

2026 Q3 assessment of the systemic cyclical risk and applicable countercyclical capital buffer rate

2026 | September

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.

Overall assessment	Main indicators	Credit developments	Private sector debt burden	Potential overvaluation of property prices	Strength of bank balance sheets	Macroeconomic environment	External imbalances	Potential mispricing of risks
--------------------	-----------------	---------------------	----------------------------	--	---------------------------------	---------------------------	---------------------	-------------------------------

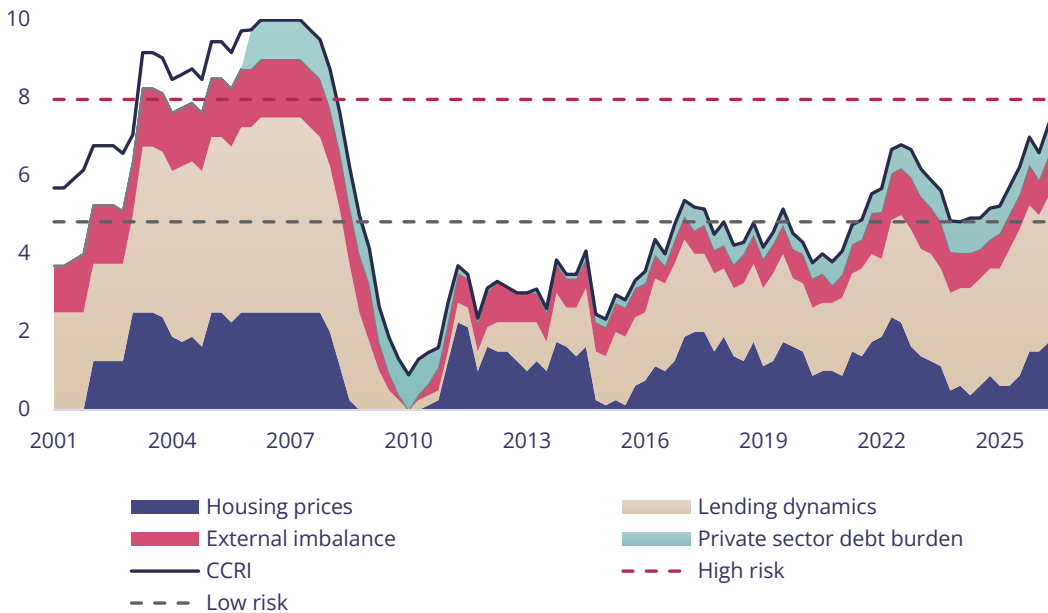
In accordance with the cyclical risk assessment for 2026 Q3, **Latvijas Banka has decided not to increase the cyclical component of the CCyB.**

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

The level of cyclical risk is increasing. The main driver of this trend is sustained credit growth. At the same time, private non-financial sector indebtedness remains low and borrowers' financial resilience is strong. Activity in the real estate market has become more moderate. However, the limited supply of dwellings available for purchase continues to support price pressures in the secondary housing market, maintaining risks related to deteriorating housing affordability and the build-up of vulnerabilities.

There is currently no evidence of a significant build-up of cyclical vulnerabilities in the economy. Economic growth has improved. At the same time, risks related to the external environment remain substantial. An adverse external shock could weaken external demand and contribute to further increases in energy costs and consumer prices. This, in turn, could negatively affect market sentiment, economic activity, labour market conditions and the financial position of borrowers.

Composite cyclical risk indicator (CCRI)



Composite cyclical risk indicator (CCRI) reached 7.4 points in 2026 Q2, which is 1.6 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 calculated using the additional credit measure has turned positive. **The buffer guide is 0%.**

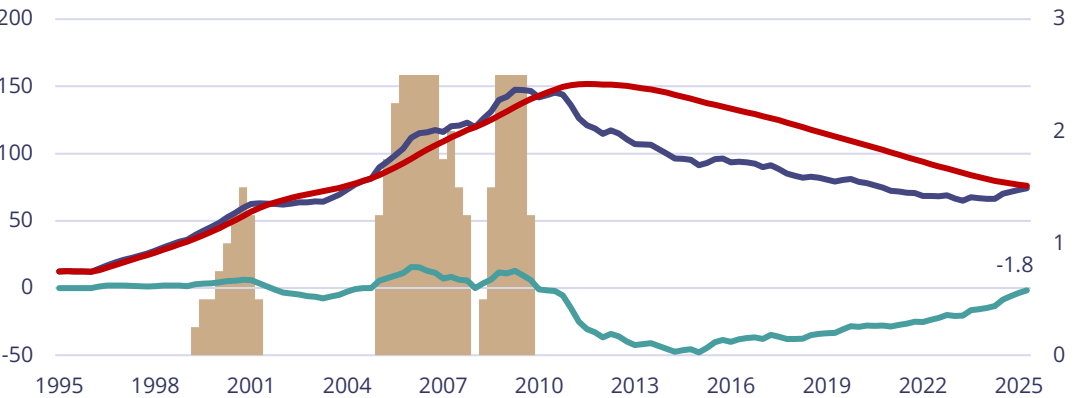
	Standardised credit definition 2026 Q1	Additional credit definition 2026 Q2
Credit-to-GDP ratio (%)	74.2	34.1
Credit-to-GDP gap (pp)	-1.8	1.5
Benchmark buffer rate (% from TREA)	0	0

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.

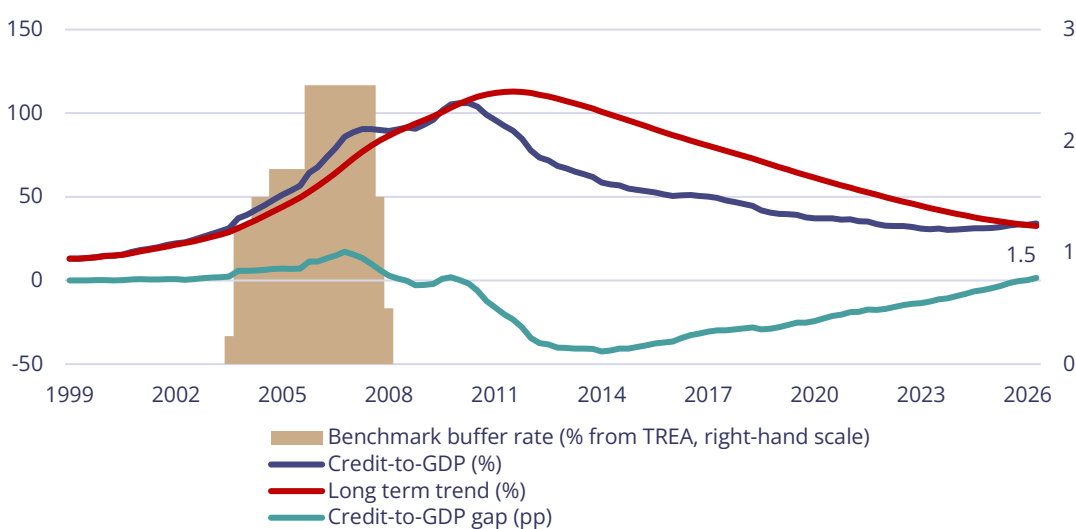
Additional credit definition – bank loans to NFCs and households, and holdings of NFCs debt securities, and loans granted by banks' leasing subsidiaries.

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

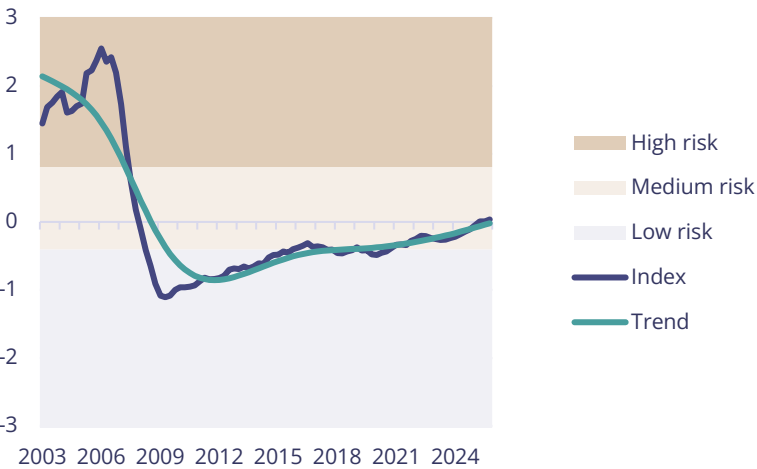


Additional credit-to-GDP gap

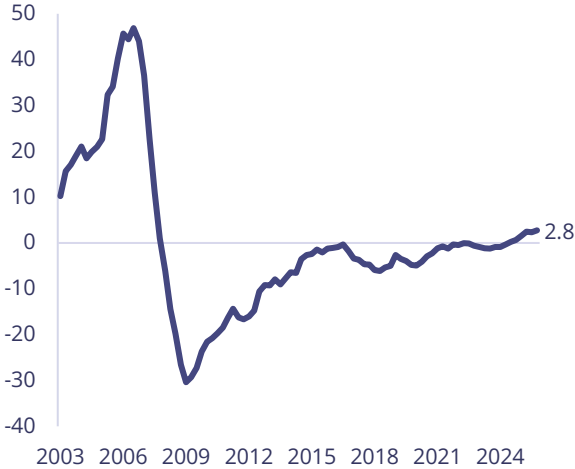


Overall assessment	Main indicators	Credit developments	Private sector debt burden	Potential overvaluation of property prices	Strength of bank balance sheets	Macroeconomic environment	External imbalances	Potential mispricing of risks
--------------------	-----------------	---------------------	----------------------------	--	---------------------------------	---------------------------	---------------------	-------------------------------

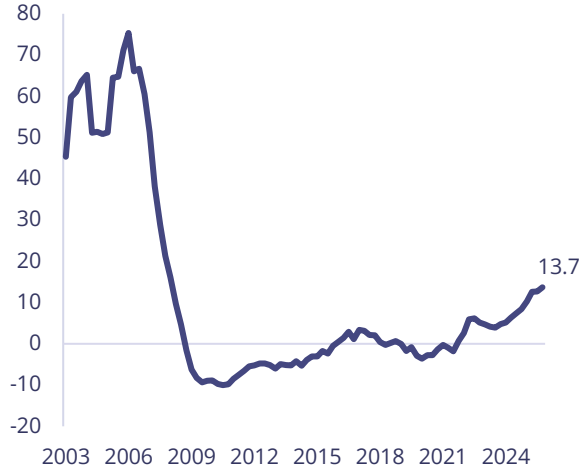
Credit developments index



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



Additional credit measure annual growth rate*, %



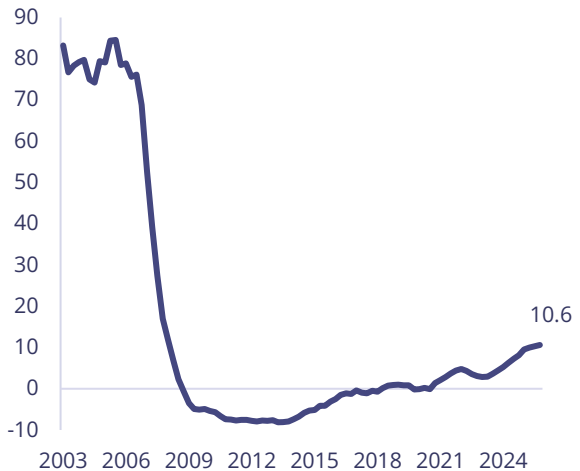
Domestic lending continues to expand at a robust pace. In 2026 Q2 and in July, the outstanding stock of loans granted to households and NFCs* increased year on year by 12.4% and 10.6%, respectively (including 10.6% and 10.6% for households, and 14.4% and 10.6% for NFCs). It should be noted that lending growth is taking place from a historically low base following a prolonged period of subdued credit activity.

Growth in lending to NFCs continues to be driven primarily by long-term loans. Such loans are typically extended to finance investment projects and therefore support investment activity, which, similarly to lending, had remained weak for an extended period. Across sectors, growth in the stock of long-term loans to NFCs remains relatively broad-based and diversified. The expansion of the household loan portfolio continues to be largely driven by mortgage lending, supported by sustained improvements in household creditworthiness and a substantial stock of liquid financial assets.

Credit growth continues to be supported by the provisions of the Solidarity Contribution Law, which allow credit institutions to receive a contribution discount upon achieving specific credit portfolio growth targets. It cannot be ruled out that lending growth may moderate once the application period of the solidarity contribution comes to an end. Further developments in lending may be constrained by external factors, including developments related to the military conflict in the Middle East, as well as other geopolitical risks.

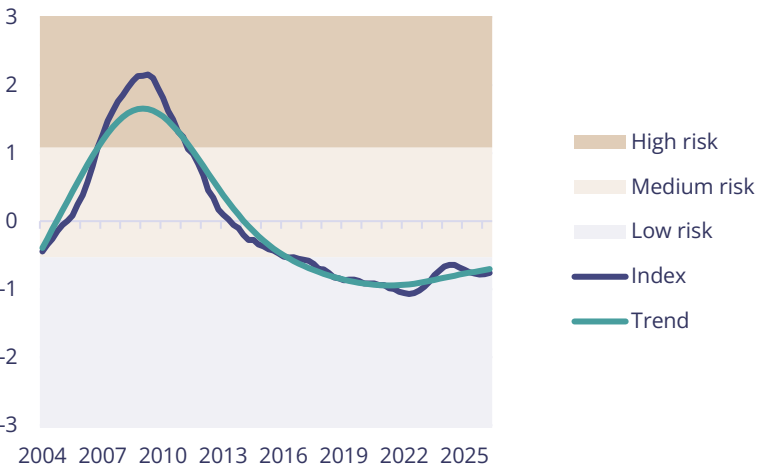
4 * Reclassifications and other one-time effects are excluded from the loan growth rate, but the effect of written-off loans is not excluded.

Household credit annual growth rate*, %

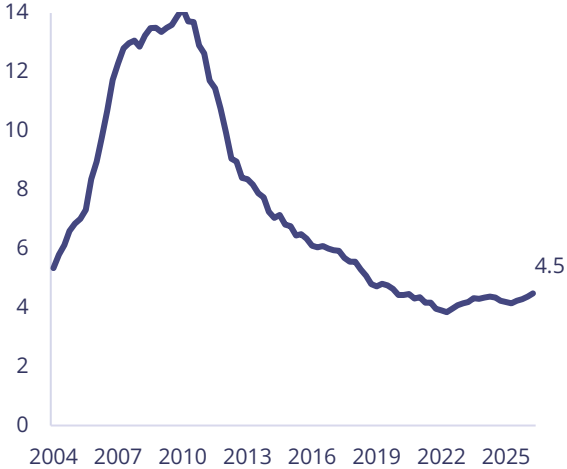


Overall assessment	Main indicators	Credit developments	Private sector debt burden	Potential overvaluation of property prices	Strength of bank balance sheets	Macroeconomic environment	External imbalances	Potential mispricing of risks
--------------------	-----------------	---------------------	----------------------------	--	---------------------------------	---------------------------	---------------------	-------------------------------

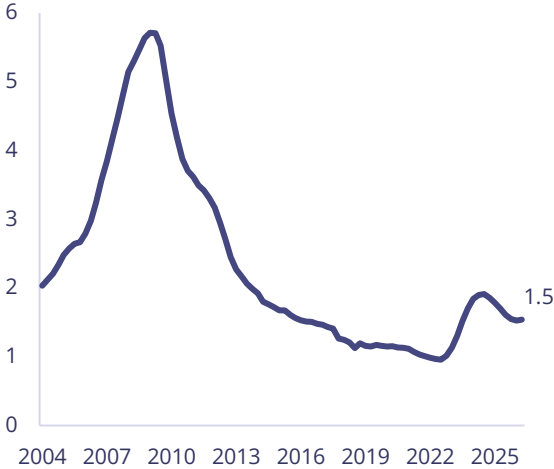
Private sector debt burden index



Household and NFC debt service ratio*, %



Household and NFC annual interest payments to GDP, %



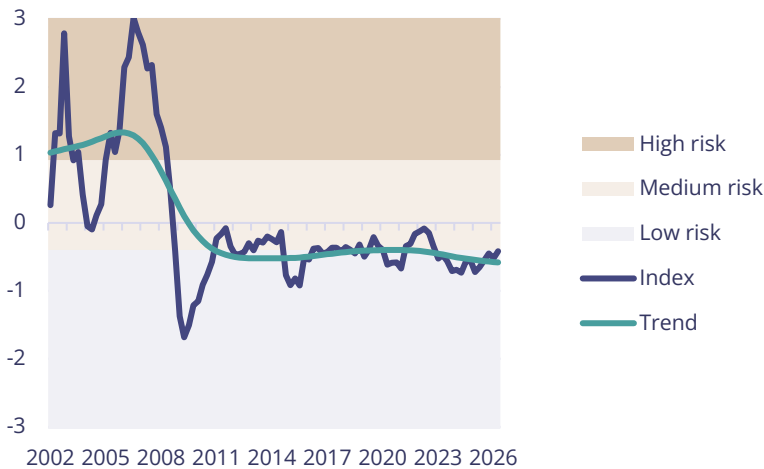
The debt of the private non-financial sector is low. Despite the rise in interest rates in 2026, the impact on debt-servicing costs of the private non-financial sector has so far been limited, while borrower resilience remains robust.

*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.

Sources: Latvijas Banka, CSB, Latvijas Banka's calculations

Overall assessment	Main indicators	Credit developments	Private sector debt burden	Potential overvaluation of property prices	Strength of bank balance sheets	Macroeconomic environment	External imbalances	Potential mispricing of risks
--------------------	-----------------	---------------------	----------------------------	--	---------------------------------	---------------------------	---------------------	-------------------------------

Potential overvaluation of property prices index



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



CSB's house price annual growth rate, %

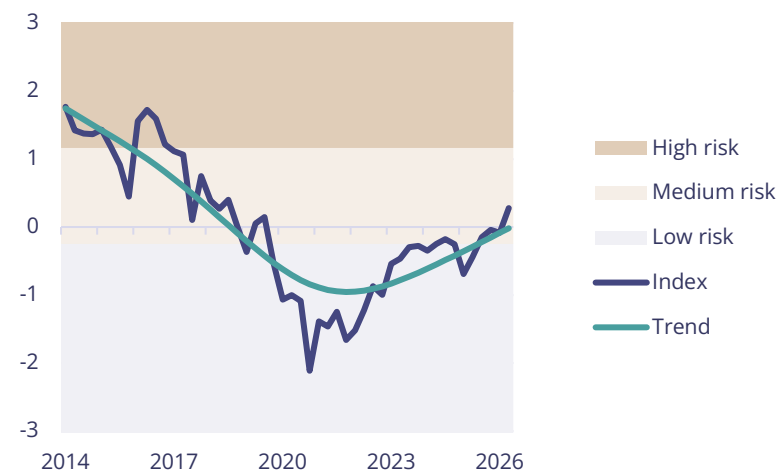


Housing market activity moderated somewhat in the first half of 2026 following the strong recovery observed in 2025. The total number of housing purchase transactions was 2.0% lower than a year earlier. However, the decline in activity was not broad-based across market segments. In the standard-type apartment segment, which accounts for approximately 62% of all housing transactions, the number of transactions increased slightly, by 1.4%. The most pronounced decline in transaction activity was recorded in the new housing segment, where the number of transactions fell by 14.7%. However, given the relatively small and volatile number of transactions in this segment, the decline does not necessarily indicate a persistent weakening of market activity.

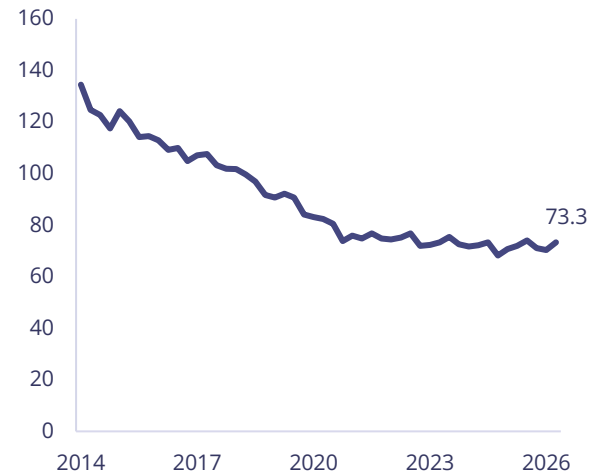
House price growth remains elevated. According to CSB data, house prices in 2026 Q2 were 11.4% higher than a year earlier. Price growth continued to be driven primarily by developments in the existing housing segment, where prices increased by 13.3% year on year. According to ARCO REAL ESTATE data, the average price of standard-type apartments in Riga's residential neighbourhoods approached its highest level since 2022 in June 2026. By contrast, prices in the new housing segment increased by only 1.3% according to CSB data, while average gross wages grew by 4.3%.

Overall, the moderation in transaction activity mitigates the risk of a further build-up of cyclical vulnerabilities. However, the limited supply of dwellings available for purchase continues to exert upward pressure on prices in the existing housing segment, maintaining risks related to declining housing affordability and the accumulation of vulnerabilities.

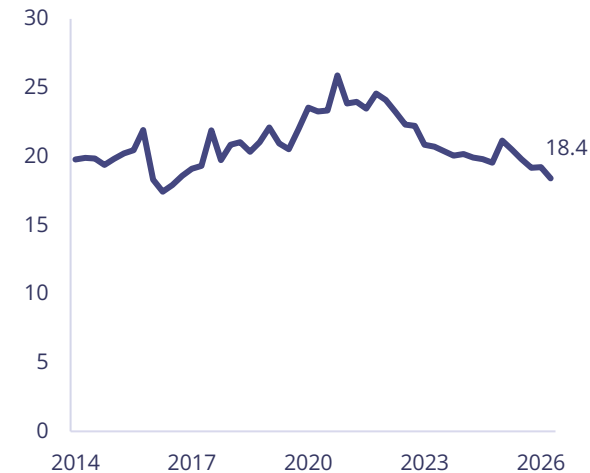
Strength of bank balance sheets index



The ratio of domestic credit to deposits, %



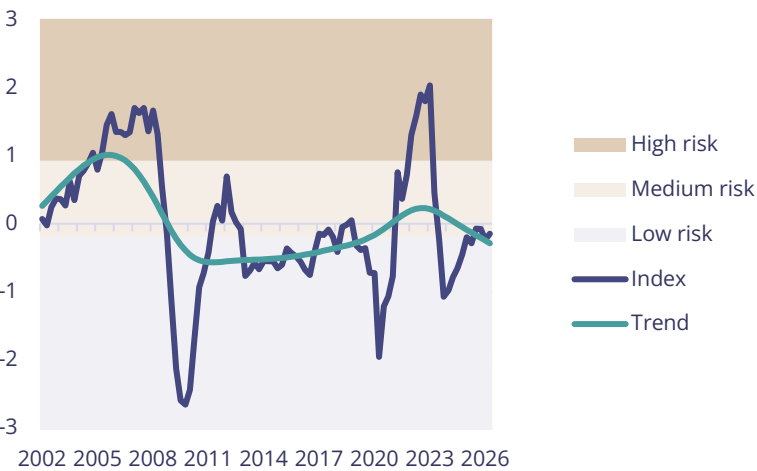
CET1 ratio, %



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.

Overall assessment	Main indicators	Credit developments	Private sector debt burden	Potential overvaluation of property prices	Strength of bank balance sheets	Macroeconomic environment	External imbalances	Potential mispricing of risks
--------------------	-----------------	---------------------	----------------------------	--	---------------------------------	---------------------------	---------------------	-------------------------------

Macroeconomic environment index



Real GDP annual growth rate, %



HICP annual growth rate, %



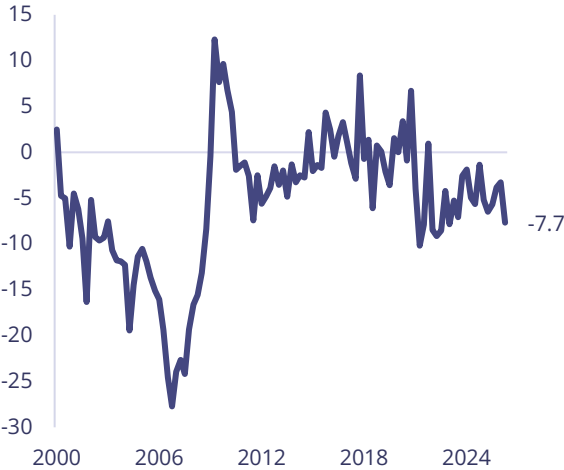
There is currently no evidence of a material build-up of cyclical vulnerabilities in the economy. Economic growth has strengthened, with Latvia's GDP increasing by 0.7% quarter on quarter (seasonally adjusted) in 2026 Q2. Growth was supported by investment, particularly in residential construction. Export performance benefited from stronger-than-expected economic activity in several trading partner countries, while previous investment in manufacturing is expected to provide further support to export growth going forward. Economic sentiment indicators pointed to a somewhat more favourable outlook in July-August compared with the first half of the year.

At the same time, risks stemming from the external environment remain elevated. Geopolitical tensions and their potential impact on energy prices, as well as the risk of asset price corrections in highly valued technology sectors, continue to pose downside risks to domestic economic activity and upside risks to inflation.

Over the medium term, investment activity is expected to remain supported by large-scale infrastructure and defence-related projects. At the same time, investment growth in the private sector may be moderated by the recent increase in interest rates.

Overall assessment	Main indicators	Credit developments	Private sector debt burden	Potential overvaluation of property prices	Strength of bank balance sheets	Macroeconomic environment	External imbalances	Potential mispricing of risks
--------------------	-----------------	---------------------	----------------------------	--	---------------------------------	---------------------------	---------------------	-------------------------------

Current account balance-to-GDP, %



The current account deficit widened to 7.7% of GDP in 2026 Q2. The increase was driven primarily by higher imports of mineral products and trade flows related to re-export activities. As such, the deterioration largely reflects temporary factors rather than signalling a persistent widening of external imbalances or an increase in cyclical vulnerabilities.

Over the medium term, the current account deficit is expected to remain influenced by structural factors, including elevated imports associated with investment activity and defence-related expenditure.

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.

The ECB increased its policy rates in June 2026. However, the pass-through to the overall interest rate on housing loans has so far remained limited.

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

