

# MACROECONOMIC AND BUDGETARY REVIEW

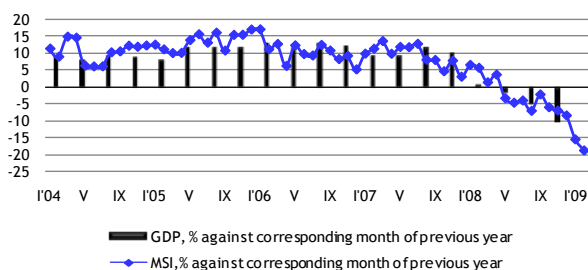


MINISTRY OF FINANCE  
REPUBLIC OF LATVIA

February, 2009

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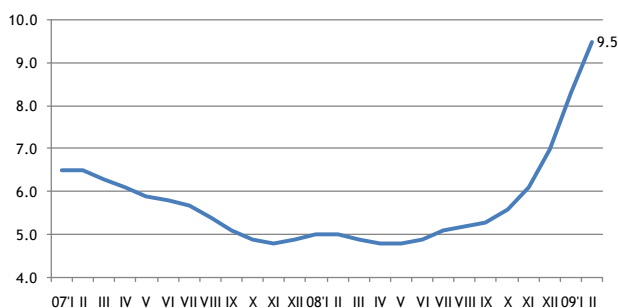
According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in February 2009 shrank by 18.7% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the industrial output, as well as slowdown of cash in circulation.



Composite Index of Macroeconomic Indicators (MSI)

The volume of **cargo transhipped in Latvian ports** in February amounted to 5.4 mln t, down by 0.8% from the corresponding month of 2008. However the volume of cargo transhipped in ports in 2008 totalled 63.6 mln t, which was 1.9% more than in the same period of the previous year. In February of 2009 **freight carried by rail** were 4.6 mln tons, a decrease of 0.7% compared to the same period of the previous year. Freight carried by rail in 2008 totalled 56.1 mln t, which was 7.5% more than in 2007.

Officially registered **unemployment rate** in February increased by 1.2 percentage points and amounted to 9.5% of the economically active population at the end of the month. The number of the registered unemployed increased by 13.3 thsd people from the previous month and amounted to 103.7 thsd people. As compared with February 2008, the unemployment rate increased by 4.5 percentage points, but the number of the registered unemployed by 50.3 thsd people. The highest unemployment rate in February was registered in the region of Latgale, 13.4% (9.6% in February of 2008); in the region of Zemgale, 10.7% (5.1%); and in the region of Kurzeme, 10.6% (5.3%); and in the region of Vidzeme, 10.2% (5.1%). The lowest unemployment rate was registered in the region of Rīga, 7.6% (3.5%).

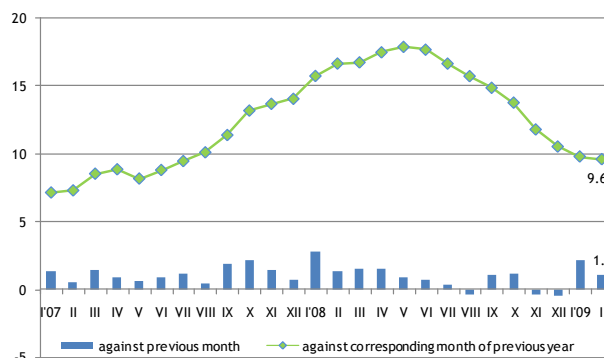


Officially registered unemployment rate, %

Consumer Price Index (CPI) in February, compared with January, increased by 1.1%. Average price levels for goods went up by 1.3%, but for services grew by 0.6%. Comparing with the corresponding month of previous year, consumer prices marked up by 9.6%, inter alia for goods – by 8.7% and for services – by 11.9%.

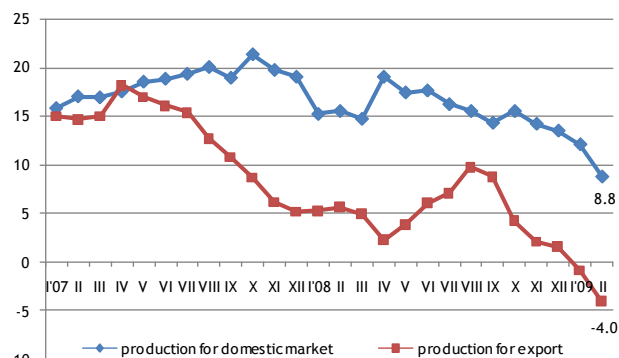
Consumer prices in February generally increased due to rise in excise tax rates. Prices grew for fuel – by 12.4%, alcoholic beverages – by 8.4%, non alcoholic beverages – by 5.3%, tobacco – 13.2%. In February there was observed increase in prices culture services, cable television become more expensive by

29.6%, cinema tickets – by 6.0%. Prices for general post services marked up by 11.7%. Food products in February become cheaper by 1.1%.



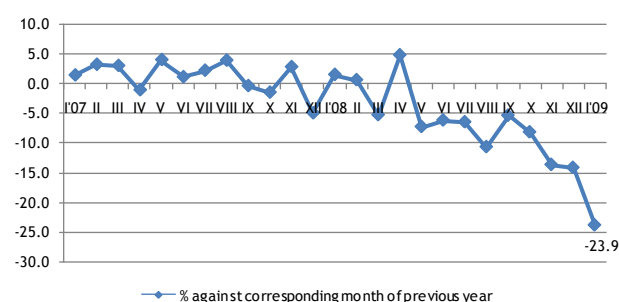
Consumer price index, %

Producer prices in February of 2009 comparing with January reduced by 1.4% but in comparison with corresponding month of previous year, producer prices grew by 3.9%. In February of 2009 comparing with February of 2008, producer price level was mostly affected by increase in tariffs of electricity, gas supply, heating and air conditioning – by 7.0%. Drop in prices for manufacturing of wood and wood products (excluding furniture) lowered overall producer price level by 2.4 percentage points (pp), manufacturing of metals – by 1.3 pp, refuse collection, utilization and disposal; material processing – by 0.5 pp.

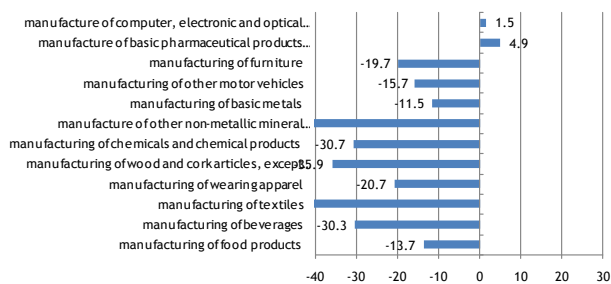


Producer price index, %

Compared to January of previous year in January 2009 **industrial production output** decreased by 23.9%, of which manufacturing – by 27.2%, mining and quarrying – by 12.7%, but electricity and gas supply – by 13.3%. Compared to 2007 industrial production output in 2008 (at constant prices) decreased by 6.7%.



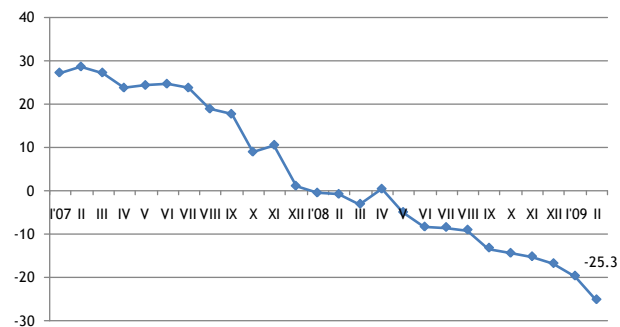
Industrial production index (seasonally adjusted data)



■ January 2009 against corresponding month of previous year, %  
**Biggest changes in volume indices of industrial production (seasonally adjusted data)**

Compared February 2009 to February 2008, according to working (trade) day adjusted data, calculating at constant prices, **retail trade turnover** has reduced by 25.3%. Most notable decrease was recorded in non-food product group – by 29.4%. Slightly less it has reduced in companies selling mainly food products – by 16.6%.

Total retail trade turnover in February 2009 constituted 288 mln lats, down by 21.7 mln lats compared to January 2009. Total retail trade turnover in 2008 constituted 4018 mln lats, of which in December –369 mln lats.



— % pret iepriekšējā gada atbilstošo periodu, pēc darba dienu skaita izlīdzināti dati  
**Turnover indices of retail trade (at constant prices)**

In January 2009, **exports and imports of goods** amounted to 639.7 mln lats down by 32.4% from the same period last year.

As compared with January last year, export of goods decreased by 25.3% and amounted to 246.2 mln lats, while import decreased by 36.1%, reaching the value of 393.5 mln lats.

In January 2009, as compared to the January 2008, the trade balance deficit decreased by 139 mln lats and amounted to 147.3 mln lats.

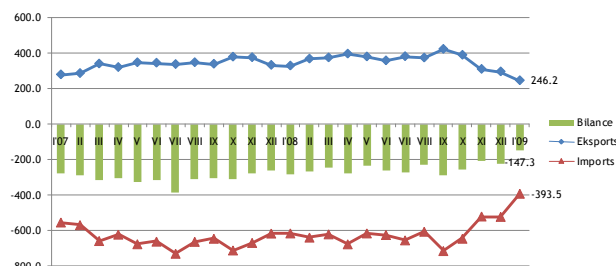
In January 2009 the most significant share in Latvia's export had export to the countries of European Union 74.5% (79.3% in January of 2008), followed by the export to CIS countries 12.9% (11.8%). Main export partners were Lithuania 15.7% of total export (16.4%); Estonia 13.6% (13.3%); Germany 9.4% (12.1%); Sweden 7.3% (8.6%) and Russia 6.4% (7.9%).

Latvia's main export products were agricultural and food products accounting for 16.5% of total amount (16.8% in January of 2008); base metals and its articles accounting for 16.4% of total amount (14.5%); wood and wood products accounting for 15.5% of total amount (21.3%);

In January 2009 the most significant share in Latvia's import had import from the countries of European Union 69.0% (72.6% in January of 2008), followed by the import from CIS countries 21.7% (17.7%). Main import partners were Russia 17.4% of total import (12%); Lithuania 15.6% (14.8%); Germany 9.9% (11.9%); Poland 7.7% (7.1%) and Estonia 6.8% (7.7%).

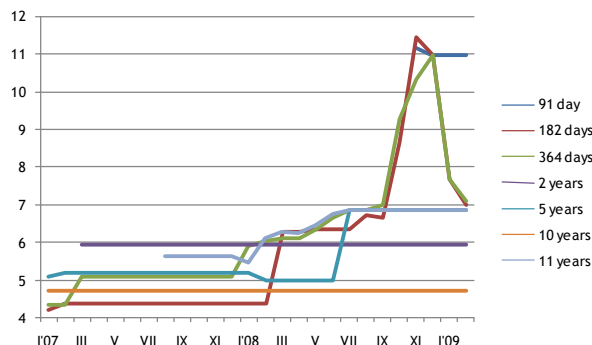
Latvia's main import products were mineral products for 20.9% of total amount (15.7% in January of 2008); agricultural and food products accounting for

16.6% of total amount (12.8%) machinery and mechanical appliances accounting for 14.7% of total amount (17.6%).



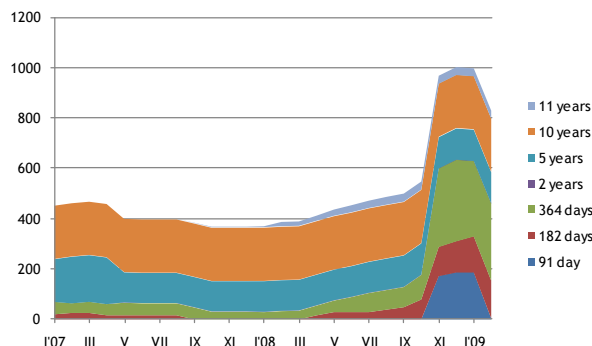
**Foreign trade balance, mln lats**

In February 2009 government internal borrowing securities competing multi-price securities auctions were held. Auctions were offered short-term government debt securities in the total amount of 48.0 mln lats at nominal value. Overall sales were 13.5 mln lats after nominal value with the weighted average profit rate of 7.0% for 6 month T-bills and 7.12% for 1 year T-bills. In February the government internal borrowing short-term fixed-rate securities auctions took a place. Securities were sold at auction for a total sum of 13.65 mln lats, with the weighted average profit rate of 7.0%.

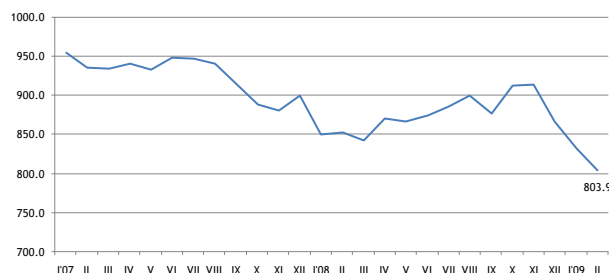


**The average interest rate of government internal borrowing securities, %**

In February 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 34.8% (91.0% in February 2008), but short-term government bond proportion reached 65.2% (9.0%).



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

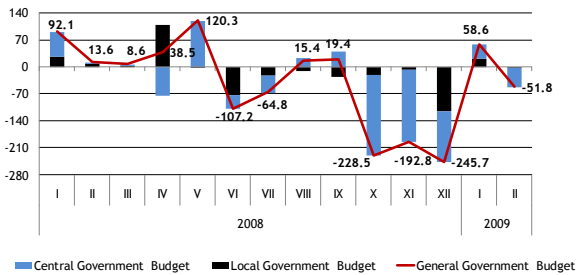


**Cash in circulation, mln lats**

	IX	X	XI	XII	09'I	II
RIGIBOR (3month)	6.39	11.57	13.5	13.54	10.66	11.30
EURIBOR (3month)	5.12	4.91	3.94	2.97	2.15	1.85

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-February 2009) data, in two month of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 858.3 mln lats which is 30.5 mln lats or 3.4% less than in two month of 2008, mainly due to decrease of tax revenue in the central government basic budget by 68.3 mln lats. In two month of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 851.5 mln lats, which is 68.3 mln lats or 8.7% more than in two month of 2008. In two month of 2009, the general government budget financial surplus was 6.8 mln lats.



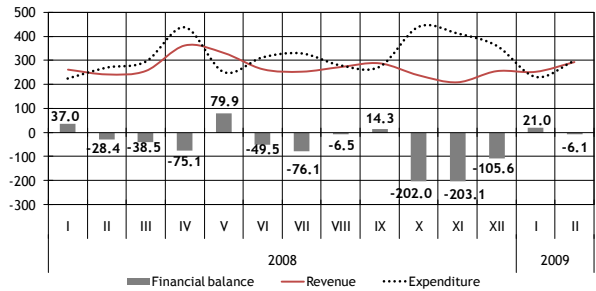
General government budget balance, mln lats

In two month of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 716.1 mln lats, which is 17.3 mln lats or 2.4% less than in two month of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with two month of 2008 was in the revenue from value added tax.

In two month of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 730.5 mln lats, which is 65.4 mln lats or 9.8% more than in two month of 2008. In two month of 2009, the deficit of central government consolidated budget was planned in amount of 127.9 mln lats, but actually there was a financial deficit in amount of 14.3 mln lats.

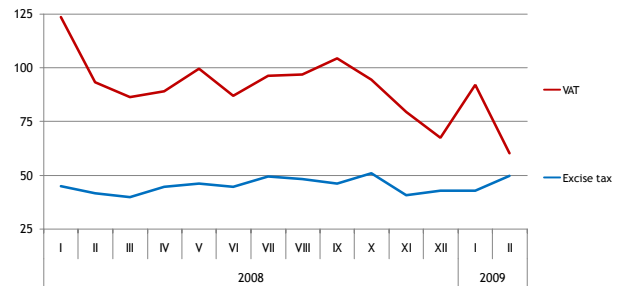
**Central government basic budget** revenue expenditure (including derived public persons) in two month of 2009 was 547.5 mln lats, which in comparison with two month of 2008 is 42.3 mln lats or 8.4% more.

In comparison with two month of 2008, tax revenue was 336.4 mln lats, which is 68.3 mln lats or 16.9% less, mainly due to decrease of value added tax revenue by 64.6 mln lats. In two month of 2009 the non-tax revenue was 28.7 mln lats, which is 2.7 mln lats less than in two month of 2008. In two month of 2009, revenue from the paid services and self-earned revenue was 27.2 mln lats, which is 5.2 mln lats or 23.4% more, but revenue from the foreign financial assistance was 143.7 mln lats, which is 91.3 mln lats more than in two month of 2008. Foreign financial assistance revenue in February consisted of an interim payment of the Cohesion Fund 7.3 mln lats and 91.5 mln lats the European Fund second part advance payment of programming period from 2007 to 2013.



Central government basic budget, mln lats

In two month of 2009, the central government basic budget expenditure (including derived public persons) was 532.5 mln lats, which is 36.0 mln lats or 7.2% more than in two month of 2008. In two month of 2009, the central government basic budget non-capital expenditure was 504.6 mln lats or 94.8% of total basic budget expenditure and in comparison with two month of 2008 is 34.1 mln lats more. Wages and salaries in two month of 2009 were 82.6 mln lats and in comparison with two month of 2008 is 0.1 mln lats more. In comparison with two month of 2008 payments in EU budget increased by 1.7 mln lats and interest payment increased by 15.8 mln lats. The central government basic budget capital expenditure in two month of 2009 was 27.9 mln lats and in comparison with two month of 2008 is 1.9 mln lats or 7.2% more. In two month of 2009, the deficit of central government basic budget was planned in amount of 97.6 mln lats, but actually there was a financial deficit in amount of 15.0 mln lats.



Indirect tax revenue, mln lats

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

**Value added tax** revenue in two month of 2009 was 152.2 mln lats and in comparison with two month of 2008 is 64.6 mln lats or 29.8% less.

Changes in retail trade turnover have a significant impact on value added tax. According to the Central Statistical Bureau in February 2009 in comparison with February 2008 retail trade turnover decreased by 25.3% (at constant prices).

In two month of 2009, domestically net collected value added tax revenue was 121.5 mln lats or 79.8% of total value added tax revenue and in comparison with two month of 2008 it is 54.3 mln lats or 30.9% less. The value added tax revenue collected on border was 10.3 mln lats or 25.1% less than in two month of 2008. In two month of 2009, domestic value added tax refunds were 93.3 mln lats, which is 2.4 mln lats more than in two month of 2008. Value added tax payments made by the biggest taxpayers formed 39.4% of total value added tax revenue in two month of 2009.

The execution of two month of 2009 plan of value added tax revenue was 77.5%.

After the value added tax return data, the total transaction value in 2009 in two months, in comparison with the same period of 2008 decreased by 9.7%.

Total **excise tax revenue** in two month of 2009 was 92.6 mln lats and in comparison with two month of 2008 is 6.0 mln lats or 7.0% more. Excise tax revenue formed 96.3% of two month plan.

In two month of 2009, excise tax revenue from oil products was 44.1 mln lats or 47.6% of total excise tax revenue and in comparison with two month of 2008 is 2.0 mln lats or 4.4% less. According to the State Revenue Service information, the total consumption of oil products continues to decrease. In January 2009 in comparison with January 2008 the consumption of oil products decreased by 8.1%.

In two month of 2009, excise tax revenue from tobacco products was 32.9 mln lats or 35.6% of total excise tax revenue and in comparison with two month of 2008 is 11.2 mln lats or 51.7% more.

The excise tax revenue from tobacco products in February 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.

Since February 2009 the tax rates for other smoking tobacco is increased, but the February revenue was not impacted by this, because in February the tax was paid on transactions and operations done in January 2009.

In two month of 2009, the excise tax revenue from alcoholic beverages was 13.4 mln lats or 14.5% of total excise tax revenue and in comparison with two month of 2008 is 3.3 mln lats or 19.6% less. According to the State Revenue Service information, the total consumption of alcoholic beverages continues to decrease. In January 2009 in comparison with January 2008 the consumption of alcoholic beverages decreased by 43.4%.

The excise tax revenue from non-alcoholic beverages and coffee in two month of 2009 was 1.0 mln lats, which is 74.7 thsd lats more than in two month of 2008.

**Social security budget** revenue in two month of 2009 was 194.9 mln lats, which is 40.2 mln lats or 17.1% less than in two month of 2008.

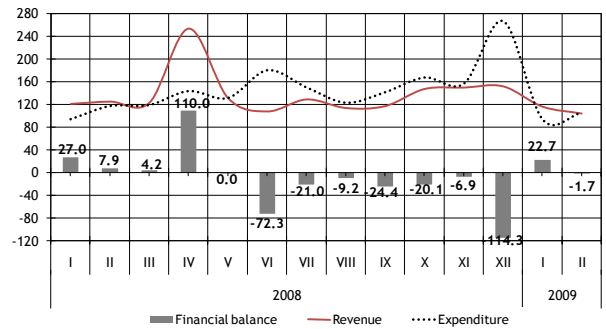
The social security budget expenditure in two month of 2009 was 224.3 mln lats, which in comparison with two month of 2008 is 50.0 mln lats or 28.7% more. Pensions were 163.9 mln lats or 73.1% of the social security budget expenditure, social security benefits was 39.8 mln lats or 17.8% and employment benefits was 17.1 mln lats or 7.6% of the social security budget expenditure.

In two month of 2009, the social security budget financial deficit was 29.3 mln lats, which is slightly less than planned (plan - 30.3 mln lats deficit).

**Social security contributions** (including contributions into the State Funded Pension Scheme) in two month of 2009 were 237.1 mln lats and in comparison with two month of 2008 is 16.9 mln lats or 6.7% less. According to the State Revenue Service information, the number of employees continues to decrease. In January 2009 in comparison with January 2008 it decreased by 7.1% but in comparison with December 2008 by 2.7%. Social security contributions in two month of 2009 formed 115.3% of two month plan.

**Local government consolidated budget** revenue (including grants and donations) in two month of 2009 was 221.4 mln lats and in comparison with two month of 2008 was 25.8 mln lats or 10.4% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in two month of 2009 in comparison with two month of 2008 was 16.1 mln lats or 6.2% less. In comparison with two month of 2008, the tax revenue was 12.1 mln lats or 9.2% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in two month of 2009 in comparison with two month of 2008 was 0.3 mln lats or 9.1% more, but the local government basic budget received payments was 4.8 mln lats or 4.4% less. Local government basic budget revenue from the paid-revenue and other self-earned revenue in two month of 2009 was 0.9 mln lats or 5.0% more than in two month of 2008.



Local government consolidated budget, mln lats

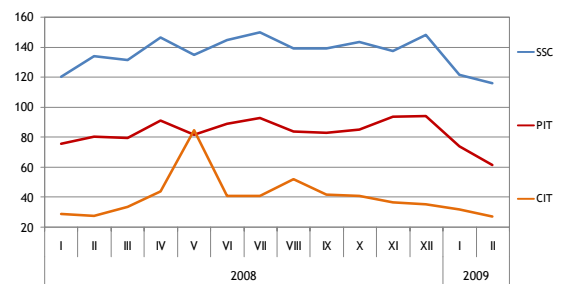
Local government basic budget expenditure for remuneration in two month of 2009 was 106.0 mln lats and in comparison with two month of 2008 is 6.7 mln lats more, int. al. wages and salaries is 5.8 mln lats more.

In two month of 2009 the local government consolidated budget expenditure was 200.4 mln lats, which is 11.9 mln lats or 5.6% less than in two month of 2008, mainly due to decrease of capital expenditure in local government basic budget by 14.0 mln lats. In two month of 2009, the financial surplus of 21.0 mln lats was in the local government consolidated budget.

**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 two month of 2009 was 135.3 mln lats and in comparison with two month of 2008 is 22.5 mln lats or 14.3% less. Personal income tax revenue in two month of 2009 formed 107.9% of two month plan. Personal income tax revenues are impacted mainly by the changes of number of employees and according to the State Revenue Service information the number of employees continues to decrease.

**Corporate income tax** revenue in two month of 2009 was 58.3 mln lats and in comparison with two month of 2008 is 2.4 mln lats or 4.3% more. The execution of two month plan of corporate income tax revenue was 151.1%. In January and February mainly were paid corporate income tax advance payments, which were calculated on the basis of taxpayers' profits in 2007.

In two month of 2009 the corporate income tax payments made by the biggest tax payers were 29.3 mln lats and these payments formed 50.2% of total corporate income tax revenue.



Direct tax revenue, mln lats