
Snapshot

2nd May, 2012

Latvia's credit rating improved by S&P

Latvia's sovereign credit rating was improved to BBB- by S&P today. BBB- is the lowest investment grade notch. S&P cited proven political commitment to fiscal stability as a reason for an upgrade. Lithuania is rated one notch higher at BBB and Estonia is rated at A.

Assessment: S&P has once again proven to be a little bit behind the macroeconomics with their rating changes. Latvia has shown strong commitment to fiscal stability since the IMF led bail-out in 2008. Country's budget deficit stood at 3.5 per cent in 2011 falling just 0.5 per cent below the Maastricht criterion. Hence this decision by S&P is slightly belated. Other credit agencies (Moody's and Fitch) have long rated Latvia at BBB-. Hence we do not expect a significant material long-term impact on the Latvian bond yields. Nevertheless, this is positive news for the Baltic country. 2021 maturity USD denominated Latvian bond yields have declined by c. 8 bps to 5.2 per cent today.

Best regards,

Rokas Bancevičius, Senior Analyst