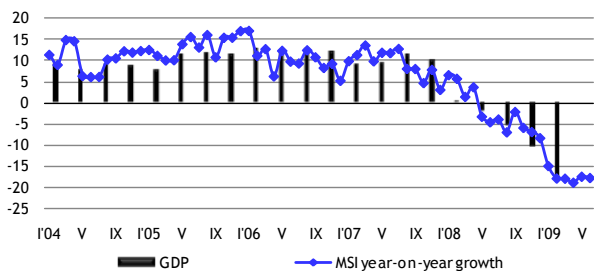


MACROECONOMIC AND BUDGETARY REVIEW

July, 2009

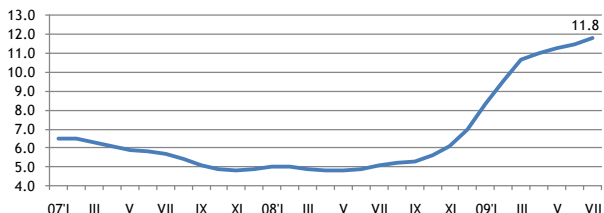
Smilšu street 1. Rīga. Phone 7095539. Fax 095541,
<http://www.fm.gov.lv>

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in July 2009 shrunk by 17.9% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the industrial output, the amount of cash in circulation as well as by decrease of the employment level.



Composite Index of Macroeconomic Indicators (MSI)

The volume of **cargo transhipped in Latvian ports** in July amounted to 5.2 mln t, down by 5.5% from the corresponding month of 2008. However, the volume of cargo transhipped in ports in January – July of 2009 totalled 37.5 mln t, which was 0.6% less than in the same period of the previous year. In July of 2009 **freight carried by rail** were 4.4 mln tons, a *decrease* of 5.1% compared to the same period of the previous year. Freight carried by rail in January – July of 2009 totalled 32.6 mln t, which was 0.3% more than in 2008.

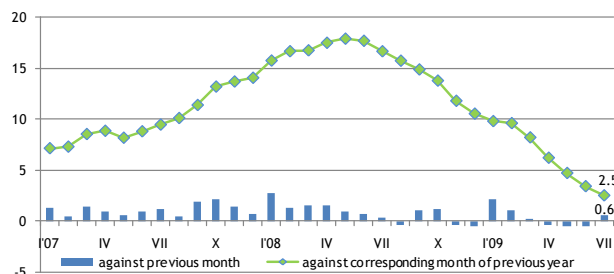


Officially registered unemployment rate, %

Officially registered **unemployment rate** in July increased by 0.3 percentage points and amounted to 11.8% of the economically active population at the end of the month. The number of the registered unemployed increased by 3.3 thsd people from the previous month and amounted to 132.5 thsd people. As compared with July 2008, the unemployment rate increased by 6.7 percentage points, but the number of the registered unemployed by 77.1 thsd people. The highest unemployment rate in July was registered in the region of Latgale, 15.7% (9.3% in July of 2008); in the region of Kurzeme, 13.1% (5.5%); and in the region of Zemgale, 12.5% (4.9%); and in the region of Vidzeme, 12.2% (5.1%). The lowest unemployment rate was registered in the region of Rīga, 10.1% (3.8%).

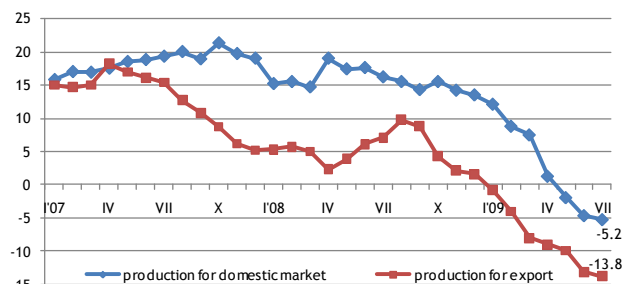
Consumer Price Index (CPI) in July, compared with June, decreased by 0.6%. Average price levels for goods went down by 0.8% and for services by 0.2%. Comparing with the corresponding month of previous year, consumer prices marked up by 2.5%, inter alia for goods – by 1.2% and for services – by 5.7%.

The rise in the prices of alcoholic beverages, as well as price reduction of natural gas, vegetables, clothes and footwear had the major impact on consumer price changes in July.



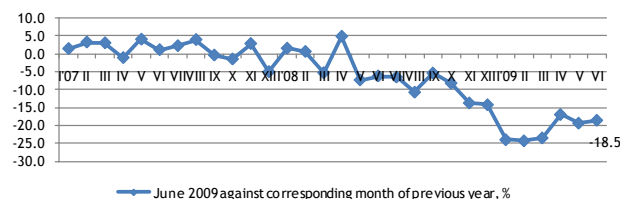
Consumer price index, %

Producer prices in July of 2009 comparing with June reduced by 0.3% but in comparison with corresponding month of previous year, producer prices reduced by 8.4%. In July of 2009 comparing with July of 2008 drop in prices for manufacturing of metals lowered overall producer price level by 4.3 percentage points (pp), manufacturing of wood and wood products (excluding furniture) – by 2.2 pp., manufacturing of food – by 1.4 pp. Producer price level was mostly affected by increase in tariffs of electricity, gas supply, heating and air conditioning – by 1.2%.

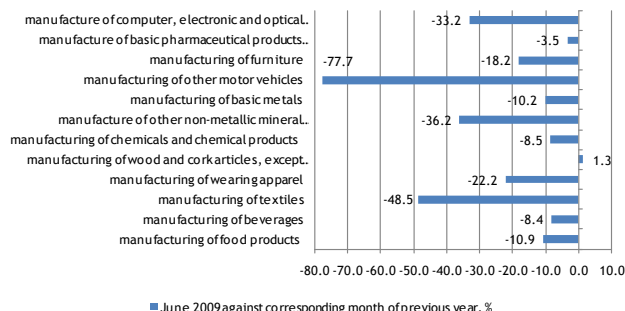


Producer price index, %

Compared to June of previous year, in June 2009 **industrial production output** decreased by 18.5%, of which mining and quarrying output – by 22.3%, manufacturing – by 20.0%, but electricity and gas supply – by 4.9%.



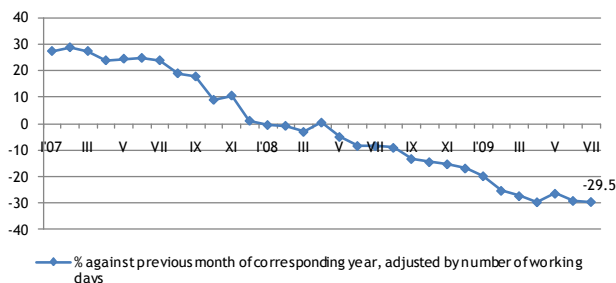
Industrial production index (seasonally adjusted data)



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

According to working (trade) day adjusted data, retail trade turnover in constant prices in July 2009 compared to July 2008 has reduced by 29.5%. Most notable decrease was recorded in non-food product group – by 31.9%. Slightly smaller reduction was recorded in companies selling mainly food products – by 24.5%.

Total retail trade turnover in July 2009 constituted 317.3 mln lats, up by 5.6 mln lats compared to June 2009. Total retail trade turnover in January – July of 2009 constituted 2154.5 mln lats.



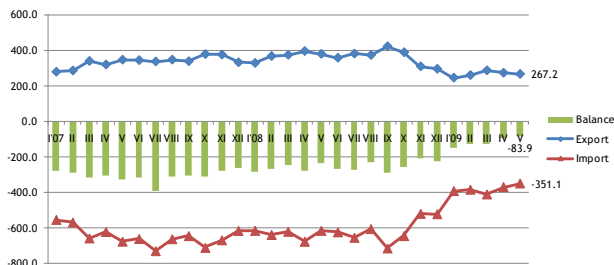
Turnover indices of retail trade (at constant prices)

In June 2009, exports and imports of goods amounted to 637.8 mln lats down by 35.5% or 351.0 mln lats from the same period last year.

In January - June of 2009, exports and imports of goods amounted to 3897.5 mln lats down by 35.3% or 2126.6 mln lats from the same period last year.

As compared with January -June last year, export of goods decreased by 26.4% and amounted to 1629.1 mln lats, while import decreased by 40.5%, reaching the value of 2268.4 mln lats.

In June 2009, as compared to the June 2008, the trade balance deficit decreased by 202.7 mln lats and amounted to 67.2 mln lats.



Foreign trade balance, mln lats

In June 2009 the most significant share in Latvia's export was export to the countries of European Union 69.8% (71.4% in June of 2008), followed by the export to CIS countries 14.6% (15.5%). Main export partners were Lithuania 17.4% of total export (17.2%); Estonia 13.3% (12.9%); Russia 9.5% (10.5%); Germany 8.8% (7.6%) and Sweden 5.5% (6.5%).

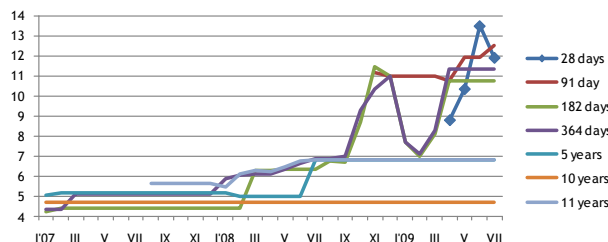
Latvia's main export products were agricultural and food products accounting for 19.5% of total amount (13.9% in June of 2008); wood and wood products accounting for 15.8% (16.4%); base metals and its articles accounting for 13.5% (22.3%); machinery, mechanical appliances and electrical equipment accounting for 12.7% (11.0%).

In June 2009 the most significant share in Latvia's import was import from the countries of European Union 76.6% (74.7% in June of 2008), followed by the import from CIS countries 12.9% (17.7%). Main import partners were Lithuania 17.2% of total import (17.1%); Germany 11.9% (13.6%); Russia 8.2% (10.4%); Poland 8.1% (6.9%) and Estonia 7.0% (6.6%).

Latvia's main import products were agricultural and food products for 18.9% of total amount (13.2% in June of 2008); mineral products accounting for 16.9% (17.0%) machinery and mechanical appliances accounting for 15.9% (16.1%).

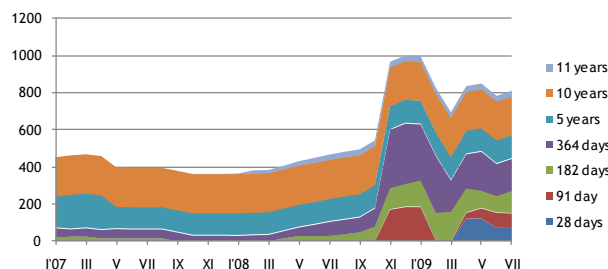
In July 2009 government internal borrowing securities competing multi-price securities auctions with term 28 and 91 day were held. In auctions short-term government debt securities in the total amount of 30.0 mln lats were sold at nominal value with the weighted average profit rate 11.9% and 12.5%.

In July the government short-term bond auctions took place with term 28 and 91 day. Bonds were sold at auctions for a total sum of 26.1 mln lats, with the weighted average profit rate from 11.9% to 12.5%.

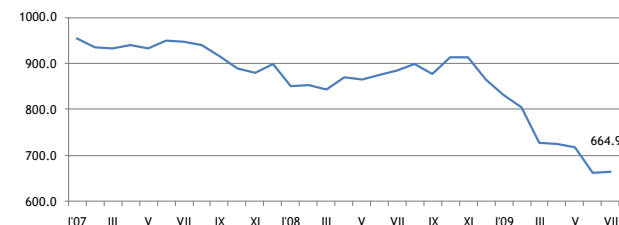


The average interest rate of government internal borrowing securities, %

In July 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 45.0% (77.3% in July 2008), but short-term government bond proportion reached 55.0% (22.7%).



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

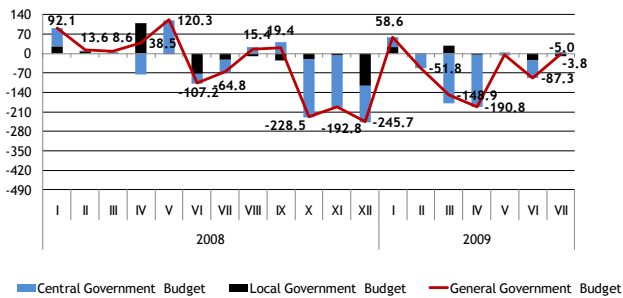


Cash in circulation, mln lats

	09'II	III	IV	V	VI	VII
RIGIBOR (3month)	11.30	12.18	12.54	13.60	27.20	16.50
EURIBOR (3month)	1.85	1.55	1.40	1.26	1.15	0.92

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-July 2009) data, in seven months of 2009 the General Government Budget revenue (including grants, donations and derived public persons) was 2843.3 mln lats which is 556.9 mln lats or 16.4% less than in seven months of 2008, mainly due to decrease of tax revenue in the central government basic budget by 545.0 mln lats. In seven months of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 3272.2 mln lats, which is 26.9 mln lats or 0.8% less than in seven months of 2008. In seven months of 2009, the general government budget financial deficit was 428.9 mln lats, mainly due to deficit in the central government consolidated budget.



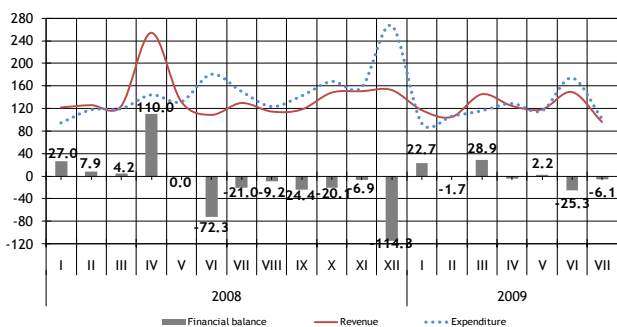
General government budget balance, mln lats

In seven months of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 2380.1 mln lats, which is 407.3 mln lats or 14.6% less than in seven months of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with seven months of 2008 was in the revenue from value added tax.

In seven months of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 2824.8 mln lats, which is 72.3 mln lats or 2.6% more than in seven months of 2008. In seven months of 2009, the deficit of central government consolidated budget was in amount of 444.8 mln lats.

Central government basic budget revenue (including derived public persons) in seven months of 2009 was 1733.1 mln lats, which in comparison with seven months of 2008 is 243.6 mln lats or 12.3% less.

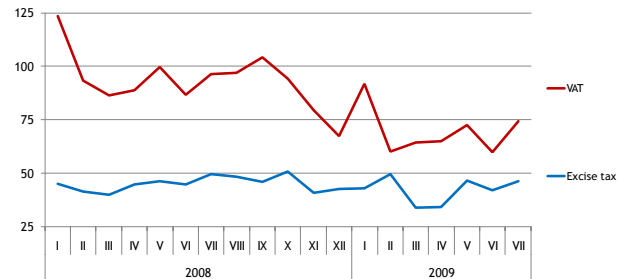
In comparison with seven months of 2008, tax revenue was 1009.6 mln lats, which is 436.7 mln lats or 30.2% less, mainly due to decrease of value added tax revenue by 186.4 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with seven months of 2008. In seven months of 2009 the non-tax revenue was 234.7 mln lats, which is 65.7 mln lats more than in seven months of 2008, mainly due to increase of percent revenue by 20.2 mln lats. In seven months of 2009, revenue from the paid services and self-earned revenue was 46.6 mln lats, which is 20.5 mln lats or 30.6% less, but revenue from the foreign financial assistance was 344.9 mln lats, which is 50.6 mln lats more than in seven months of 2008. Foreign financial assistance revenue in seven months of 2009 consisted of an interim payment of the European agriculture fund 74.7 mln lats of 2007-2013 programming period, an interim payment of Cohesion fund 43.3 mln lats and interim payments of the European Regional development fund 119.6 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In seven months of 2009, the central government basic budget expenditure (including derived public persons) was 2091.6 mln lats, which is 35.7 mln lats or 1.7% less than in seven months of 2008. In seven months of 2009, the central government basic budget non-capital expenditure was 1960.9 mln lats or 93.8% of total basic budget expenditure and in comparison with seven months of 2008 is 20.7 mln lats less, mainly due to decrease in wages and salaries, but percent expenditure, subsidies, grants and social benefits

expenditure increased. Wages and salaries in seven months of 2009 were 319.8 mln lats and in comparison with seven months of 2008 is 47.7 mln lats or 13.0% less. The central government basic budget capital expenditure in seven months of 2009 was 130.6 mln lats and in comparison with seven months of 2008 is 15.0 mln lats or 10.3% less. In seven months of 2009, the central government basic budget financial deficit was in amount of 358.5 mln lats.



Indirect tax revenue, mln lats

In seven months of 2009, tax revenue continued to decrease, significant decrease was in revenue of value added tax.

Value added tax revenue in seven months of 2009 was 488.6 mln lats and in comparison with seven months of 2008 is 186.4 mln lats or 27.6% less.

In seven months of 2009, domestically net collected value added tax revenue was 389.5 mln lats or 79.7% of total value added tax revenue and in comparison with seven months of 2008 it is 134.7 mln lats or 25.7% less. The value added tax revenue collected on border was 99.0 mln lats or 34.2% less than in seven months of 2008.

Value added tax payments made by the biggest taxpayers formed 45.5% of total value added tax revenue in seven months of 2009.

The execution of seven months of 2009 plan of value added tax revenue was 82.4%. Decrease of value added tax revenue, in comparison with seven months of 2008, and non-execution of seven months 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 July 2009 in comparison with July 2008 retail trade turnover decreased by 28.4%.

According to the State Revenue Service information after the value added tax return data, the total transaction value in seven months of 2009, in comparison with the same period of 2008 decreased by 23.8%.

Value added tax revenue in seven months of 2009 was affected by decrease of retail turnover and increase of repayments to the tax payers of overpayment accrued in previous periods. In seven months of 2009 value added tax repayments decreased by 6.2%. According to the State Revenue Service information, since the beginning of 2009 the sum of value added tax extension of maturity of payments has increased, which affected the value added tax revenue in seven months of 2009.

Corporate income tax revenue in seven months of 2009 was 121.8 mln lats and in comparison with seven months of 2008 is 176.5 mln lats or 59.2% less, mainly due to decrease of profit of the year 2008 or declared losses. As a result payments decreased and repayments increased.

In seven months of 2009 the corporate income tax payments made by the biggest tax payers were 41.6 mln lats and these payments formed 34.2% of total corporate income tax revenue.

Total excise tax revenue in seven months of 2009 was 295.5 mln lats, which is 16.4 mln lats or 5.3% less than in the same period of 2008. Excise tax revenue formed 99.9% of seven months plan. The non-execution of the plan is due to sharp decrease of the sale volume of goods, in comparison with the previous year.

In seven months of 2009, excise tax revenue from oil products was 163.0 mln lats or 55.2% of total excise tax revenue and in comparison with seven months of 2008 is 2.0 mln lats or 1.2% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In six months of 2009 in comparison to the same period of 2008, it decreased by 13.1%.

In seven months of 2009, the excise tax revenue from alcoholic beverages was 50.0 mln lats or 16.9% of total excise tax revenue and in comparison with seven months of 2008 is 3.3 mln lats or 6.1% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in six months of 2009 in comparison with six months of 2008 decreased by 28.0%.

From 1st July of 2009 excise tax rates of other alcoholic beverages were decreased from 825 lats to 890 lats per 100 litres and of beer from 1.45 lats to 2.18 lats per volume percent.

In seven months of 2009, excise tax revenue from tobacco products was 71.1 mln lats or 24.0% of total excise tax revenue and in comparison with seven months of 2008 is 12.7 mln lats or 15.2% less. The excise tax revenue from tobacco products in seven months of 2009 was affected by the increase of tax rates for cigarettes from January 2009, as well as changes in channelled volume of cigarettes in Latvia, which in six months of 2009, in comparison with the same period of 2008, decreased by 33.6%.

Social security budget revenue in seven months of 2009 was 769.3 mln lats, which is 66.1 mln lats or 7.9% less than in seven month of 2008.

The social security budget expenditure in seven months of 2009 was 855.2 mln lats, which in comparison with seven months of 2008 is 210.0 mln lats or 32.5% more. Expenditure for pensions were 621.3 mln lats or 72.7% of the social security budget expenditure, social security benefits were 141.9 mln lats or 16.6% and employment benefits were 75.6 mln lats or 8.8% of the social security budget expenditure.

In seven months of 2009, the social security budget financial deficit was 85.9 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in seven months of 2009 were 829.9 mln lats and in comparison with seven months of 2008 is 130.5 mln lats or 13.6% less. The social security contributions in the state special budget were 696.4mln lats, but social security contributions in the funded pension scheme were 134.3 mln lats.

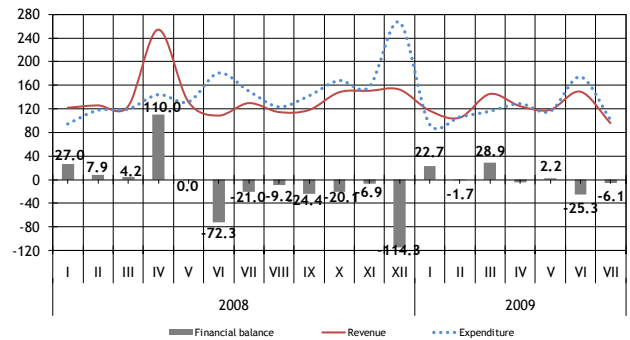
According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in June 2009 in comparison with May 2008 decreased by 14.0%, but wages in second quarter of 2009 in comparison with second quarter of 2008 decreased by 1.0%.

Social security contributions in seven months of 2009 formed 108.5% of seven months plan.

Local government consolidated budget revenue (including grants and donations) in seven months of 2009 was 848.3 mln lats and in comparison with seven months of 2008 was 146.3 mln lats or 14.7% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in seven months of 2009 in comparison with seven months of 2008 was 115.5 mln lats or 10.8% less.

In comparison with seven months of 2008, the tax revenue was 98.2 mln lats or 18.9% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in seven months of 2009 was 1.7mln lats or 9.7% more than in the same period of 2008, but the local government basic budget received payments were 19.1 mln lats or 4.1% less than in six months of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in seven months of 2009 was 0.3 mln lats or 0.4% less than in seven months of 2008.



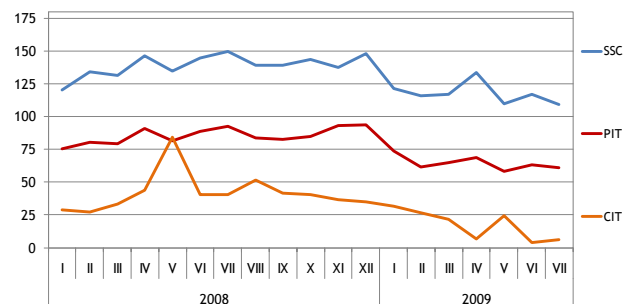
Local government consolidated budget, mln lats

In seven months of 2009 the local government consolidated budget expenditure was 834.7 mln lats, which is 104.1 mln lats or 11.1% less than in seven months of 2008, mainly due to decrease of capital expenditure in local government basic budget by 50.5 mln lats.

In seven months of 2009, there was a financial surplus in amount of 13.5 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in seven month of 2009 was 441.0 mln lats and in comparison with seven months of 2008 is 1.1 mln lats more, int. al. wages and salaries is 4.1 mln lats more.

Personal income tax revenue. Personal income tax revenue in seven months of 2009 was 451.4 mln lats and in comparison with seven months of 2008 is 139.5 mln lats or 23.6% less. Personal income tax revenue is 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.



Direct tax revenue, mln lats