation of the [Digital Operational Resilience Act \(DORA\)](#) together with EU supervisory authorities, and the implementation of the DORA continued. In relation to that, Latvijas Banka, as the supervisory authority for the ICT processes of the financial market participants, will be assigned new functions, including broader responsibilities in supervising third-party service providers and digital operational resilience testing. The DORA grants new powers to supervisory authorities, while it also provides new means for more effective supervision. Latvijas Banka experts participated in the working group organised by the Ministry of Finance to make recommendations for the legal changes needed for the DORA implementation.

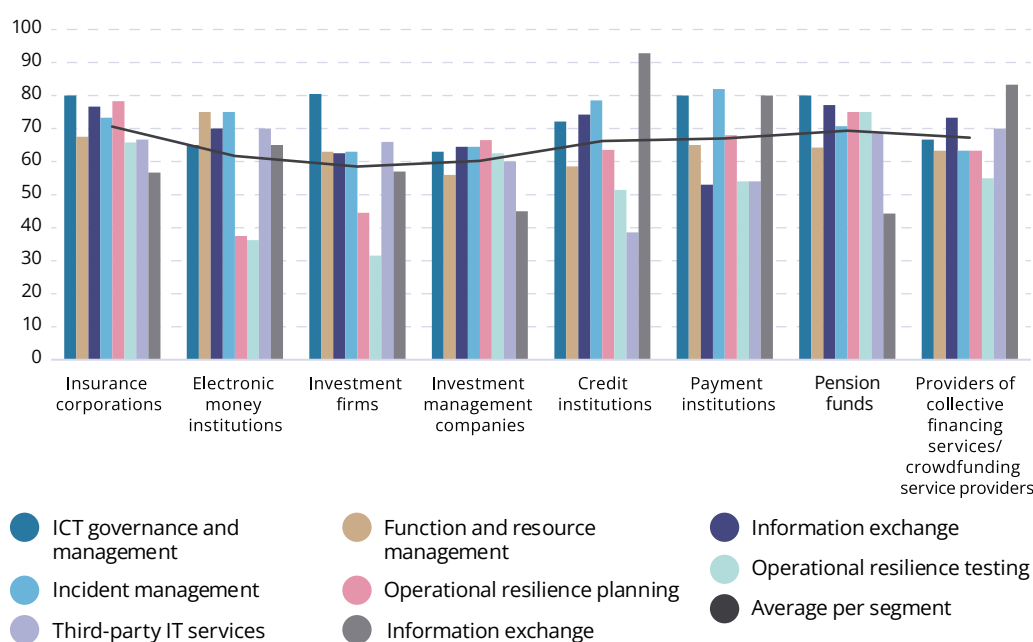
During the reporting year, the Law on Digital Operational Resilience of the Financial Market and the Use of Artificial Intelligence was drafted, work was underway on the development of a new regulation and amendments to the existing regulation as well as the development and application of a new supervisory methodology. The previously effective ICT and security risk management regulations and reporting regulations on significant payment service incidents were repealed. The requirements of those regulations will be fully replaced by the new regulatory framework.

In relation to the implementation of the DORA requirements, Latvijas Banka:

- organised consultation meetings with financial market participant associations and individual market participants to explain the new regulatory requirements and the second-level regulatory technical standards that will be applied from 2025;

- provided more than 30 explanations on individual issues electronically, as well as regularly updated information on Latvijas Banka's website;
- provided explanations to financial market participants of the purpose and application of the Law on Digital Operational Resilience of the Financial Market and the Use of Artificial Intelligence;
- conducted a survey of market participants in December 2024 on their readiness to comply with the requirements of the DORA. Judging by the responses, the average compliance of market participants was at 65%.

Chart 44. Self-assessment of the financial market sectors readiness to comply with the DORA requirements (December 2024; average; %)



Supervision of money laundering and terrorism and proliferation financing risks

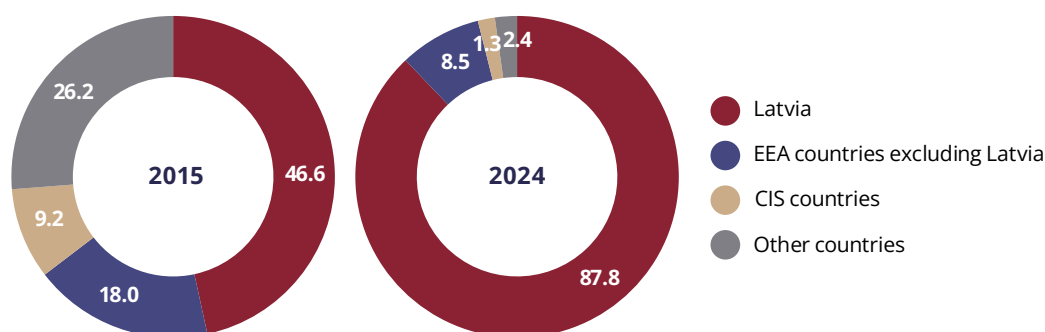
The goal of supervising ML/TPF risks and sanctions risks is to ensure that the financial sector has adequate and effective control mechanisms in place to prevent the financial market from being used for money laundering and sanctions violations. This is also crucial for enabling financial institutions to interact with other financial institutions worldwide, reduce the costs of international payments, and accelerate the speed of payment execution. If a financial institution's control systems are ineffective, other financial institutions may be unwilling to engage in cooperation, as such partnerships can expose them to a risk of involvement in money laundering or sanctions violations.

Historically, the primary risks in the financial sector were linked to servicing foreign customers. However, in recent years, the customer structure of financial institutions has undergone a significant shift, with domestic and EU customers now comprising the majority. The [National Risk Assessment of Latvia](#) also underscores that the country's risk profile has changed, with Latvia's financial sector no longer being regarded as a financial hub. Previously, the source of illicit funds was predominantly associated with foreign countries. However, in 2024, the most significant risks were linked to criminal activities occurring

domestically. Based on the financial market risk assessment, Latvijas Banka identified the following as the key risks for 2024:

- tax evasion;
- sanctions circumvention;
- fraud.

Chart 45. Changes in the geographical structure of customer deposits in Latvian credit institutions (%)



Kristīne
Černāja-Mežmale
Member of the Council of
Latvijas Banka

The MONEYVAL 6th Round of Evaluation commenced in 2024 serves as a significant affirmation of the robustness of Latvia's financial sector and the progress made in preventing financial crimes. In recent years, Latvia has introduced substantial reforms, improving its regulatory framework and improving institutional capacity and inter-institutional cooperation. These measures have significantly bolstered our capacity to effectively prevent money laundering and terrorism financing, while simultaneously enhancing Latvia's reputation in the international financial system.

Until 1 April 2024, Latvijas Banka had been responsible for issuing licences to financial market participants in regard to regulatory exceptions to sanctions. However, as of 1 April 2024, this responsibility was transferred to the Financial Intelligence Unit, which assumed the role of the central sanctions' authority. As of 30 December 2024, Latvijas Banka took over the supervision of virtual service providers in the area of AML/CFTP from the State Revenue Service. In preparation for assuming supervisory responsibilities, Latvijas Banka not only refined regulatory frameworks and guidelines but also organised experience exchange visits with supervisory authorities in other countries to adopt best supervisory practices in this domain. Employees of Latvijas Banka also engaged in specialised training on ML/CFT risks within the

virtual service field, with nine employees earning international certificates, including ACAMS and ICA certificates.

In 2024, a key priority for Latvijas Banka in the AML/CFTP domain was to enhance the accessibility of financial services while effectively implementing a risk-based approach in practice. A detailed overview of the activities undertaken is outlined in the section titled [Accessibility of Financial Services](#).

Inspections and their results

In 2024, Latvijas Banka issued a warning to one credit institution, while the Chair of the Board of another credit institution¹³ was fined 31 731 euro, and a Board Member responsible for AML/CFTP compliance received a warning.

The findings of the 2024 inspections in the field of ML/CFT risk management revealed that financial institutions enhanced their internal control systems further, including in areas such as sanctions risk management and transaction supervision. The most notable improvements were observed in financial institutions' capacity to identify and understand their inherent risks, as ongoing progress remains critical for institutions to further strengthen the effectiveness of their systems by deepening the application of the risk-based approach and optimising the use of resources.

In 2024, Latvijas Banka carried out a horizontal review of all credit institutions to ensure that risk management measures are proportionate to the level of risks and that access to financial services remains safeguarded. Based on the review findings, credit institutions developed individual remediation plans in cases where deficiencies were identified. Latvijas Banka also compiled summaries of best and undesirable practices to foster the adoption of best practices and ensure the uniform application of requirements.

In addition, financial institutions consistently submitted to Latvijas Banka the procedures developed for the introduction of a new product or service throughout the reporting year. Following the assessment of these procedures, Latvijas Banka offered recommendations to address identified deficiencies, aiming to proactively enhance the effectiveness of financial institutions' internal control systems.

Changes in the regulatory framework

Improving the legal framework for the operation of financial market participants

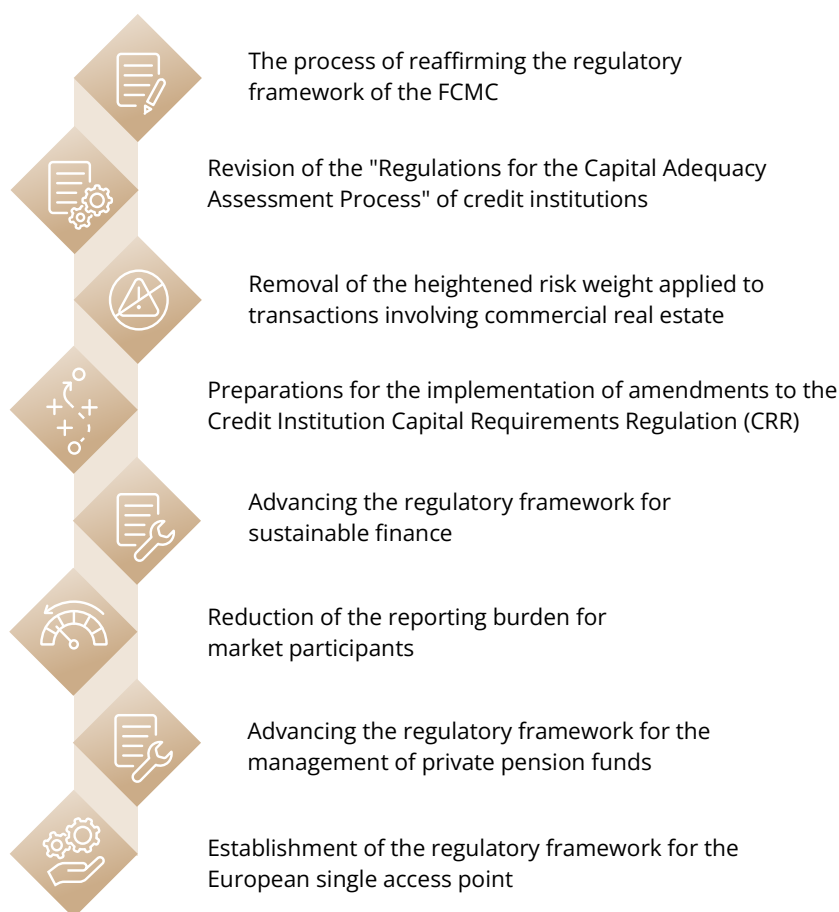
Effective and clear regulation is crucial for the development of the financial sector, and the continuous enhancement of regulatory framework is a core element of Latvijas Banka's daily operations. This process is intrinsically tied to both reinforcing the stability of the financial system and fostering an environment that supports sustainable growth. A critical role is played in advancing European-level regulatory improvements and initiatives, with a particular focus on fostering the growth of small and dynamic sectors within the financial sector, ensuring they benefit from a proportionate and appropriate regulatory environment.

In 2024, Latvijas Banka concluded the two-year process of reaffirming the FCMC regulations, while continuing to refine the legal framework governing the activities of financial market participants. This

¹³ At the end of 2024, the credit institution was undergoing liquidation.

included the implementation of EU directives, the adoption of guidelines issued by EU institutions, and the enforcement of applicable EU regulations.

Key activities in 2024



The completion of the process to review and reaffirm external regulations issued by the FCMC, which commenced in 2023, was one of the most significant accomplishments of Latvijas Banka in 2024, marking a key milestone in regulatory enhancement. This process not only ensured the reaffirmation of regulations but also their revision and refinement, aligning them with EU regulation and the evolving trends shaping the development of the Latvian financial market:

- the review of the regulations was prompted by the integration of the FCMC into Latvijas Banka. Under the transitional provisions of the Law on Latvijas Banka, all external regulations issued by the FCMC were set to expire on 31 December 2024;
- in 2024, the reaffirmation process for 144 external regulations issued by the FCMC was completed. This process involved the review of new Latvijas Banka's regulations by internal committees, engagement with public consultation mechanisms, evaluation by the Consultative Financial Market Council, and final endorsement by the Council of Latvijas Banka;
- as part of the reaffirmation process, Latvijas Banka conducted an assessment of the existing regulatory framework and the bank's delegated authority. This led to an optimised regulatory framework structure, including a streamlined set of regulations – reducing the number of regulations from 144 previously issued by the FCMC to 116 adopted by Latvijas Banka. In addition,

the regulatory requirements outlined in the regulations were updated and refined to align with the evolving trends in EU legislation and within the Latvian financial market.

In 2024, Latvijas Banka alleviated the reporting burden by abolishing five data requests binding credit institutions, while also reducing the frequency of reporting or volume of information required in an additional five data requests. Meanwhile, the submission deadlines for two data requests, relevant to investment firms, electronic money institutions, and payment institutions, were extended, thereby enhancing the flexibility and efficiency of the data preparation process for these financial market participants.

On 9 December 2024, the Council of Latvijas Banka [decided](#) to lift the heightened risk weight applied to credit institutions for transactions secured by mortgages on commercial real estate located in the Republic of Latvia, with this change taking effect on 1 January 2025. The decision marked the completion of the gradual reduction of the heightened risk weight that began in 2023, initially lowering the risk weight to 80% as of 30 June 2024 – down from the 100% risk weight that had been in effect since 2007. Going forward, these transactions will be governed by the harmonised requirements set out in the [Credit Institution Capital Requirements Regulation](#) (CRR) at the EU level, including the application of a minimum risk weight of 60%.

The heightened risk weight was removed due to the gradual improvement in the credit quality of commercial real estate exposures within credit institutions' portfolios since 2007, coupled with a significant reduction in the associated risks. The decline in interest rates, along with other factors, contributed to more favourable conditions in the real estate market throughout 2024. However, uncertainty within the sector remained notably high. A key factor in the decision to cease the application of stricter national requirements was the amendments made to the CRR, which, starting in 2025, enhance the risk sensitivity of the requirements in this area and increase the minimum applicable risk weight from 50% to 60%. The reduction in risk weight is expected to lead to a decrease in capital requirements for several credit institutions, enabling them to accelerate lending activities both in the commercial real estate sector and across other segments.

In 2024, Latvijas Banka significantly revised the [Regulation on Capital Adequacy Assessment Process of Credit Institutions](#) to harmonise and enhance, following the best practices, the process for evaluating the capital adequacy needed to cover the inherent and potential risks faced by credit institutions. The amendments defined and clarified the procedures for determining the required capital for credit risk, interest rate risk in the non-trading book (IRRBB), environmental, social, and governance (ESG) risks, as well as other material risks inherent in the operations of credit institutions.

Key activities in 2025



An environment that favours innovative and secure financial services

During the reporting year, a legal framework was established to support the development of the cryptocurrency services sector in Latvia, while also enhancing its supervision, thereby promoting innovation and security.

¹⁴ Regulation on the transparency and integrity of Environmental, Social and Governance rating activities, Regulation on sustainability-related disclosures in the financial services sector, the Omnibus package.

¹⁵ Taking into account the [UCITS Directive](#) and [IORP Directive](#).

Regulatory aspects in the development of new services

On 13 June 2024, the Saeima adopted the Law on Crypto-asset Services. It was developed in accordance with the Regulation on markets in crypto-assets (MiCA) framework. The purpose of the Law is.

To implement the MiCA requirements, Latvijas Banka:

- established a dedicated team for the licensing and supervision of crypto-asset service providers, composed of experts with extensive expertise and specialised skills in crypto-assets and blockchain technologies;
- enhanced the expertise of employees across various domains, horizontal training sessions on crypto-assets and blockchain technologies were organised, empowering them to effectively supervise the crypto-asset market;
- actively engaged in working groups of European supervisory authorities (ESMA, EBA, EIOPA), playing a role in shaping coordinated guidelines, while offering insights drawn from Latvia's regulatory practices;
- acquired a blockchain surveillance tool that enables the comprehensive supervision of AML/CFTP and regulatory compliance across the operations of crypto-asset service providers by thoroughly assessing the available tools in the market, considering their functionality, reliability, and compliance with regulatory needs;
- participated in a collective procurement organised by ESMA to acquire a market manipulation detection tool;
- reviewed and enhanced the supervisory processes and their governing procedures to integrate the specific MiCA requirements, ensuring coverage for both on-site and off-site supervision activities;
- organised several information events aimed at equipping crypto-asset service providers with the knowledge and tools necessary to ensure compliance with MiCA requirements.

The [Artificial Intelligence Act](#) (AI Act) entered into force on 1 August 2024, with its provisions scheduled to become applicable on 2 August 2026. However, certain exception provisions are set to take effect earlier, for example, the restriction on prohibited artificial intelligence practices. The AI Act was developed to improve the functioning of the internal market by laying down a uniform legal framework. This focused on development, placing on the market, putting into service, and using artificial intelligence systems in accordance with EU values to promote the uptake of human centric and trustworthy artificial intelligence, while ensuring a high level of protection of health, safety, fundamental rights, including democracy, the rule of law, and environmental protection, to address the harmful effects of AI systems in the EU and to support innovation. The AI Act ensures the free cross-border movement of AI-based goods and services, thus preventing Member States from imposing restrictions on the development, placing on the market, and use of AI systems. Latvijas Banka also developed a plan for the implementation of the AI Act and the monitoring of its enforcement.

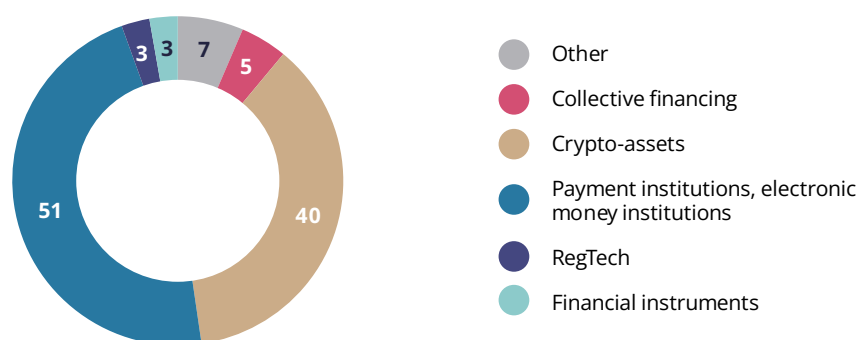
In 2024, Latvia became the first EU Member State to amend its national legislation to offer non-bank payment service providers, including payment institutions and electronic money institutions, direct access to the payment system [EKS](#). This initiative established a level playing field for payment service providers by ensuring equitable access to payment system operator services, thereby enabling them to prepare for substantial shifts in the payments market. [The Instant Payments Regulation](#) mandates the adoption of instant payments across the European payments area. Starting in 2027, non-bank payment service providers will be required to offer instant payment solutions to their customers, alongside traditional euro credit transfers. The Regulation further mandates that the pricing principles for instant payments be aligned with those for credit transfers, ensuring uniform service accessibility across all customer service channels. Starting in October 2025, all payment service providers will be required to verify the given name

and surname or business name of the payment recipient entered by the customer against the corresponding IBAN account number. This measure is designed to enhance fraud protection and allow for the verification of the account holder before payment confirmation. In 2024, Latvijas Banka approved a supervisory action plan to ensure the timely implementation of the Instant Payments Regulation by all payment service providers in Latvia.

Latvijas Banka's support instruments for the development of financial technologies

Latvijas Banka strengthened its support instruments for the development of financial technologies. In 2024, the number of consultations offered by the Innovation Hub doubled compared to 2023, reaching 109 in total. They mainly focused on payment services, with a significant emphasis on questions regarding the possibility of connecting to Latvijas Banka's EKS and the ability to process payments directly within the Single Euro Payments Area (SEPA). The number of consultations provided to foreign companies increased as they assessed the potential of selecting Latvia as their country of domicile for offering both payment and crypto-currency services in the European market. A third of the consultations provided by Latvijas Banka focused on crypto-currency services, offering guidance to potential market participants on the licensing procedure and requirements. This pertains to the implementation and enforcement of MiCA, which took effect on 31 December 2024, as well as the role of Latvijas Banka in supervising the crypto-asset service provider sector. Several potential market participants began the pre-licensing phase to gather feedback on the planned business model, its inherent risks, and possible risk management mechanisms. The pre-licensing phase enables market participants to prepare thoroughly for the licensing process to ensure its smooth progression.

Chart 46. Topics and number of consultations provided at the Innovation Hub in 2024



To enhance the understanding of financial market participants and educate them on the latest regulations in the fields of financial technologies and innovation, Latvijas Banka organised a series of public events throughout the reporting year:

- a seminar on innovations in the Latvian market and artificial intelligence, which brought together over 100 financial market professionals from Latvia in person;
- a webinar on the licensing process and supervision within the crypto-asset services domain, which attracted participants from around 100 countries to understand the latest regulation, as well as learn about Latvijas Banka's expectations regarding the licensing and supervision process.

The central annual event of the FinTech sector was the Latvia FinTech Forum 2024, organised for the third time by Latvijas Banka in cooperation with the Investment and Development Agency of Latvia and the Investment and Tourism Agency of Riga.



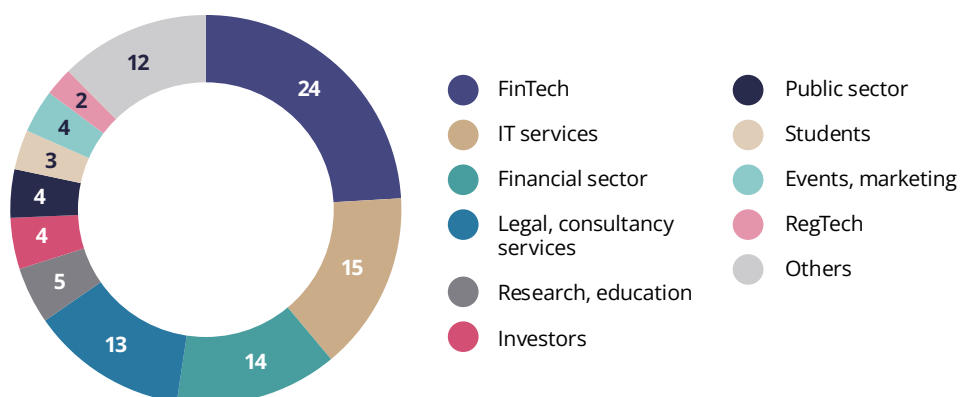
Latvia FinTech Forum on 5 November 2024.

Latvia FinTech Forum 2024 brought together a record number of participants, promoting the development of financial innovations and positioning Latvia as a regional FinTech hub. Riga hosted about 450 participants, one-fifth of them coming from abroad.

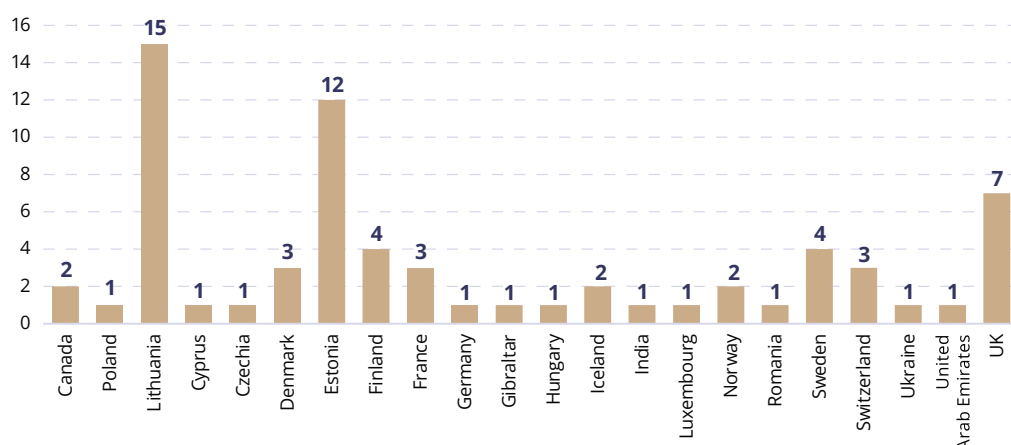
The primary target audience of the forum encompassed current and prospective participants within the FinTech ecosystem, industry partners, public and educational institution representatives, politicians, sector professionals, and company founders. The goal of the forum was to educate the public and participants in the FinTech ecosystem on current topics in financial innovation and regulation, as well as to position Latvia as a regional FinTech hub on the international stage. The key discussion topics of 2024 were:

- progress and analysis of the implementation of Latvia's FinTech Strategy;
- technological advancement of the financial sector (Web3 and crypto-asset services, artificial intelligence);
- risks and opportunities of using artificial intelligence in the financial sector.

For the second year in a row, a FinTech startup competition FinTech Factor was also held during the forum, where companies competed for an investors' prize by pitching their innovative business ideas from the main stage.

Chart 47. Visitors to the Latvia FinTech Forum 2024 by professional field (%)

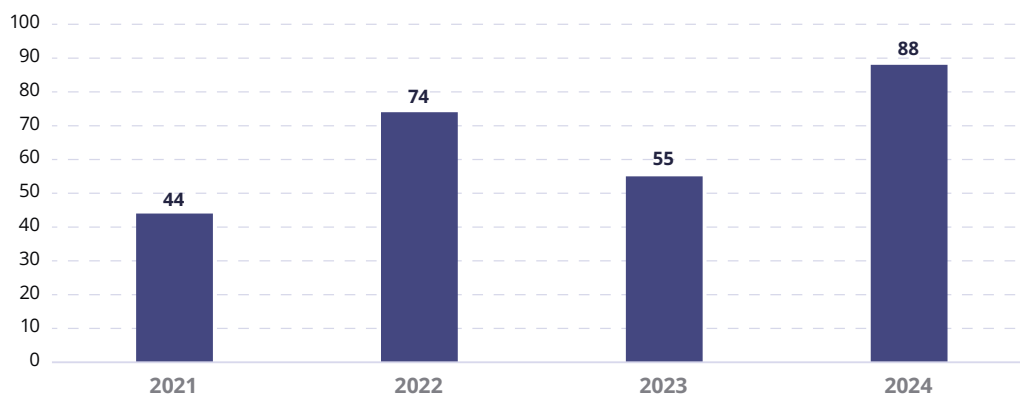
Source: Latvijas Banka.

Chart 48. Geography of the Latvia FinTech Forum 2024 participants (excluding representatives from Latvia)

Source: Latvijas Banka.

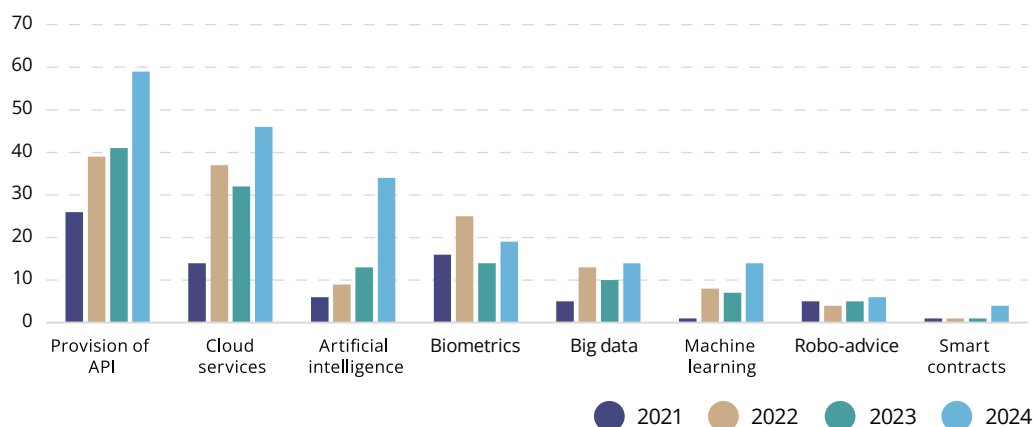
Innovative solutions in the financial market

For several years, Latvijas Banka has been surveying financial market participants to gain insights into trends and developments in financial innovation. In 2024, the survey questionnaire was expanded to include questions on the use of artificial intelligence in the operations of market participants, with 178 market participants taking part in the survey. Survey results indicate that a growing number of participants in the Latvian financial market use innovative financial technology solutions. Compared to 2021, the number of market participants using financial innovations doubled in 2024 (from 44 to 88 market participants).

Chart 49. Number of respondents offering innovative services to their customers

The insurance and credit institution sectors are the most active users of innovative solutions. Survey data collected over several years show that the most widely used innovative solutions include:

- application programming interface (API);
- cloud services;
- artificial intelligence;
- biometrics.

Chart 50. Technologies most often used by market participants (the number of respondents confirming the usage)

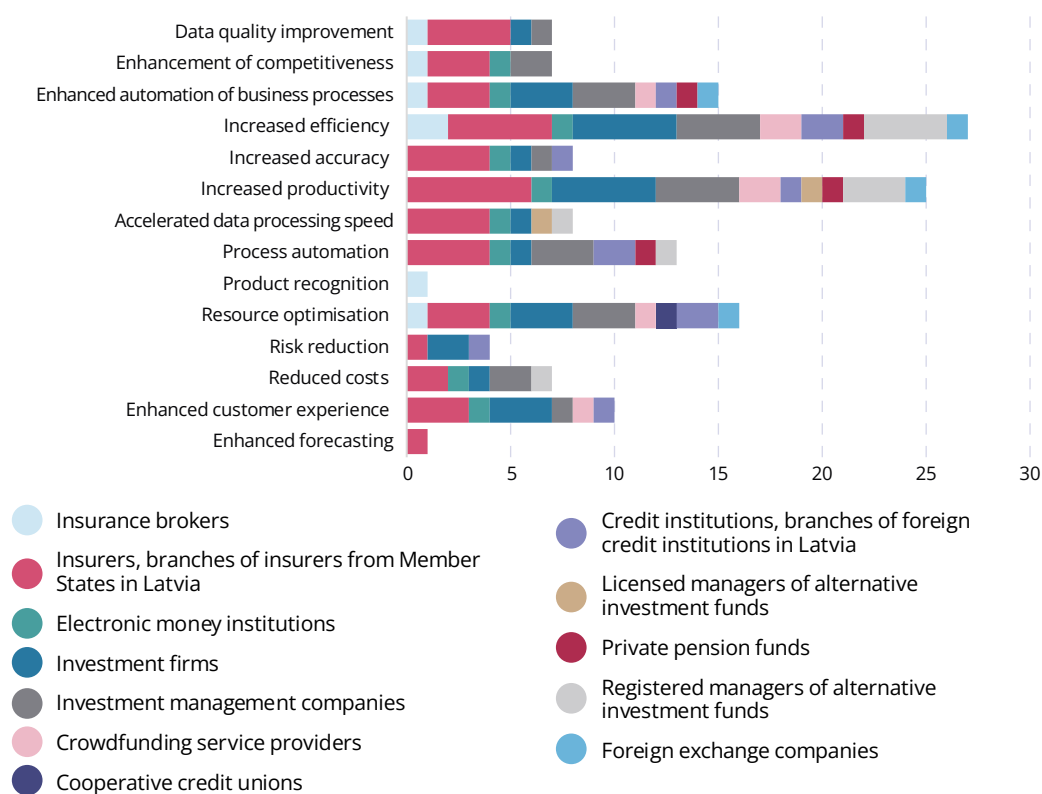
In 2024, the number of companies utilising artificial intelligence solutions to deliver financial services more than doubled, rising to 34 from just 14 in 2023. The leaders in adopting artificial intelligence solutions are participants in the insurance sector, investment firms, and investment management companies. Survey data also reveal that a number of market participants that participated in the survey, and had not yet adopted artificial intelligence, plan to do so in the future.

Based on the responses from market participants already utilising artificial intelligence, the technology was most widely used in 2024 for:

- customer services;
- marketing;
- design and development of products;
- management of insurance indemnities;
- pricing and underwriting of risks;
- sale;
- risk management;
- transaction monitoring.

Nearly all survey participants utilising artificial intelligence reported using tools like ChatGPT to assist with their daily tasks. Market participants acknowledged that artificial intelligence helps boost efficiency and productivity, enables resource optimisation, and enhances the automation of business processes.

Chart 51. The results achieved by market participants and the benefits derived from utilising artificial intelligence



However, while striving for good results with artificial intelligence, market participants also encountered several challenges, including:

- information system security;
- data security;
- errors in artificial intelligence systems;
- Latvian language deficiencies in artificial intelligence systems.

Data from the 2024 survey revealed that participants in the Latvian financial market introduce new and innovative business models. Several participants in the financial market sector use solutions offered by BigTech companies to enhance the efficiency of their business models and processes. Market participants also incorporate green technology solutions into their business models; these solutions include the assessment and integration of sustainability aspects. Digital customer acquisition is the most widely used innovative process. Other commonly used innovative processes include cloud services and biometric solutions. Application programming interfaces, digital platforms, and instant payments rank among the most widely used innovative technologies. Among innovative products, on-demand insurance is the most widely utilised in the Latvian market. This insurance solution is designed to customise the service according to the individual needs of each customer.

Survey data reveal that market participants encounter challenges in implementing innovations, with regulatory requirements being one of the most significant. Companies must navigate complex regulations, which differ across countries and regions. Entrepreneurs also identified several critical risks and challenges, including operational risks, cyber-security threats, data privacy and protection concerns, as well as issues related to technology integration.

Development of supervisory technologies at Latvijas Banka

Supervisory technologies or SupTech represent a specialised operational area at Latvijas Banka designed to deliver high-tech supervisory services. In 2024, a total of 43 SupTech projects of varying scales were developed, achieving an overall completion rate of 94% of the planned objectives. In the context of regular supervision, Latvijas Banka started using an internal analytics portal. This serves as a single access point for the analysis of supervisory data, streamlining information retrieval and minimising the risk of overlooking critical financial details regarding market participants.

The transition to the standardised international financial data reporting framework – Extensible Business Reporting Language (XBRL) – progressed further, with the implementation of 24 national and international reports. This standard helps market participants in streamlining data preparation and error description, as well as enables the maintenance of a centralised and standardised supervisory financial data warehouse at Latvijas Banka. Overall, it minimises solution fragmentation, enhances analytical capabilities, and accelerates the introduction of analytical products, while also reducing the human resources needed to maintain the technological infrastructure.

SupTech solutions are an important part of Latvijas Banka's in-house innovation. During the reporting year, iLab projects were executed focusing on the application of artificial intelligence in surveillance compliance processes and the supervision of crypto-asset services. As a result, a Generative AI assistant, powered by artificial intelligence, was introduced to facilitate the legal compliance analysis of securities issuance prospectuses. This will notably streamline the evaluation process of these prospectuses, leading to significant time savings and, over time, a reduction in human errors. It should be noted, however, that in complex information analysis processes, improving the quality of analysis requires time and the involvement of experts.

As a result of the iLab project focused on supervising crypto-asset service providers, a supervision process was defined, and suitable SupTech solutions selected.

Considering that one of the supervisory objectives of Latvijas Banka is to provide increasingly better supervisory services to market participants, a licensing template prototype was developed during the reporting year, which will form the basis for creating a more convenient and comprehensible process for potential market participants to search for and evaluate the necessary operating licences.

Security of financial services (critical financial services)

The availability of financial resources is one of the key elements of public resilience in the event of a threat to national security. The National Security Law establishes that the critical financial services that must be ensured, if there is a threat to national security, are cash and non-cash payments provided by credit institutions, as this means that financial resources are available to people in Latvia. Under the National Security Law and the criteria established by Latvijas Banka, the banks that have been designated providers of critical financial services in Latvia are Swedbank AS, AS SEB banka, AS Citadele banka, and the Latvian branch of Luminor Bank AS.

According to Latvijas Banka's Regulation No 252 "[Regulation on the Management of Critical Financial Services](#)" (the Regulation on the Management of Critical Financial Services), the providers of critical financial services are those that provide the following critical financial services:

1) non-cash payments:

- credit transfers between the providers of critical financial services, other credit institutions, and the Treasury when the STEP2 system is not available. Such transfers previously only had to be ensured between the providers of critical financial services;
- offline card payments that do not access the internet, allowing natural persons to purchase basic goods up to a maximum total value of 200 euro, if payment card infrastructure is not available;

2) cash payments:

- the providers of critical financial services ensure that cash is continuously available in ATMs designated as critical ATMs. Latvijas Banka has worked with the providers of critical financial services to establish a network of critical ATMs that contains at least 10% of the number of ATMs operated daily by the providers of critical financial services as at the end of the previous calendar year, including one in each town. There are currently 97 ATMs in the network of critical ATMs ([the map of critical ATMs](#));
- to ensure the continuous operation of the critical ATMs, and allow as many people as possible to access cash, the providers of critical financial services plan the minimum amount of cash that must be provided in the critical ATMs so that each customer using each of their payment cards issued by a financial market participant, other than the operator of the ATM, can withdraw 500 euro per day in cash irrespective of the number of payment cards they have or the number of payment accounts they have with the service provider;

- the providers of critical financial services also need to comply with various requirements for critical financial services if there is a threat to national security, while strengthening the requirements for cash infrastructure, such as:
 - a critical ATM must be available to the customer and operate during the hours of availability and operation of the ATM set for each day by the provider of critical financial services before the threat to national security emerges, and for no less than 14 hours per day;
 - cash must be available in the critical ATM set;
 - solutions need to be in place to ensure an uninterrupted connection between the critical ATM set and the information systems, as well as an uninterrupted power supply to the network of critical ATMs.

The Regulation on the Management of Critical Financial Services establishes that Latvijas Banka evaluates the plans of critical financial service providers for continuity of operation, provides recommendations for their improvement, and coordinates the provision of critical financial services if there is a threat to national security.

By the end of 2024, in accordance with the transitional provisions of the Regulation on the Management of Critical Financial Services, the implementation of the requirements for the availability of the following critical financial services was ensured:

- for non-cash payments through offline card payments (such a solution was introduced for certain food and fuel retailers in 2024, and is planned to be expanded to pharmaceutical retailers in the first half of 2025);
- for cash payments, a solution was introduced to ensure an uninterrupted connection between the critical ATM set and the information systems, as well as an uninterrupted power supply to the network of critical ATMs (in 2025, in collaboration with the providers of critical financial services, further improvements to the solutions ensuring an uninterrupted power supply to the network of critical ATMs are planned).

By implementing a solution that enables offline card payments for the purchase of basic goods from critical retailers, Latvia has become the first country in the euro area to offer such an option to its residents. This significantly enhances the ability of Latvian society to function in the case of a national threat and strengthens the operational resilience of the financial sector in ensuring the availability of financial services to the population.

At the same time, to facilitate the availability of cash, amendments to the Credit Institution Law drafted by Latvijas Banka were adopted in 2024, along with the corresponding Latvijas Banka's regulations. The amended law and accompanying regulations strengthen the responsibility of credit institutions operating an ATM network to maintain the required number of ATMs and ensure the continued availability of critical ATMs.

In addition, in 2024, a test was organised to demonstrate whether the availability of critical financial services was ensured. Together with the providers of critical financial services, the economic operators involved in the provision of these services, the Ministry of Finance, the Ministry of Defence, and the Treasury, Latvijas Banka carried out a simulation to assess whether the availability of critical financial services could be ensured in the case of a potential threat to national security. The lessons and conclusions drawn from the test were instrumental in shaping the new regulation of critical financial services and addressing other issues related to ensuring and coordinating the availability of critical financial services.

In 2024, Latvijas Banka continued to run a communication campaign to inform the public about the providers of critical financial services, the financial services defined as critical, the size of them, and, finally, also about how to respond in a crisis event. This included publishing an information booklet [Learn about cash and other financial services in a crisis](#) that gave advice on the cash preparations everyone can make to be better prepared to deal with a crisis.

In 2025, it is planned to continue improving the framework of critical financial services by testing existing solutions for the availability of critical financial services, making improvements where necessary, and planning the further development of the framework of critical financial services.

In addition, in 2025, Latvijas Banka plans to highlight the issue of introducing a comprehensive solution in the country to ensure the availability of critical services in any crisis situation. This would include identifying critical services across all economic sectors essential to society's functioning, setting requirements to guarantee their availability, thereby promoting the resilience of both society and the economy.

In 2024, Latvijas Banka organised and participated in several events aimed at strengthening the operational resilience of the financial sector in the Baltic and Nordic regions, taking into account the interdependence of financial sector participants in these countries, their geographical proximity, and current geopolitical risks. Within the framework of these events, existing solutions for strengthening the operational resilience of the financial sector in the Baltic and Nordic countries, including cross-border cooperation in this field, were identified, and proposals for their development were prepared. This work is planned to continue in 2025.

The resolution mechanism

The Single Resolution Mechanism (SRM) has been in place since 2015. Latvijas Banka, as the resolution authority in Latvia, is a member of the SRM, and together with the Single Resolution Board (SRB) and the other national resolution authorities of the EU, it is constantly working to improve and strengthen the SRM. The resolution covers credit institutions and investment firms that are subject to the requirements of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms. The prudential regulation and supervision of those institutions is designed to minimise the damage that could be caused by liquidity and solvency crises. However, credit institutions and investment firms are private companies, and although they are subject to tight regulation, they may still have problems and fail. If insolvency is inevitable, despite prudential regulation and supervision, the task of the resolution authorities is to safeguard financial stability by minimising disruptions to the economy and protecting taxpayers from losses.

Clear processes for resolving credit institutions and investment firms have been developed during the operation of the SRM. However, crisis preparedness must be further strengthened to ensure that Latvijas Banka, as the resolution authority, has access to all the tools it needs to respond to any potential crisis, to implement the resolution scheme, and to manage any restructuring, recapitalisation, or transfer strategy that is required for an institution.

The functions of the resolution authority for credit institutions that are subject to direct supervision by the ECB within the framework of the SSM and cross-border credit institution groups are discharged by the SRB, but Latvijas Banka's representatives participate in the resolution processes implemented by the SRB and in preparing the SRB's decisions, as well as implementing the decisions adopted by the SRB, including those related to setting the minimum requirement for own funds and eligible liabilities. Three Latvian credit institutions and one branch of a credit institution from another Member State, accounting for 84% of the total assets of credit institutions, were under the direct responsibility of the SRB in 2024. Latvijas Banka, as the national resolution authority, is responsible for the resolution function for the remaining six credit institutions and three investment firms.

In 2024, the priorities in resolution were:

- to continue the operationalisation of the resolution mechanism. Latvijas Banka:
 - continued participation in the EC's structural support project *23EE09 Technical support for national handbooks for Estonia, Lithuania and Latvia*. Within the framework of this project, the operationalisation process for the application of resolution tools is being developed and organised. Over the course of 2025, it is intended to draft and improve the resolution handbook, which will cover decisions, draft contracts, procedures, methodologies, and

other aspects necessary to ensure that resolution tools are ready to be applied. This project is an important step in strengthening the resolution process and ensuring it can be implemented effectively if needed;

- participated in several dry-run exercises to enhance the resolution process that were organised by the SRB;
- to ensure resolution plans are kept up to date and to approve decisions on the minimum requirements for own funds and eligible liabilities.

Resolution plans are updated at least once a year to account for any changes in the market and in the institutions themselves. The aim is to ensure crisis preparedness and enhance the institutions' resolvability.

Seven resolution plans were updated in 2024 in line with the business models and risks of the credit institutions, including four resolution plans of credit institutions under Latvijas Banka's direct responsibility; the resolution plan of one credit institution was not reviewed by Latvijas Banka because that institution was subject to simplified requirements under which resolution plans may be reviewed every two years.

The success of the resolution of a failing institution depends largely on whether the institution has sufficient minimum own funds and eligible liabilities to allow it to absorb losses or recapitalise in a crisis. Considering that the [Daisy Chain Directive](#) applies as of 14 November 2024, the minimum requirements for own funds and eligible liabilities are not set for credit institutions with a liquidation strategy. This is only set if the credit institution could have a significant impact on the depositors' protection scheme or an influence on financial stability and the financial system. In 2024, the minimum requirements for own funds and eligible liabilities for the two credit institutions under the direct responsibility of Latvijas Banka were set, and decisions on implementing the minimum requirements for own funds and eligible liabilities set by the SRB were passed for both institutions.

- to ensure timely contributions to the Single Resolution Fund (SRF).

In close cooperation with the national resolution authorities including Latvijas Banka, the SRB is responsible for calculating the annual ex ante contribution payable to the SRF by each institution under the provisions of the SRB Regulation, and for managing and using the SRF. The objective of the SRF is to provide funding that can be called upon in a crisis to resolve a credit institution. The SRF was built up from contributions made by credit institutions in Member States, including those in Latvia, with a target level of at least 1% of the deposit amount covered at the credit institutions of all the participating Member States.

The target level of the SRF is reviewed annually and has been reached (80 billion euro) based on the status as of 31 December 2024. Since 2015, the contributions made by Latvia's credit institutions to the SRF have amounted to 54.9 million euro. No contributions will be made by credit institutions in 2025 unless the fund is called upon to support a resolution during the year.

Protection schemes

The protection schemes in Latvia are:

- the Deposit Guarantee Fund (DGF);
- the Fund for the Protection of the Insured (FPI);
- the Scheme for the Protection of the Customers of the Financial Instrument Market (Investors).

The Deposit Guarantee Fund. In 2024, Latvijas Banka continued to improve the framework for depositor protection and the process for the disbursement of guaranteed compensation. Regular stress-testing of the DGF is carried out under the provisions of Section 6 of the Deposit Guarantee Law. In 2024, testing the submission and acceptance of applications for guaranteed compensation by credit institutions was conducted. Stress tests were also conducted on the recipient list for guaranteed compensation of all cooperative credit unions and credit institutions. This was done to assess the ability of these institutions to prepare a list of depositors and submit the required information to Latvijas Banka in the specified format and within the given deadlines. Latvijas Banka conducted three on-site inspections in the area of depositor protection during the reporting year to assess the quality of credit institutions' depositor lists and their regulatory compliance. Based on the results of the inspections, Latvijas Banka provided explanations on how the information should be prepared and requested market participants to make improvements to their internal control systems.

Latvijas Banka continued to participate in the improvement of the unified bank crisis management and deposit insurance framework during the reporting year. The goal of this process is to enhance the efficiency of the insolvency prevention system for credit institutions. To find out more about the process, please visit [the European Commission website](#) and [the European Parliament website](#).

Members of the DGF make quarterly contributions to the DGF of 0.05% of the average balance of the deposits covered in the previous quarter, multiplied by the adjustment coefficient calculated using a formula fixed in the laws and regulations. Each year, the DGF evaluates the performance indicators of its members and calculates adjustment coefficients for the contributions to the DGF in accordance with the requirements stipulated in Section 8, Paragraph three of the Deposit Guarantee Law. The average adjustment coefficient for Latvia's credit institutions was 112% in 2024 and 116% in 2023, while being 93% for cooperative credit unions in 2024 and 91% in 2023.

Deposit-takers made regular and one-off contributions of 22.3 million euro to the DGF in 2024.

Latvijas Banka was responsible for the accumulation and management of the DGF in 2024, and its balance at the end of the year was 258.3 million euro. The basic principle when managing DGF assets is to ensure

a high level of liquidity. In 2024, DGF assets were invested in short-term, liquid, fixed-income, investment-grade, and euro area government securities with a maturity of up to 12 months. The annual return on investment was 3.53%.

The Fund for the Protection of the Insured. The assets of the FPI consist of the contributions from insurance companies of 0.1% of the total gross insurance premiums received from natural persons for the classes of insurance specified by law. Since its inception, guaranteed compensation of 12 300 euro has been disbursed from the FPI. Since the accumulated holdings of the FPI exceeded the amount stipulated in Section 288 of the Insurance and Reinsurance Law at the end of 2015, contributions to the FPI have been suspended since 2016. At the end of 2024, there were 20.5 million euro in the FPI. The FPI assets were also invested in short-term, liquid, fixed-income, investment-grade, euro area government securities with a maturity of up to 12 months. The annual return on this investment was 3.62% in 2024.

Protection of the customers of the financial instrument market (investors). The investor protection scheme is based on the Investor Protection Law. Compensation for each investor is limited to 20 000 euro, and the disbursement of compensation is ensured by Latvijas Banka. The Investor Protection Law does not provide for the accumulation of any funds for disbursing compensation, but the resources can, if necessary, be provided by the scheme participants or legal entities that have been authorised to provide investment services. In 2024, improvements continued to be made to the legal framework governing the protection of investors. Latvijas Banka approved the [Regulation on the Preparation and Submission of the List of Investors Entitled to Compensation](#) to determine the format, content, preparation procedure, and submission frequency of information required from the members of the investor protection scheme regarding investors entitled to compensation.

Investment management

Latvijas Banka manages its gold and financial investments in accordance with the investment management guidelines set by the Council of Latvijas Banka, observing the principles of prudent management. Investments are managed with the following long-term objectives:

- capital preservation;
- liquidity;
- income generation.

Investment management takes into account the principles of sustainability and adheres to the Agreement on Net Financial Assets between the national central banks of the euro area and the ECB.

Investment management framework

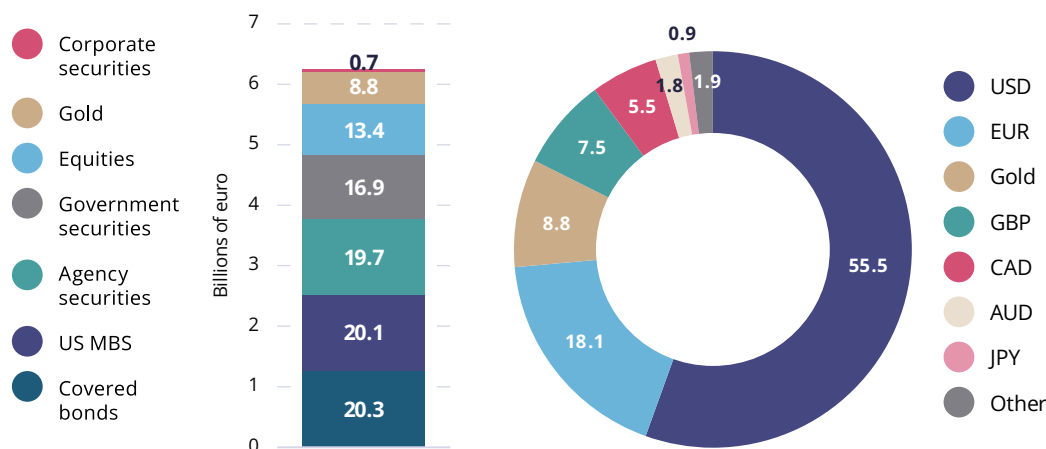
Investment management is carried out by both the employees of Latvijas Banka and external managers. Investments are made in three main asset classes: fixed-income securities, equities, and gold.

Investment composition

Diversification is one of the primary strategies used in investment management. Latvijas Banka mostly invests its financial assets in:

- debt securities issued by the governments of the US, Canada, and European countries, their agencies, or international institutions;
- asset-backed securities;
- securities in the emerging markets government securities index;
- securities in the global investment-grade fixed-income securities index;
- equities issued by companies in developed and emerging markets equity indexes;
- high-quality debt securities issued by corporate issuers;
- gold.

The total value of Latvijas Banka's investment portfolios at the end of 2024 was 6.15 billion euro, which was 0.4 billion euro more than at the end of 2023.

Chart 52. Investment composition (31 December 2024; %)

Investment in fixed-income securities

The bulk of investment in fixed-income securities is managed by the employees of Latvijas Banka.

The benchmark of the 1–10 year fixed-income securities portfolio managed in-house consists of:

	Term structure of government securities index	Currency structure
US	1–3 years	55%
Euro area	1–10 years	21%
UK	1–10 years	14%
Canada	1–3 years	10%

Investments in investment-grade fixed-income emerging markets government securities are made by the employees of Latvijas Banka through exchange-traded funds (ETFs). In 2024, the benchmark portfolio of these investments was changed, redirecting it towards issuers with a higher rating according to environmental, social, and governance (ESG) criteria and green bond issuances.

Latvijas Banka also uses the services of seven external managers to manage investments in fixed-income securities. They manage a part of Latvijas Banka's financial assets in accordance with the guidelines set by the Council of Latvijas Banka.

- Six managers oversee the portfolios of US mortgage-backed fixed-income securities (US MBS).
- One manager handles the portfolio of investment-grade global fixed-income securities. In 2024, this portfolio was revised in accordance with the provisions of Article 8 of the [Regulation](#) on sustainability-related disclosures in the financial services sector.

The currency risk is hedged against the euro for all investments in fixed-income securities except for the investment-grade global fixed-income securities portfolio.

Investment in equities

Investment in equities mostly comprises the portfolio of equities from developed markets, which is managed by an external manager. This portfolio is managed in accordance with the developed markets equity index, and is subject to Latvijas Banka's [sustainability strategy](#). Its targets are:

- to support the achievement of carbon neutrality by 2050 at the latest;
- to adjust the portfolio to the provisions of the Paris Agreement;
- to avoid environmental pollution, conserve biodiversity, and consider ESG factors (see [report](#)).

Investment in emerging markets equities is managed against the corresponding equity index and is made through ETFs.

Investment in gold

Latvijas Banka's gold is stored at the Bank of England.

Management of ECB reserves

Under the Statute of the ESCB and of the ECB, Latvijas Banka has transferred a small share of its gold and financial assets to the ECB to be managed as part of the ECB's foreign reserves. The ECB's reserves are managed by the national central banks of the Eurosystem, where each bank is allocated a share of financial assets to manage in accordance with their capital key¹⁶ at the ECB. Together with Oesterreichische Nationalbank, Latvijas Banka manages their share in Japanese yen. Under the Statute of the ESCB and of the ECB, 1.1 tonnes of Latvijas Banka's gold have been included in the ECB reserves.

Risk management

Risk management is an integral part of investment management. Risk management means developing risk scenarios, assessing the potential returns on and risks of financial assets, and modelling the optimal allocation of assets. The investment portfolio compliance with the guidelines and risk distribution in accordance with investment decisions are monitored and controlled on a daily basis.

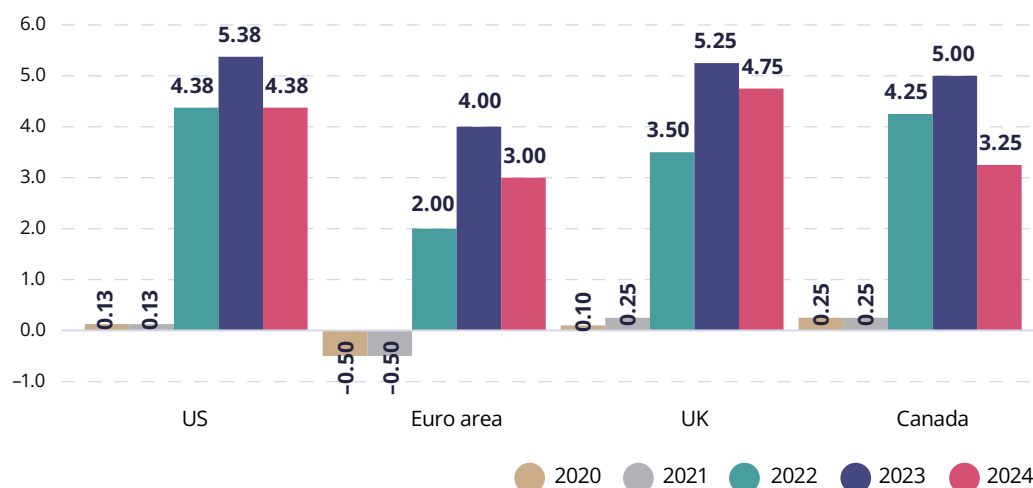
Interest rate risk is the most significant risk factor affecting Latvijas Banka's investments. The most significant financial impact on Latvijas Banka's investment composition stems from changes in 2, 5, and 10-year bond rates, as well as from changes in risk premiums (the interest rate spread between government securities and other securities). The second most significant risk factor is market price changes, particularly for developed markets equities. The Council of Latvijas Banka determines the permissible levels of interest rates, market prices, and other risks. These factors and the exposure of investments thereto are analysed daily by the employees of Latvijas Banka.

¹⁶ The ECB's capital consists of the contributions by all central banks of the EU Member States. The shares of the national central banks in this capital are calculated using a key which reflects the respective country's share in the total population and gross domestic product of the EU.

2024 in review

In 2024, unlike the previous two years, the central banks of the advanced economies reduced their base interest rates. The US Federal Reserve System and the ECB lowered their rates by 100 basis points, the Bank of England – by 50 basis points, and the Bank of Canada – by 175 basis points.

Chart 53. Development of central bank policy rates (%)



Sources: Bloomberg Finance LP, Latvijas Banka.

Note. The US rate is the average value of the base interest rates set by the US Federal Reserve System. The euro area rate is the ECB's deposit facility rate.

In 2024, interest rate volatility was lower year on year; yet, it remained relatively high. Volatility temporarily increased in April and August 2024. At the end of October and beginning of November, it reached its highest level of the year, which rapidly decreased after the US presidential elections.

Chart 54. US Bond Market Option Volatility Estimate (MOVE) index (index points)



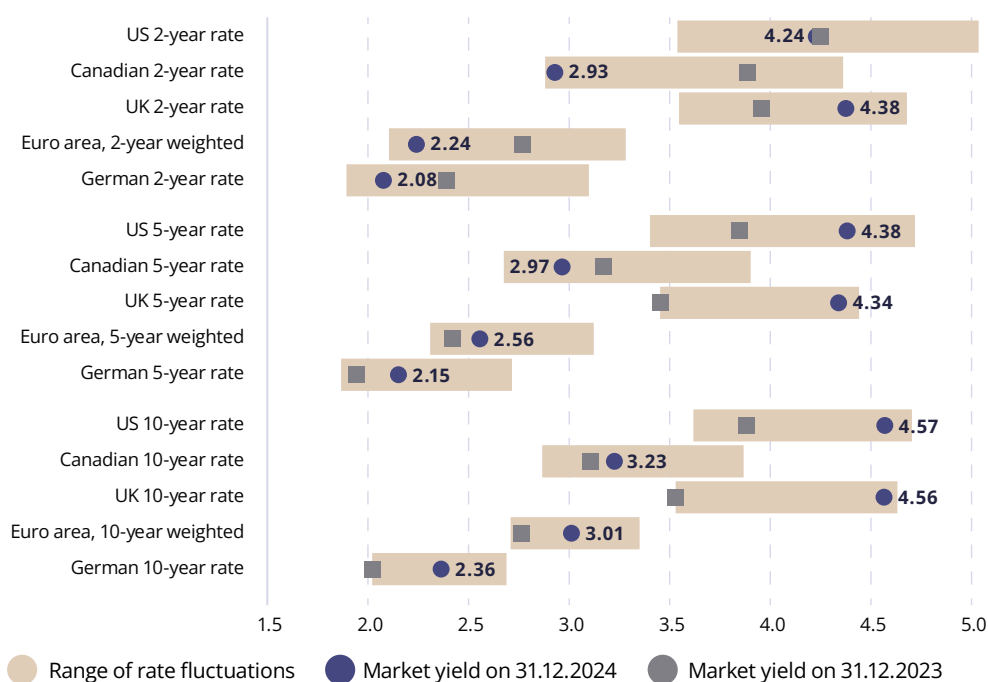
Sources: Bloomberg Finance LP, Latvijas Banka.

In 2024, the range of government securities yields (see Chart 55) in the investment markets of Latvijas Banka reflected the following essential trends:

- medium and long-term interest rates increased over the year (except for Canada's 5-year rate), while 2-year rates, except for the UK, declined;
- 2-year rates showed greater volatility compared to 5 and 10-year rates;

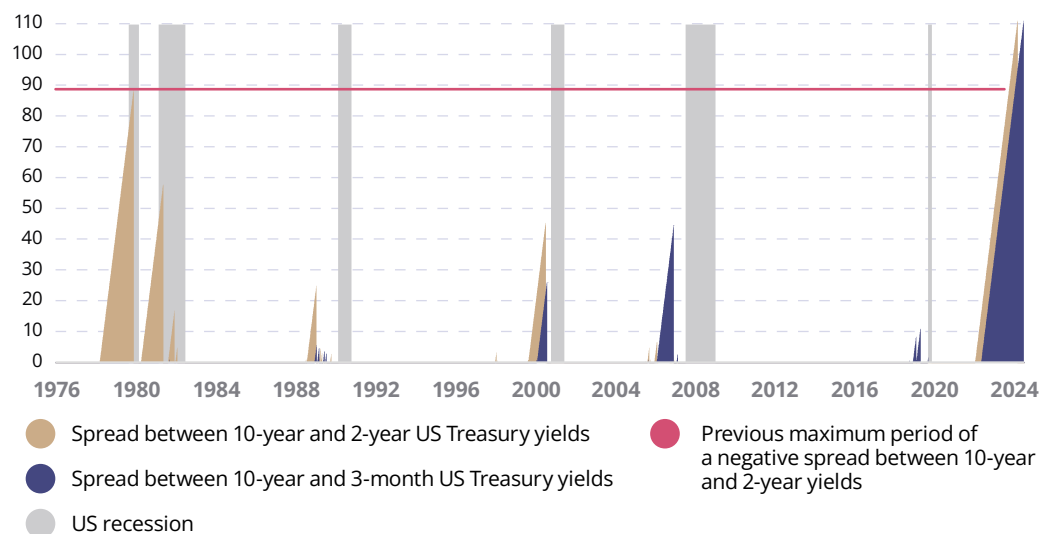
- the highest increases in medium and long-term rates were recorded in the UK, and the lowest – in Canada (5-year rates fell);
- the rates in the euro area remained lowest overall;
- in most markets, the yield curves normalised. In previous years, short-term (2-year) rates exceeded long-term (10-year) rates, while in 2024, long-term rates exceeded short-term rates in all markets reviewed.

Chart 55. Range of government securities yields in 2024 (yields; %)



Sources: Bloomberg Finance LP, Latvijas Banka.

The US yield curve remained inverted longer in recent years than at any time since 1976, only beginning to normalise at the end of 2024. Historically, an inverted yield curve has signalled weaker growth, ending in a recession; however, by the end of 2024, the market projected that strong economic growth would continue in the US.

Chart 56. Periods of a negative US Treasury yield curve (duration in weeks)

Sources: Federal Reserve Bank of St. Louis, Latvijas Banka.

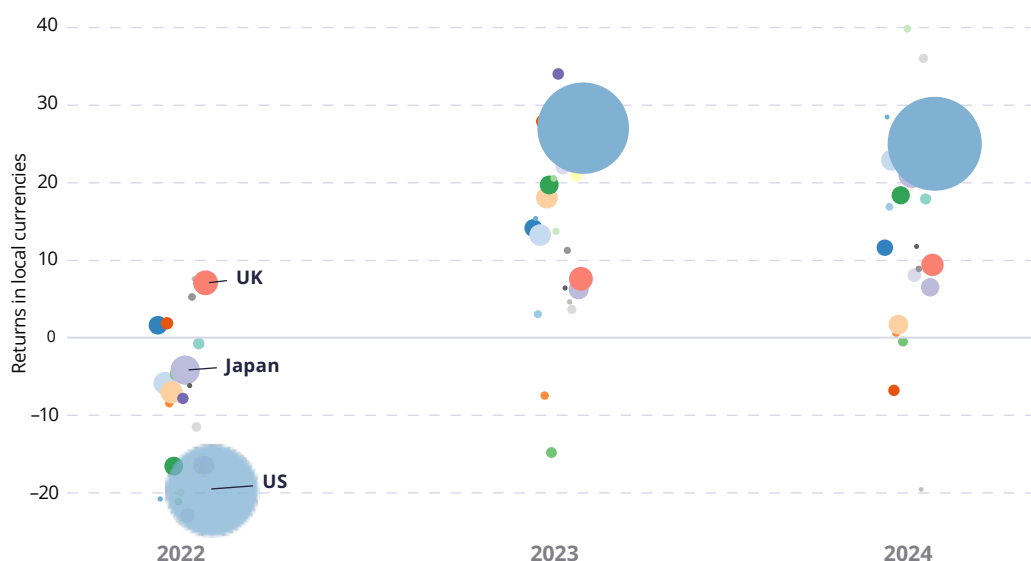
After a significant decline in stock prices in 2022, the US equity markets were very strong in 2023 and 2024. This was the first time since 1999 that the total return on US stocks exceeded 20% for two consecutive years.

Chart 57. Periods in which S&P 500 has shown more than 20% total return for two consecutive years

Sources: New York University Stern School of Business, Latvijas Banka.

The bubble chart data (see Chart 58) reflect the dynamics of the returns on equities of issuers from various advanced economies in local currencies from 2022 to 2024. In 2022, the returns on most equity markets, particularly the largest ones, were negative. In 2023, the situation improved, and most equity markets achieved positive returns, with equities of issuers from some countries even exceeding 20%. This positive trend also continued in 2024, with strong growth across most equity markets. The dominance of the US equity market increased. For example, in the MSCI World index, the US share increased from 68% in 2022 to 74% in 2024 (the US data are also shown in Chart 61).

Chart 58. Dynamics of the returns on investments in equity markets of various advanced economies in local currencies (%)

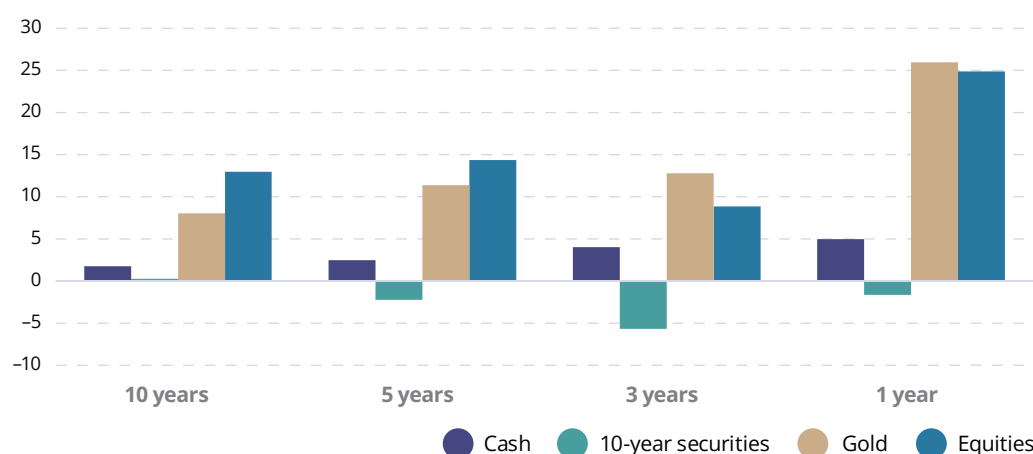


Sources: MSCI, Latvijas Banka.

Note. The bubble size shows the relative size of the equity markets of advanced economies according to their capitalisation.

The gold price in 2023 and 2024 increased significantly, rising by 13.1% and 27.2% respectively in US dollars. Unlike other asset classes, the value of gold did not decrease in 2022. This underpinned its relatively strong return over 3 and 5-year periods (see Chart 59). In the last decade, gold has been a strong diversifier for investment portfolios. One of the main drivers for the rise in gold prices was the gold purchases made by individual central banks (the largest purchases in 2023 were made by the central banks of China, Poland, and Singapore, while in 2024 – by the central banks of Poland, Turkey, India, and China). Geopolitical uncertainty was an additional driver.

Chart 59. Annual returns on various asset classes over 1, 3, 5, and 10 years (%)



Sources: New York University Stern School of Business, Latvijas Banka.

Note. Equities represent the S&P 500 index, cash stands for the US 3-month fixed-income securities, 10-year securities denote the US 10-year fixed-income securities, while the gold price is expressed in US dollars.

Investment results for 2024



Raivo Vanags
Head of the Market
Operations Department

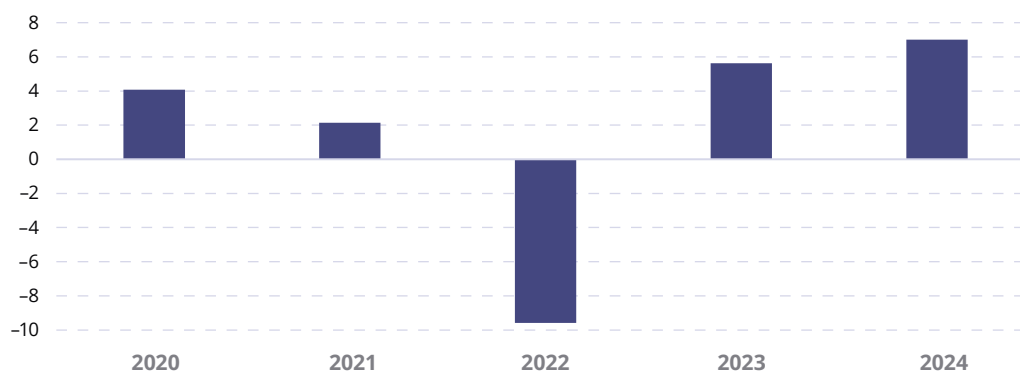
The shorter the time period in which investment results are observed, the greater their volatility. Even calendar year results can be quite volatile.

The investment policy of Latvijas Banka is developed in accordance with the best practices implemented by central banks and aims to adhere to the fundamental principles of investment in the long term.

Investment diversification over the last five years, despite the decline in global financial asset values experienced in 2022, has ensured strong performance during this period.

2024 has so far been the most profitable year for Latvijas Banka in terms of investment management. Income from investment management reached nearly 400 million euro or 7%.

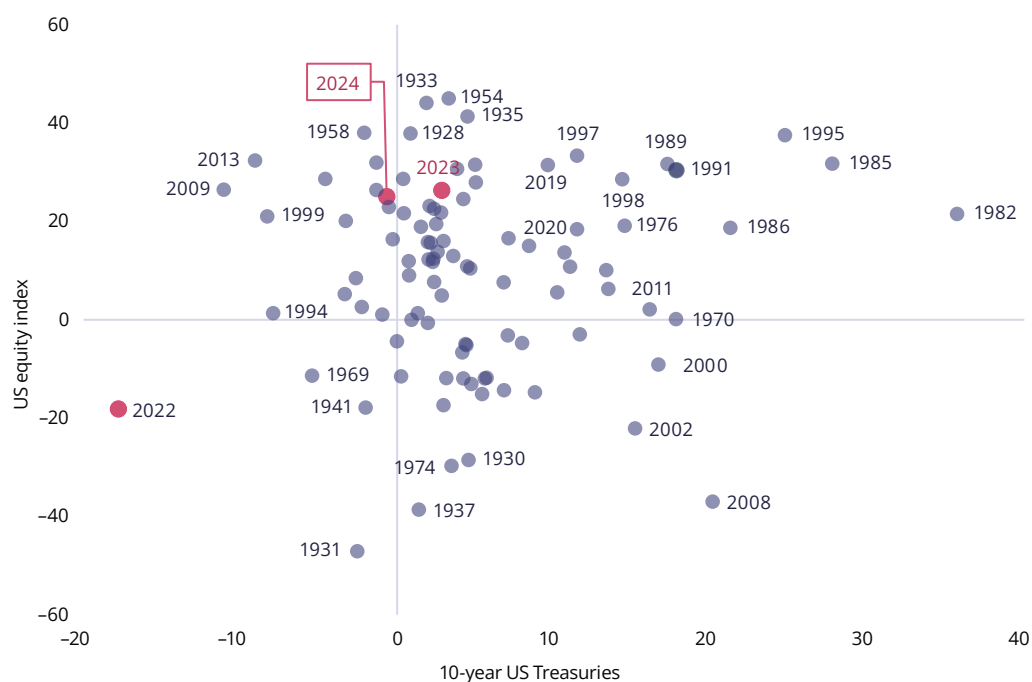
Chart 60. One-year investment returns (%)



Source: Latvijas Banka.

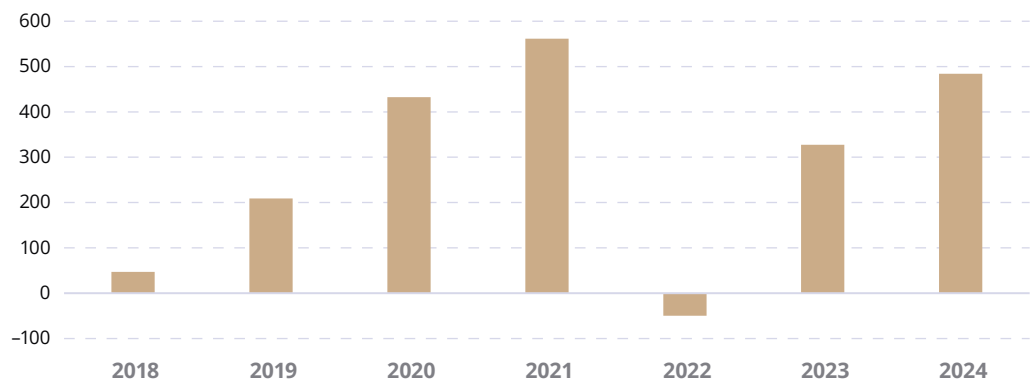
Latvijas Banka's investments are managed with the objective of ensuring compliance with the fundamental principles of management in the medium and long term. Although the market value of financial assets significantly decreased in 2022 due to the rapid interest rate rise (see Chart 61), the medium-term income from investment management remained high (see Chart 62).

Chart 61. Annual returns on the S&P 500 index and 10-year US Treasuries since 1928 (%)



Sources: Bloomberg Finance LP, ICE Data Services, Latvijas Banka.

Chart 62. Total 5-year economic profit of investments, rolling indicator (millions of euro)



Source: Latvijas Banka.

Payment and settlement systems

Digital euro project

Latvijas Banka continues to play an active role in the digital euro project, carried out by the ECB in cooperation with the national central banks of the euro area. The first part of the digital euro's preparation phase continued to progress throughout 2024. This phase, set to run until autumn 2025, is dedicated to ensuring that the Eurosystem is fully equipped for the introduction of the digital euro in practice, subject to a decision by the Governing Council.



Zita Zariņa
Member of the Council
of Latvijas Banka

Discussions around the necessity of a digital euro have gained significant momentum, particularly in light of recent geopolitical developments that exposed deficiencies in the euro area's strategic autonomy in digital payments. The euro area's dependence on a limited number of non-European companies for card payments has emerged as a pressing issue requiring an urgent and practical solution. With over half of the euro area Member States lacking national card payment schemes – and no existing scheme poised to expand across the euro area in the near future – the digital euro stands out as a clear and logical solution. In practical terms, the introduction of the digital euro would empower every resident of the euro area with a straightforward alternative for digital payments, while stimulating competition within the digital payments market.

Latvijas Banka engaged Latvian companies and institutions in the digital euro project, ensuring they were well-informed about the project's progress. In September 2024, Latvijas Banka established the Latvian National Digital Euro Forum, aimed at facilitating dialogue among stakeholders and collecting feedback on the digital euro proposal. This Forum brings together participants from Latvia's financial sector, traders, public interest representatives, and public institutions. The Forum will also continue its activities throughout 2025, convening quarterly at a minimum.

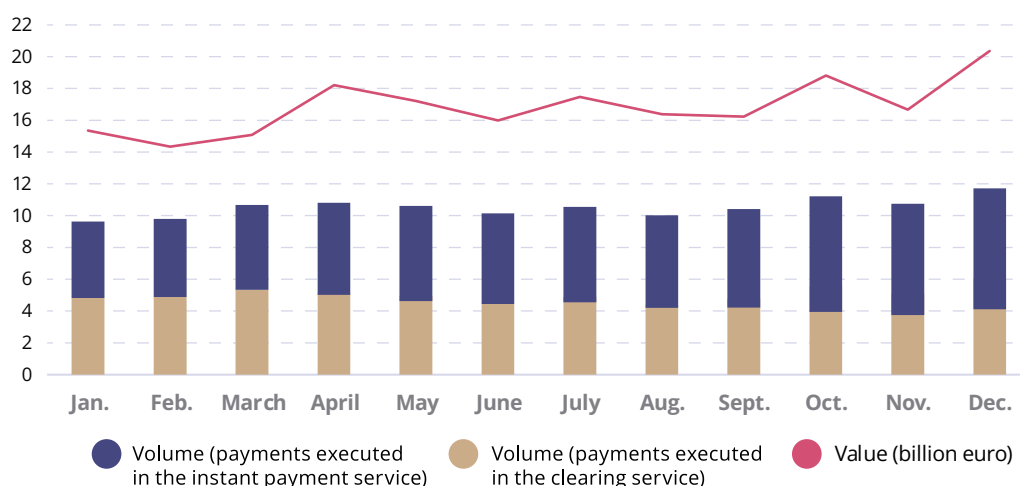
In order to enhance public understanding and awareness of the rationale and progress of the digital euro project, Latvijas Banka issued several publications in 2024, as well as provided interviews and expert commentaries to various media. In 2024, Latvijas Banka also visited several universities in Latvia, introducing students to the digital euro project.

EKS operation

In 2024, the EKS, established and maintained by Latvijas Banka, continued to ensure the execution of euro payments by customers of banks operating in Latvia from an account in one bank to an account in another bank, using the instant payment service and clearing service throughout the Single Euro Payments Area (SEPA). The instant payment service guarantees the execution of transactions within seconds, operating 24/7. Meanwhile, the clearing service processes payments on business days, ensuring that funds are transferred to the recipient within a few hours.

The EKS comprised the following direct participants: nine credit institutions, the Treasury, and Latvijas Banka. At the end of 2024, all members of the EKS were utilising both the clearing service and instant payment service.

Chart 63. Volume and value of payments processed in the EKS in 2024



126.3 million SEPA credit transfers totalling 202 billion euro were executed in the EKS (in the instant payment service and clearing service combined). The volume and value of the payments executed in the EKS grew by 5.0% and 4.3% respectively compared to 2023.

Throughout the year, the volume of instant payments processed via the instant payment service increased 1.4 times. A total of 72.4 million instant payments in the amount of 33.2 billion euro were processed, processing up to 400 000 instant payments a day. The availability of the instant payment service was 100%.

The EKS clearing service, the availability of which was 99.96% in 2024, processed an average of 210 000 customer SEPA credit transfers in the amount of 660 million euro per day. A total of 53.9 million payments were processed, amounting to 168.9 billion euro.

In 2024, Latvijas Banka made [preparations](#) to enable payment institutions and electronic money institutions to join the EKS.

Proxy Registry *Instant Links*

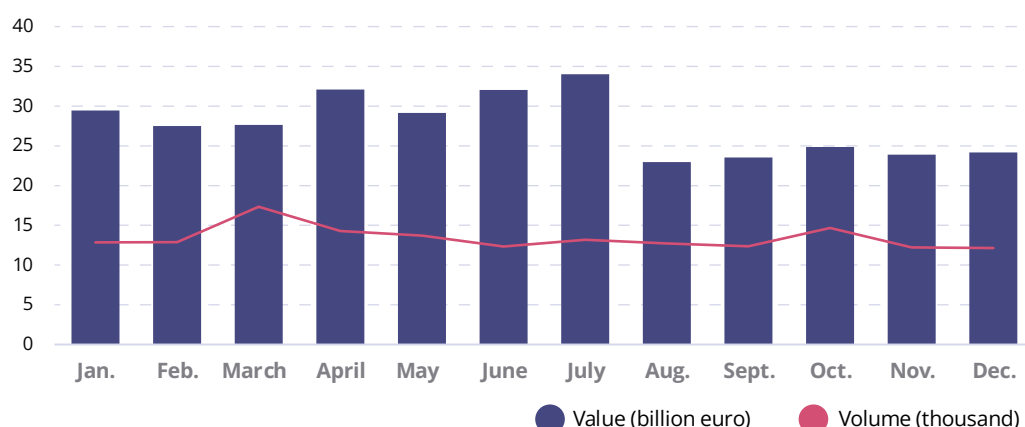
Latvijas Banka continued to ensure the operation of the Proxy Registry *Instant Links*, enabling the customers of several Latvian and Estonian banks to execute instant payments and other transactions with greater convenience by simply entering the payee's mobile phone number in the payment order.

At the end of 2024, a total of 906 000 instant links had been registered with the Proxy Registry *Instant Links* (100% availability), representing an 11% increase compared to the end of 2023. During the year, 17.6 million requests were processed by the Registry. 59% of instant links were registered for customers of Latvian banks and 41% – for those of Estonian banks.

TARGET-Latvija operation

In 2024, Latvijas Banka continued to ensure the operation of **TARGET-Latvija**, which is a component system of **TARGET**, the third largest payment system in the world.

Chart 64. Volume and value of payments executed in TARGET-Latvija in 2024



The availability of TARGET, including that of TARGET-Latvija, was 99.97% in 2024. Similarly to 2023, TARGET-Latvija processed an average of 627 payments daily, totalling 1.3 billion euro.

Latvijas Banka also provided payment services in euro to institutions with settlement accounts opened with Latvijas Banka outside of Latvijas Banka's payment system TARGET-Latvija, i.e. the Treasury, Latvian, foreign, and international financial institutions. In 2024, payments of such institutions executed by Latvijas Banka amounted to 1.3 billion euro.

Oversight of the payment systems

In 2024, Latvijas Banka performed day-to-day oversight of the EKS, analysing the system's technical and operational functions, compiling statistical data on the EKS, ensuring that the interbank payment environment in Latvia is secure and efficient.

Latvijas Banka regularly compiled and analysed payment [data](#) on a semi-annual basis regarding payments made by customers of Latvia's payment service providers, enabling it to oversee the evolution of payment instruments used in Latvia. Payment data were compiled in compliance with a uniform ECB statistical methodology.

Oversight of financial instrument settlement systems

In 2024, Latvijas Banka, in cooperation with the central banks of Estonia, Lithuania, and Iceland, assessed how the depository Nasdaq CSD SE implemented the recommendations from the CROE (Cyber Resilience Oversight Expectations) assessment and addressed the observations provided. By the end of 2024, the depository had implemented all previously unaddressed recommendations, thereby enhancing its cyber resilience capacity in areas where improvements were feasible. According to the assessment, the depository meets the CROE standards at an advancing level (CROE defines three levels of compliance: evolving, advancing, and innovating).

Representing the Eurosystem as the central bank of issue of the euro, Latvijas Banka assessed whether Nasdaq CSD SE complies with the new Eurosystem requirements and verified its continued adherence to the eligibility criteria for depositaries and their links.

Latvijas Banka participated in the work of the Supervisory Council of Nasdaq CSD SE, providing a supervisory perspective on the settlement efficiency, cyber resilience, and operational functioning of the systems operated by Nasdaq CSD SE. Additionally, Latvijas Banka expressed a preliminary view on the settlement aspects of the Nasdaq CSD SE investor depository's link with Clearstream Banking Frankfurt.

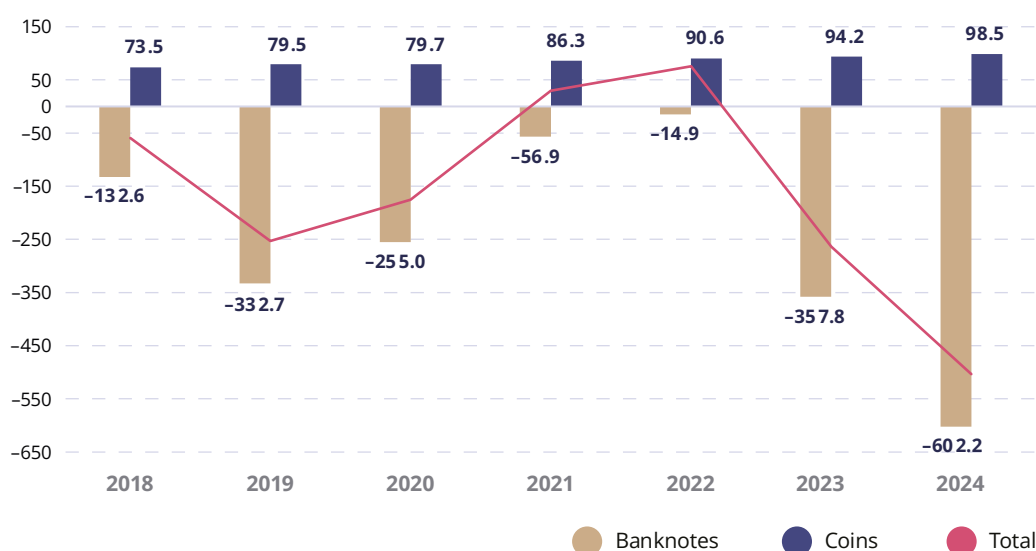
Cash circulation

Securing cash circulation

While non-cash payments are on the rise in Latvia, cash remains a popular choice for purchases made by the population. The data from a public survey suggest that the average person makes four cash payments a week. Therefore, one of the primary tasks of Latvijas Banka remains ensuring cash circulation. Furthermore, cash payments are critical financial services, and the National Security Law stipulates that the availability of them must be ensured in the event of a national security threat.

The net issuance of euro banknotes by Latvijas Banka continued to decline and remained negative in 2024. Meanwhile, the net issuance of euro coins by Latvijas Banka increased. Thus, at the end of 2024, the total net issuance of euro banknotes and coins of Latvijas Banka was –503.7 million euro.

Chart 65. Net issuance of euro banknotes and coins by Latvijas Banka



In 2024, the net issuance of euro banknotes by Latvijas Banka increased by 0.5% in terms of volume (to 69.3 million banknotes). At the end of 2024, the 50 euro and 20 euro banknotes issued by Latvijas Banka were most frequently found in circulation.

Meanwhile, the net issuance of euro coins by Latvijas Banka increased by 4.7% in volume, reaching a total of 498.7 million coins in December. Of the coins issued by Latvijas Banka, 1 cent and 2 cent coins accounted for the largest volumes in circulation at the end of 2024.

Chart 66. Net issuance of euro banknotes by Latvijas Banka (by nominal value; 2014–2024; volume; millions)

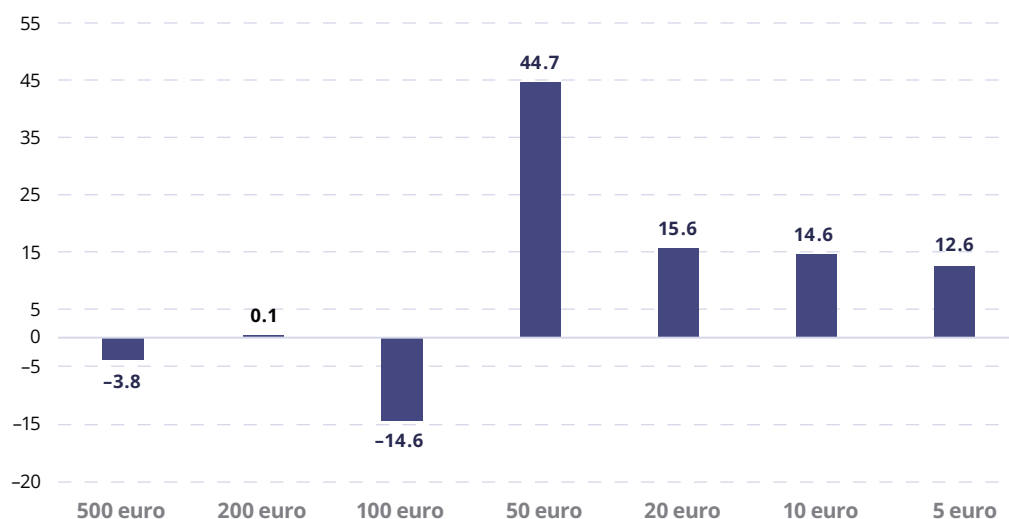
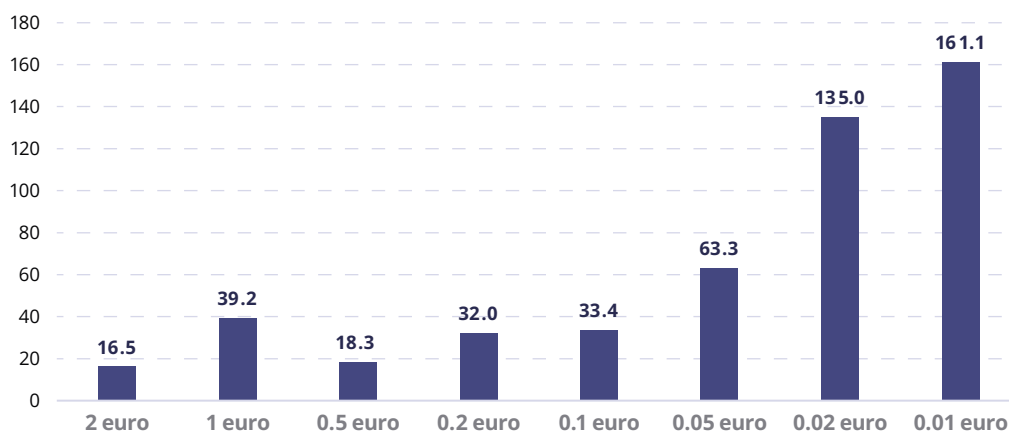


Chart 67. Net issuance of euro coins by Latvijas Banka (by nominal value; 2014–2024; volume; million)



The cash received from credit institutions was checked for fitness and authenticity by the automated cash processing systems of Latvijas Banka. They processed 146.8 million banknotes in 2024, which was an increase of 4.0% from 2023. Of the banknotes processed, 6.9% or 10.1 million were identified as unfit for circulation and destroyed.

In 2024, Latvijas Banka continued to register and monitor cash handlers, which are merchants that engage in handling and recirculating euro banknotes and coins. At the end of 2024, 32 cash handlers had been registered in Latvia. Latvijas Banka conducted inspections by assessing how well operations of these merchants comply with the requirements in the laws and regulations governing cash handling. Six such inspections were carried out in 2024.

The withdrawal of lats banknotes and coins from circulation continued in 2024. The value of lats banknotes and coins withdrawn from circulation by Latvijas Banka over the year totalled 0.5 million lats (0.4 million lats in banknotes and 0.1 million lats in coins). Lats banknotes worth 38.6 million lats and coins worth 43.7 million lats were still in circulation at the end of 2024. At the end of the reporting year, the highest number of banknotes in circulation consisted of the 5 lats and 20 lats denominations, amounting to 1.7 million and 0.7 million respectively, while the most numerous coins in circulation were the 1 santim and 2 santim coins, totalling 149.2 million and 89.3 million respectively.

In 2024, Latvijas Banka initiated and drafted [amendments](#) to the Credit Institution Law, which were subsequently adopted by the Saeima on 19 September 2024. These amendments to the law required the credit institutions concerned to ensure the availability of cash withdrawal services based on a set of defined criteria. In addition, Latvijas Banka developed and adopted Regulation No 330 *Regulation on the Management of the Cash Withdrawal Service* on 28 October 2024, which established the numerical values of the requirements referred to in Section 73.¹, Paragraphs two and three of the Credit Institution Law regarding the distance to ATMs, their number, operating hours, the monthly limits on cash withdrawals from ATMs, and the number of cash withdrawals, as well as the conditions for the application of these requirements.

Section 73.¹, Paragraph six of the Credit Institution Law stipulates that Latvijas Banka is obliged to assess and review the requirements regarding the availability of ATMs at least twice a year – the distance to ATMs, their number, operating hours, as well as restrictions on cash withdrawal services, including the monthly limit and the number of withdrawals. This review process takes into account changes in demand for cash withdrawal services, the availability of solutions in the market, alternatives, and Latvijas Banka's assessment of the adequacy of the cash withdrawal service infrastructure to accommodate situations where there is a rapid increase in demand. This approach will enable Latvijas Banka to effectively monitor and adjust requirements, ensuring that credit institutions provide timely and high-quality access to cash for the population.

In 2024, 14.1 million coins were deposited by individuals and businesses in the cash deposit machines installed at the Riga branch of Latvijas Banka.

Execution of functions of the National Analysis Centre and the Coin National Analysis Centre

Latvijas Banka serves as the national competent authority tasked with protecting the euro against counterfeiting and carrying out the functions of detecting and analysing counterfeit banknotes and coins. To fulfil these functions, the National Analysis Centre and the Coin National Analysis Centre have been established within the Cash Department of Latvijas Banka.

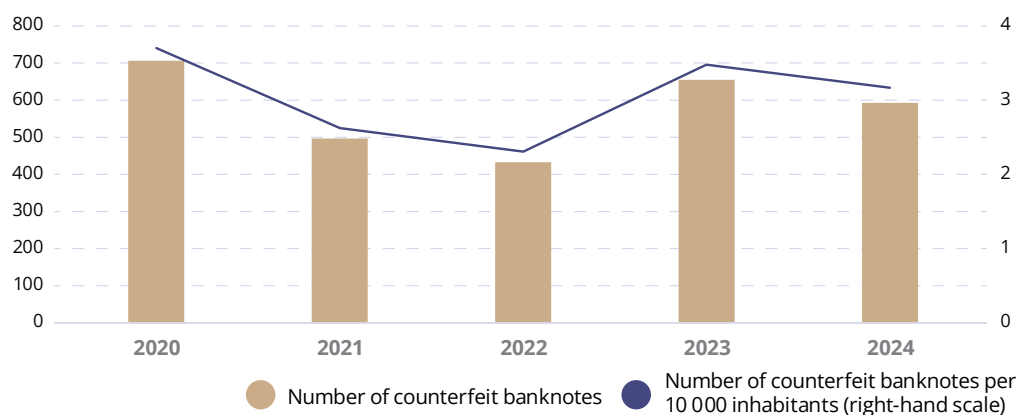
The main task of the National Analysis Centre is to identify, analyse, record, and store all the counterfeit banknotes and coins submitted to Latvijas Banka, thus ensuring that the required measures are implemented in addition to reinforcing coordinated anti-counterfeiting efforts in the EU.

In 2024, Latvijas Banka identified 593 counterfeit euro banknotes and 711 counterfeit euro coins in circulation.

Compared to 2023, the number of counterfeit banknotes decreased by 9% in 2024, while the number of counterfeit coins increased by 20%.

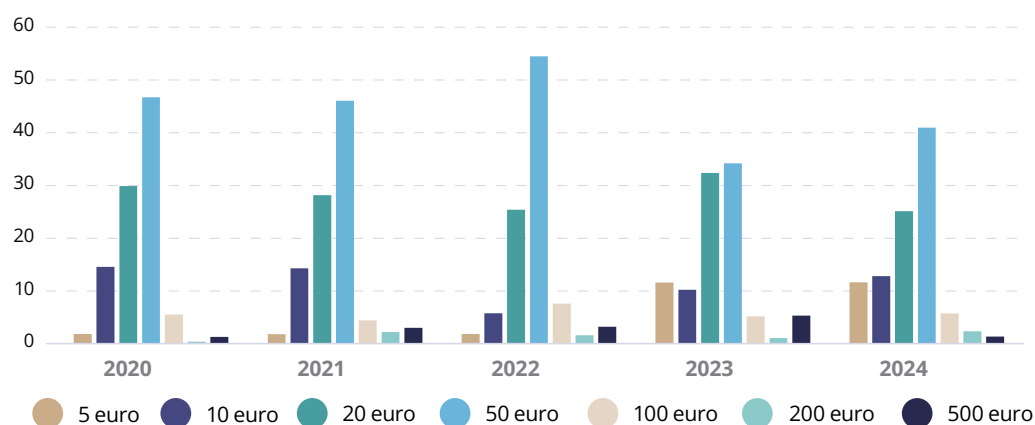
In 2024, the number of counterfeit euro banknotes in circulation remained low, with 3 counterfeit banknotes per 10 000 inhabitants.

Chart 68. Number of counterfeit banknotes identified in circulation in Latvia per 10 000 inhabitants



20 euro and 50 euro banknotes remain the denominations counterfeited most. In 2024, they accounted for 66% of all counterfeit euro banknotes detected in circulation.

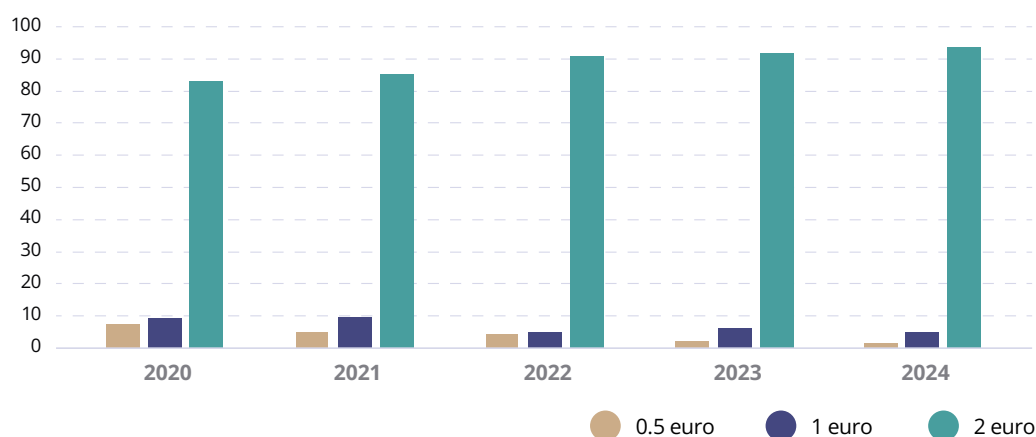
Chart 69. Counterfeit euro banknotes identified in circulation (%)



Number of counterfeit euro banknotes identified by Latvijas Banka by nominal value

Year	5 euro	10 euro	20 euro	50 euro	100 euro	200 euro	500 euro	Total
2020	13	103	211	330	39	1	9	836
2021	9	71	140	229	22	11	15	595
2022	8	25	110	236	33	7	14	580
2023	76	67	212	224	34	7	35	660
2024	60	76	149	243	34	14	8	593
Total	175	342	822	1262	162	40	81	2884

The majority of counterfeit euro coins identified are of the 2 euro denomination. In 2024, the share of counterfeit 2 euro coins reached more than 90% of all coin counterfeits detected.

Chart 70. Counterfeit euro coins identified in circulation (%)**Number of counterfeit euro coins identified by Latvijas Banka by nominal value**

Year	50 cents	1 euro	2 euro	Total
2020	17	21	187	225
2021	10	20	176	206
2022	20	22	415	457
2023	13	36	544	593
2024	14	34	663	711
Total	74	133	1 985	2 192

Although the number of counterfeit coins detected in circulation increased compared to 2023, the incidence of euro coin counterfeiting in Latvia remained consistently low in 2024, with 4 counterfeit coins per 10 000 inhabitants.

The widespread circulation and high value of euro banknotes continue to make them an attractive target for counterfeiters. However, nearly 40% of the counterfeit euro banknotes detected in 2024 were low-quality counterfeits featuring altered designs with clear deviations in size, colour tone, and discrepancies in the depiction of image elements, while also lacking any imitation of the banknotes' security features.

On the other hand, high-quality counterfeits are predominantly found among the higher denominations, specifically the 200 euro and 500 euro banknotes. Their number remains relatively stable over time, constituting less than 3% of the total number of counterfeit euro banknotes in circulation in 2024.

To protect oneself from counterfeits and prevent financial loss due to the acceptance of counterfeit banknotes, it is essential to carefully examine the banknotes, for instance, by employing the [FEEL, LOOK, TILT](#) method. It is important for individuals who use cash in their daily transactions to be familiar with the design and security features of banknotes and coins.

Euro commemorative and collector coins issued by Latvijas Banka in 2024

In 2024, Latvijas Banka issued five collector coins. They were "Across the Times", issued on 16 April 2024; "Childhood Joy", issued on 4 July 2024; "Energy Coin", issued on 26 September 2024; "Building the Unbuilt", issued on 17 October 2024; and "Cabbage", issued on 16 December 2024). A 2 euro commemorative coin "Puzuris" (in circulation since 21 November 2024) in rolls and gift packaging, as well as a set of circulation coins "Puzuris" (in circulation since November 2024) was also issued in 2024.

"Across the Times"

Weight: 22.00 g; diameter: 35.00 mm

Metal: silver of fineness .999; quality: proof

Maximum mintage: 3000. Struck in 2024 by UAB Lietuvos monetų kalykla (Lithuania)

Graphic design: Arvīds Priedīte
Plaster model: Ligita Franckeviča



"Childhood Joy"

Weight: 22.00 g; diameter: 35.00 mm

Metal: silver of fineness .999, colour print on the obverse and reverse; quality: proof

Maximum mintage: 4000. Struck in 2024 by Koninklijke Nederlandse Munt (the Netherlands)

Graphic design: Anna Vaivare
Plaster model: Ligita Franckeviča

"Energy Coin"

Weight: 18.00 g; diameter: 30.00 mm

Metal: silver of fineness .999; with gilding; quality: proof

Maximum mintage: 3000.
Struck in 2024 by Koninklijke Nederlandse Munt (the Netherlands)

Graphic design: Germans Ermičs





"Building the Unbuilt"

Weight: 25.00 g; shape: rectangle with rounded corners (32.00 mm × 32.00 mm)

Metal: silver of fineness .999; colour print on the obverse and reverse; quality: proof

Maximum mintage: 2500. Struck in 2024 by Koninklijke Nederlandse Munt (the Netherlands)

Graphic design: Rūta Jumiņa

"Cabbage"

Weight: 23.00 g; shape: irregular; the longest distance between the sides of the coin, measured through its centre – 30.00 mm

Metal: silver of fineness .999; quality: proof

Maximum mintage: 3500. Struck in 2024 by Lietuvos monetų kalykla (Lithuania)

Graphic design: Mārtiņš Rozenfelds



2 euro commemorative coin "Puzuris" in rolls, gift packaging, and sets of circulation coins

Struck in 2024 by Koninklijke Nederlandse Munt (the Netherlands)

The mintage of the circulation quality "Puzuris" coin (available in rolls) is 400 000 pieces, while the mintage of Brilliant Uncirculated quality coins in gift packaging is 7000 pieces, and that of Brilliant Uncirculated quality sets of circulation coins is 6000 pieces.

Graphic design: common side by Luc Luyckx, national side by Ieva Krūmiņa



Latvijas Banka invites various Latvian artists to participate in coin design competitions, making each coin a unique work of art. Coin themes are selected based on their relevance, with the aim of promoting Latvian cultural values and drawing attention to contemporary societal issues.

In 2024, the public survey organised by Latvijas Banka in cooperation with the portal Delfi.lv received over 31 000 votes, in which the collector coin "Stardust" was awarded the title of Latvia's Coin of the Year 2023.

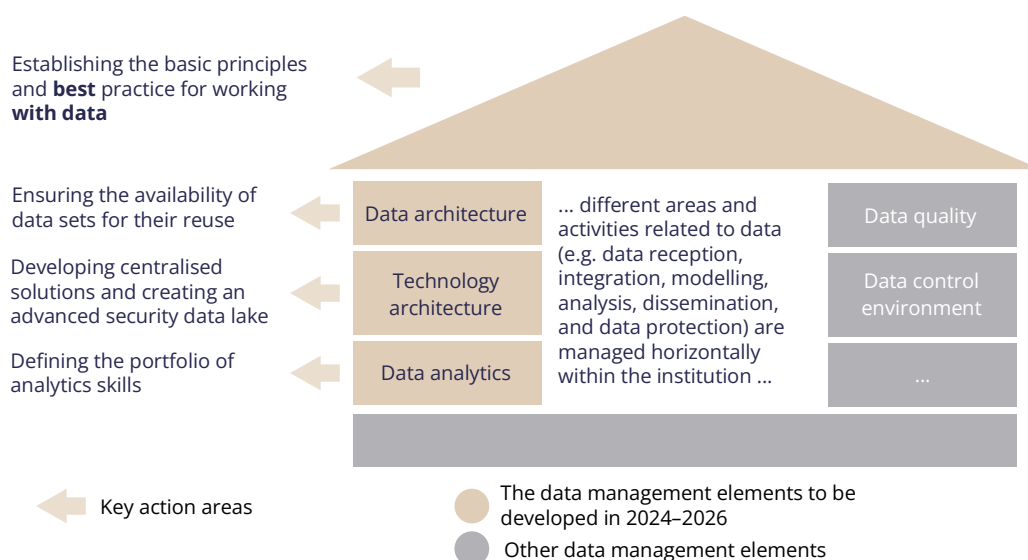
Data management, statistics, and the Credit Register

Latvijas Banka collects and compiles a wide range of statistical information in pursuit of its tasks. Latvijas Banka uses statistical information for performing financial and macroeconomic analyses, assessing financial stability, supervising financial market participants, and raising public awareness of developments in the financial sector and economy. The ECB also uses statistical information produced by Latvijas Banka to compile the Eurosystem's monetary statistics and other euro area statistical data, to support its broader functions. To provide transparent information on the activities planned in statistics, Latvijas Banka publishes its [annual statistical programme as well as its implementation report, along with a medium-term statistical work programme](#) covering three years.

In 2024, Latvijas Banka made organisational changes. The compilation and dissemination of supervisory statistics and payment statistics were integrated into the Statistics Department, thereby centralising the provision of similar processes within a single structural unit and improving the efficiency of the required resources. Along with the further strengthening of data management (see the subsection [Data Management](#)), the Statistics Department was renamed the Data and Statistics Department.

Data management

In 2024, Latvijas Banka approved the data strategy by setting out priority data management elements and key action areas for 2024–2026.



As part of the development of centralised solutions under the data strategy, Latvijas Banka has selected an open-source tool (DataHub) for the implementation of its data catalogue. In addition, information on supervised market participants and other merchants relevant to Latvijas Banka's tasks, including the provision of statistics, monitoring, and record-keeping, has been integrated into a single register of institutional units. In 2025, information from this register is also intended to be used for maintaining the lists of market segments published on Latvijas Banka's website.

In 2024, in cooperation with supervised market participants, Latvijas Banka started the transition to a centralised collection of regulated, regular, and structured data via the advanced security system and the non-bank statistics system. This transition is expected to be completed in 2025.

Development of statistical regulatory framework

Within the ESCB framework, Latvijas Banka continued its work on the establishment of the Integrated Reporting Framework (IReF), conducting its investigation phase. After summarising and publishing the results of the complementary cost-benefit assessment on the [ECB's website](#), the ESCB has begun a comprehensive cost-benefit analysis, which will serve as the foundation for drafting the IReF Regulation in 2025. At the same time, the first reporting deadlines were reviewed during the investigation phase of the IReF. The initial reporting under the IReF is [planned](#) to start in the fourth quarter of 2029.

Taking into account the ESCB's needs for broader and more frequent statistical data on investment funds, the ECB Regulation on investment fund statistics was substantially amended and [a new version](#) was approved in 2024. The new requirements of the ECB are also included in Latvijas Banka's regulations governing the compilation and submission of reports by alternative investment fund managers and investment management companies (specifically, Latvijas Banka's Regulations [No 355](#) and [No 356](#), taking effect with data for December 2025).

Publication of statistical information

To comply with the common European revision policy agreed upon by the ESCB and the European Statistical System, and providing for a benchmark revision of national accounts statistics, including financial accounts statistics and external statistics, every five years, Latvijas Banka conducted a revision of the time series for financial accounts statistics and external statistics in the second half of 2024.

During the reporting year, the data on foreign exchange transactions published in Latvijas Banka's internet statistical [database INTS](#) were supplemented with data on cash transactions conducted by foreign exchange companies. Supervisory statistics data on insurers' activities were published in this database for the first time in 2024, marking the beginning of the gradual transfer of supervisory statistics data to the internet statistical database INTS. The lists of financial institutions published on Latvijas Banka's website for the purpose of producing statistics were supplemented with a list of insurance companies.

Credit Register

Latvijas Banka ensures the operation of the Credit Register, accumulating data on the loans and guarantees provided to natural and legal persons. The Credit Register provides the information needed for Latvijas Banka to perform its tasks, including the ESCB tasks, and gives public institutions an additional way to receive the information that they need for their legally mandated tasks.

In 2024, Latvijas Banka started transmitting the data included in the Credit Register on the current credit obligations of resident natural persons to the State Revenue Service for analysing the conformity of expenditure and income of natural persons and verifying the declarations of public officials.

Latvijas Banka completed the transition of user authentication for the [Credit Register participants and the Credit Register participants with a restricted status](#) (jointly referred to as Register participants) from the Entrust system to the state-level advanced security system, using eID, eParaksts mobile, and Smart-ID. This reduced the costs for the Register participants (it is not necessary to purchase and maintain the Entrust system user licences) and made access to the Credit Register simpler, more modern, and more efficient.

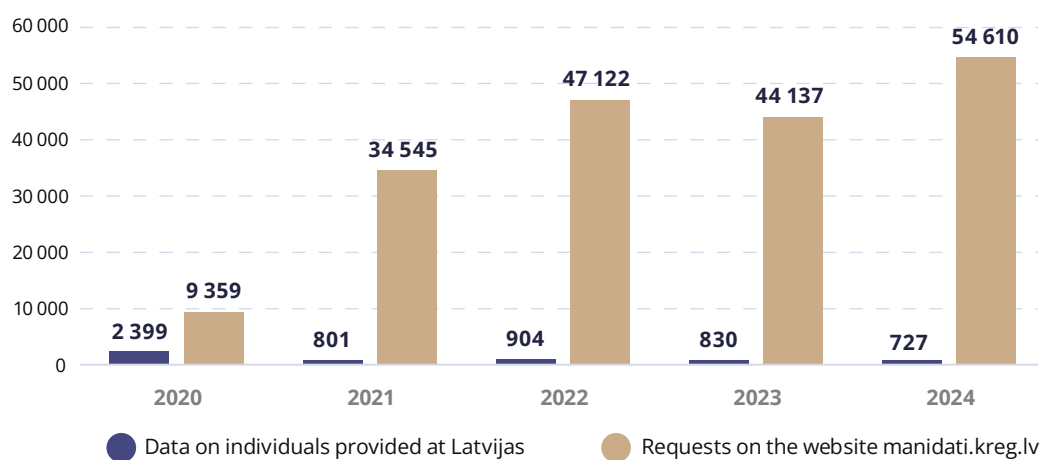
The possibility was introduced for credit institutions registered in Latvia and Latvian branches of foreign credit institutions to receive data from the Credit Register regarding the customers of their subsidiaries, customers' guarantors, potential customers, and potential customers' guarantors, thereby enabling creditworthiness assessment and credit risk management at the level of banking groups. The Register participants were given the opportunity to verify the creditworthiness of a person with whom the Register participant has entered into a transaction in a financial derivative or who has submitted an application for entering into such a transaction.

As of 2024, Latvijas Banka became obliged to update the data in the Credit Register if a Register participant is excluded from the Commercial Register due to the termination of its operation but has not updated the Credit Register data on the obligations of the customer or the customer's guarantor until the day of exclusion.

New provisions were included in the Law on the Credit Register, granting sworn notaries the right to obtain data on natural persons from the Credit Register in the context of ongoing inheritance cases, and authorising the Consumer Rights Protection Centre to obtain data on non-performing obligations from the Credit Register for the fulfilment of the tasks laid down in the Law on Extrajudicial Recovery of Debt. The practical implementation of these changes is planned for 2025.

At the end of 2024, the [Credit Register held data on 1.9 million obligations, covering outstanding obligations and those that have been fulfilled](#), and the actual outstanding amount of the obligations totalled 22.65 billion euro and the off-balance sheet amount of the obligations totalled 4.87 billion euro. These obligations covered 1.2 million borrowers and guarantors for borrowers from 81 [participants](#). The Credit Register data are used for the purpose of assessing creditworthiness, Loans granted to legal persons are also provided to the ECB within the framework of *AnaCredit* statistics.

Latvijas Banka allows anybody to obtain a copy of the information held on them in the Credit Register, including on the electronic service website <https://manidati.kreg.lv>, free of charge. It also provides information about individuals to state institutions for the fulfilment of their tasks set out in regulatory enactments, for example, to the pre-trial investigation authority, the court, and the Orphan's and Custody Court.

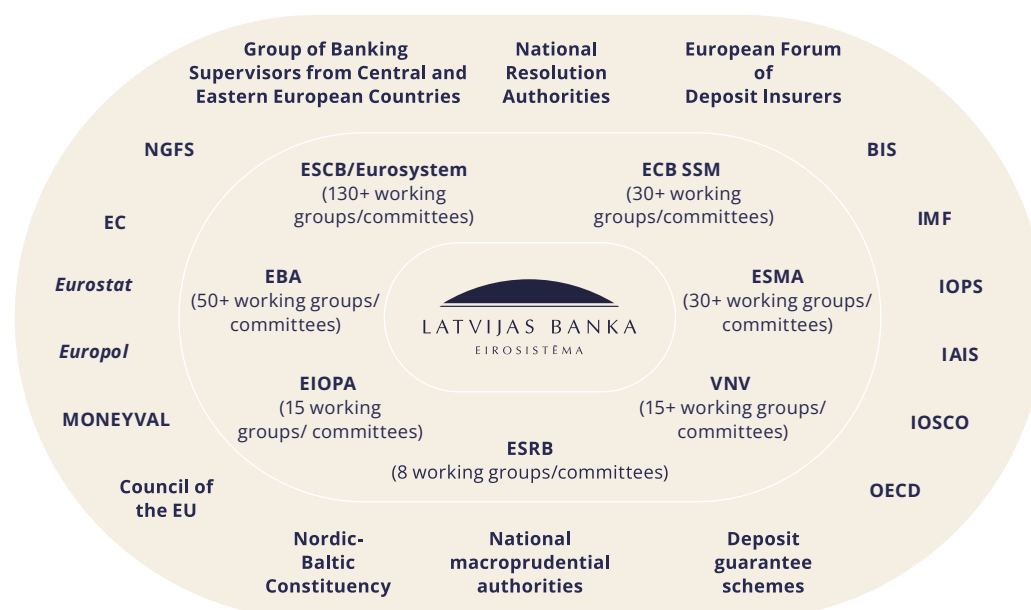
Chart 71. Dynamics of the requests received by the Credit Register (number)

In 2024, the Credit Register participants submitted 14.38 million requests to the Credit Register to use data from the Credit Register for assessing the creditworthiness of current or potential borrowers and guarantors for borrowers.

Chart 72. Dynamics of the requests made by Credit Register participants (number; millions)

Cooperation with international and foreign institutions

Latvijas Banka represents the Republic of Latvia in a number of international financial institutions and works with foreign central banks. Latvijas Banka also participates in the operations of other international financial and credit organisations where this is consistent with its objectives and tasks.



In 2024, Latvijas Banka continued to represent Latvia's interests at the meetings of the IMF Board of Governors and participated in coordinating IMF operational issues.

- Despite successive shocks, global growth remains resilient, with inflation continuing to decline, according to IMF forecasts, although the medium-term growth outlook remains weak. Therefore, the IMF urged policy makers to promote productivity growth and the mobilisation of domestic resources (including tax revenues), particularly in light of high debt levels and increasing expenditure needs, such as those related to security and an ageing population. The IMF also stressed the need to maintain free trade, address climate change, and harness the benefits of the transition to a green economy and digitalisation, while mitigating the associated risks.
- In 2024, the IMF reduced borrowing costs for its Member States, including by lowering long-term borrowing premia, while maintaining its financial capacity and buffers. The financing framework of

the Poverty Reduction and Growth Trust¹⁷ was also revised to ensure its sustainability by supporting low-income countries.

- In 2024, the IMF and the World Bank celebrated the 80th anniversary of the establishment of the Bretton Woods institutions. During the reporting year, Liechtenstein joined the IMF, bringing the number of Member States to 191. The Member States also re-appointed Kristalina Georgieva as Managing Director of the IMF for a second five-year term. In 2024, the IMF provided 41.2 billion US dollars in financial assistance to 15 countries around the world.

Latvia's interests in the IMF are represented through the Nordic-Baltic Constituency, which consists of Denmark, Estonia, Iceland, Latvia, Lithuania, Norway, Finland, and Sweden. One Executive Director represented this constituency on the IMF Executive Board with a total of 3.3% of the votes in 2024. Since January 2023, Vitas Vasiliauskas, from Lithuania, has been the Executive Director of the Nordic-Baltic Constituency, representing the Baltic States. In 2024, the central banks of the Baltic States continued to coordinate the cooperation between the central banks and Ministries of Finance of all the Nordic and Baltic countries on IMF issues, and to draft joint positions on items to be considered by the IMF Executive Board.

In 2024, Latvijas Banka continued to coordinate the involvement of the Latvian institutions in the IMF within the framework of its surveillance mandate or the Article IV Consultation. The annual IMF report containing recommendations was published in September.

Furthermore, Latvijas Banka continued its membership in the BIS in 2024. Latvijas Banka actively participated in the work of the BIS Innovation Network, and in the work of the Eurosystem Innovation Forum (Innov8).

Additionally, Latvijas Banka continued to work with, exchange information with, and represent Latvia's interests in:

- the European Forum of Deposit Insurers;
- MONEYVAL;
- the Group of Banking Supervisors from Central and Eastern European Countries;
- the OECD;
- IOSCO;
- IAIS.

In February 2024, Latvijas Banka became a permanent member of the IOPS.

In addition to working in various EU and international institutions and organisations, Latvijas Banka also cooperated with the supervisory authorities, protection systems or guarantee funds, and resolution authorities of other countries under bilateral cooperation and information exchange agreements. Cooperation with supervisory and resolution colleges also played an important role in experience and information exchanges.

As is traditional, Latvijas Banka continued to maintain particularly close cooperation with the institutions of other countries through Nordic-Baltic cooperation forums, including by holding the presidency of the Macprudential Forum of the Nordic and Baltic countries.

¹⁷ This trust is the IMF's main instrument that provides funding to low-income countries. The loans granted by this trust, which are much cheaper than market financing, support economic programmes that help attract additional funding from other institutions and the private sector.

Latvijas Banka also continued active daily cooperation within the Baltic region, where similar challenges are often faced in the areas central banks are responsible for, and worked with colleagues from the central banks of Lithuania and Estonia by exchanging experience in issues concerning the availability of critical financial services, resolution, depositor protection, and other related matters.

In 2024, Latvijas Banka continued to actively share its experience on issues concerning the supervision of AML/CFTP with central banks and supervisory authorities, including through cooperation with partners from France, Cyprus, and the Isle of Man. In 2024, Latvijas Banka cooperated more closely with the Estonian competent authorities on the supervision of crypto-asset service providers; with the central banks of Slovakia and Slovenia on the inclusion of sustainability aspects in macroprudential supervision, and with the central bank of Australia on processes related to the provision of cash.

In its bilateral cooperation, Latvijas Banka provided support to:

- Armenia on the regulation of outsourcing services for credit institutions in Latvia;
- Moldova in the regulatory approach to the supervision of large exposures;
- Ukraine, advising its central bank on risk management, strategic management, financial sector supervision, central bank capital management, and payment system issues;
- Uzbekistan, sharing its experience in data management.

In 2024, within the framework of academic cooperation, Latvijas Banka began to expand the cooperation of its experts with the IMF's Vienna Institute, including, within the framework of its training programmes, experts from Latvijas Banka contributed to enhancing the teaching capacity, focusing on issues related to economic growth and competitiveness, and sharing Latvia's experience in integrating sustainability aspects into macroprudential supervision.

Latvijas Banka in the Eurosystem and European Union institutions

Latvijas Banka as a member of the ESCB and the Eurosystem complies in its activities with the legislation of the Republic of Latvia and the EU, including the ECB legal acts, in accordance with the Treaty on the Functioning of the European Union and the Statute of the ESCB and of the ECB.

In 2024, the Governor of Latvijas Banka participated in the work of the Governing Council and the General Council of the ECB, closely involved in setting the monetary policy of the Eurosystem and in making decisions concerning the tasks of the Eurosystem and the ESCB.

The Deputy Governor of Latvijas Banka participated in the work of the Supervisory Board of the ECB, ensuring that ECB tasks relating to the supervision of credit institutions were executed, and preparing the draft decisions to be submitted to the Governing Council of the ECB under the non-objection procedure. In May and September 2024, marking the 10th anniversary of the establishment of the ECB's SSM, Latvijas Banka organised two experience exchange events in Riga for experts from the central banks of the Eurosystem, sharing Latvia's experience and insights gained in the field of bank crisis management, as well as its achievements in financial innovation. Representatives of Latvijas Banka also participated in the committees and working groups of the Eurosystem and the ESCB, addressing issues of monetary policy, market operations, financial stability, financial sector supervision, payment systems, euro cash and the digital euro, statistics, international relations, communications, sustainability, climate and innovative technologies, and more.

In 2024, Latvijas Banka participated actively in the work of the authorities that form the European System of Financial Supervision¹⁸, representing Latvia and making decisions in the ESRB, which takes decisions on issues related to EU macroprudential policy, as well as in the Boards of Supervisors of the EBA, the ESMA, and the EIOPA. Additionally, Latvijas Banka continued its participation in the SRB. Experts from Latvijas Banka contributed to the work of the committees and working groups of these authorities.

Representatives of Latvijas Banka also participated actively in the work of the committees and working groups of the EU Council, the EC, and Eurostat, addressing issues related to financial sector regulation, euro coins, economic forecasting, statistics, and other issues. On top of that, they provided support to the government in developing the national position on EU regulation.

In 2024, active work by the EU Council was under way on the EU legislative proposals published in previous years, including a final agreement being reached and the cycle of drafting EU legislation completed for the following EU legal acts governing the financial sector:

- a set of legal acts concerning anti-money laundering, including regulations on the establishment of a European authority to combat money laundering and terrorist financing (AML/CFT);
- the so-called proposal for Basel requirements (the capital requirements regulation for credit institutions);
- a framework for instant payments;
- the proposals for the further development of the Capital Markets Union through the regulatory framework for financial instruments and fund markets, central securities depositories and European market infrastructures (relating to central counterparty issues), and access to capital for small and medium-sized enterprises from listing their stocks on the stock exchange;
- proposals concerning sustainability (corporate sustainability and environmental, social, and governance (ESG) ratings regulation) and digitalisation (the Artificial Intelligence Act).

Discussions on these four proposals published by the European Commission in the field of financial services in 2023 will also continue in 2025:

- the so-called Open Finance package (the payment services regulation and access to financial data);
- the digital euro regulation;
- the proposal for establishing the bank sector resolution and crisis management framework;
- a package of proposals aimed at promoting investment services and protecting private investors.

When participating in the meetings of the Economic and Financial Committee and its sub-committees, representatives of Latvijas Banka regularly helped prepare decisions concerning the economic development and financial stability of the EU, the development of EU economic policy strategy, and the coordination of international relations issues. While doing the latter, particular focus was given to assessing the economic consequences of Russia's aggressive war against Ukraine, monitoring macroeconomic and financial stability risks in the EU, as well as on implementing and coordinating the EU financial services policy.

¹⁸ The European System of Financial Supervision is the framework for financial supervision in the EU that has been in operation since 2011. The system consists of three European supervisory authorities (EBA, ESMA, EIOPA), the ESRB, the Joint Committee of the European Supervisory Authorities, and the national supervisory authorities of the EU Member States.

Financial literacy

The vision of Latvijas Banka in the area of financial literacy is the financial resilience and sustainability of society, which can be achieved by systematically and purposefully improving the financial literacy and understanding of economic issues among the population of Latvia.

In 2024, Latvijas Banka, as the national coordinator for financial literacy in Latvia, led the working group tasked with implementing the National Strategy for Financial Literacy in Latvia 2021–2027 (the Strategy). In 2024, 22 cooperation partners implemented more than 115 projects and activities to achieve the objectives set out in the Strategy. Most activities (38) focused on educating teachers and students, and there was an increase in the number of projects aimed at educating current and future entrepreneurs and more vulnerable people in Latvia.

Latvijas Banka conducted monitoring in the field of financial literacy, assessing the financial knowledge of teachers of economics and financial literacy, and gathered their views on teaching financial and economic subjects in schools. It was presented to the working group tasked with implementing the Strategy. For the first time in Latvia, a methodology and survey questionnaire were developed to assess the knowledge and skills of 9th grade students in the field of financial literacy. The compiled responses from teachers and students will provide a comprehensive insight into financial literacy issues in schools. To support teachers in teaching financial and economic topics, Latvijas Banka organised two online seminars with a total of 400 participants. Together with Junior Achievement Latvia, Latvijas Banka organised the conference *Growth Code*, which was attended by approximately 500 teachers.

The largest inter-institutional projects in 2024 were the *Financial Literacy Week 2024*, the *Pension Awareness Week 2024*, and cooperation in reducing financial fraud.

The **Financial Literacy Week 2024** was attended by 20 cooperation partners, with whom more than 40 activities were organised. They were primarily aimed at educating the public on financial security and reducing fraud. During the week, employees of Latvijas Banka organised 84 financial literacy classes in 39 schools across Latvia, reaching more than 3500 students. A seminar for teachers attended by 210 participants was held, while an educational digital campaign on financial fraud targeted young people. Educational activities on financial security, using plain language, were conducted for more vulnerable people.

The **Pension Awareness Week 2024** involved 10 cooperation partners. During the week, seven experts from Latvijas Banka visited schools, local governments, and organisations to hold classes on the pension system in Latvia. The classes were attended by more than 470 participants. An information campaign was implemented to explain the 2nd pension pillar, the choice of investment plan, and inheritance issues. The

campaign generated over 8.5 million views (impressions), and its materials were opened and viewed more than 16 500 times.

To prevent financial fraud, the OECD International Network on Financial Education (INFE), the European Commission, Latvijas Banka, and the central bank of Lithuania, in cooperation with a broad range of partners from Latvia and Lithuania, launched [a project](#) aimed at strengthening the digital financial literacy of the population of Latvia and Lithuania and its resilience against financial fraud.

To improve the financial literacy of the population across Latvia, the education programme ***Enhance your money management skills***, which was developed by Latvijas Banka together with the Ministry of Education and Science as part of the project *National Coordinators for the Implementation of the European Agenda for Adult Learning in Latvia* under the EU programme Erasmus+, was launched. The programme offers three modules on personal financial planning, financial security, financial fraud detection, and the everyday use of financial services. Each of them consists of 7 classes (a total of 21 hours). 26 local governments have concluded a contract with the Ministry of Education and Science for the implementation of the programme. During the reporting year, experts from Latvijas Banka conducted both a full module and individual classes (53 classes in total) for approximately 2000 people. The average participants' rating for the classes conducted by Latvijas Banka is 4.8 out of 5. The programme is adapted for people who are visually impaired or blind, and six classes were held at the Strazdumuiža Day Centre in collaboration with the Latvian Society of the Blind.

During the reporting year, Latvijas Banka continued its cooperation with the Easy Language Agency and the Latvian Cooperation Organisation for People with Special Needs "SUSTENTO". In total, materials on financial security, types of fraud, money mules, and Smart-ID were developed in plain language and are now digitally available to anyone interested. To ensure the materials truly reach everyone who needs them, they were delivered in printed format to more than 700 libraries across Latvia. Similarly, materials on critical financial services and the Latvian pension system were distributed to libraries across the country.

Latvijas Banka has consolidated financial literacy websites and brands and created a comprehensive financial literacy and economics education **website and brand Money School**. In 2024, the site was significantly enhanced with financial content, its accessibility and functionality were improved, and a dedicated easy-to-read section was created to bring together materials on finance in plain language. In 2024, the number of page views on the website Money School increased by 28% compared to 2023, reaching 670 300 views, while the number of unique users rose by 69%, reaching 180 700 users.

Financial Statements of Latvijas Banka for the Year Ended 31 December 2024



**Financial Statements of Latvijas Banka for
the Year Ended 31 December 2024**



Independent Auditors' Report



Appendices

Appendix 1. Month-End Balance Sheets of Latvijas Banka for 2024

(at the end of the month; thousands of euro)

	01	02	03	04	05	06	07	08	09	10	11	12
ASSETS	25 274 224	25 129 847	25 088 147	24 508 172	24 664 469	24 719 650	24 573 075	24 716 321	24 698 634	24 562 652	24 796 911	24 835 827
Gold and gold receivables	401 969	401 094	437 577	461 174	461 785	466 098	477 401	486 142	504 546	544 029	538 679	536 915
Claims on non-euro area residents denominated in foreign currency	4 134 522	4 082 050	4 186 029	4 097 782	4 113 606	4 199 572	4 210 048	4 219 584	4 264 141	4 259 778	4 435 718	4 354 419
Receivables from the International Monetary Fund	539 810	539 514	539 381	541 010	537 110	540 941	540 192	535 312	533 814	539 454	549 745	553 097
Balances with credit institutions and security investments, external loans, and other external assets	3 594 712	3 542 536	3 646 648	3 556 772	3 576 496	3 658 631	3 669 856	3 684 272	3 730 327	3 720 324	3 885 973	3 801 322
Claims on euro area residents denominated in foreign currency	602 904	597 637	569 908	612 981	614 674	634 816	626 219	615 873	620 408	638 496	653 312	652 502
Claims on non-euro area residents denominated in euro	171 856	161 579	167 463	159 826	161 252	173 173	164 408	167 168	165 760	163 423	169 449	174 642
Lending to euro area credit institutions related to monetary policy operations denominated in euro	92 900	92 900	82 900	82 900	82 900	–	–	–	–	–	–	–
Main refinancing operations	–	–	–	–	–	–	–	–	–	–	–	–
Longer-term refinancing operations	92 900	92 900	82 900	82 900	82 900	–	–	–	–	–	–	–
Fine-tuning reverse operations	–	–	–	–	–	–	–	–	–	–	–	–
Structural reverse operations	–	–	–	–	–	–	–	–	–	–	–	–
Marginal lending facility	–	–	–	–	–	–	–	–	–	–	–	–
Credits related to margin calls	–	–	–	–	–	–	–	–	–	–	–	–
Other claims on euro area credit institutions denominated in euro	14 732	1 644	4 049	5 364	5 550	7 473	2 045	575	1 414	16 972	13 656	17 707
Securities of euro area residents denominated in euro	13 414 044	13 295 906	13 117 979	12 580 749	12 628 454	12 589 208	12 408 954	12 442 196	12 325 811	12 151 231	12 141 486	12 134 084
Securities held for monetary policy purposes	12 464 018	12 339 113	12 147 769	11 647 403	11 679 402	11 604 979	11 425 164	11 425 484	11 274 723	11 111 816	11 116 663	11 116 256
Other securities	950 026	956 793	970 210	933 346	949 052	984 229	983 790	1 016 712	1 051 088	1 039 415	1 024 823	1 017 828
Intra-Eurosystem claims	6 211 073	6 223 822	6 219 365	6 250 071	6 279 753	6 302 439	6 353 846	6 383 645	6 400 831	6 438 170	6 459 607	6 722 756
Participating interest in the European Central Bank	118 849	119 222	119 222	119 222	119 222	119 222	119 222	119 222	119 222	119 222	119 222	119 222
Claims equivalent to the transfer of foreign reserves to the European Central Bank	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202
Claims related to other operational requirements within the Eurosystem	–	–	–	–	–	–	–	–	–	216	4 592	181 729
Claims related to TARGET2	–	–	–	–	–	–	–	–	–	–	–	–
Net claims related to the allocation of banknotes within the Eurosystem	5 935 022	5 947 398	5 942 941	5 973 647	6 003 329	6 026 015	6 077 422	6 107 221	6 124 407	6 161 530	6 178 591	6 264 603
Pending settlements	–	–	–	–	–	–	–	–	–	–	–	–
Other assets	230 224	273 215	302 877	257 325	316 495	346 871	330 154	401 138	415 723	350 553	385 004	242 802

	01	02	03	04	05	06	07	08	09	10	11	12
LIABILITIES	25 274 224	25 129 847	25 088 147	24 508 172	24 664 469	24 719 650	24 573 075	24 716 321	24 698 634	24 562 652	24 796 911	24 835 827
Banknotes in circulation	5 506 599	5 498 877	5 526 841	5 531 661	5 537 718	5 561 093	5 579 175	5 572 615	5 564 869	5 570 355	5 575 054	5 662 446
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 532 328	6 901 975	6 278 509	6 130 757	6 454 569	5 496 164	5 697 362	5 847 662	5 671 370	5 847 441	6 391 481	8 231 618
Current accounts (covering the minimum reserve system)	251 947	196 567	248 493	204 754	192 865	225 078	246 200	224 443	250 802	235 395	204 012	255 763
Deposit facility	6 280 381	6 705 408	6 030 016	5 926 003	6 261 704	5 271 086	5 451 162	5 623 219	5 420 568	5 612 046	6 187 469	7 975 855
Time deposits	–	–	–	–	–	–	–	–	–	–	–	–
Fine-tuning reverse operations	–	–	–	–	–	–	–	–	–	–	–	–
Deposits related to margin calls	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities to euro area credit institutions denominated in euro	230 105	235 858	319 484	321 668	443 203	450 666	961 456	904 863	770 576	847 058	773 723	313 190
Liabilities to other euro area residents denominated in euro	2 150 397	2 427 272	2 148 533	1 746 410	3 468 847	2 371 405	2 368 879	2 211 882	2 714 234	2 701 206	2 663 800	2 578 706
General government	1 114 347	1 360 241	1 082 670	683 459	2 398 198	1 306 836	1 273 410	1 142 345	1 654 160	1 657 664	1 621 107	1 652 356
Other liabilities	1 036 050	1 067 031	1 065 863	1 062 951	1 070 649	1 064 569	1 095 469	1 069 537	1 060 074	1 043 542	1 042 693	926 350
Liabilities to non-euro area residents denominated in euro	62 511	48 892	44 589	43 522	62 780	78 674	79 925	71 455	97 298	113 825	113 397	123 674
Liabilities to euro area residents denominated in foreign currency	721 138	718 993	1 257 227	1 260 213	1 358 020	1 368 393	1 373 479	1 332 251	1 268 650	1 274 891	1 116 837	921 536
Liabilities to non-euro area residents denominated in foreign currency	–	–	151 851	309 175	304 723	254 859	250 956	220 302	90 060			
Intra-Eurosystem liabilities	9 144 552	8 431 192	8 404 314	8 264 539	6 127 907	8 143 982	7 241 794	7 470 477	7 380 968	7 072 516	6 963 789	5 846 041
Liabilities related to other operational requirements within the Eurosystem	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities related to TARGET	9 144 552	8 431 192	8 404 314	8 264 539	6 127 907	8 143 982	7 241 794	7 470 477	7 380 968	7 072 516	6 963 789	5 846 041
Pending settlements	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	211 182	181 744	190 837	188 790	176 800	195 333	176 804	179 987	166 842	198 443	218 137	214 985
Capital and reserves	715 412	685 044	765 962	711 437	729 902	799 081	843 245	904 827	973 767	936 917	980 693	943 631

Appendix 2. Balance Sheets of Latvijas Banka for the Years 2020–2024

(at the end of the year; thousands of euro)

	2020	2021	2022	2023	2024
ASSETS	23 045 742	25 074 429	25 750 694	25 564 820	24 835 827
Gold and gold receivables	330 139	344 166	364 821	399 378	536 915
Claims on non-euro area residents denominated in foreign currency	3 970 780	4 495 181	3 788 044	4 049 526	4 354 419
Receivables from the International Monetary Fund	142 411	542 959	549 961	534 839	553 097
Balances with credit institutions and security investments, external loans, and other external assets	3 828 369	3 952 222	3 238 083	3 514 687	3 801 322
Claims on euro area residents denominated in foreign currency	333 706	528 428	522 039	595 802	652 502
Claims on non-euro area residents denominated in euro	119 143	174 081	156 383	168 476	174 642
Lending to euro area credit institutions related to monetary policy operations denominated in euro	1 260 000	616 600	522 900	92 900	–
Main refinancing operations	–	–	–	–	–
Longer-term refinancing operations	1 260 000	616 600	522 900	92 900	–
Fine-tuning reverse operations	–	–	–	–	–
Structural reverse operations	–	–	–	–	–
Marginal lending facility	–	–	–	–	–
Credits related to margin calls	–	–	–	–	–
Other claims on euro area credit institutions denominated in euro	120	4 255	6 304	133	17 707
Securities of euro area residents denominated in euro	11 129 440	12 839 996	14 081 606	13 550 657	12 134 084
Securities held for monetary policy purposes	10 008 456	11 690 783	13 134 812	12 586 724	11 116 256
Other securities	1 120 984	1 149 213	946 794	963 933	1 017 828
Intra-Eurosystem claims	5 673 974	5 868 008	5 926 959	6 412 443	6 722 756
Participating interest in the European Central Bank	114 095	116 472	118 849	118 849	119 222
Claims equivalent to the transfer of foreign reserves to the European Central Bank	157 202	157 202	157 202	157 202	157 202
Claims related to other operational requirements within the Eurosystem	4 910	769	300	207 065	181 729
Claims related to TARGET	–	–	–	–	–
Net claims related to the allocation of banknotes within the Eurosystem	5 397 767	5 593 565	5 650 608	5 929 327	6 264 603
Pending settlements	–	–	–	–	–
Other assets	228 440	203 714	381 638	295 505	242 802
LIABILITIES	23 045 742	25 074 429	25 750 694	25 564 820	24 835 827
Banknotes in circulation	5 142 726	5 536 624	5 635 738	5 571 492	5 662 446
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 053 812	6 406 673	5 217 165	7 073 547	8 231 618
Current accounts (covering the minimum reserve system)	6 053 812	6 406 673	343 816	205 834	255 763
Deposit facility	–	–	4 873 349	6 867 713	7 975 855
Time deposits	–	–	–	–	–
Fine-tuning reverse operations	–	–	–	–	–
Deposits related to margin calls	–	–	–	–	–
Other liabilities to euro area credit institutions denominated in euro	577 746	649 746	320 273	314 720	313 190
Liabilities to other euro area residents denominated in euro	3 012 014	3 438 792	2 517 104	2 218 786	2 578 706
General government	1 588 192	1 803 339	1 157 761	1 131 021	1 652 356
Other liabilities	1 423 822	1 635 453	1 359 343	1 087 765	926 350
Liabilities to non-euro area residents denominated in euro	238 737	57 955	171 688	184 075	123 674
Liabilities to euro area residents denominated in foreign currency	615 986	1 594 262	706 038	1 262 758	921 536
Liabilities to non-euro area residents denominated in foreign currency	1 364 010	688 359	34 701	457 718	–
Intra-Eurosystem liabilities	4 837 613	5 356 980	10 376 364	7 569 389	5 846 041
Liabilities related to other operational requirements within the Eurosystem	28 060	34 342	6 237	–	–
Liabilities related to TARGET	4 809 553	5 322 638	10 370 127	7 569 389	5 846 041
Pending settlements	–	–	–	–	–
Other liabilities	409 700	436 383	184 740	182 217	214 985
Capital and reserves	793 398	908 655	586 883	730 118	943 631

Appendix 3. Profit and Loss Statements of Latvijas Banka for the Years 2020–2024

(at the end of the year; thousands of euro)

	2020	2021	2022	2023	2024
Net interest income	139 537	123 981	47 021	-229 006	-195 451
Interest income	190 313	165 248	211 229	503 974	556 182
Interest expense	-50 776	-41 267	-164 208	-732 980	-751 633
Net result of financial operations, recognition of revaluation result in profit and loss statement	9 234	-36 261	-301 983	-25 999	-31 664
Realised gains arising from financial operations	44 471	357	39 732	9 000	24 473
Recognition of revaluation result on financial assets and positions in profit and loss statement	-35 237	-36 618	-341 715	-34 999	-56 137
Net expense from fees and commissions	-3 394	-3 951	-4 441	-3 912	-3 925
Fees and commissions income	949	981	1 011	1 037	1 146
Fees and commissions expense	-4 343	-4 932	-5 452	-4 949	-5 071
Income from participating interest	18 605	14 575	14 755	12 222	13 465
Net result of pooling of monetary income	-27 701	-34 342	-6 237	206 554	181 595
Other operating income	1 268	3 591	5 766	19 561	19 371
NET INCOME	137 549	67 593	-245 119	-20 580	-16 609
Remuneration	-16 867	-16 403	-16 502	-24 728	-26 019
Social security costs and solidarity tax	-3 764	-3 582	-3 653	-5 540	-5 755
Banknote and coin acquisition costs	-1 546	-1 831	-2 618	-2 338	-1 968
Depreciation of fixed assets and amortisation of intangible assets	-3 851	-3 802	-3 641	-3 660	-3 462
Other operating expenses	-6 694	-7 093	-9 113	-11 965	-11 165
PROFIT/LOSS OF THE REPORTING YEAR BEFORE PROVISIONS FOR FINANCIAL RISKS	104 827	34 882	-280 646	-68 811	-64 978
Provisions for financial risks	-78 181	-13 974	280 646	15 051	-
PROFIT/LOSS OF THE REPORTING YEAR AFTER PROVISIONS FOR FINANCIAL RISKS	26 646	20 908	-	-53 760	-64 978
Profit transferrable to the reserve capital	7 994	6 272	-	-53 760	-64 978
Profit transferrable to the state budget	18 652	14 636	-	-	-

Appendix 4. Latvijas Banka's Publications and Major Publications by the Experts of Latvijas Banka in 2024

Working papers

BENKOVSKIS, Konstantīns, MERIKÜLL, Jaanika, PROŠKUTE, Aurelija. The transmission of trade shocks across countries: firm-level evidence from the Covid-19 crisis. Riga: Latvijas Banka, Working Paper No 1, 2024. 51 p. Available: https://datnes.latvijasbanka.lv/papers/WP_1-2024.pdf.

BENKOVSKIS, Konstantīns, TKAČEVŠ, Oļegs, VILERTS, Kārlis. Understanding How Job Retention Schemes Reshape the Within-Occupation Skill Profile of Employees within Firms. Riga: Latvijas Banka, Working Paper No 2, 2024. 44 p. Available: https://datnes.latvijasbanka.lv/papers/WP_2-2024.pdf.

FADEJEVA, Ludmila, JOUVANCEAU, Valentin, PAULUS, Alari. Consumer price rigidity in the Baltic states during periods of low and high inflation. Riga: Latvijas Banka, Working Paper No 3, 2024. 51 p. Available: https://datnes.latvijasbanka.lv/papers/WP_3-2024.pdf.

FADEJEVA, Ludmila, KALNBĒRZIŅA, Krista. Childhood circumstances defining the inequality of opportunity in Europe: what are the trees telling us? Riga: Latvijas Banka, Working Paper No 4, 2024. 34 p. Available: https://datnes.latvijasbanka.lv/papers/WP_4-2024.pdf.

AFONSO, António, ALVES, José, MATVEJEVS, Oļegs, TKAČEVŠ, Oļegs. Impact of Sovereign Debt Maturity on Fiscal Sustainability. Riga: Latvijas Banka, Working Paper No 5, 2024. 34 p. Available: https://datnes.latvijasbanka.lv/papers/WP_5-2024.pdf.

GRÜNING, Patrick, KANTUR, Zeynep. Financial intermediation and climate change in a production and investment network model for the euro area. Riga: Latvijas Banka, Working Paper No 6, 2024. 92 p. Available: https://datnes.latvijasbanka.lv/papers/WP_6-2024.pdf.

AJEVSKIS, VIKTORS. One who hesitates is lost: monetary policy under model uncertainty and model misspecification. Riga: Latvijas Banka, Working Paper No 7, 2024. 24 p. Available: https://datnes.latvijasbanka.lv/papers/WP_7-2024.pdf.

Discussion paper

KANTUR, Zeynep. The Impact of Decarbonization on Physical Capital Asset Utilization in Latvia. Riga: Latvijas Banka, Discussion Paper No 1, 2024. 23 p. Available: https://datnes.latvijasbanka.lv/papers/discussion/DP_1_2024.pdf.

Reports

Financing of the Economy, 2024. Riga: Latvijas Banka, 2024. 38 p. Available: https://datnes.latvijasbanka.lv/fpp/FPP_2024_EN.pdf.

Financial Stability Report, 2024. Riga: Latvijas Banka, 2024. 59 p. Available: https://datnes.latvijasbanka.lv/fsp/FSP_2024_EN.pdf.

Macroeconomic Projections Report, 2024, March. Riga: Latvijas Banka, 2024. 47 p. Available: https://datnes.latvijasbanka.lv/MPP/MPP_2024_marts_EN.pdf.

Macroeconomic Projections Report, 2024, October. Riga: Latvijas Banka, 2024. 54 p.
Available: https://datnes.latvijasbanka.lv/MPP/MPP_2024_oktobris_EN.pdf.

Publications

Beņkovskis, K., Jarrett, P., Krill, Z., Tkačevs, O., & Yashiro, N. (2024). Aim high, shoot low? Product complexity and export survival in Latvia. *Empirica* 2024(51), 185–207. doi: <https://doi.org/10.1007/s10663-023-09601-z>.

Beņkovskis, K., Fadejeva, L., Pluta, A., & Zasova, A. (2024). Keeping the Best of Two Worlds: Linking CGE and Microsimulation Models for Policy Analysis. *International Journal of Microsimulation* 17(1), 122–144. doi: <https://doi.org/10.34196/ijm.00306>.

Bušs, G., Grüning, P., & Tkačevs, O. (2024). Choosing the European fiscal rule. *Baltic Journal of Economics* 24(1), 116–144. doi: <https://doi.org/10.1080/1406099X.2024.2340402>.

Gautier, E., Conflitti, C., Faber, R. P., Fabo, B., Fadejeva, L., Jouvanceau, V., Menz, J., Messner, T., Petroulas, P., Roldan-Blanco, P., Rumler, F., Santoro, S., Wieland, E., & Zimmer, H. (2024). New Facts on Consumer Price Rigidity in the Euro Area. *American Economic Journal: Macroeconomics* 16(4), 386–431. doi: <https://doi.org/10.1257/mac.20220289>.

Liepnieks, R., Staehr, K., & Tkačevs, O. (2024). Contributions of Demand and Supply Shocks to Inflation in the Euro Area Countries. *Applied Economics Letters*, doi: <https://doi.org/10.1080/13504851.2024.2394204>.

Staehr, K., Tkačevs, O., & Urke, K. (2024). Fiscal Performance under Inflation and Inflation Surprises: Evidence from Fiscal Reaction Functions for the Euro Area. *Review of World Economics* 160, 1477–1504. doi: <https://doi.org/10.1007/s10290-024-00536-6>.

Other publications co-authored by employees of Latvijas Banka

ECB Occasional Paper Series

Carlos Montes-Galdón, Viktors Ajevskis, František Brázdk et al. Using structural models to understand macroeconomic tail risks. Frankfurt am Main, European Central Bank, Occasional Paper Series, No 357, 2024. 53 p. Available: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op357~804f63ec49.en.pdf>.

Tibor Lalinsky (editor), Marianthi Anastasatou, Sofia Anyfantaki, et al. The impact of the COVID-19 pandemic and policy support on productivity. Frankfurt am Main, European Central Bank, Occasional Paper Series, No 341, 2024. 102 p. Available: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op341~dfff9548ed.en.pdf>.

Dennis Bonam, Matteo Ciccarelli, Sandra Gomes et al. Challenges for monetary and fiscal policy interactions in the postpandemic era. Frankfurt am Main, European Central Bank, Occasional Paper Series, No 337, 2024. 111 p. Available: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op337~fe2b751b27.en.pdf>.

Appendix 5. Glossary

AnaCredit (analytical credit datasets): a common Eurosystem's granular analytical credit and credit risk database containing data on loans granted to legal entities by the credit institutions of all euro area Member States based on harmonised ECB statistical reporting requirements.

Asset Purchase Programme (APP): part of a package of non-standard monetary policy measures approved by the Governing Council of the ECB, comprising corporate sector purchase programme (CSPP), public sector purchase programme (PSPP), asset-backed securities purchase programme (ABSPP), and the third covered bond purchase programme (CBPP3).

Balance of payments: a statistical statement summarising transactions between Latvia's residents and the residents of the rest of the world. It incorporates the current account, the capital account, and the financial account.

Bank for International Settlements (BIS): an international financial organisation operating to facilitate international monetary and financial cooperation. The BIS acts as a bank for central banks.

Banking union: an EU-level framework for banking supervision and resolution operating based on a single rulebook applicable in the entire EU. Euro area countries and those EU countries outside the euro area opting to participate in the banking union are members of the banking union.

Clearing: the process of transmitting, processing, and reconciling payment documents or securities transfer orders prior to settlement, resulting in the establishment of the net position of each settlement participant by netting all payment documents submitted by the settlement participants, i.e. establishing net cash liabilities to or claims on other settlement participants.

Collateral: assets that are pledged or otherwise transferred to secure the recovery of losses in the case of counterparty default or insolvency. The collateral used in the Eurosystem's reverse transactions must meet certain eligibility criteria.

Council of the EU (EU Council): the institution representing the governments of EU countries. The ministers of EU countries meet in the EU Council to adopt legislative acts and coordinate policies. The EU Council is an essential EU decision-maker. It is a single legal entity, but it meets in 10 different configurations, depending on the subject being discussed. The most significant tasks of the EU Council include negotiating and adopting legislative acts, developing common foreign and security policy of the EU, signing international agreements on behalf of the EU as well as adopting the EU budget together with the European Parliament.

Credit institution: a capital company whose business is to receive deposits or other repayable funds from the public, grant credits on its own account, and provide other financial services.

Credit union: a co-operative society that has a variable number of members and capital and that provides financial services to its members in accordance with the Law on Credit Unions.

Deposit facility: a standing facility of the Eurosystem which credit institutions registered in Latvia and branches in Latvia of credit institutions registered in other countries may use to make overnight deposits with Latvijas Banka at a pre-specified interest rate.

Deposit-taking corporations: monetary financial institutions, except money market funds and the central bank, i.e. credit institutions (except credit institutions other than monetary financial institutions),

credit unions, and other financial institutions whose business is to receive deposits or close substitutes for deposits from customers other than monetary financial institutions, and, for their own account, to grant loans and invest in securities, as well as electronic money institutions whose core business is to issue electronic money.

Direct investment: investment by an investor (direct investor) made directly or indirectly (through subsidiaries or associated companies) to acquire a lasting interest (corresponding to at least 10% ownership of ordinary shares or voting rights) in an enterprise (direct investment enterprise). The components of direct investment are equity and debt instruments. Direct investment data are compiled both on an asset/liability basis (balance of payments and the international investment position data) and according to the directional principle – direct investment in Latvia and direct investment abroad.

Electronic Clearing System of Latvijas Banka (EKS): Latvijas Banka's payment system ensuring the processing of retail payment orders across the SEPA. The EKS provides two services: clearing service which is netting the payments and ensuring several clearing cycles per EKS business day for settlements in euro, and instant payment service which is processing payments within seconds, 24 hours a day, 7 days a week, 365 days a year.

Euro area: EU countries which have adopted the euro as their single currency in accordance with the Treaty on the Functioning of the European Union and in which a single monetary policy is conducted under the responsibility of the Governing Council of the ECB. As at the end of 2024, the euro area comprised Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.

European Banking Authority (EBA): an EU body with legal personality which forms part of the European System of Financial Supervision and works to ensure effective and consistent prudential regulation and supervision across the EU banking sector. Its overall objective is to maintain financial stability in the EU and to safeguard the integrity, efficiency, and orderly functioning of the banking sector.

European Central Bank (ECB): the central institution of the ESCB and the Eurosystem having a legal personality under the EU law. The ECB implements the tasks conferred upon the Eurosystem and the ESCB pursuant to the Statute of the ESCB and the ECB in cooperation with the national central banks of the EU Member States.

European System of Central Banks (ESCB): includes the ECB and the national central banks of the EU Member States. The national central banks of those EU countries that have not yet adopted the euro implement an independent monetary policy according to their national law and are thus not involved in the conduct of the monetary policy of the Eurosystem.

European Systemic Risk Board (ESRB): an independent EU body which is a part of the European System of Financial Supervision and is responsible for the macro-prudential oversight of the financial system within the EU in order to contribute to the prevention or mitigation of systemic risks to financial stability in the EU that arise from developments within the financial system, taking into account macroeconomic developments, and to avoid periods of widespread financial distress. It contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.

Eurosystem: comprises the ECB and the national central banks of the Member States of the euro area. The decision-making bodies of the Eurosystem are the Governing Council and the Executive Board of the ECB.

Financial literacy: a combination of understanding financial matters, knowledge, skills, attitudes, and behaviours needed to make sound financial decisions and ultimately achieve the well-being of individuals.

Financial resilience: an individual's ability to withstand, in financial terms, unexpected life events affecting income and/or assets, such as job loss, health issues, accidents, etc.

Financial stability: a condition of the financial system enabling it to withstand shocks, thereby mitigating the likelihood of disruptions in the financial intermediation process.

Financial sustainability: an individual's ability to ensure development and the planned long-term growth, while concurrently upholding the present quality of life. Financial sustainability empowers an individual to achieve financial security both in the present and in the future.

Financial vehicle corporation: an institutional unit other than an MFI that has been set up for the purpose of carrying out one or more securitisations. Latvijas Banka establishes, maintains, and regularly updates the List of Financial Vehicle Corporations in the Statistics section of Latvijas Banka's website www.bank.lv.

Fine-tuning operation: an open market operation executed by the Eurosystem in order to deal with unexpected liquidity fluctuations in the market. The frequency and maturity of these operations are not standardised.

General Council of the ECB: one of the decision-making bodies of the ECB, comprising the President and the Vice-President of the ECB and the Governors of the central banks of all EU countries.

Governing Council of the ECB: the main decision-making body of the ECB. It consists of members of the Executive Board of the ECB and the governors of the national central banks of the euro area.

Household: a natural person or a group of natural persons in the capacity of a consumer and a producer of goods and a provider of non-financial services exclusively for their own final use, as well as a sole proprietor that is an economic unit established by a natural person or a group of natural persons, provided this natural person or group of natural persons is liable to settle the obligations of the economic unit with their entire property, and that organises accounting in accordance with the single-entry system.

Instant payment: execution of payments of bank and other payment service provider customers within a matter of seconds, making cash transfers 24 hours a day, 7 days a week, 365 days a year, including weekends and holidays.

Integrated Reporting Framework (IReF): an important initiative of the ESCB providing for maximum harmonisation of data requirements for the needs of statistics and supervision of credit institutions and ensuring optimal data availability on the level of both granular and aggregated data. IReF envisages collection of data from credit institutions' information systems and reporting of data in accordance with an integrated reporting dictionary and standard for data exchange.

International Monetary Fund (IMF): an international organisation operating to facilitate international monetary cooperation, exchange rate stability, national economic growth, and employment growth, and provide short-term financial assistance to IMF member countries for balancing the payment flow.

Key ECB interest rates: the interest rates on the deposit facility, the main refinancing operations, and the marginal lending facility set by the Governing Council of the ECB.

Longer-term refinancing operation (LTRO): a regular open market operation of the Eurosystem, executed through reverse transactions with the aim of providing credit institutions with additional longer-term financing.

Main refinancing operation (MRO): a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Marginal lending facility: a standing facility, offered by the Eurosystem, which credit institutions registered in the Republic of Latvia and branches, registered in Latvia, of credit institutions registered in other countries may use to receive overnight credit from Latvijas Banka at a pre-specified interest rate against marketable or non-marketable assets.

Market risk: the risk related to fluctuations of the fair value or cash flow of financial instruments on account of movements in market prices. Market risk reflects the interest rate risk, currency risk, and price risk.

Monetary income: income accruing to the national central banks of the euro area in the process of the Eurosystem's monetary policy implementation, derived from assets earmarked in accordance with guidelines established by the Governing Council of the ECB and held against banknotes in circulation and credit institutions' deposits with central banks of the euro area.

Net issuance of banknotes and coins: amount of euro banknotes and coins issued (difference between withdrawals and deposits of euro banknotes and coins) by the national central bank. It is estimated as at a specific date or for a specific period of time, in amounts or numbers.

Network for Greening the Financial System (NGFS): a group of central banks and supervisors committed to sharing best practices, contributing to the development of the climate and environment risk management in the financial sector, and mobilising finance to support the transition toward a sustainable economy.

Non-financial corporation: an institutional unit whose principal activity is producing goods and providing non-financial services, including an economic unit established by a natural person or a group of natural persons, provided this natural person or group of natural persons is liable for settling the obligations of the economic unit with its entire property, and whose accounting is organised in accordance with the double-entry system, as well as head offices, whose subsidiaries or their largest part are non-financial corporations.

Non-MFI credit institution: a credit institution that does not take deposits or other repayable funds from the public and does not grant credits for its own account, i.e. its business activities are not the activities referred to in Article 4(1)(1)(a) of Regulation (EU) No 575/2013.

Open market operation: an operation executed in the financial market on the initiative of a central bank. With regard to their aims, regularity, and procedures, Eurosystem's open market operations can be divided into four categories: main refinancing operations, longer-term refinancing operations, fine-tuning operations, and structural operations.

Organisation for Economic Co-operation and Development (OECD): an intergovernmental organisation, a forum providing a platform for seeking answers to common problems, identifying good practices, and stimulating policies that improve the economic and social well-being of persons.

Pandemic emergency asset purchase programme (PEPP): a non-standard monetary policy measure approved by the Governing Council of the ECB to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the COVID-19 pandemic.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council of the ECB has also stated that, in the pursuit of price stability, it aims to maintain inflation rates at 2% in the medium term.

Proxy (instant link): a link between the customer's current account number and his/her mobile phone number or other identifier. The customers who have registered the links between their current account numbers and identifiers with the Proxy Registry : "Instant Links" can also receive transfers when the payer indicates the phone number only.

Reserve requirement: a requirement for credit institutions and credit unions to hold their minimum reserves with the national central bank over the reserve maintenance period. Compliance with the requirement is determined on the basis of the average end-of-day balance on the reserve account over the reserve maintenance period.

Reverse transaction: a transaction whereby the Eurosystem conducts credit operations against collateral or buys or sells assets under a repurchase agreement.

Special Data Dissemination Standard Plus (SDDS Plus): the highest data dissemination standard of the IMF. Its purpose is to provide comprehensive, internationally comparable, timely, accessible, reliable, and high-quality statistical data on population, financial, economic, fiscal, and external sectors, including information on statistical data categories and responsible institutions in each country, as well as links to data and their clarification notes.

Structural operations: open market operations executed by the Eurosystem on a regular or non-regular basis whenever the ECB wishes to adjust the structural liquidity position of the Eurosystem vis-à-vis the financial sector.

Systemic risk: a risk of disruptions in the financial system with the potential to have significant negative consequences for the discharge of the functions of the financial system as a whole and the real economy.

TARGET: a payment system developed within the framework of TARGET2 and TARGET2-Securities consolidation project and whose T2 service replaced TARGET2 on 20 March 2023. TARGET is a multiplicity of the TARGET component systems of all central banks. TARGET settles payments in euro in central bank money and functions on the basis of a single IT platform, to which all payment orders are submitted for processing. TARGET operation is ensured by Latvijas Banka in conjunction with the national central banks of the ESCB participating in TARGET.

TARGET2-Securities (T2S): the Eurosystem's single technical platform enabling central securities depositories and national central banks to provide borderless and neutral core securities settlement services in the central bank money in Europe.

Targeted longer-term refinancing operation (TLTRO): reverse operation of the Eurosystem providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. It is part of a package of non-standard monetary policy measures approved by the Governing Council of the ECB.

TARGET-Latvija: a component system of TARGET in Latvia.

Abbreviations

AML/CFTP	anti-money laundering and countering the financing of terrorism and proliferation
AS	joint stock company
BIS	Bank for International Settlements
CIS	Commonwealth of Independent States
CSB	Central Statistical Bureau of Latvia
DGF	Deposit Guarantee Fund
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FCMC	Financial and Capital Market Commission
FinTech	financial technologies
FPI	Fund for the Protection of the Insured
GDP	gross domestic product
IAIS	International Association of Insurance Supervisors
ICT	information and communication technologies
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IT	information technologies
ML/FTP	money laundering and the financing of terrorism and proliferation
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
NBMF	Nordic-Baltic Macroprudential Forum
NGFS	Network for Greening the Financial System
OECD	Organisation for Economic Co-operation and Development
SIA	limited liability company
SRB	Single Resolution Board
SRF	Single Resolution Fund
SSM	single supervisory mechanism
SupTech	supervisory technologies
UK	United Kingdom
US	United States of America