

MACROECONOMIC AND BUDGETARY REVIEW

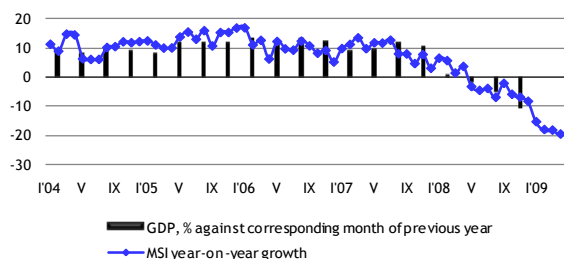


MINISTRY OF FINANCE
REPUBLIC OF LATVIA

April, 2009

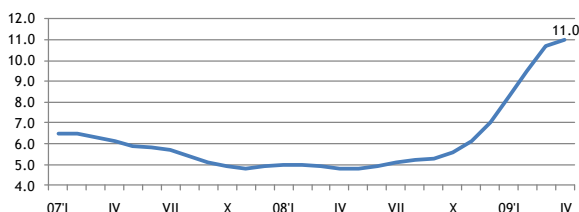
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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in April 2009 shrunk by 19.7% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the industrial output, as well as by decrease of the employment level.



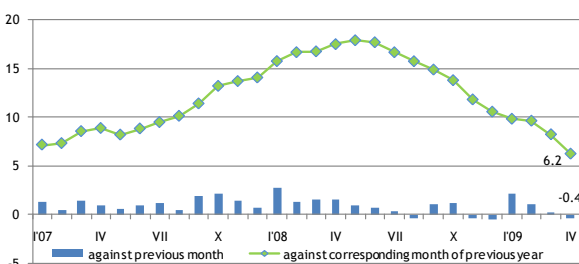
Composite Index of Macroeconomic Indicators (MSI)

The volume of **cargo transhipped in Latvian ports** in April amounted to 5.2 mln t, up by 0.7% from the corresponding month of 2008. However the volume of cargo transhipped in ports in January – April of 2009 totalled 21.8 mln t, which was 0.9% less than in the same period of the previous year. In April of 2009 **freight carried by rail** were 4.2 mln tons, a decrease of 0.9% compared to the same period of the previous year. Freight carried by rail in January – April of 2009 totalled 18.4 mln t, which was 1.1% less than in 2008.



Officially registered unemployment rate, %

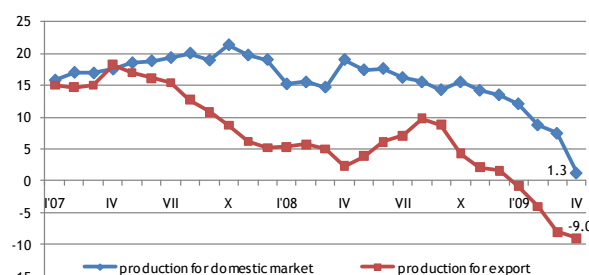
Officially registered **unemployment rate** in April increased by 0.3 percentage points and amounted to 11.0% of the economically active population at the end of the month. The number of the registered unemployed increased by 6.4 thsd people from the previous month and amounted to 123.1 thsd people. As compared with April 2008, the unemployment rate increased by 6.2 percentage points, but the number of the registered unemployed by 70.2 thsd people. The highest unemployment rate in April was registered in the region of Latgale, 14.9% (9.3% in April of 2008); in the region of Zemgale, 12.2% (4.9%); and in the region of Kurzeme, 12.0% (5.2%); and in the region of Vidzeme, 11.9% (4.8%). The lowest unemployment rate was registered in the region of Rīga, 9.1% (3.4%).



Consumer price index, %

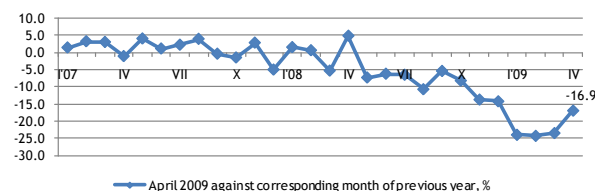
Consumer Price Index (CPI) in April, compared with March, decreased by 0.4%. Average price levels for goods went down by 0.3%, and for services by 0.7%. Comparing with the corresponding month of previous year, consumer prices marked up by 6.2%, inter alia for goods – by 4.8% and for services – by 9.8%.

General impact to consumer price increase in April was pharmaceutical goods, hospital services, tobacco products, sports and recreational equipment, waste disposal and fuel. General impact to consumer price decrease in April was food products, insurance services, house maintenance and repair services, catering services and communication services.

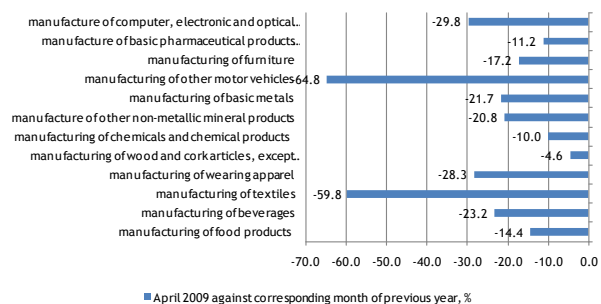


Producer price index, %

Producer prices in April of 2009 comparing with March reduced by 0.9% but in comparison with corresponding month of previous year, producer prices reduced by 2.6%. In April of 2009 comparing with April of 2008, producer price level was mostly affected by increase in tariffs of electricity, gas supply, heating and air conditioning – by 3.9%. Drop in prices for manufacturing of wood and wood products (excluding furniture) lowered overall producer price level by 2.7 percentage points (pp), manufacturing of metals – by 2.7 pp, refuse collection, utilization and disposal; material processing – by 0.9 pp.



Industrial production index (seasonally adjusted data)

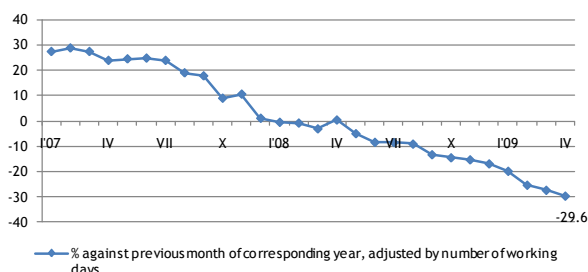


Biggest changes in volume indices of industrial production (seasonally adjusted data)

Compared to April of previous year, in April 2009 **industrial production output** decreased by 16.9%, of which manufacturing – by 18.7%, electricity and gas supply – by 10.9%, but mining and quarrying output increased – by 14.5%.

Compared April 2009 to April 2008, according to working (trade) day adjusted data, calculating at constant prices, **retail trade turnover** has reduced by 29.6%. Most notable decrease was recorded in non-food product group – by 34.1%. Slightly less it has reduced in companies selling mainly food products – by 20.2%.

Total retail trade turnover in April 2009 constituted 309.3 mln lats, up by 8.1 mln lats compared to March 2009. Total retail trade turnover in January – April of 2009 constituted 1207,6 mln lats.



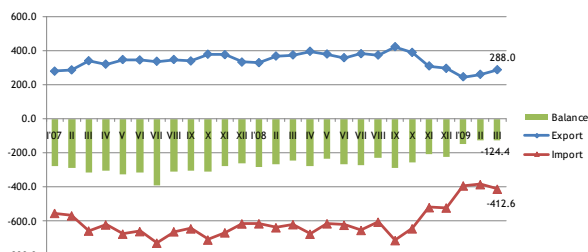
Turnover indices of retail trade (at constant prices)

In March 2009, **exports and imports of goods** amounted to 700.6 mln lats down by 29.7% or 296.3 mln lats from the same period last year.

In January - March of 2009, exports and imports of goods amounted to 1987.1 mln lats down by 32.7% or 963.9 mln lats from the same period last year.

As compared with March last year, export of goods decreased by 23.3% and amounted to 288.0 mln lats, while import decreased by 33.6%, reaching the value of 412.6 mln lats.

In March 2009, as compared to the March 2008, the trade balance deficit decreased by 121.1 mln lats and amounted to 124.4 mln lats.



Foreign trade balance, mln lats

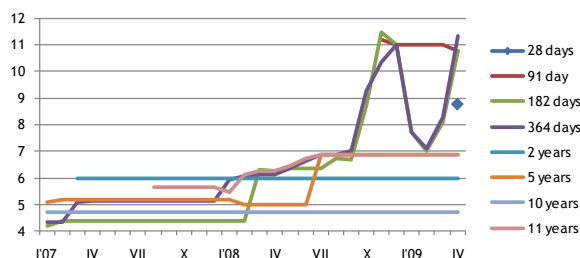
In March 2009 the most significant share in Latvia's export had export to the countries of European Union 70.8% (74.2% in March of 2008), followed by the export to CIS countries 15.1% (15.7%). Main export partners were Estonia 13.3% of total export (12.8%); Lithuania 13.0% (16.6%); Germany 10.2% (7.7%); Russia 8.7% (11.1%) and Sweden 7.2% (6.4%).

Latvia's main export products were agricultural and food products accounting for 17.7% of total amount (15.4% in March of 2008); wood and wood products accounting for 15.7% of total amount (19.4%); base metals and its articles accounting for 14.7% of total amount (15.2%).

In March 2009 the most significant share in Latvia's import had import from the countries of European Union 71.5% (79.2% in March of 2008), followed by the import from CIS countries 20.1% (12.9%). Main import partners were Russia 14.9% of total import (8.1%); Lithuania 14.3% (14.4%); Germany 11.3% (15.0%); Poland 8.0% (6.9%) and Estonia 6.8% (8.1%).

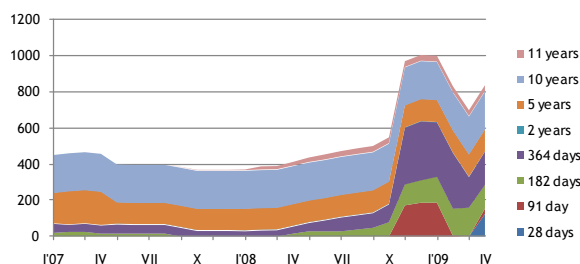
Latvia's main import products were mineral products for 18.7% of total amount (13.9% in March of 2008); agricultural and food products accounting for 16.2% of total amount (13.2%) machinery and mechanical appliances accounting for 15.2% of total amount (17.8%).

In April 2009 government internal borrowing securities competing multi-price securities with term 28, 91, 182 and 363 days were held. In auctions were sold short-term government debt securities in the total amount of 84.2 mln lats at nominal value with the weighted average profit rate from 7.663% to 11.333%. In April the government internal borrowing short-term fixed-rate securities auctions took a place. 28, 91, 182 and 364 days securities were sold at auction for a total sum of 102.0 mln lats, with the weighted average profit rate from 7.750% to 11.333%.

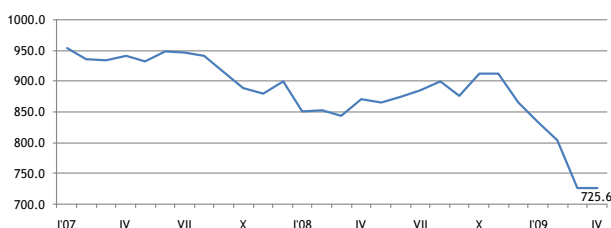


The average interest rate of government internal borrowing securities, %

In April 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 43.0% (86.21% in April 2008), but short-term government bond proportion reached 57.0% (13.79%).



Structure of government internal borrowing securities turnover in April 2009, mln lats

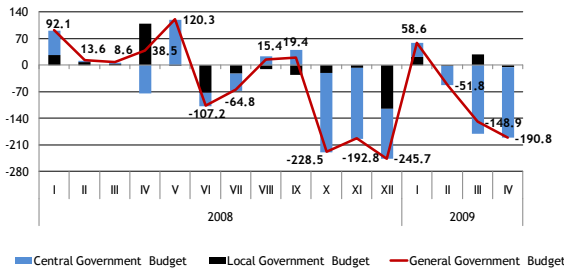


Cash in circulation, mln lats

	XI	XII	09'I	II	III	IV
RIGIBOR (3month)	13.5	13.54	10.66	11.30	12.18	12.54
EURIBOR (3month)	3.94	2.97	2.15	1.85	1.55	1.40

Money Market Indexes RIGIBID and EURIBOR for last 6 month on 25th date of each month

In accordance with the State Treasury's official monthly report's (January-April 2009) data, in four month of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 1645.6 mln lats which is 283.1 mln lats or 14.7% less than in four month of 2008, mainly due to decrease of tax revenue in the central government basic budget by 195.5 mln lats. In four month of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 1978.4 mln lats, which is 202.5 mln lats or 11.4% more than in four month of 2008. In four month of 2009, the general government budget financial deficit was 332.8 mln lats, mainly due to deficit in the central government consolidated budget.



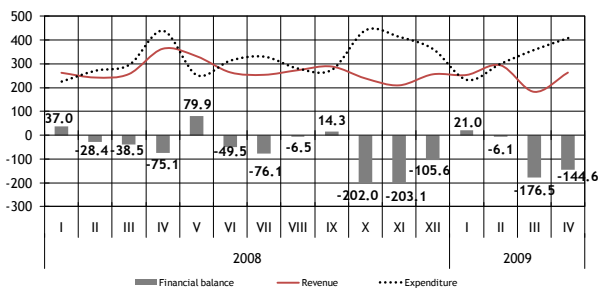
General government budget balance, mln lats

In four month of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 1341.2 mln lats, which is 244.6 mln lats or 15.4% less than in four month of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with four month of 2008 was in the revenue from value added tax.

In four month of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 1721.3 mln lats, which is 132.4 mln lats or 8.3% more than in four month of 2008. In four month of 2009, the deficit of central government consolidated budget was in amount of 380.1 mln lats.

Central government basic budget revenue (including derived public persons) in four month of 2009 was 993.2 mln lats, which in comparison with four month of 2008 is 132.8 mln lats or 11.8% less.

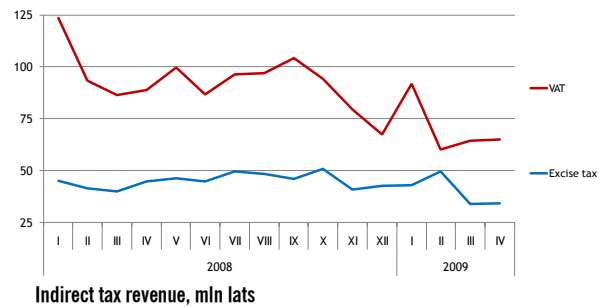
In comparison with four month of 2008, tax revenue was 592.7 mln lats, which is 195.5 mln lats or 24.8% less, mainly due to decrease of value added tax revenue by 110.5 mln lats, but central government basic budget non-tax revenue, self-earned revenue and foreign financial assistance increased, in comparison with four month of 2008. In four month of 2009 the non-tax revenue was 76.0 mln lats, which is 3.9 mln lats more than in three month of 2008, mainly due to increase of percent revenue by 13.7 mln lats. In four month of 2009, revenue from the paid services and self-earned revenue was 55.9 mln lats, which is 13.7 mln lats or 32.4% more, but revenue from the foreign financial assistance was 242.0 mln lats, which is 18.5 mln lats more than in four month of 2008. Foreign financial assistance revenue in April consisted of an interim payment of the European agriculture fund 37.4 mln lats, 34.3 mln lats the European regional fund advanced payment of programming period from 2007 to 2013 and 7.7 mln lats the European social fund advanced payments.



Central government basic budget, mln lats

In four month of 2009, the central government basic budget expenditure (including derived public persons) was 1299.3 mln lats, which is 68.4 mln lats or 5.6% more than in four month of 2008. In four month of 2009, the central government basic budget non-capital expenditure was 1218.4 mln lats or 93.8% of total basic budget expenditure and in comparison with four month of 2008 is 40.0 mln lats more, mainly due to increase of percent expenditure and subsidies, grants and social benefits expenditure, but wages and salaries decreased. Wages and salaries in four month of 2009 were 175.1 mln lats and in comparison with four month of 2008 is 20.9 mln lats or 10.7% less. The central government basic budget capital expenditure in four month of 2009 was

80.9 mln lats and in comparison with four month of 2008 is 28.4 mln lats or 54.2% more. In four month of 2009, the deficit of central government basic budget financial deficit was in amount of 306.1 mln lats.



Indirect tax revenue, mln lats

In four month of 2009, tax revenue continued to decrease, significant decrease was in revenue of value added tax.

Value added tax revenue in four month of 2009 was 281.6 mln lats and in comparison with four month of 2008 is 110.5 mln lats or 28.2% less.

In four month of 2009, domestically net collected value added tax revenue was 221.5 mln lats or 78.7% of total value added tax revenue and in comparison with four month of 2008 it is 88.0 mln lats or 28.4% less. The value added tax revenue collected on border was 22.5 mln lats or 27.2% less than in four month of 2008.

Value added tax payments made by the biggest taxpayers formed 44.5% of total value added tax revenue in four month of 2009.

The execution of four month of 2009 plan of value added tax revenue was 77.1%. Decrease of value added tax revenue, in comparison with four month of 2008, and non-execution of four month plan was mainly determined due to decrease in retail trade turnover and decrease in transaction value in general.

According to the Central Statistical Bureau in April 2009 in comparison with April 2008 retail trade turnover decreased by 26.1% (in actual prices).

According to the State Revenue Service information after the value added tax return data, the total transaction value in 2009 in four months, in comparison with the same period of 2008 decreased by 18.8%.

Value added tax revenue in four month of 2009 affected the increase of value added tax repayments by 3.2%, in comparison with the same period of 2008, but it was significantly less than in the four month of 2008, when the repayments grew by 52.9%, in comparison with the same period of 2007. According to the State Revenue Service information, since the beginning of 2009 increased the sum of value added tax extension of maturity of payments, which affected the value added tax revenue in four month of 2009 to.

Corporate income tax revenue in four month of 2009 was 86.8 mln lats and in comparison with four month of 2008 is 46.3 mln lats or 34.8% less. The execution of four month plan of corporate income tax revenue was 113.5%. In four month of 2009 mainly were paid corporate income tax advance payments, which were calculated on the basis of taxpayers' profits in 2007.

Total excise tax revenue in four month of 2009 was 160.7 mln lats, which is 10.6 mln lats or 6.2% less than in the same period of 2008. Excise tax revenue formed 83.0% of four month plan. The non-execution of the plan is related with sharp decrease of the sale volume of goods, in comparison with the privies' year.

In four month of 2009, excise tax revenue from oil products was 87.7 mln lats or 54.6% of total excise tax revenue and in comparison with four month of 2008 is 3.7 mln lats or 4.1% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In four month of 2009 in comparison to the same period of 2008, it decreased by 11.0%.

In four month of 2009, the excise tax revenue from alcoholic beverages was 29.0 mln lats or 18.0% of total excise tax revenue and in comparison with four month of 2008 is 3.1 mln lats or 9.7% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in three month of 2009 in comparison with three month of 2008 decreased by 30.1%.

In four month of 2009, excise tax revenue from tobacco products was 39.5 mln lats or 24.6% of total excise tax revenue and in comparison with four month of 2008 is 3.7 mln lats or 8.5% less. The excise tax revenue from tobacco products in four month of 2009 affected the increase of tax rates for cigarettes since January 2009, as well as additional budget revenue from companies, which in accordance with the law "On Excise Tax" after inventory and paid the difference between the previous and the new tax rate and the decrease of amount of home use consumption of cigarettes.

The excise tax revenue from tobacco products in April 2009 was 5.3 mln lats, which affected the decrease of the sale volume of the tobacco products. According to the State Revenue Service information the total sale volume of cigarettes in three month of 2009, in comparison of three month 2008, decreased by 37.6%.

Social security budget revenue in four month of 2009 was 429.9 mln lats, which is 44.2 mln lats or 9.3% less than in four month of 2008.

The social security budget expenditure in four month of 2009 was 503.8 mln lats, which in comparison with four month of 2008 is 134.1 mln lats or 36.3% more. Expenditure for pensions were 374.4 mln lats or 74.3% of the social security budget expenditure, social security benefits was 82.8 mln lats or 16.4% and employment benefits was 39.0 mln lats or 7.7% of the social security budget expenditure.

In four month of 2009, the social security budget financial deficit was 73.9 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in four month of 2009 were 487.6 mln lats and in comparison with four month of 2008 is 43.9 mln lats or 8.3% less. The social security contributions in the state special budget were 373.4 mln lats, but social security contributions in the funded pension scheme were 114.6 mln lats.

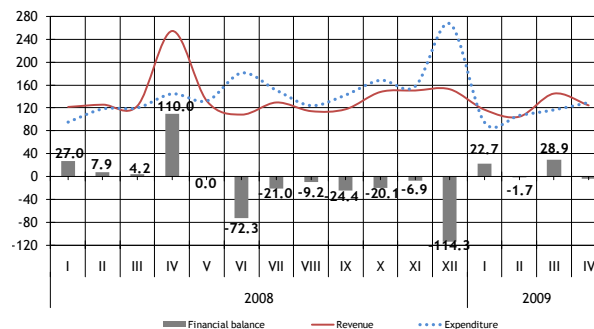
According to the State Revenue Service information, the number of employees and wages continue to decrease. The number of employees in March 2009 in comparison with March 2008 decreased by 11.4%, but wages in first quarter of 2009 in comparison with fourth quarter of 2008 decreased by 6.2%.

Social security contributions in four month of 2009 formed 114.5% of four month plan.

Local government consolidated budget revenue (including grants and donations) in four month of 2009 was 490.7 mln lats and in comparison with four month of 2008 was 134.3 mln lats or 21.5% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in four month of 2009 in comparison with four month of 2008 was 126.3 mln lats or 18.8% less.

In comparison with four month of 2008, the tax revenue was 39.2 mln lats or 13.4% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in four month of 2009 was collected on the level of four month 2008, but the local government basic budget received payments were 88.4 mln lats or 26.5% less than in four month of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in four month of 2009 was 1.5 mln lats or 3.9% more than in four month of 2008.



Local government consolidated budget, mln lats

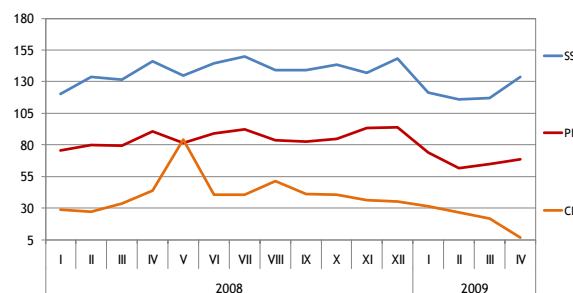
In four month of 2009 the local government consolidated budget expenditure was 445.3 mln lats, which is 30.7 mln lats or 6.5% less than in four month of 2008, mainly due to decrease of capital expenditure in local government basic budget by 23.3 mln lats.

In four month of 2009, the financial surplus of 45.5 mln lats was in the local government consolidated budget.

Local government basic budget expenditure for remuneration in four month of 2009 was 229.0 mln lats and in comparison with four month of 2008 is 5.4 mln lats more, int. al. wages and salaries is 4.8 mln lats more.

Personal income tax revenue. As since January 2009, the breakdown of personal income tax revenue between central government and local government budget has changed. 83% (instead of previous 80%) of total personal income tax revenue is transferred to the local government budgets, but in the central government budget – 17% (instead of previous 20%). Personal income tax revenue in four month of 2009 was 268.9 mln lats and in comparison with four month of 2008 is 59.0 mln lats or 18.0% less. Personal income tax revenues are impacted mainly by the changes of number of employees and wages and according to the State Revenue Service information the number of employees continues to decrease.

In four month of 2009 the corporate income tax payments made by the biggest tax payers were 35.4 mln lats and these payments formed 40.8% of total corporate income tax revenue.



Direct tax revenue, mln lats