

Latvia's credit rating has been upgraded to the historically highest level

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On Friday, February 21, an international credit rating agency S&P Global Ratings (S&P) upgraded Latvia from 'A' to 'A+' level with a stable outlook. Agency's assigned 'A+' credit rating ensures historically highest credit rating level since 1997, when credit rating was assigned to the Republic of Latvia for the first time.

"This is historical moment. For the very first time in the history of Latvia finances we have been evaluated with such high credit rating. It is distinctly an international level affirmation to Latvia's implemented public finance policy. Upgrade of the credit rating is the ground for further attraction of investments for our country as a reliable and secure partner" highlights Minister of Finance Mr. Jānis Reirs.

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S&P in it's evaluation has highlighted two main driving factors for the upgrade: (a) Latvia's prudent fiscal policy, which, despite softer medium term growth outlook, will allow to reduce already modest debt also further and (b) vulnerabilities of Latvia's financial system are contained. It is supported also by FATF evaluation published today.

The Agency forecast that in following years Latvia's economy will moderate in the medium term, for example, GDP growth in 2020 could be at 2.7%, and it will be supported by strong domestic demand. As one of the main factors for maintaining credit rating in such a high level is the country's implemented prudent fiscal policy, S&P believes that the Government of the Republic of Latvia will continue with a tight fiscal policy stance despite slowing growth, effectively reducing a net public debt to GDP levels further.

The Agency has admitted that even if Latvia has highly fragmented political party system, government's progress in the field of implementation of the Moneyval recommendations in the last 18 months has been significant. Latvia has created resilient framework to prevent money laundering and financing terrorism and to the restoring reputation of Latvia financial system. The Agency considers that policymaking in Latvia is effective.

At the same time the Agency notes that upside scenario of the Latvia's credit rating could be realized in case the performance of Latvia's economy and balance of payments significantly exceeds the Agency's expectations. In contrast, the downside scenario could be applied if there is reversal of currently strong fiscal policy, which could lead to a rising net public debt levels, or a tangible pressure on the financial system, potentially affecting also economic outlook. S&P mentions – still comparably low income levels and substantial long-term demographic challenges are key constraining factors of the rating.

Previous S&P Global rating announcement was published on September 21st, 2019, when agency affirmed Latvia's credit rating in 'A' level with stable outlook.

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