Moody's
INVESTORS SERVICE

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The role of public finances in sovereign ratings

An application to Latvia (A3 stable)

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Agenda

1. Moody’s Methodology & Rating Process
2. Economy, institutions and event risk
3. Public finances
4. Latvia’s Credit Rating – History and peer comparison
5. Appendix

1

Moody's Methodology & Rating Process

Ratings Measure Credit Risk

- **Ratings** are **forward-looking opinions of expected loss** for private sector investors
- **Outlooks** are opinions **regarding the likely rating direction** over the medium term
  - **Positive** (POS), **Negative** (NEG), Stable (STA), Review for Upgrade/Downgrade (RUR+/RUR-) and Developing (DEV)
- We use **clearly defined symbols** that provide a common language globally
- Opinions rely on **both quantitative and qualitative analysis**
- Main vehicle of communication: Press Releases, Credit Opinions and Credit Analysis publications

Moody's Sovereign Methodology

Sovereign Rating Methodology is Based on Four Analytical Factors

Economic Strength

How strong is the economic structure?

Reflects a **country's shock-absorption capacity**. The capacity of the sovereign to generate revenue and service debt over the medium term relies upon fostering economic growth and prosperity.

INDICATORS / SCORES

1) **growth dynamics** (average real GDP growth, MAD volatility)
2) **scale of the economy** (nominal GDP)
3) **wealth** (GDP per capita, PPP)

Institutions and Governance Strength

How robust are the institutions and how predictable are the policies?

Considers whether the country's institutional features are **conducive to supporting the sovereign's ability and willingness to repay its debt**.

INDICATORS / SCORES

1) **quality of institutions** (qualitative assessment)
2) **policy effectiveness** (qualitative assessment)

Fiscal Strength

How does the debt burden compare with the government's resource mobilization capacity?

Captures the overall health of government finances. Assesses a sovereign's ability to deploy resources to face current and expected liabilities.

INDICATORS / SCORES

1) **debt burden** (debt-to-GDP, debt-to-revenues)
2) **debt affordability** (interest payments-to-GDP, interest payments-to-revenue)

Susceptibility to Event Risk

What is the risk of a direct and sudden threat to the fundamental credit profile?

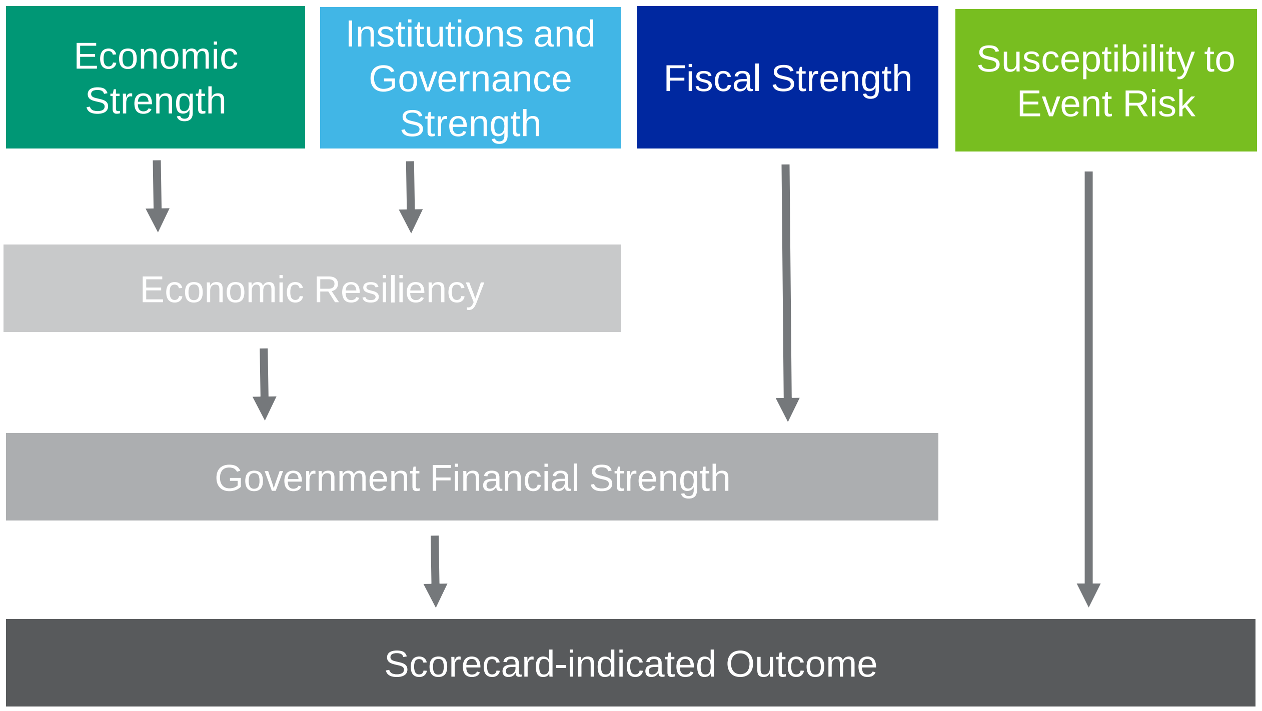
Denotes **the risk that sudden, extreme, events may severely strain public finances**, thus sharply increasing the sovereign's probability of default.

INDICATORS / SCORES

1) **political risk** (qual.)
2) **government liquidity risk** (qual.)
3) **banking sector risk** (banking sector size, average bca)
4) **external vulnerability risk** (qual.)

Approach to Assessing Sovereign Credit Quality

Scorecard Outcome is Only a Starting Point for Rating Assignment



2 Economy, institutions and event risk

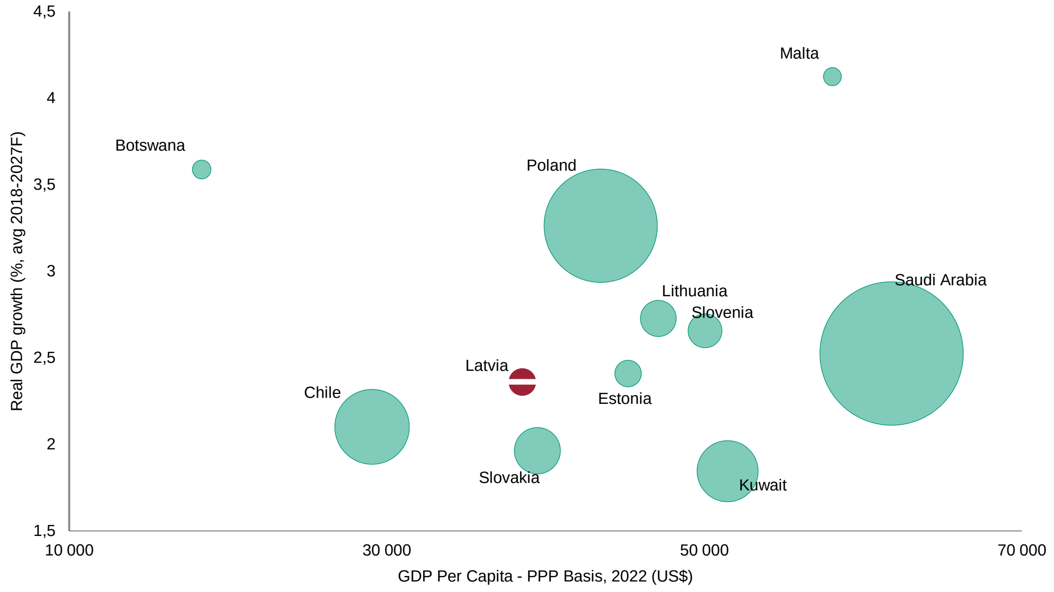
Economic Strength: “baa2”

Latvia is a small open economy mainly reliant on goods exports

- With nominal GDP of around $41 billion in 2022, Latvia’s economy is the **4th smallest in the EU**.
- The country's small size and the economy's very open nature make Latvia **vulnerable to economic shocks**. Record-high inflation has hit the economy in 2022, ongoing challenge despite some easing as energy prices decline.
- Moreover, **population decline** remain a significant long-term challenge for the labour market and the economy.
- However, these risks are balanced by the economy’s demonstrated **flexibility** and **adaptability.**

Latvia’s GDP trend growth is in line with global peers

Bubble size represents the size of nominal GDP



Note: Size of the bubble = Nominal GDP (US$ billion) in 2022
Sources: National authorities, Moody’s Investors Service

Institutions and Governance Strength: “a2”

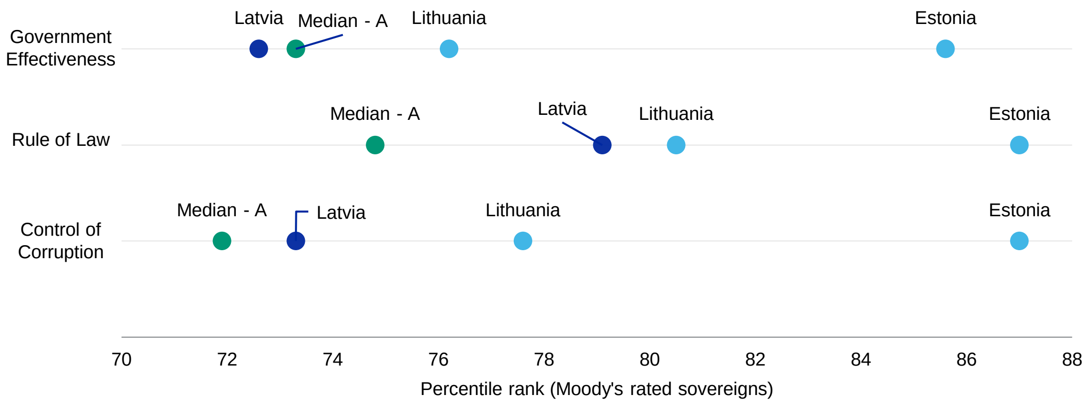
Integration into Western institutional structures continues to support institutional environment

» Latvia’s **“a2”** institutions ad governance strength score reflects the country’s **membership of the EU and the euro area** as well as the government’s track record of effectively reacting to **major policy challenges**.

» The strength of Latvia’s institutions is also reflected in its comparatively **high scores** on the **World Bank’s Worldwide Governance Indicators** for government effectiveness and rule of law.

Latvia scores broadly in line with rated peers on government effectiveness and rule of law

WGI scores, percentile rank



Sources: Worldwide Governance Indicators, Moody’s Investors Service

Susceptibility to Event Risk: “ba”

The Russian invasion of Ukraine has increased geopolitical risks for Latvia

- Susceptibility to event risk evaluates a country’s vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country’s probability of default.
- Such risks include political, government liquidity, banking sector and external vulnerability risks.
- Latvia’s susceptibility to event risk reflects the **political risk** driven by the Russian invasion in Ukraine (Ca stable) that marks a paradigm shift in the post-Cold War European security order.

3 Public finances

Fiscal Strength: the “third pillar”

Economic resiliency and fiscal strength determine a government’s financial strength

Exhibit 10

Government financial strength

Economic Resiliency \ Fiscal Strength	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca
aaa	aaa	aaa	aaa	aaa	aaa	aa1	aa1	aa1	aa1	aa1	aa1	aa1	aa2	aa2	aa2	aa2	aa2	aa2	aa3	aa3
aa1	aa1	aa1	aa1	aa1	aa1	aa1	aa1	aa2	aa2	aa2	aa2	aa2	aa2	aa2	aa3	aa3	aa3	aa3	aa3	aa3
aa2	aa1	aa1	aa2	aa2	aa2	aa2	aa2	aa2	aa2	aa3	aa3	aa3	aa3	aa3	aa3	aa3	a1	a1	a1	a1
aa3	aa2	aa2	aa2	aa2	aa3	aa3	aa3	aa3	aa3	aa3	aa3	a1	a1	a1	a1	a1	a1	a1	a2	a2
a1	aa2	aa2	aa3	aa3	aa3	aa3	a1	a1	a1	a1	a2	a2	a2	a2	a3	a3	a3	a3	baa1	baa1
a2	aa3	aa3	aa3	a1	a1	a1	a1	a2	a2	a2	a2	a3	a3	a3	a3	baa1	baa1	baa1	baa1	baa2
a3	aa3	a1	a1	a1	a1	a2	a2	a2	a2	a3	a3	a3	a3	baa1	baa1	baa1	baa1	baa2	baa2	baa2
baa1	a1	a1	a2	a2	a2	a2	a3	a3	a3	a3	baa1	baa1	baa1	baa1	baa2	baa2	baa2	baa2	baa3	baa3
baa2	a1	a1	a2	a2	a2	a3	a3	a3	baa1	baa1	baa1	baa2	baa2	baa2	baa3	baa3	baa3	ba1	ba1	ba1
baa3	a1	a2	a2	a2	a3	a3	a3	baa1	baa1	baa1	baa2	baa2	baa3	baa3	baa3	ba1	ba1	ba1	ba2	ba2
ba1	a2	a2	a3	a3	a3	baa1	baa1	baa1	baa2	baa2	baa2	baa3	baa3	baa3	ba1	ba1	ba1	ba2	ba2	ba2
ba2	a2	a3	a3	a3	baa1	baa1	baa1	baa2	baa2	baa2	baa3	baa3	ba1	ba1	ba1	ba2	ba2	ba2	ba3	ba3
ba3	baa1	baa1	baa2	baa2	baa2	baa2	baa3	baa3	baa3	baa3	ba1	ba1	ba1	ba1	ba2	ba2	ba2	ba2	ba3	ba3
b1	baa2	baa2	baa2	baa2	baa3	baa3	baa3	baa3	ba1	ba1	ba1	ba1	ba2	ba2	ba2	ba2	ba3	ba3	ba3	ba3
b2	baa2	baa2	baa3	baa3	baa3	baa3	ba1	ba1	ba1	ba1	ba2	ba2	ba2	ba2	ba3	ba3	ba3	ba3	b1	b1
b3	baa3	baa3	baa3	ba1	ba1	ba1	ba1	ba2	ba2	ba2	ba2	ba3	ba3	ba3	ba3	b1	b1	b1	b1	b2
caa1	ba2	ba2	ba2	ba2	ba3	ba3	ba3	ba3	ba3	ba3	b1	b1	b1	b1	b1	b1	b1	b2	b2	b2
caa2	ba3	ba3	ba3	ba3	ba3	ba3	b1	b1	b1	b1	b1	b1	b2	b2	b2	b2	b2	b2	b2	b3
caa3	ba3	b1	b1	b1	b1	b1	b1	b1	b2	b2	b2	b2	b2	b2	b3	b3	b3	b3	b3	b3
ca	b1	b1	b1	b2	b2	b2	b2	b2	b2	b2	b3	b3	b3	b3	b3	b3	caa1	caa1	caa1	caa1

Source: Moody's Investors Service

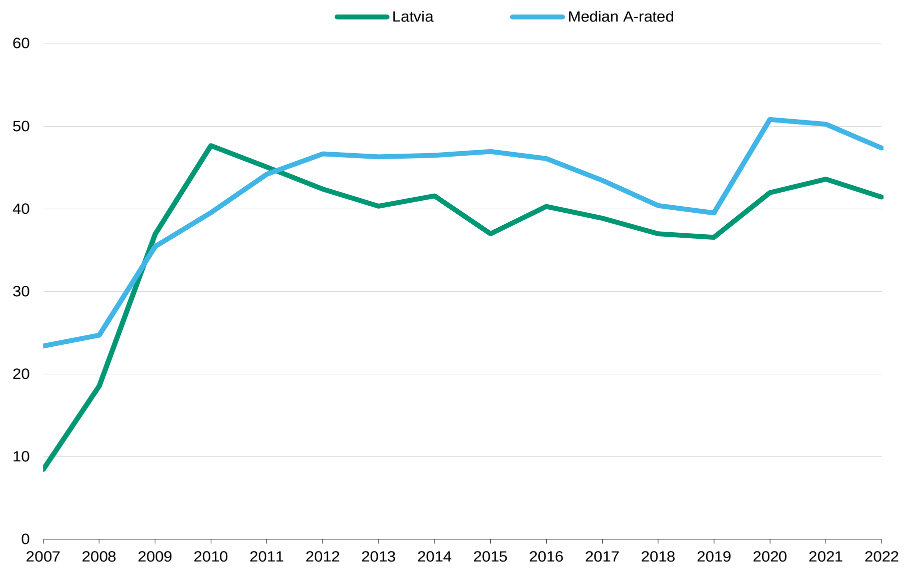
Fiscal Strength: “aa3”

Debt-to-GDP ratio to remain below the median of single-A rated peers.

- Latvia’s “aa3” score for fiscal strength reflects the government's **moderate debt burden** and very strong **debt affordability metrics**.
- Latvia’s ability to issue in an international currency is a key credit strength.
- That said, affordability ratios are expected to weaken as monetary policy continues to normalize.

Debt burden is below A-rated peers

General government debt as % of GDP



Sources: Eurostat, IMF, Moody’s Investors Service

Fiscal Strength: “aa3”

Limited scarring from the pandemic and the energy crisis.

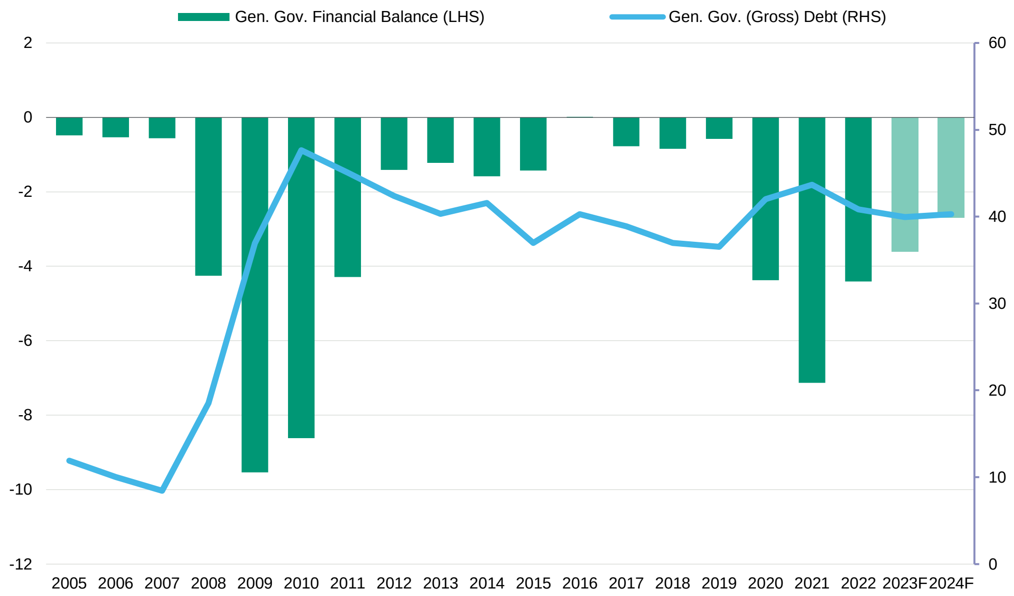
» Following almost a decade of very low deficits, large shock from pandemic and energy crisis on the general government balance.

» However, relatively limited impact on the debt burden due to high nominal GDP growth.

» Contrary to the Great recession, the pandemic and the energy crisis have left limited scarring on Latvia’s public finances.

Debt burden is returning to pre-pandemic levels

General government balance debt as % of GDP



Sources: Eurostat, Moody’s Investors Service

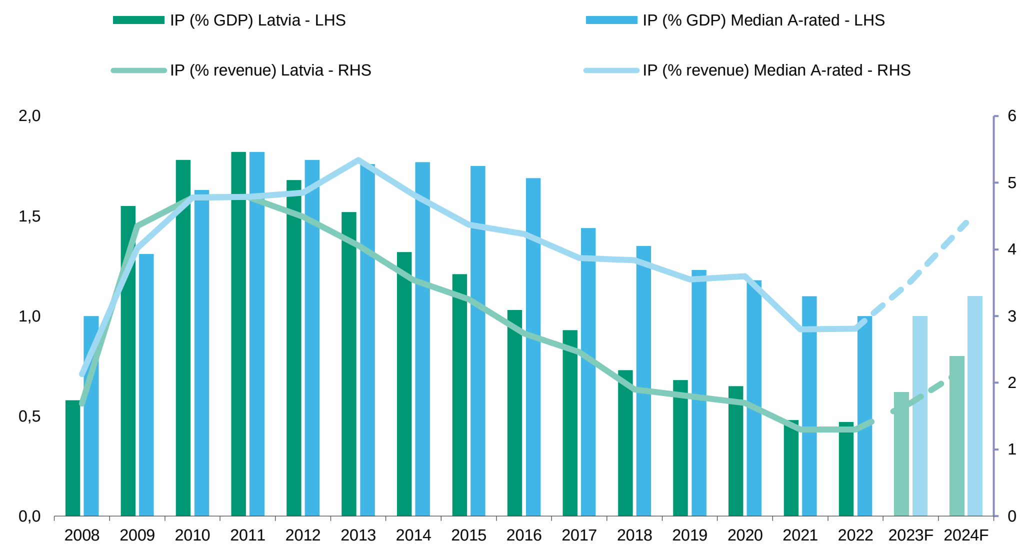
Fiscal Strength: “aa3”

Tightening financial conditions to only gradually weaken debt affordability.

- Cost of debt has declined substantially since 2012, and significantly more in Latvia compared to rating peers.
- Turn in the monetary policy cycle has already led to a tightening in financing conditions, which we expect to continue in the coming years.
- However, we expect Latvia’s debt affordability to remain strong given the long average maturity (>7 years).

Cost of debt is rising after a decade of decline

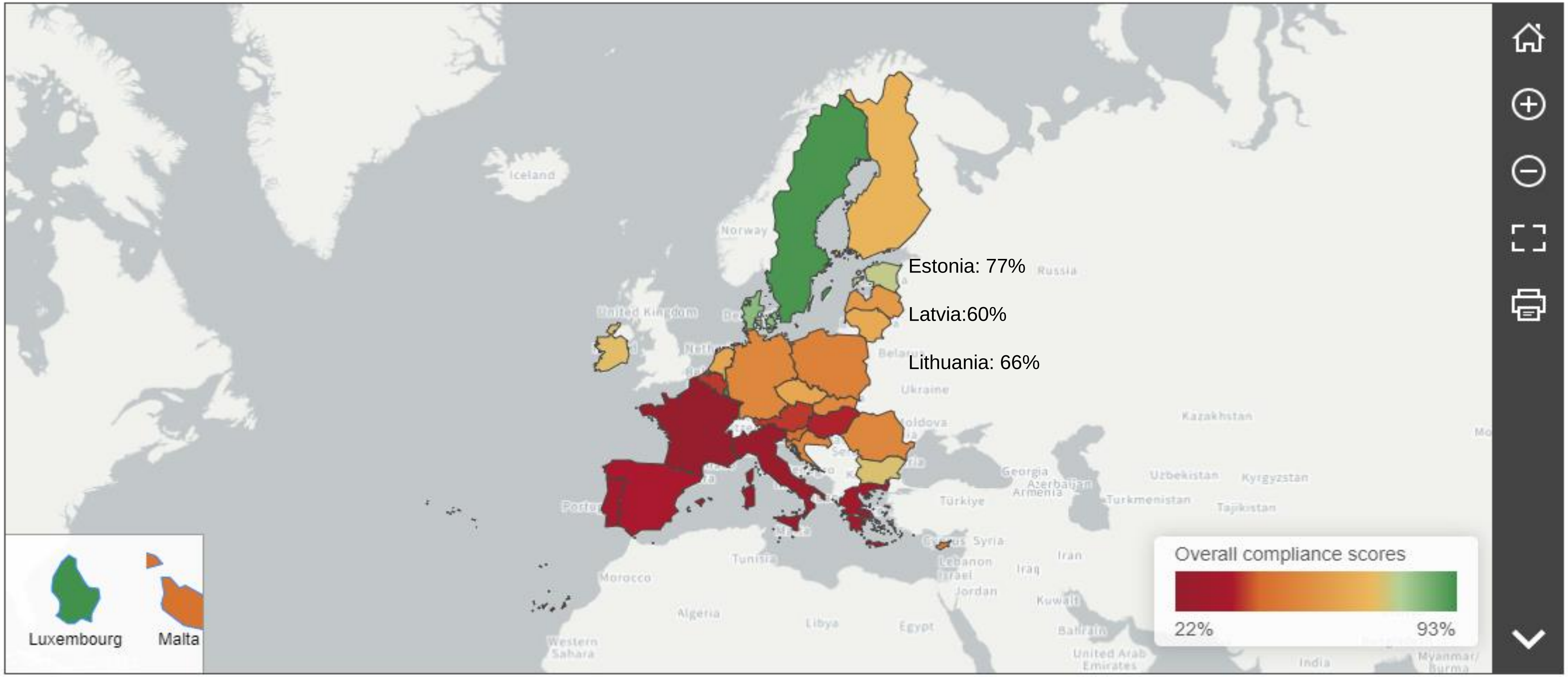
Interest payments as % of GDP and revenues



Sources: Eurostat, Moody’s Investors Service

Fiscal Strength: “aa3”

Strong fiscal effectiveness puts compliance above the EU’s average (50%).



Sources: European Fiscal Board Compliance Tracker

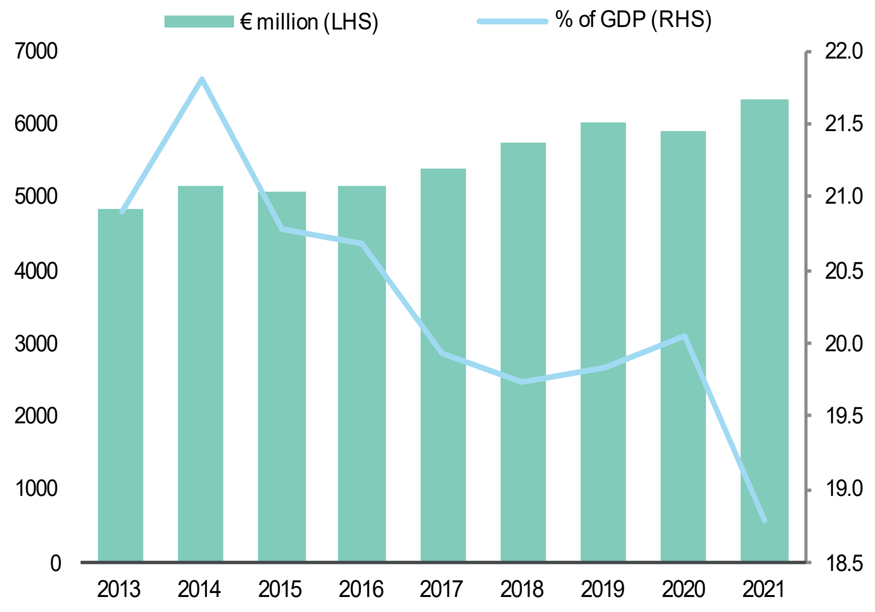
Fiscal Strength: “aa3”

Relatively high debt of State-owned enterprises are a constraint.

- SOE debt amounted to 18.8% of GDP in 2021, down from a peak of 21.8% of GDP in 2014.
- This relates primarily to public utilities (Latvenergo) and transport company (Latvian Railways). There are also around 300 companies, mostly local utilities, with low debt (less than €50 million each).
- For this reason, we apply a -1 adjustment.

SOE debt is falling in relative terms, but remains elevated

Liabilities of government-controlled entities outside general government as % of GDP, non-financial activities



Sources: Eurostat, Moody’s Investors Service

Fiscal Strength: "aa3"

Peer Comparison

Peer comparison table factor 3: Fiscal strength

	Latvia A3/STA	aa3 Median	Korea Aa2/STA	Bulgaria Baa1/STA	Czech Republic Aa3/NEG	Lithuania A2/STA	Sweden Aaa/STA	Slovakia A2/NEG
Final score	aa3		aa3	aa3	aa3	aa2	aa2	a1
Initial score	aa2		aa3	aa2	aa3	aa2	aa2	a1
Gen. gov. debt (% of GDP)	40.8	40.8	49.4	22.9	44.1	38.4	33.0	57.8
Gen. gov. debt (% of revenue)	114.0	114.0	172.8	59.4	107.7	107.2	67.5	143.6
Gen. gov. interest payments (% of GDP)	0.5	0.5	1.0	0.5	1.2	0.4	0.5	1.0
Gen. gov. int. payments (% of revenue)	1.3	2.8	3.5	1.2	2.8	1.0	1.0	2.6

Sources: National authorities, IMF, Moody's Investors Service

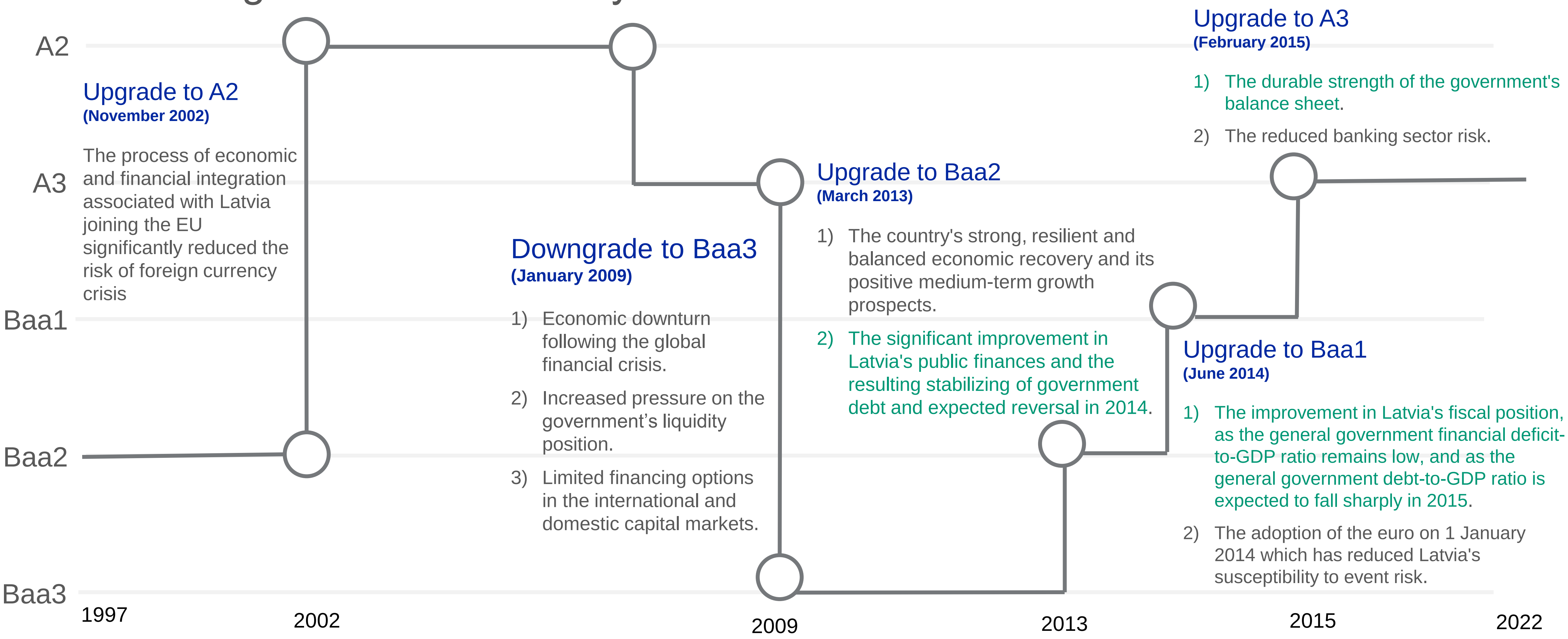
- Although the pandemic led to a rise in debt from 2019 to 2021, we expect Latvia's debt-to-GDP ratio to remain broadly in line with the median of single-A rated peers.
- The country's comparatively high level of debt related to state owned enterprises (SOEs) weighs on our assessment of fiscal strength, explaining the one-notch gap difference with the scorecard-indicated outcome of "aa2".
- Latvia's fiscal strength is in line with Australia (Aaa stable) and Bulgaria (Baa1 stable).

4

Latvia’s Credit Rating – History and peer Comparison

Bringing it all together

Latvia’s rating has been raised by three notches since 2009



Latvia’s peer group

Ratings Provide a Relative Rank-ordering

» Peer comparisons are important in rating committees, ratings provide a relative rank-ordering

» Latvia’s closest peers are sovereigns with similar credit profiles in the region but also globally

» Relative to global peers, Latvia has stronger institutions, but higher geopolitical risk.

Regional Peers	Global Peers
» Lithuania (A2 stable)	» Bermuda (A2 stable)
» Poland (A2 stable)	» Botswana (A3 stable)
» Slovenia (A3 stable)	» Malaysia (A3 stable)
» Spain (Baa1 stable)	» Peru (Baa1 negative)
» Bulgaria (Baa1 stable)	» Thailand (Baa1 stable)

Peer Comparison with Similarly-rated Sovereigns

Detailed Peer Comparison

	Year	Latvia	Lithuania	Slovenia	Malta	Poland	Bulgaria	A3 Median	Central & Eastern Europe and CIS Median
Rating/outlook		A3/STA	A2/STA	A3/STA	A2/STA	A2/STA	Baa1/STA	A3	Ba1
Scorecard-indicated outcome		A1 - A3	Aa3 - A2	A1 - A3	A1 - A3	A1 - A3	A2 - Baa1	A2 - Baa1	Baa3 - Ba2
Factor 1		**baa2**	**baa1**	**baa1**	**baa1**	**a1**	**baa3**	**baa1**	**baa3**
Nominal GDP ($ bn)	2022	41.1	70.2	62.0	17.7	690.7	88.9	51.6	70.2
GDP per capita (PPP, Intl$)	2022	38,545	47,107	50,059	58,072	43,480	30,216	36,468	30,216
Avg. real GDP (% change)	2018 - 2027F	2.4	2.7	2.7	4.1	3.3	2.8	3.1	2.9
MAD Volatility in real GDP growth (ppts)	2013 - 2022	0.7	1.1	1.3	2.1	1.1	0.8	1.0	1.2
Factor 2		**a2**	**a1**	**a2**	**a3**	**a3**	**baa1**	**a2**	**baa3**
Quality of legislative & executive institutions	Latest available	a	a	a	baa	a	baa	a	ba
Strength of civil society & judiciary	Latest available	a	a	a	baa	ba	ba	a	ba
Fiscal policy effectiveness	Latest available	a	aa	a	a	a	a	a	baa
Monetary & macro policy effectiveness	Latest available	a	a	a	a	a	a	a	baa
Gen. gov. fiscal balance (% of GDP)	2022 - 2024F	-3.6	-1.8	-3.3	-5.2	-4.2	-2.9	-3.5	-3.2
Average inflation (% change)	2018 - 2027F	4.6	5.0	3.3	2.5	5.2	4.5	3.9	5.2
Volatility of inflation (ppts)	2013 - 2022	5.2	5.6	2.7	1.6	4.1	4.2	2.9	4.1
Factor 3		**aa3**	**aa2**	**a1**	**a1**	**a2**	**aa3**	**aa3**	**a3**
Gen. gov. debt (% of GDP)	2022	40.8	38.4	69.9	53.4	49.1	22.9	50.5	44.1
Gen. gov. debt (% of revenue)	2022	114.0	107.2	164.7	152.2	123.4	59.4	139.3	138.9
Gen. gov. interest payments (% of revenue)	2022	1.3	1.0	2.5	2.8	3.9	1.2	2.7	3.5
Gen. gov. interest payments (% of GDP)	2022	0.5	0.4	1.1	1.0	1.6	0.5	1.0	1.2
Factor 4		**ba**	**ba**	**baa**	**baa**	**ba**	**baa**	**baa**	**ba**
Political risk	Latest available	**ba**	**ba**	**baa**	**a**	**ba**	**baa**	**baa**	**ba**
Government liquidity risk	Latest available	**a**	**a**	**aa**	**aa**	**aa**	**aa**	**aa**	**a**
Gross borrowing requirements (% of GDP)	2023F	8.1	5.8	11.0	11.6	13.7	4.6	9.5	8.3
Banking sector risk	Latest available	**a**	**a**	**baa**	**baa**	**a**	**baa**	**a**	**baa**
BSCE[1]	Latest available	ba1-ba2	baa3	ba1-ba2	baa3	baa3	ba1-ba2	baa3	ba3-b3
Total domestic bank assets (% of GDP)	2022	70.7	85.4	87.9	189.1	92.4	94.0	79.3	87.9
External vulnerability risk	Latest available	**a**	**aa**	**a**	**aa**	**a**	**a**	**a**	**a**
Current account balance (% of GDP)	2022	-6.4	-5.1	-0.4	-5.8	-3.0	-0.7	1.3	-4.5
External vulnerability indicator (EVI)	2024F	--	--	--	--	76.8	41.1	73.3	81.9
External debt (% of current account receipts)	2022	128.9	71.9	92.3	285.5	80.8	71.4	84.5	104.2
Net international investment position (% of GDP)	2022	-27.0	-6.6	-0.6	52.3	-34.1	-12.7	1.2	-31.9

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

Sources: National authorities, IMF, Moody's Investors Service

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5 | Appendix

Economic Strength: “baa2”

Peer Comparison

Peer comparison table factor 1: Economic strength

	Latvia A3/STA	baa2 Median	Greece Ba3/POS	Costa Rica B2/STA	Estonia A1/STA	Lithuania A2/STA	Bulgaria Baa1/STA	Croatia Baa2/STA
Final score	baa2		baa2	baa2	baa1	baa1	baa3	baa3
Initial score	baa1		a3	baa1	baa1	a3	baa1	baa1
Nominal GDP ($ billion)	41.1	143.6	218.8	68.4	38.0	70.2	88.9	70.4
GDP per capita (PPP, Intl$)	38,544.5	33,726.4	36,909.0	25,005.1	45,480.1	47,107.3	30,216.0	40,143.5
Average real GDP (% change)	2.4	2.7	1.9	3.0	2.4	2.7	2.8	2.9
MAD Volatility in real GDP growth (ppts)	0.7	0.9	1.2	0.9	1.4	1.1	0.8	1.8

Sources: National authorities, IMF, Moody's Investors Service

- We assess Latvia’s economic strength as “baa2” reflecting the country's **robust post-pandemic growth potential** and **income levels**, which are high by global standards but relatively low in the region**.**
- Latvia shares its “baa2” economic strength score with Greece (Ba3 positive).

Institutions and Governance Strength: “a2”

Peer Comparison

Peer comparison table factor 2: Institutions and governance strength

	Latvia A3/STA	a2 Median	Croatia Baa2/STA	Italy Baa3/NEG	Slovakia A2/NEG	Estonia A1/STA	Lithuania A2/STA	Malta A2/STA
Final score	a2		a2	a2	a2	aa3	a1	a3
Initial score	a2		a2	a2	a2	aa3	a1	a3
Quality of legislative & executive institutions	a	a	a	a	a	aa	a	baa
Strength of civil society & judiciary	a	a	a	a	a	a	a	baa
Fiscal policy effectiveness	a	a	a	a	a	aaa	aa	a
Monetary & macro policy effectiveness	a	a	a	a	a	a	a	a
Fiscal balance/GDP (3-year average)	-3.6	-2.1	-0.9	-5.4	-4.4	-2.5	-1.8	-5.2
Average inflation (% change)	4.6	2.5	3.0	2.9	5.4	4.9	5.0	2.5
Volatility of inflation (ppts)	5.2	2.6	3.3	2.6	3.6	5.8	5.6	16

Sources: National authorities, IMF, Moody's Investors Service

- Although the government has made progress in tackling high-level corruption, this still weighs on our assessment of judicial strength and remains a key institutional challenge.
- Latvia’s institutions and governance strength is in line with Croatia (Baa2 stable), Italy (Baa3 negative) and Slovakia (A2 negative).

Political risk: “ba”

Peer Comparison

Peer comparison table factor 4a: Political risk

	Latvia A3/STA	ba Median	Lithuania A2/STA	Estonia A1/STA	Poland A2/STA	Bulgaria Baa1/STA	Croatia Baa2/STA	Georgia Ba2/NEG
Final score	ba		ba	ba	ba	baa	baa	b
Voice & accountability, score[1]	0.9	-0.6	1.0	1.2	0.6	0.3	0.6	0.0
Political stability, score[1]	0.7	-0.2	0.8	0.8	0.5	0.5	0.7	-0.4

[1] Composite index with values from about -2.50 to 2.50; higher values correspond to better governance

Sources: Worldwide Governance Indicators, Moody's Investors Service

- On account of this, we changed Latvia's score for political risk to “ba” from “baa”, which indicates that the escalation of geopolitical tensions has the potential to negatively impact economic activity, fiscal outcomes and funding conditions for Latvia.
- Although geopolitical risks and the uncertainty around such risks have increased, we deem the likelihood of the military conflict in Ukraine spilling over into a conventional military conflict with a direct and material impact on Latvia to be low.
- Peers with a similar political risk assessment include Estonia (A1 stable), Lithuania (A2 stable) and Poland (A2 stable).

Government liquidity risk: “a”

Peer Comparison

Peer comparison table factor 4b: Government liquidity risk	Latvia A3/STA	a Median	Lithuania A2/STA	Romania Baa3/STA	Slovakia A2/NEG	Slovenia A3/STA	Serbia Ba2/STA	Kuwait A1/STA
Final score	a		a	a	aa	aa	baa	baa
Initial score	a		a	a	aa	aa	a	baa
Ease of access to funding	a	a	a	a	aa	aa	a	baa
Gross borrowing requirements (% of GDP)	8.1	8.0	5.8	11.8	12.2	11.0	10.6	1.0

Sources: National authorities, IMF, Moody's Investors Service

- Our “a” assessment of government liquidity risk reflects its typically moderate gross borrowing requirements, low borrowing costs and ability to issue debt in a reserve currency.
- Peers with a similar government liquidity assessment include Lithuania (A2 stable) and Romania (Baa3 stable).

Banking sector risk: “a”

Peer Comparison

Peer comparison table factor 4c: Banking sector risk

	Latvia A3/STA	a Median	Lithuania A2/STA	Poland A2/STA	Slovakia A2/NEG	Slovenia A3/STA	Hungary Baa2/STA	Mexico Baa2/STA
Final score	a		a	a	a	baa	baa	aa
Initial score	a		a	a	a	baa	baa	aa
BCA[1]	ba1	baa2	baa3	baa3	baa2	ba1	ba1	baa2
BSCE[2]	ba1-ba2	baa2	baa3	baa3	baa2	ba1-ba2	ba1-ba2	baa2
Total domestic bank assets (% of GDP)	70.7	170.6	85.4	92.4	104.0	87.9	93.1	44.0

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets

[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system

Sources: National authorities, IMF, Moody's Investors Service

- Latvia’s score for banking sector risk is “a”, in line with that of Lithuania (A2 stable) and Poland (A2 stable).
- As the weighted average Baseline Credit Assessment (BCA) of ba1 is based on limited rating coverage of the country's banking sector, the score also reflects the significant presence of foreign-owned banks, which have historically shown a high propensity to support their Latvian subsidiaries.

External vulnerability risk: “a”

Peer Comparison

Peer comparison table factor 4d: External vulnerability risk

	Latvia A3/STA	a Median	Estonia A1/STA	Slovenia A3/STA	Slovakia A2/NEG	Lithuania A2/STA	Finland Aa1/STA	Chile A2/STA
Final score	a		a	a	a	aa	aa	baa
Initial score	a		a	a	a	aa	aa	baa
Current account balance (% of GDP)	-6.4	-2.6	-2.2	-0.4	-8.2	-5.1	-3.6	-9.0
Net IIP (% of GDP)[1]	-27.0	-34.5	-20.5	-0.6	-61.0	-6.6	-3.5	-18.4
External debt (% of current account receipts)	128.9	95.2	91.5	92.3	--	71.9	94.8	191.5
External vulnerability indicator (EVI)[2]	--	59.9	--	--	--	--	--	194.4

[1] Net international investment position (% of GDP)

[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/official foreign exchange reserves

Sources: National authorities, IMF, Moody's Investors Service

- Our “a” assessment of Latvia’s external vulnerability risk reflects its pre-pandemic track record of broadly balanced current account position, moderately negative net international investment position (NIIP) and euro area membership.
- Other sovereigns with an “a” assessment for external vulnerability include Estonia (A1 stable), Slovenia (A3 stable) and Slovakia (A2 negative).