

# 2026 Q1 assessment of the systemic cyclical risk and applicable countercyclical capital buffer rate

2026 | March

The countercyclical capital buffer (hereinafter – the CCyB) is a macroprudential tool that aims at strengthening the capitalisation of credit institutions so that they are adequately equipped to absorb losses in times of crisis. When risks materialise, the CCyB rate is partially or fully released to help credit institutions continue to offer funding to the economy, thereby reducing the length of crises and their impact on the economy.

Latvian Banka, in its capacity as the designated authority for the application of the CCyB requirement, evaluates the cyclical systemic risk on a quarterly basis pursuant to Section 35.5 of the Credit Institution Law and, if necessary, sets or adjusts the CCyB rate applicable to credit institution exposures to residents of the Republic of Latvia. Latvian Banka publishes quarterly assessments of the cyclical systemic risk and the applicable CCyB rate. If the CCyB rate remains unchanged, the previous decision regarding the applicable CCyB rate remains in force.

On 18 December 2023, the Council of Latvian Banka decided to implement a positive neutral CCyB approach. According to this approach the CCyB rate is set at positive basis level (above zero) already in a standard risk environment or at the neutral stage of the financial cycle when cyclical systemic risk is neither elevated nor subdued. Latvian Banka has estimated 1% to be an appropriate base level of the CCyB rate. In accordance with the Council's decision of 18 December 2023, a 1% CCyB rate will take effect from 18 June 2025.

As cyclical risk increases, the CCyB rate should be raised proportionally to the intensity of the risk, starting already from the base rate. Thus, the total CCyB requirement consists of the base rate and the cyclical component, which is assessed on a quarterly basis. In times of crisis, as well as during the recovery period following a crisis, the CCyB rate may be reduced or released.

In accordance with the cyclical risk assessment for 2026 Q1, **Latvijas Banka has decided not to increase the cyclical component of the CCyB.**

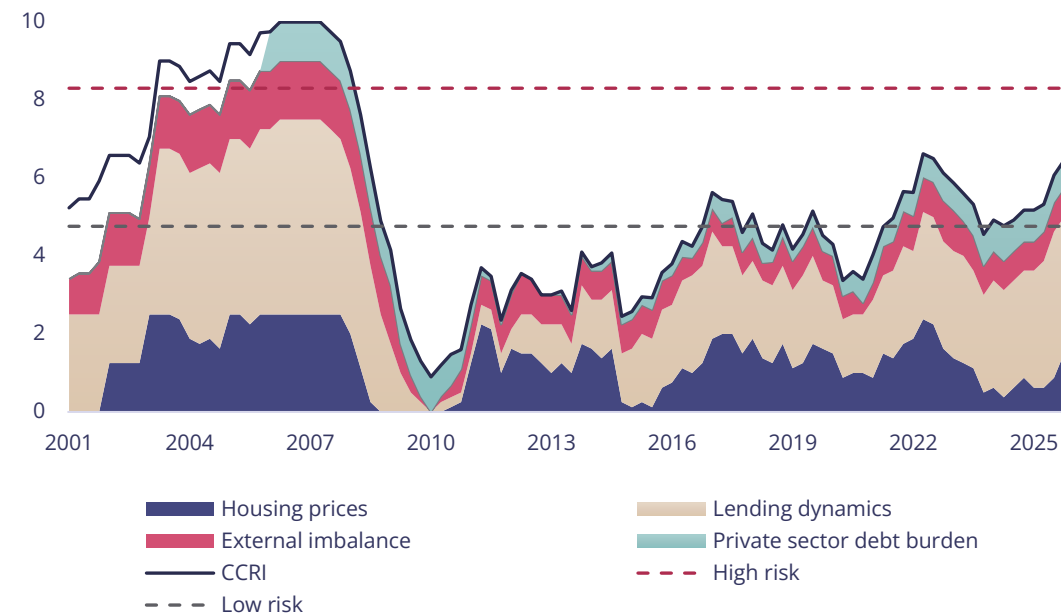
The decision of Latvijas Banka regarding the applicable CCyB rate, adopted on December 18, 2023, remains in force.

**The cyclical risk level continues to increase and to move further away from the low-risk threshold**, mainly driven by the expansion of lending activity. However, the pick-up in lending is taking place from a persistently low base and is partly influenced by the temporarily introduced solidarity contribution.

The real estate market is in a phase of moderate growth. Economic growth strengthened towards the end of 2025, supported by both higher investment and increased consumption.

Further developments in lending and the economy may be constrained by rising geopolitical tensions in the Middle East. If these tensions continue to escalate, weaker external demand, higher energy prices and overall price levels, as well as potential supply chain disruptions, could weigh on economic activity, labor market conditions, and the financial position of borrowers, as well as on borrower and lender sentiment.

**Composite cyclical risk indicator (CCRI)**



Composite cyclical risk indicator (CCRI) reached 6.5 points in 2025 Q4, which is 1.3 points higher than a year ago. The increase in the CCRI was driven by a pick-up in lending activity and rising house prices. The CCRI is within the medium risk range.

For more details on the CCRI, see Latvijas Bankas [2025 Financial Stability Report](#).

The credit-to-GDP gap of the private non-financial sector continues to decrease; however, it remains negative according to both – standardized and additional credit definitions.

**The buffer guide is 0%.**

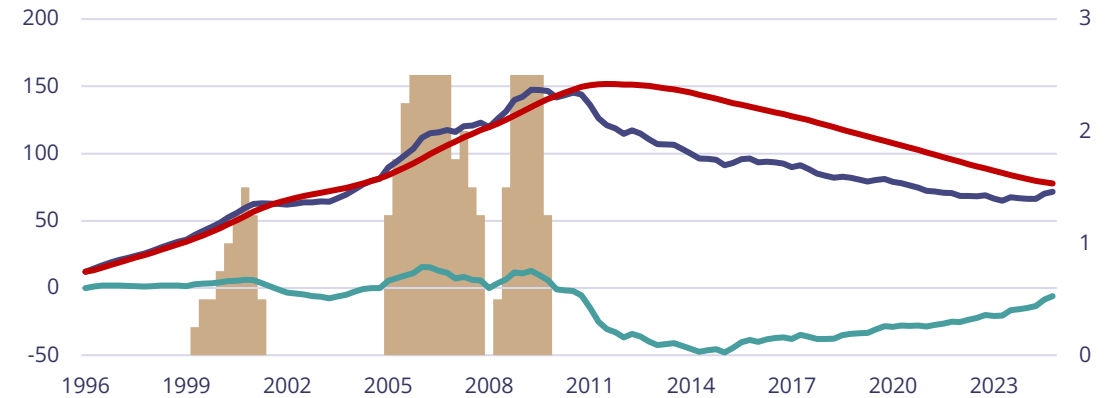
	Standardised credit definition 2025 Q3	Additional credit definition 2025 Q4
Credit-to-GDP ratio (%)	71.6	33.4
Credit-to-GDP gap (pp)	-6.1	-0.4
Benchmark buffer rate (% from TREA)	0	0

Standardized credit definition – liabilities of non-financial corporations (hereinafter – NFCs) and households to credit institutions, as well as their loans from non-bank financial institutions or other NFCs.

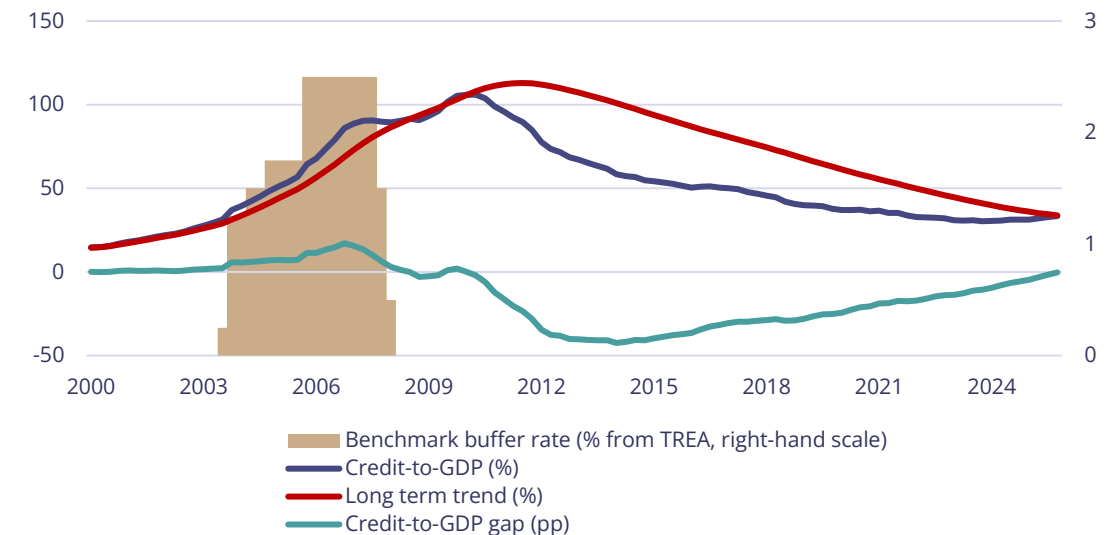
Additional credit definition – bank loans to NFCs and households, and holdings of NFCs debt securities, and loans granted by banks' leasing subsidiaries.

**The benchmark buffer rate calculated from the additional credit definition has been chosen as the buffer guide. The data is available sooner, and the benchmark buffer rate calculated from the additional credit measure aligns better with the historically required CCyB rate.**

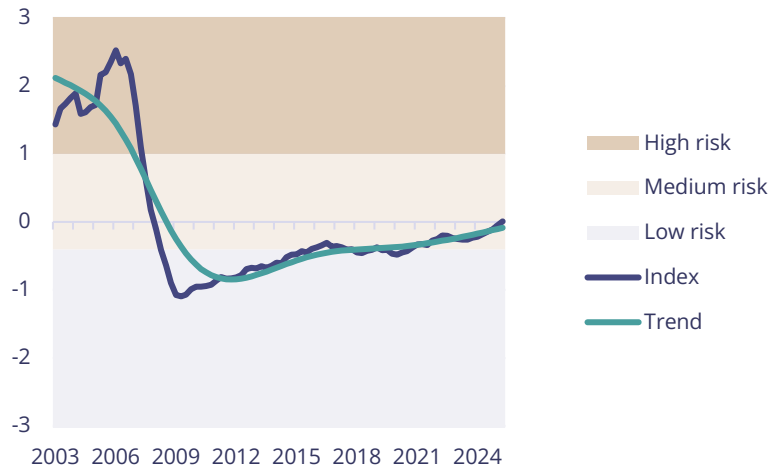
Standardised credit-to-GDP gap



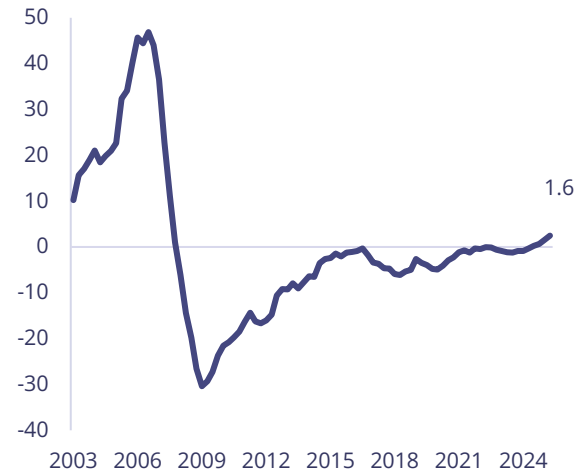
Additional credit-to-GDP gap



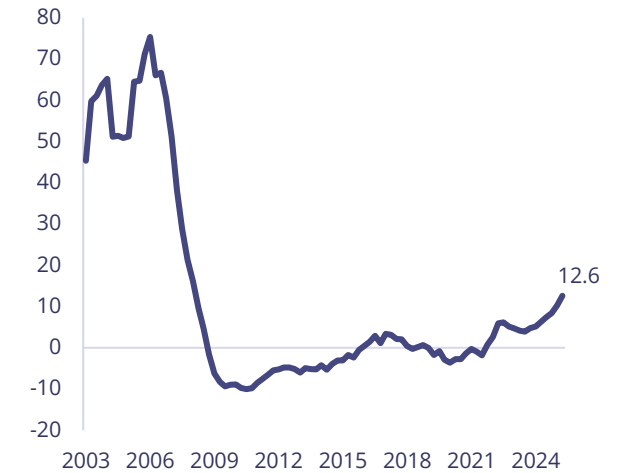
### Credit developments index



### Additional credit measure to 7-year GDP annual difference, percentage points



### Additional credit measure annual growth rate\*, %

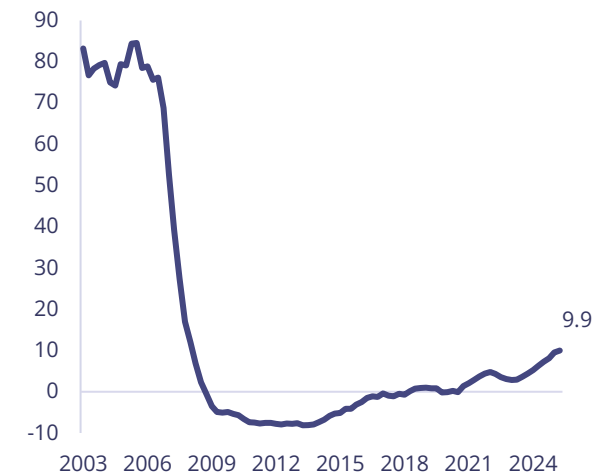


**Domestic lending** continues to grow at a strong pace, which is assessed as a positive development following a prolonged period of weak credit activity. In 2025 Q4 and in February, the outstanding loans issued to households and NFCs\* increased year-on-year by 12.5 % and 11.6 %, respectively (including 9.9 % and 10.1 % for households, and 15.3 % and 13.2 % for NFCs).

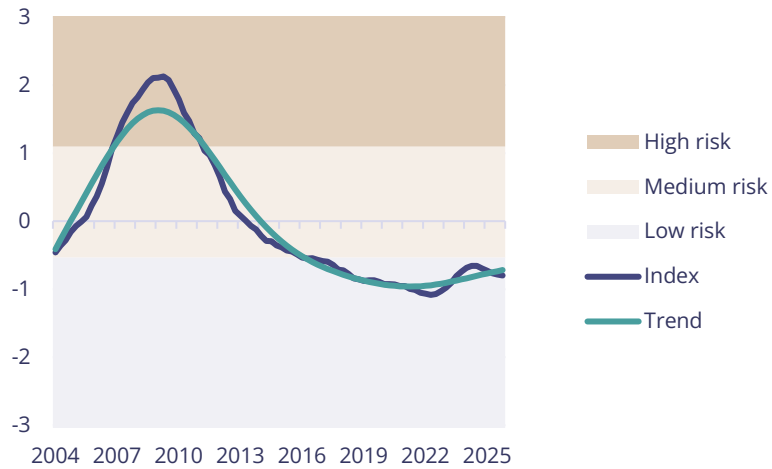
Lending growth is supported by the realization of deferred demand as interest rates become more attractive, as well as stronger economic growth. Conditions for lending remained favorable, as competition among lenders intensified – households are increasingly taking advantage of lower refinancing costs, and credit supply is partly supported by the Solidarity Contribution Law, which allows credit institutions to receive a contribution discount if specific credit portfolio growth targets are met. It cannot be ruled out that lending growth may moderate once the application period of the solidarity contribution ends.

**Further developments** in lending may be constrained by external factors, including the continuation of the military conflict in the Middle East and other geopolitical risks.

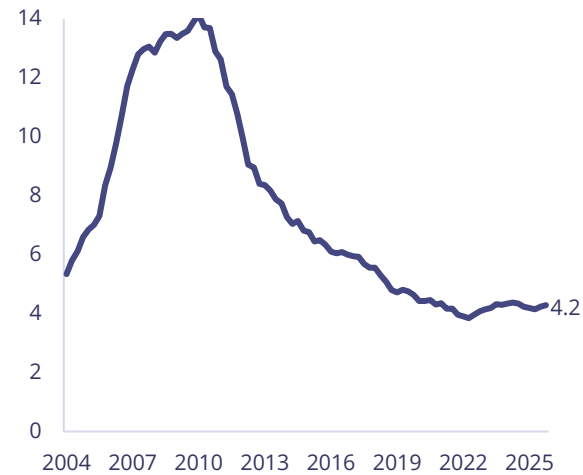
### Household credit annual growth rate\*, %



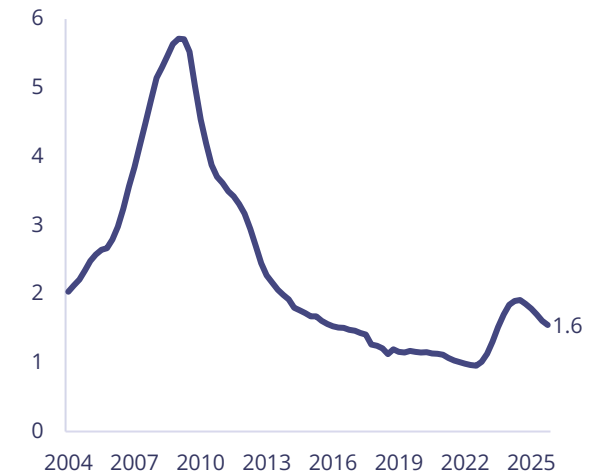
Private sector debt burden index



Household and NFC debt service ratio\*, %



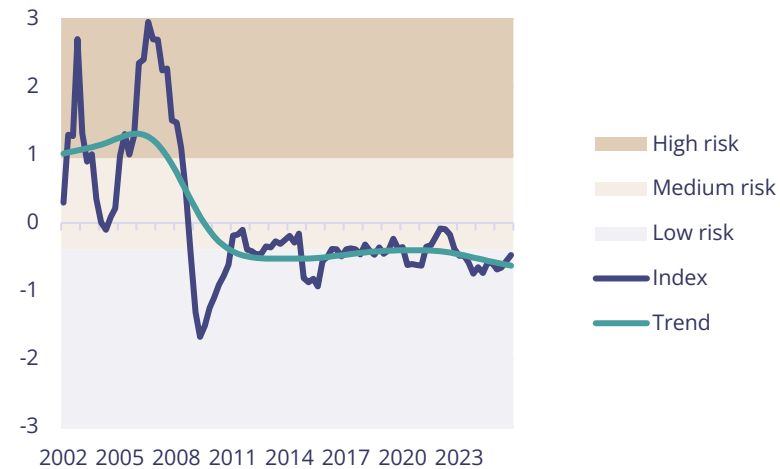
Household and NFC annual interest payments to GDP, %



**The debt of the private non-financial sector is low.** Along with the gradual decrease in interest rates, the ratio of interest payments on private non-financial sector loans to GDP has also slightly decreased. The financial resilience of borrowers remains good.

\*The calculation of the Debt Service Ratio (DSR) is based on an equal-payment (annuity) approach, which accounts for both interest payments and principal amortization burden:  $DSR = \frac{i_t * D_t}{(1 - (1 + i_t)^{-s}) * Y_t}$ , where  $D$  represents the measure of additional credit measure or the total private non-financial sector debt volume,  $i$  is the sector's average interest rate, income  $Y$  is replaced by GDP, and the average loan term  $s$  is assumed to be 10 years. This methodology allows for assessing the debt servicing burden at the macro level.

### Potential overvaluation of property prices index



### House prices-to-average net wages index, 2010 = 100



### CSB's house price annual growth rate, %



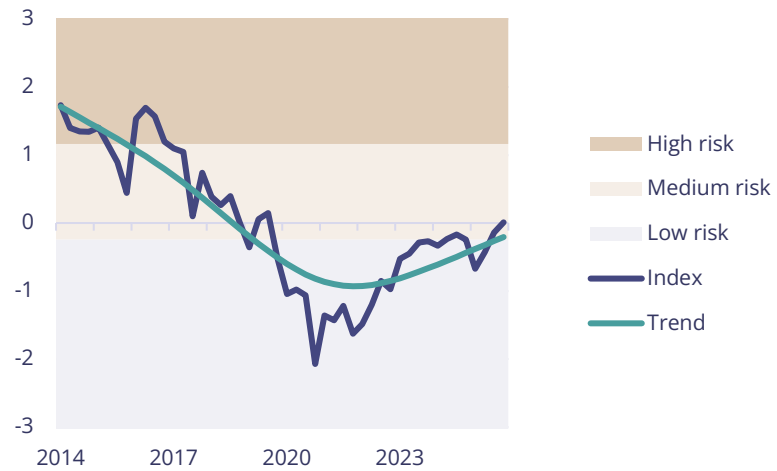
**Activity in the real estate market** slowed in 2025 Q4 compared with the corresponding period of the previous year. This was mainly driven by a high base effect, following the rapid market recovery at the end of 2024. In 2025 Q4, compared with the same period a year earlier, the total number of real estate purchase transactions declined by 9.2 %. This included a 21.5 % decrease in land purchase transactions, while transactions in the housing segment increased by 0.5 %.

In the apartment market, standard-type apartments account for nearly 70 % of all transactions. In this segment, the number of transactions increased by only 0.5 % year-on-year in 2025 Q4. Meanwhile, in the new project segment, which represents around 13 % of the apartment market, the year-on-year growth rate of transactions slowed to 5.2 %. In the primary market, the number of transactions declined significantly over the year (by 23.4 %), effectively corresponding to the sales volume of a single large apartment building.

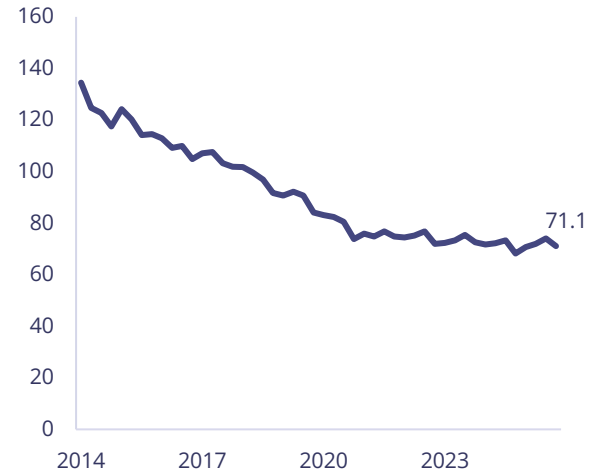
**Overall, housing price dynamics** can be assessed as moderate. According to CSB data, housing prices increased by 11.0 % year-on-year in 2025 Q4, largely reflecting a low base in the previous year. On a quarter-on-quarter basis, prices rose by only 1.9 %. In the new housing segment, annual price growth was slower, at 6.4 %, while prices even declined during Q4 (by 0.3 %). In the standard-type apartment market, growth remained moderate - according to Arco Real Estate estimates, average prices in Riga increased by 4.2 % year-on-year in Q4.

As wage growth has gradually decelerated, further improvements in **housing affordability** have come to a halt.

Strength of bank balance sheets index



The ratio of domestic credit to deposits, %

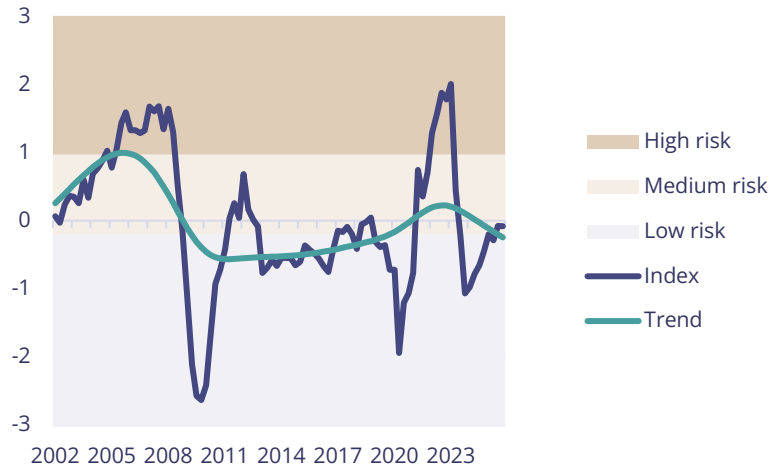


CET1 ratio, %



**Bank balance sheet resilience indicators** – bank capitalization, as well as profitability and asset quality – are very strong. The ratio of bank loans to deposits remains consistently low.

### Macroeconomic environment index



### Real GDP annual growth rate, %



### HICP annual growth rate, %

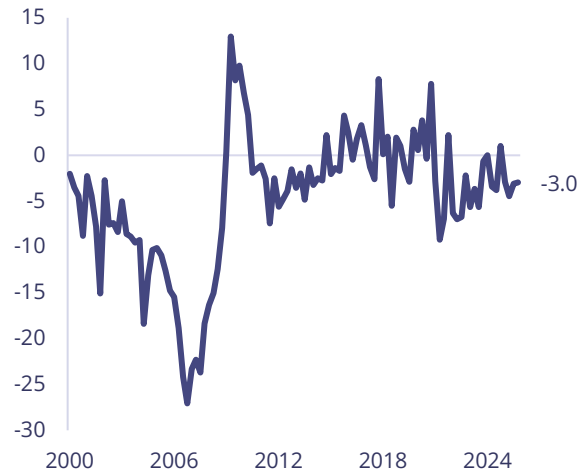


**Economic growth strengthened in 2025 Q4**, with GDP increasing by 0.6 % quarter-on-quarter and by 2.5 % year-on-year (seasonally adjusted data). In 2025, Latvia's GDP grew by 2.1 %. Private consumption was supported by rising incomes and more active lending, while borrowing costs remained attractive. Investment activity remained substantial following the strong increase observed in the first half of 2025 – ongoing projects continued alongside the launch of new large-scale projects, notably in energy and manufacturing (including projects related to strengthening defense capabilities). From a sectoral perspective, strong growth was recorded in trade, financial services, and manufacturing.

According to Latvijas Banka projections, economic growth in 2026 could be stronger than in the previous year. However, the escalation of geopolitical tensions does not provide conditions for an improvement in external demand and represents a significant downside risk. Market sentiment in January and February was somewhat more pessimistic than at the end of 2025.

**Consumer price growth has slowed**, allowing households to make more balanced decisions regarding consumption and investment. Government support measures, introduced in response to high heating costs during the current heating season, may support consumption and consumer sentiment. Nevertheless, the escalation of geopolitical conflicts poses risks related to rising energy and other input costs.

### Current account balance-to-GDP, %



In 2025 Q4, the **current account** deficit reached 3.0 % of GDP. This was mainly driven by a decline in goods exports following strong growth in the third quarter and weaker external demand. At the same time, the decrease in goods imports was even more pronounced.

Meanwhile, service exports continued to post very strong growth in the fourth quarter, while developments in service imports remained broadly unchanged.

**The increase in EURIBOR since 2022 has directly contributed to a reduction in margins**, as the overall interest rate on loans rose less than EURIBOR, while the funding costs for banks did not increase as rapidly as EURIBOR.

Margins continued to decrease in 2025. Although the ECB no longer adjusted policy interest rates, the lending environment became more favorable: competition among lenders intensified, and households made more active use of lower refinancing costs.

The decline in margins has also been supported by policy measures aimed at promoting competition in the banking sector and stimulating lending.

### Difference between interest rate on newly issued housing loans to households and 6-month EURIBOR, pp



### Difference between interest rate on newly issued housing loans to households and 6-month EURIBOR, annual change pp

