Latvia

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IN A NUTSHELL

→ Economic activity remained subdued with weak investment and limited export growth outweighing modest gains in private consumption. Inflation stayed low, and real wages continued to grow.

→ Housing market activity begun to recover, supported by improved purchasing power and declining mortgage rates, with more notable recovery H2.

→ Lending to households increased, supported by lower interest rates and state-backed programmes, with residential mortgage volumes rising despite overall credit-to-GDP remaining low.

→ Bank funding remained stable and dominated by domestic deposits.

MACROECONOMIC OVERVIEW

Limited recovery of demand from Scandinavia and geopolitical uncertainty motivating saving rather than consumption, economic activity remained subdued. The real GDP contracted by 0.4% (s.a., quarterly data). The private consumption grew negligibly (+0.2%) despite improving purchasing power due to robust income growth with contained inflation (1.3%, the annual average).

Investment growth was held back by the low activity of the private sector, thus, the gross fixed capital formation shrank by 6.8% y-o-y. Weakness of investment manifested in lower capital goods' imports, resulting in a stronger decrease of total goods and services imports (by 2.4%) compared to the drop of exports (by 1.6%).

The labour market easing appears. Despite the sluggish economy, unemployment increased slightly (to 6.9% on average), and average wage growth rose 9.7% with remaining labour shortages and minimum wage growth. Real wage growth remained positive with low inflation. The negative contribution of energy prices, however, faded gradually towards the end of the year being replaced by the impact of increased global food prices as well as strong income growth.

The general government deficit was lower - it fell to 1.8% of GDP, from 2.4% a year earlier. The general government debt-to-GDP ratio reached 46.8%, reflecting additional borrowing to cover the cash-flow deficit and meet refinancing needs.

HOUSING MARKETS

Housing market activity grew by 4.7%, driven by a gradual improvement in household purchasing power and a decline in housing loan interest rates. The recovery was primarily concentrated in the standard-series apartment segment on the secondary market, particularly in Riga, which accounted for roughly half of all residential transactions there. Meanwhile, growth in regional areas remained modest, reflecting a more cautious and uneven recovery outside the capital. Activity in new developments continued to decline throughout most of the year. However, in H2 early signs of a gradual recovery began to emerge.

The prolonged period of elevated interest rates impacted new housing construction. In 2024, the number of newly completed apartments declined by 35% compared to the previous year. A moderate recovery in apartment construction activity is expected in 2025.

Over the past three years, the supply of housing – measured by the number of listings in sales advertisements – expanded considerably across all market segments. However, with the pick-up in demand in late 2024 and early 2025, the number of advertised apartments has started to decline. This shift suggests tightening market conditions, which could place upward pressure on new dwelling prices.

On the demand side, housing affordability improved due to several factors. Since 2023, wage growth has outpaced the rise in housing prices, largely reflecting a slowdown in the pace of dwelling price growth. In early 2024, borrower-based macroprudential measures were marginally relaxed for loans financing the purchase of energy-efficient dwellings. These adjustments contributed to a partial recovery in overall affordability to the levels before the rate rises.

House price growth remained moderate. According to the Central Statistical Bureau, the House Price Index increased by 4.4% y-o-yr. The previous trend in new house prices continued to soften, driven in part by stabilizing construction costs. Meanwhile, prices in the old standard apartment segment remained broadly unchanged.

MORTGAGE MARKETS

As interest rates have gradually decreased, domestic lending has significantly picked up. However, the ratio of credit to GDP has not changed significantly and remains at a very low level.

The outstanding amount of residential and commercial mortgage loans held by banks increased by 5.8% in 2024. Residential mortgages outstanding also increased by 5.4%.

The LTVs of new residential mortgage loans have increased somewhat, which can be explained by a slightly higher proportion of loans issued under the state support programme for house purchase. LTVs for 29% of new loans volume exceeded 90%, mainly related to the state support program. Total residential mortgage loans still comprise only 12.5% of GDP (still the lowest level among all Euro area countries) and overall household indebtedness remains low.

Interest rates on residential mortgage loans have decreased gradually in line with the fall in EURIBOR – from 5.8% in December 2023 to 4.4% in December 2024.

The quality of the loan portfolio remains high – the share of NPLs was 1.3% of the total domestic loans and 0.9% of the residential mortgage loans at the end of 2024.

MORTGAGE FUNDING

Credit institutions obtain funding mostly from domestic retail and non-financial corporations deposits. Some banks additionally attract EU online platform deposits from EA households (at the end of 2024 EU online platform deposits amounted 2.3% of total non-bank deposits, compared to 3.1% in 2023). Credit institutions are not active in the financial markets for funding.

Domestic deposits remain stable and were 80.1% at the end of 2024 (compared to 78.9% the year before) of banks' total liabilities, while the share of liabilities to foreign parent MFIs (mostly Nordic parent banks) was 6.5% (6.3% in 2023), as only small foreign branches used parent bank funding and the banking sector domestic loan to deposit ratio was still low – 68.2% (72.5% in 2023). In 2024, there were no mortgage covered bonds issued by Latvian banks and no central bank funding were used. However, an Estonian bank's Latvian branch mortgages were included in an Estonian covered bond programme.

	LATVIA 2023	LATVIA 2024	EU 27 2024
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	2.9	-0.4	1.0
Unemployment Rate (LSF), annual average (%) (1)	6.5	6.9	5.9
HICP inflation (%) (1)	9.1	1.3	2.6
HOUSING MARKET			
Owner occupation rate (%) (1)	82.8	83.7	68.4
Gross Fixed Investment in Housing (annual change) (1)	11.1	-8.6	-4.3
Building Permits (2015=100) (2)	115.3	109.5	136.9
House Price Index - country (2015=100) (2)	191.3	199.6	179.8
House Price Index - capital (2015=100) (2)	n/a	n/a	171.5
Nominal house price growth (%) (2)*	3.8	4.3	4.9
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	4,790	5,053	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	2,544.0	2,699.4	15,311
Outstanding Residential Loans to disposable income ratio (%) (2)	18.8	18.5	71.3
Gross residential lending, annual growth (%) (2)	n/a	n/a	3.9
Typical mortgage rate, annual average (%) (2)	5.57	5.44	4.34

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2024, Statistical Tables
* Eurostat Reviewed
** EU 2024 to be confirmed

LATVIA FACT TABLE

Which entities can issue mortgage loans in your country?	Credit institutions, credit unions and non-bank financial institutions can issue mortgage loans.
What is the market share of new mortgage issuances between these entities?	Not available .
Which entities hold what proportion of outstanding mortgage loans in your country?	The mortgage market is significantly dominated by mortgage loans issued by banks.
What is the typical LTV ratio on residential mortgage loans in your country?	According to legislation LTV cannot exceed 90%. For the participants of the state support programme for house purchase and construction, the upper LTV limit is 95%.
How is the distinction made between loans for residential and non-residential purposes in your country?	The distinction is based on the loan issuing purpose (defined by Latvijas Banka's Regulation Compiling the Monthly Financial Position Report of Monetary Financial Institutions and Regulation for the Credit Register).
What is/are the most common mortgage product(s) in your country?	Housing loans. Nearly all mortgage interest rates are floating, consisting of two components: • a variable base rate – typically linked to short-term EURIBOR (mostly 3 or 6 month) • a markup set individually by banks. Fixed-rate lending remains marginal, making up only a small fraction of new lending.
What is the typical/ average maturity for a mortgage in your country?	The typical maturity of a new issued mortgage is 20 years.
What is/are the most common ways to fund mortgage lending in your country?	See section on Mortgage funding.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	A stamp duty of 0.5-1.5% of the home price applies when registering the purchase. Regularly, the 1.5% fee applies, and the stamp duty is reduced to 0.5% under the support programme for house purchase. The reduced cost is applied only to families with children, and not for young specialists (please see question 10 on the overview of the support programmes). In addition to the stamp duty, 0.1% of the mortgage loan amount should be paid for the registration of the mortgage. These are the main fees associated with house purchase, there are also some additional registration fees, but they are usually small, and their amount is fixed (does not depend on the loan amount or real estate price). For home purchases under the state guarantee programme buyers face additional costs: • for families with children and for national armed forces soldiers, the one-time fee is applied - 2.5% of the outstanding amount of the guarantee; • for young specialists, the guarantee fee of 2.4% per annum (of outstanding amount of the guarantee) applies.
What is the level (if any) of government subsidies for house purchases in your country?	It is possible to obtain a state guarantee: **For families with children**: up to 30% of the loan amount, but not exceeding EUR 30,000 for families with children (the exact amount of the guarantee depending on the number of children). Up to 50% of the loan amount, but not exceeding EUR 50 000 for families with children in regions outside Riga and the counties adjacent to Riga. In addition, an extra 5% increase in the guarantee (but not exceeding the amount of EUR 30,000) is possible if the dwelling corresponds to the "A" energy efficiency class of buildings or is a 'nearly zero energy building'. Moreover, families with at least three children or with children with disabilities that have applied for a mortgage in the largest commercial banks in Latvia are eligible to receive a state subsidy in the amount of 8 to 12 thousand euro (the exact amount depending on the number of children in the family and energy efficiency of the housing to be purchased/built). **For young specialists** (individuals up to 35 years old who have acquired the vocational secondary or higher education) it is possible to obtain a guarantee up to EUR 50,000 or 20% of the loan amount. **For national armed forces soldiers** it is possible to obtain a guarantee up to EUR 20,000 or 25% of the loan amount.