

The government is reviewing the report on the Latvian capital market and proposals for its activation

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On Tuesday, 16 May, the Cabinet of Ministers (CoM) reviewed an informative report on the future development of the Latvian capital market. Its goal is to determine the medium-term goal and directions of capital market development in order to promote the availability of financing for economic growth and transformation, as well as to provide investment opportunities while ensuring a high level of investor protection. The report specifies the future course of action and establishes the level of share capitalisation to be attained over the following four years.

☞ *“A developed capital market can provide Latvia with critical growth financing, promote the activity of local and foreign investors and foster an investment culture. In the government declaration we clearly stated the need to develop a competitive capital market by increasing companies’ access to financing and investment opportunities. Together with the State Treasury, we have already successfully activated individual investors, significantly increasing interest in State savings bonds. On the other hand, today’s informative report, which I directed and approved in the Cabinet of Ministers, will give us the green light to prepare capital companies for attracting funding for development on the stock exchange and for more active bond issuance, as well as work on the development of new investment instruments,”* says Minister for Finance Arvils Ašeradens.

The development of the financial sector is critical to the development of the economy. A developed and efficient financial sector promotes economic growth through capital accumulation by increasing savings, encouraging investments, and attracting foreign investments and capital. A country with a more developed financial system tends to grow faster over time, and many studies show that this effect is causal: financial development is not just a byproduct of economic growth, it promotes growth.

Typically, the development of the financial system is measured using two indicators: the size of the loan portfolio in relation to the gross domestic product (GDP) and the level of financial market capitalisation in relation to GDP. According to the International Monetary Fund’s financial development index, Latvia lags behind the majority of the Organisation for Economic Cooperation and Development and European Union (EU) countries.

In terms of capital market development, Latvia lags behind not only the rest of the EU, but also neighbouring countries, according to quantitative indicators. According to 2021 data, the market capitalisation of equities in Estonia reached 17.4%, Lithuania 9.3%, but Latvia only 3% of GDP. In comparison, the EU average is 54% of GDP.

The CoM supports the proposal to achieve the goal set out in the informative report, which is to have the Latvian stock market capitalisation at 9% of GDP in 2027. A developed and well-functioning financial market ensures the efficient use of resources for national economic development by redirecting them from savers to investors, and it also makes the economy more resilient to shocks by performing the risk redistribution function. Therefore, having the appropriate tools and services available, as well as developing the necessary market infrastructure, is required for the effective implementation of the financial market function.

Latvia has established a good market infrastructure, as well as a regulatory framework that meets international standards, ensuring adequate market transparency and investor protection. The missing element is market size, and one reason for the disparity is that, unlike Lithuania and Estonia, where state and local government-controlled companies account for slightly more than a third of market capitalisation, Latvia has no state and local government-controlled companies listed on the stock exchange. Therefore, the Ministry of Finance, Latvijas Banka and the State Treasury have prepared a detailed assessment of the Latvian capital market and proposals for its activation.

To increase the capitalisation of the stock market and promote capital attraction and the entry of new issuers into the stock exchange, it is critical to maintain the listing support programme for small and medium-sized companies, as well as to establish an

IPO fund as a long-term market investor. At the same time, it should be noted that significant preparatory work has been carried out in recent years in order to promote the efficient management of State-Owned Enterprises, both in terms of setting development goals and optimal capital structure. Government decisions made in 2021 and 2022 foresee specific instruments that will allow these goals to be met.

Capital companies are expected to be divided into three groups based on their income sources (commercial, state-dependent commercial, and state-dependent non-commercial). Until November of this year, large capital companies must include goals of research and development or the implementation of innovative solutions in their strategies, while the vision of the state as a shareholder regarding the company's development will be expressed by the shareholder prior to the development of the strategy in a letter of expectation.

However, to ensure the growth of renewable electricity capacity and Latvia's progress towards ensuring energy independence, line ministries, as the holders of the capital shares of the Joint Stock Company Latvenergo and the Joint Stock Company Latvijas valsts meži, have been tasked with assessing the possibility of attracting capital market financing for investment projects planned by SIA Latvijas vēja parki, the joint venture of both companies.

It is planned to evaluate the possibilities for citizens to further simplify the calculation and payment of taxes if an investment account is not used for investments in order to increase their activity as investors in the capital market and to promote the formation of long-term savings and the culture of investing in society. At the same time, an already existing instrument – government savings bonds – is rapidly gaining popularity due to attractive interest rates that correspond to the current state of the financial market.

Savings bonds are an investment instrument that is only available to individuals, which can be a good first step for individuals as investors to invest in a low-risk financial instrument while learning about the capital market and diversifying their investments. It is important to actively inform citizens about the benefits and possibilities of using this investment alternative. Furthermore, the State Treasury intends to modernise the existing savings bond distribution channel, making it more appealing and in line with current practice, such as making it easier to purchase savings bonds on a smartphone.

To encourage investment in Latvia and attract institutional investors, it is planned to create a legal framework that allows the city of Riga to issue bonds to finance investment projects and to create new investment instruments (for example, the Altum capital fund, potentially a rental housing fund, etc.). More private and opportunity capital development is planned, as well as expansion of the use of public-private partnerships in infrastructure development.

The report can be viewed in the [portal of draft legal acts](#).

CAPITAL MARKET DEVELOPMENT OBJECTIVES AND TASKS

INCREASE
stock market
capitalisation
to at least
9% of GDP



**Encourage capital attraction –
entry of new issuers into
the stock exchange:**

- Continue the quotation support programme for SMEs
- Establish an IPO fund as a long-term market investor



**At least two IPOs*
for capital companies with
capitalisation of
more than €1 billion**

* the initial listing of company shares on the stock exchange provides an opportunity for citizens to become investors and earn long-term profits as shareholders of this company

INCREASE
citizen participation as capital
market investors



Promote financial literacy about capital market opportunities and risks



Promote a culture of long-term saving and investing in society



Popularise an affordable investment account that allows individuals to easily invest and calculate taxes paid



Assess the potential for citizens to further simplify tax calculation and payment for capital market investments



Modernise the savings bond distribution channel, making their purchase more convenient and accessible

PROMOTE investments
in Latvia and attract institutional
investors



Create a legal framework that allows Riga to issue bonds for financing investment projects



Create new investment instruments (e.g. Altum capital fund, potentially a rental housing fund)



Private and opportunity capital development, as well as expansion of the use of public-private partnerships in infrastructure development

More information: www.fm.gov.lv