

LATVIA



HIGHLIGHTS

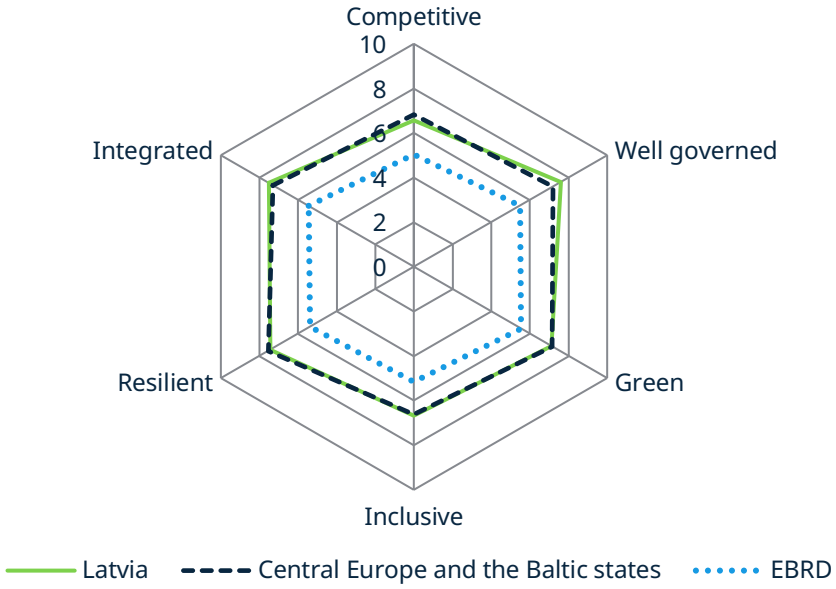
- **Economic growth broadened in early 2026 as household consumption recovered and investment remained strong**. Real gross domestic product (GDP) grew by 3.2 per cent year on year in the first half of 2026 after expanding 2.2 per cent in 2025. Inflation stood at an estimated 3.0 per cent in October 2026.
- **Parliament raised the statutory floor for defence spending from 3 per cent to 5 per cent of GDP with effect from 2027**. The 2026 budget allocated €2.2 billion to defence, and a €3.5 billion European Union (EU) loan signed in June 2026 will fund some of the procurement.
- **The Baltic finance ministries and the EBRD renewed their capital markets memorandum in June 2026, targeting MSCI emerging-market status.** Cooperation since 2017 has produced common frameworks for covered bonds and commercial paper, as well as a fund to finance companies preparing to list.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Widen the sources of finance available to companies beyond bank credit.** Companies remain heavily reliant on bank credit, while access to alternative sources of finance is limited. No state-owned company is listed in Riga.
- **Ensure that grid connections and permitting keep pace with new wind generation.** Latvia remains a net electricity importer and its renewable output is mostly hydro. Two large wind farms totalling 256 megawatts (MW) are under development and a state joint venture plans at least a further 800 MW.
- **Broaden the financing of Rail Baltica beyond EU grants and the state budget.** Latvia's share of the first phase of the Rail Baltica high-speed link is €6.4 billion. The country has delivered road projects as public-private partnerships that Eurostat has classified as being off balance sheet, and RB Rail, the joint venture managing the rail project, has examined similar structures.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Defence financing

- In March 2026 parliament raised statutory minimum defence spending from 3 per cent to 5 per cent of GDP with effect from 2027.
- The 2026 budget allocated €2.2 billion to defence and, in June 2026, Latvia signed a €3.49 billion loan agreement under Security Action for Europe (SAFE), receiving €524.7 million in pre-financing in August.

airBaltic state support

- Parliament passed a financial stabilisation law in August 2026 that allows repayment of a €30 million state loan to be extended and claims arising from the loan and up to €50 million in state-owned bonds to be converted into equity.

1 From the fourth quarter of 2025 to October 2026.

- The airline's August 2026 business plan envisages cutting the fleet from 54 to 36 aircraft by the end of the year. In September, airBaltic entered a court-supervised process to restructure its financial obligations while continuing normal operations.

Rail Baltica

- The European Court of Auditors reported in January 2026 that the cost of the rail link connecting the Baltic states to the European network had more than doubled since 2020. It put the cost of the first phase at €15.3 billion, with €6.4 billion of that falling to Latvia.
- RB Rail reported in 2026 that around €5.2 billion had been secured for the Rail Baltica project across Estonia, Latvia and Lithuania, including €4.5 billion in EU funding.

Alternative dividend taxation

- Parliament adopted amendments to corporate and personal income tax laws in December 2025, with effect from January 2026. Companies whose shareholders are exclusively individuals can now pay 15 per cent corporate income tax on distributed profits and withhold 6 per cent personal income tax from shareholders as an alternative to paying a 20 per cent tax on distributed profits.
- The aim is to improve the treatment of non-resident shareholders, allowing Latvian personal income tax on dividends to be credited in their country of residence.

Pan-Baltic Capital Markets Framework

- Latvia's Finance Minister signed a memorandum of understanding in Riga in June 2026 on developing a pan-Baltic Capital Markets Framework, along with his Estonian counterpart and Lithuania's Vice Minister of Finance and the President of the EBRD, which has supported the initiative since 2017.
- That cooperation has also produced the Baltic Capital Markets Acceleration Fund, the region's first vehicle for companies preparing to list, to which ALTUM, the state development finance institution, and Lithuania's ILTE have committed €38.8 million.

Renewable energy grid constraints

- Augstsprieguma tīkls, the Latvian transmission system operator, had connected more than 1,100 MW of wind and solar generation capacity to the transmission grid by mid-2026. Existing connection agreements could double generation and battery storage capacity over the next three years.
- Further expansion will increasingly rely on flexible connections, as standard connection capacity varies by location and can be limited by wider network constraints. Flexible connections allow the transmission system operator to curtail output when the network is constrained.