Latvia

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IN A NUTSHELL

→ Mortgage lending recovered strongly, supported by lower interest rates, refinancing competition and tax measures which encourage targeted lending.

→ Overall housing market activity strengthened, but the recovery remained regionally uneven, with transactions concentrated in Riga and the Riga region, while growth elsewhere in Latvia was more modest.

→ A new state aid programme was launched at the end of 2025 to provide direct loans aimed at improving access to mortgage financing for home purchases outside Riga and some adjacent municipalities.

→ A EUR 173 million programme supporting energy-efficiency renovation of multi-apartment buildings opened in April and was rapidly oversubscribed.

MACRO-ECONOMIC OVERVIEW

Economic growth recovered despite the challenging global environment, in particular trade policy uncertainty and ongoing geopolitical tensions. Real GDP grew by 2.1% year-on-year, with investment activity resuming (+9.4% year-on-year), including infrastructure and defence-related projects. While income growth remained robust, private consumption recovered relatively modestly (+0.7% year-on-year), as the geopolitical background weighed on the sentiment of economic agents.

The impact of the fragile revival of the Scandinavian real estate markets and construction activities on Latvian exports of construction-related products was offset by growing exports to other markets, while turbulence in global trade policies did not exert a material impact on Latvian exports, which remained nearly at the previous year's level (+0.1%). Import growth increased by 5.7%, backed by reviving investment activity. While construction activity was concentrated in infrastructure and the public sector, there were signs of a rebound in the housing market as well, fostered by relatively favourable interest rates. In addition, new laws and regulations introduced in 2024 by the Bank of Latvia simplified refinancing to increase competition in the mortgage market.

With economic growth returning, the labour market remained rather tight, and the unemployment rate remained at 6.9% on average. Average wage growth slowed somewhat, partially reflecting constraints on the public wage bill; however, wages, including the minimum wage, still grew strongly, by 7.7%. Real wage growth remained positive despite the pick-up in inflation to 3.8% (measured by HICP), dominated by a strong increase in food prices as well as the above-mentioned growth in purchasing power.

In 2025, Latvia's general government budget balance reflected growing public investment in infrastructure and defence capacity. Despite growing tax revenues, supported by improving macroeconomic conditions, this resulted in some widening of the government deficit to 2.5% of GDP. Total government debt was 46.9% of GDP.

HOUSING MARKETS

In 2025, housing market activity continued to strengthen, supported by improving household purchasing power, declining interest rates, and faster growth in housing lending. Residential transaction activity exceeded the previous peak recorded in 2021, with the recovery mostly concentrated in Riga, where more than half of all apartment transactions in Latvia took place, while residential activity growth in the rest of Latvia was modest. Activity in the private house segment remained concentrated in the Riga region.

The increase in market activity was also reflected in the structure of transactions. Older standard-series apartments remained the most popular choice, mainly due to their affordability, despite typically having lower energy efficiency and requiring substantial renovation investment. At the same time, the new development segment recovered more visibly in 2025, with transaction activity rising sharply (+38% year-on-year). Despite this increase, its share of the overall market remained relatively limited, reaching 14% of apartment transactions. In the second half of the year, the overall growth rate in housing purchases gradually eased, with activity returning close to the level observed at the end of 2024.

The gradual recovery in demand contributed to a faster decline in the number of dwellings available for purchase. After reaching a historically high level in 2024, the number of advertisements declined across all market segments in 2025. The decline was particularly pronounced in Riga, where supply decreased on average by 15%. This tightening of supply conditions created upward pressure on housing prices, especially in the existing dwelling segment.

The number of residential building permits granted increased to 3,103 (2,796 in 2024), but the number of buildings completed fell from 4,058 to 3,889.

Improved household solvency, declining interest rates, and moderate growth in construction costs also supported a recovery in new housing construction activity. Stronger demand helped reduce the stock of completed new and renovated apartments available for purchase, while developers responded to improving market conditions by increasing the number of apartments under construction.

Housing price growth continued and gradually accelerated during the year. In 2025, the Central Statistical Bureau's House Price Index increased by 7.35% year-on-year. The acceleration towards the end of the year was mainly driven by price growth in the existing dwelling segment, while price increases in the new building segment remained more contained. The rise in prices reflected stronger demand and declining supply.

MORTGAGE MARKETS

MARKET DYNAMICS

Domestic lending has grown rapidly; however, the growth was driven by factors whose effects are unlikely to be permanent. Lending activity was supported by deferred demand, lower interest rates, and the Solidarity Contribution Act (which is a levy on bank income that can be reduced if certain lending targets are met). The recent uptick in lending is occurring from a persistently low base, and the level of private sector debt-to-GDP remains low.

The outstanding amount of residential and commercial mortgage loans held by banks increased by 12.5% in 2025. Residential mortgages outstanding also increased by 9.7%.

The LTVs of new residential mortgage loans have increased slightly, which can be explained by the higher proportion of loans issued under the state support programme for house purchases. LTV ratios for 33% of new loan volume exceeded 90%, mainly related to the state support programme. Total residential mortgage loans still comprise only 12.9% of GDP (which remains among the lowest in the euro area), and overall household indebtedness remains low.

In addition to the rules on LTV ratios, the Bank of Latvia also applies limits on DSTI of 40% (45% for qualifying energy-efficient houses), a maximum maturity of 30 years, and a DTI ceiling of six times annual income.

Interest rates on residential mortgage loans continued to decrease gradually in line with the EURIBOR decline, from 4.4% in December 2024 to 3.7% in December 2025 for the dominant floating-rate mortgage product, which accounts for 95% of all Latvian mortgages.

Asset quality in the banking sector deteriorated slightly due to several large corporate exposures. At the end of 2025, the share of non-performing loans (NPLs) in the domestic loan portfolio stood at 1.8%. At the same time, the share of NPLs in the residential mortgage loan portfolio remained broadly unchanged, standing at 0.8% at the end of 2025.

MORTGAGE FUNDING

Credit institutions obtain funding mostly from domestic retail and non-financial corporate deposits. Some banks additionally attract deposits from euro area households through EU online platforms (at the end of 2025, these deposits amounted to 2.2% of total non-bank deposits, compared to 2.3% in 2024). Credit institutions are not active in the bond markets for funding.

Domestic deposits represented 80.8% of total liabilities at the end of 2025 (compared to 80.1% the year before), while the share of liabilities to foreign parent MFIs (mostly Nordic parent banks) was 6.2% (6.5% in 2024), as only small foreign branches used parent bank funding and the banking sector loan-to-deposit ratio was still low, at 71.1% (68.2% in 2024). In 2025, there were no mortgage covered bonds issued by Latvian banks and no central bank funding was used. However, mortgages originated by the Latvian branch of an Estonian bank were included in an Estonian covered bond programme.

GREEN FUNDING

An EU-funded scheme provided subsidised loans and guarantees for qualifying energy efficiency renovations, with a total budget of EUR 173 million.

	LATVIA 2024	LATVIA 2025	EU 27 2025
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	0.0	2.1	1.5
Unemployment Rate (LSF), annual average (%) (1)	6.9	6.9	6.0
HICP inflation (%) (1)	1.4	3.8	2.0
HOUSING MARKET			
Owner occupation rate (%) (1)	83.7	82.2	68.5
Gross Fixed Investment in Housing (annual change) (1)	2.1	3	2.8
Building Permits (2015=100) (2)	109.5	n/a	86.9
House Price Index - country (2015=100) (1)	199.6	214.3	161.92
House Price Index - capital (2015=100) (2)	n/a	n/a	n/a
Nominal house price growth (%) (1)*	4.33	7.35	5.5
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (1)	5,080	5,556	5,617,435.11
Outstanding Residential Loans per capita over Total Population (EUR) (2)	2,699.4	3011.38	12,472.10
Outstanding Residential Loans to disposable income ratio (%) (1)	18.51	21.71	81.39
Gross residential lending, annual growth (%) (1)	n/a	n/a	2.8
Typical mortgage rate, annual average (%) (2)	5.44	4.05	3.31

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2026, Statistical Tables
* Eurostat Reviewed
** EU 2025 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 in Latvia.
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 predominantly comprised of mortgage loans issued by banks.
What is the typical LTV ratio on residential mortgage loans in your country?	According to the Latvian legislation, the 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 purpose of the loan (defined by Latvijas Banka's Regulations on Compiling the Monthly Financial Position Report of Monetary Financial Institutions and the Regulation for the Credit Register).
What is/are the most common mortgage product(s) in your country?	Amortising housing loans with a variable interest rate linked to three- or six-month Euribor.
What is the typical/average maturity for a mortgage in your country?	The typical maturity of a new issued mortgage is 20 years. The maximum is 30 years.
What is/are the most common ways to fund mortgage lending in your country?	See section on Mortgage Funding in the country chapter.
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. Typically, the 1.5% rate applies, and the stamp duty is reduced to 0.5% under the support programme for house purchase. The reduced rate applies only to families with children, and not to young specialists (please see Question 10 for an overview of the support programmes). In addition to the stamp duty, 0.1% of the mortgage loan amount must 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 (i.e. it does not depend on the loan amount or the real estate price). For home purchases under the state guarantee programme, buyers face additional costs: • For families with children and members of the National Armed Forces, a one-time fee of 2.5% of the outstanding guarantee amount applies. • For young specialists, a guarantee fee of 2.4% per annum (of the outstanding guarantee amount) 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, with the exact amount 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, the guarantee may be increased by a further 5% (but not exceeding EUR 30,000) if the dwelling corresponds to Energy Performance Certificate (EPC) Class A 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 from one of the largest commercial banks in Latvia are eligible to receive a state subsidy of EUR 8,000 to EUR 12,000 (the exact amount depending on the number of children in the family and the energy efficiency of the housing to be purchased or built). For young specialists (individuals up to 35 years of age who have completed vocational secondary or higher education), it is possible to obtain a guarantee of up to EUR 50,000 or 20% of the loan amount. For members of the National Armed Forces, it is possible to obtain a guarantee of up to EUR 20,000 or 25% of the loan amount. It is also possible to apply for a housing loan with state aid. Households can receive a loan of up to EUR 74,000 for the purchase of housing outside Riga and some adjacent counties. The programme is intended to improve access to housing finance in regions where bank financing may be more limited. The interest rate is 0% plus six-month EURIBOR for up to 13 months from the signing of the loan agreement, and no loan arrangement or disbursement fee is charged.