

MACROECONOMIC AND BUDGETARY REVIEW

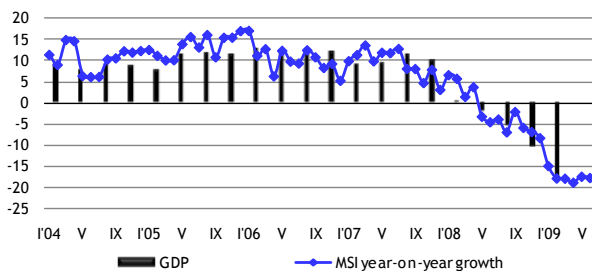


MINISTRY OF FINANCE
REPUBLIC OF LATVIA

June, 2009

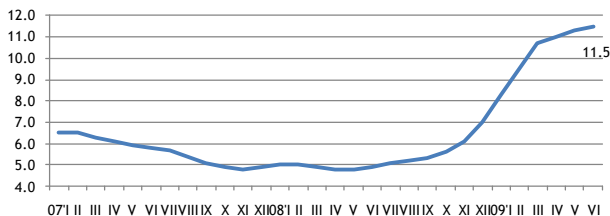
Smilšu street 1. Rīga. Phone 7095539. Fax 095541,
<http://www.fm.gov.lv>

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in June 2009 shrunk by 17.8% 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 June amounted to 5.4 mln t, up by 2.0% from the corresponding month of 2008. However, the volume of cargo transhipped in ports in January – June of 2009 totalled 32.3 mln t, which was 3.0% more than in the same period of the previous year. In June of 2009 **freight carried by rail** were 4.8 mln tons, an increase of 5.8% compared to the same period of the previous year. Freight carried by rail in January – June of 2009 totalled 28.2 mln t, which was 1.2% more than in 2008.

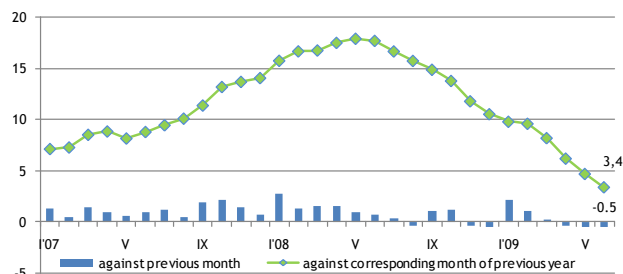


Officially registered unemployment rate, %

Officially registered **unemployment rate** in June increased by 0.2 percentage points and amounted to 11.5% of the economically active population at the end of the month. The number of the registered unemployed increased by 2.7 thsd people from the previous month and amounted to 129.3 thsd people. As compared with June 2008, the unemployment rate increased by 6.6 percentage points, but the number of the registered unemployed by 75.3 thsd people. The highest unemployment rate in June was registered in the region of Latgale, 15.5% (9.3% in June of 2008); in the region of Kurzeme, 12.7% (5.4%); and in the region of Zemgale, 12.3% (4.9%); and in the region of Vidzeme, 12.0% (4.9%). The lowest unemployment rate was registered in the region of Rīga, 9.8% (3.6%).

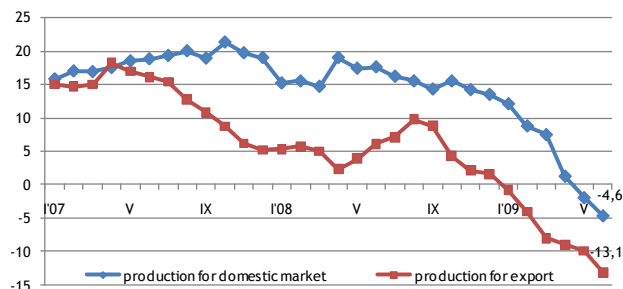
Consumer Price Index (CPI) in June, compared with May, decreased by 0.5%. Average price levels for goods went down by 0.6% and for services by 0.4%. Comparing with the corresponding month of previous year, consumer prices marked up by 3.4%, inter alia for goods – by 2.0% and for services – by 7.1%.

The rise in the prices of fuel, tobacco products, as well as price reduction of heat, vegetables, clothes and footwear had the major impact on consumer price changes in June.



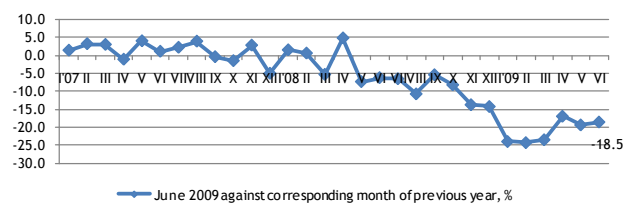
Consumer price index, %

Producer prices in June of 2009 comparing with May reduced by 1.7% but in comparison with corresponding month of previous year, producer prices reduced by 7.8%. In May of 2009 comparing with May of 2008 drop in prices for manufacturing of metals lowered overall producer price level by 4.1 percentage points (pp), manufacturing of wood and wood products (excluding furniture) – by 2.4 pp., manufacturing of food – by 1.2 pp. Producer price level was mostly affected by increase in tariffs of electricity, gas supply, heating and air conditioning – by 1.5%.

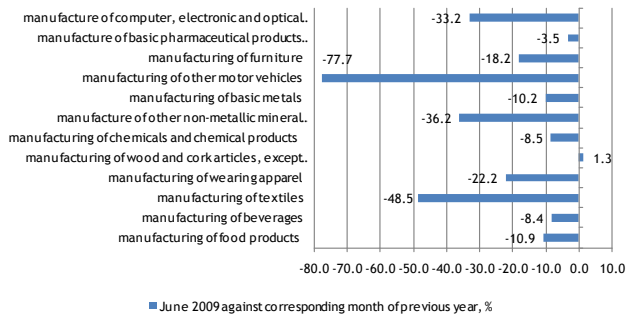


Producer price index, %

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%.



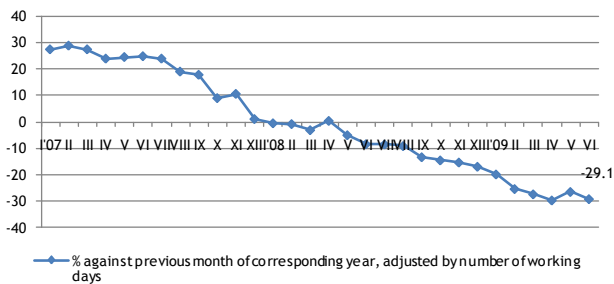
Industrial production index (seasonally adjusted data)



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

Comparing June 2009 to June 2008, according to working (trade) day adjusted data, calculating at constant prices, **retail trade turnover** has reduced by 29.1%. Most notable decrease was recorded in non-food product group – by 31.0%. Slightly less it has reduced in companies selling mainly food products – by 25.5%.

Total retail trade turnover in June 2009 constituted 311.7 mln lats, down by 6.1 mln lats compared to May 2009. Total retail trade turnover in January – May of 2009 constituted 1837.2 mln lats.



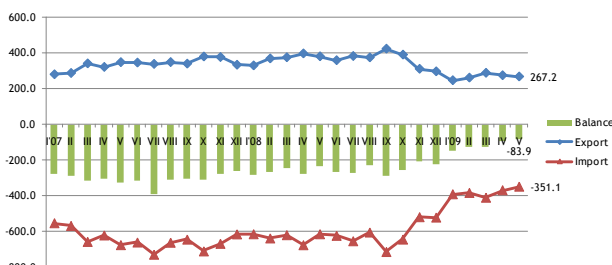
Turnover indices of retail trade (at constant prices)

In May 2009, **exports and imports of goods** amounted to 618.3 mln lats down by 38.5% or 387.6 mln lats from the same period last year.

In January - May of 2009, exports and imports of goods amounted to 3252.7 mln lats down by 35.4% or 1782.6 mln lats from the same period last year.

As compared with May last year, export of goods decreased by 30.1% and amounted to 267.2 mln lats, while import decreased by 43.7%, reaching the value of 351.1 mln lats.

In May 2009, as compared to the May 2008, the trade balance deficit decreased by 157.0 mln lats and amounted to 83.9 mln lats.



Foreign trade balance, mln lats

In May 2009 the most significant share in Latvia's export was export to the countries of European Union 71.8% (73.9% in May of 2008), followed by the export to CIS countries 14.9% (14.6%). Main export partners were Lithuania 16.8% of total export (16.7%); Estonia 14.9% (13.5%); Russia 8.7% (10.1%); Germany 7.7% (8.9%) and Sweden 6.0% (6.5%).

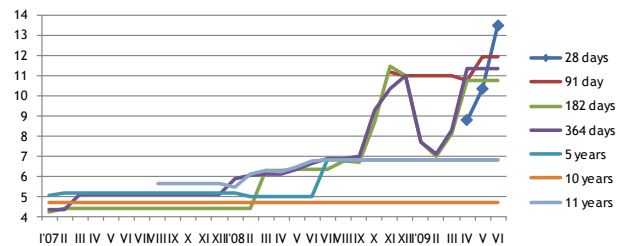
Latvia's main export products were agricultural and food products accounting for 19.1% of total amount (14.9% in May of 2008); wood and wood products accounting for 16.0% of total amount (17.2%); base metals and its articles accounting for 14.0% of total amount (22.4%); machinery, mechanical appliances and electrical equipment accounting for 12.0% of total amount (10.3%).

In May 2009 the most significant share in Latvia's import was import from the countries of European Union 77.4% (76.1% in May of 2008), followed by the import from CIS countries 13.8% (15.5%). Main import partners were Lithuania 18.1% of total import (16.2%); Germany 13.3% (13.8%); Poland 9.2% (6.7%); Russia 8.6% (10.1%) and Estonia 7.8% (7.2%).

Latvia's main import products were agricultural and food products for 19.5% of total amount (12.7% in May of 2008); machinery and mechanical appliances accounting for 15.1% of total amount (17.3%) mineral products accounting for 14.0% of total amount (16.1%).

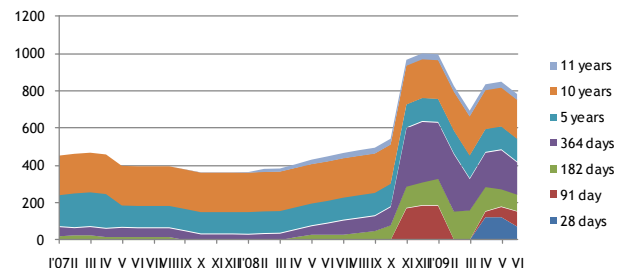
In June 2009 government internal borrowing securities competing multi-price securities auction with term 28 days was held. In auction short-term government debt securities in the total amount of 15.0 mln lats were sold at nominal value with the weighted average profit rate 13.5%.

In June the government short-term bond auctions took place with term 28 days. Bonds were sold at auctions for a total sum of 17.8 mln lats, with the weighted average profit rate from 10.344% to 13.5%.

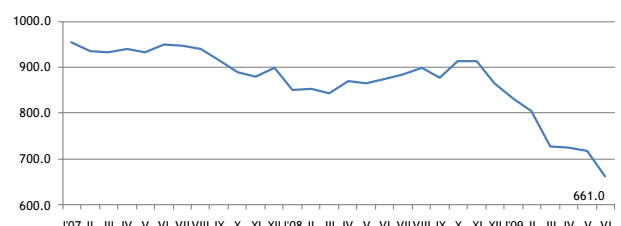


The average interest rate of government internal borrowing securities, %

In June 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 45.0% (80.44% in June 2008), but short-term government bond proportion reached 55.0% (19.56%).



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

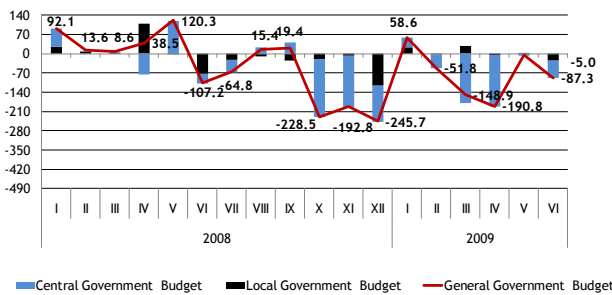


Cash in circulation, mln lats

	09'I	II	III	IV	V	VI
RIGIBOR (3month)	10.66	11.30	12.18	12.54	13.60	27.20
EURIBOR (3month)	2.15	1.85	1.55	1.40	1.26	1.15

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-June 2009) data, in six month of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 2500.5 mln lats which is 436.0 mln lats or 14.8% less than in six month of 2008, mainly due to decrease of tax revenue in the central government basic budget by 365.8 mln lats. In six month of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 2925.6 mln lats, which is 155.0 mln lats or 5.6% more than in six month of 2008. In six month of 2009, the general government budget financial deficit was 425.2 mln lats, mainly due to deficit in the central government consolidated budget.



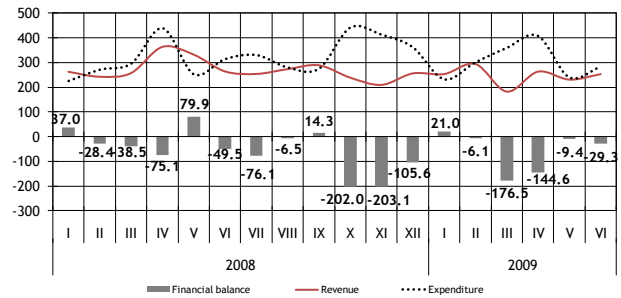
General government budget balance, mln lats

In six months of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 2052.0 mln lats, which is 363.4 mln lats or 15.0% less than in six months of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with six months of 2008 was in the revenue from value added tax.

In six months of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 2501.9 mln lats, which is 167.3 mln lats or 7.2% more than in six months of 2008. In six months of 2009, the deficit of central government consolidated budget was in amount of 449.9 mln lats.

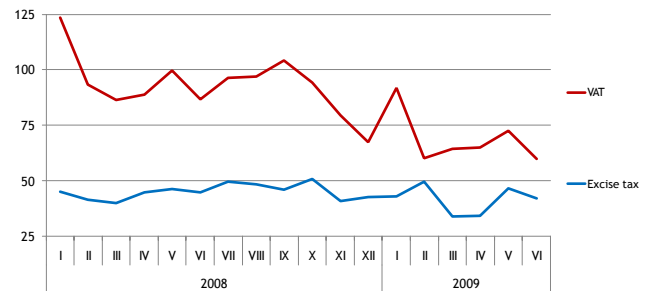
Central government basic budget revenue (including derived public persons) in six months of 2009 was 1506.3 mln lats, which in comparison with six months of 2008 is 216.4 mln lats or 12.6% less.

In comparison with six months of 2008, tax revenue was 869.1 mln lats, which is 365.8 mln lats or 29.6% less, mainly due to decrease of value added tax revenue by 164.3 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with six months of 2008. In six months of 2009 the non-tax revenue was 175.3 mln lats, which is 24.5 mln lats more than in six months of 2008, mainly due to increase of percent revenue by 16.3 mln lats. In six months of 2009, revenue from the paid services and self-earned revenue was 78.9 mln lats, which is 21.4 mln lats or 37.1% more, but revenue from the foreign financial assistance was 339.6 mln lats, which is 60.1 mln lats more than in six months of 2008. Foreign financial assistance revenue in six months of 2009 consisted of an interim payment of the European agriculture fund 73.9 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 118.6 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In six months of 2009, the central government basic budget expenditure (including derived public persons) was 1850.5 mln lats, which is 53.3 mln lats or 3.0% more than in six months of 2008. In six months of 2009, the central government basic budget non-capital expenditure was 1743.1 mln lats or 94.2% of total basic budget expenditure and in comparison with six months of 2008 is 41.9 mln lats more, mainly due to increase of percent expenditure and subsidies, grants and social benefits expenditure, but decrease in wages and salaries. Wages and salaries in six months of 2009 were 269.7 mln lats and in comparison with six months of 2008 is 37.7 mln lats or 12.3% less. The central government basic budget capital expenditure in six months of 2009 was 107.3 mln lats and in comparison with six months of 2008 is 11.4 mln lats or 11.9% more. In six months of 2009, the central government basic budget financial deficit was in amount of 344.2 mln lats.



Indirect tax revenue, mln lats

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

Value added tax revenue in six months of 2009 was 414.3 mln lats and in comparison with six months of 2008 is 164.3 mln lats or 28.4% less.

In six months of 2009, domestically net collected value added tax revenue was 331.3 mln lats or 80.0% of total value added tax revenue and in comparison with six months of 2008 it is 120.3 mln lats or 26.6% less. The value added tax revenue collected on border was 44.0 mln lats or 34.6% less than in six months of 2008.

Value added tax payments made by the biggest taxpayers formed 45.6% of total value added tax revenue in six months of 2009.

The execution of six months of 2009 plan of value added tax revenue was 79.1%. Decrease of value added tax revenue, in comparison with six months of 2008, and non-execution of six 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 June 2009 in comparison with June 2008 retail trade turnover decreased by 29.1%.

According to the State Revenue Service information after the value added tax return data, the total transaction value in six months of 2009, in comparison with the same period of 2008 decreased by 23.1%.

Value added tax revenue in six months of 2009 was affected by the sharp increase of value added tax debts and repayments to the tax payers of

overpayment accrued in previous periods. In six months of 2009 value added tax repayments decreased by 2.6%. 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 six months of 2009.

Corporate income tax revenue in six months of 2009 was 115.5 mln lats and in comparison with six months of 2008 is 142.5 mln lats or 55.2% less, mainly due to decrease of profit of the year 2008 or declared losses. As a result payments decreased and repayments increased. The execution of six month plan of corporate income tax revenue was 94.3%.

In six months of 2009 the corporate income tax payments made by the biggest tax payers were 39.6 mln lats and these payments formed 34.3% of total corporate income tax revenue.

Total excise tax revenue in six months of 2009 was 249.2 mln lats, which is 13.1 mln lats or 5.0% less than in the same period of 2008. Excise tax revenue formed 85.0% of six 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 six months of 2009, excise tax revenue from oil products was 136.8 mln lats or 54.9% of total excise tax revenue and in comparison with six months of 2008 is 2.4 mln lats or 1.8% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In five months of 2009 in comparison to the same period of 2008, it decreased by 13.3%.

In six months of 2009, the excise tax revenue from alcoholic beverages was 42.8 mln lats or 17.2% of total excise tax revenue and in comparison with six months of 2008 is 3.3 mln lats or 7.1% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in five months of 2009 in comparison with five months of 2008 decreased by 28.1%.

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 six months of 2009, excise tax revenue from tobacco products was 60.6 mln lats or 24.3% of total excise tax revenue and in comparison with six months of 2008 is 8.2 mln lats or 11.9% less. The excise tax revenue from tobacco products in six 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 five months of 2009, in comparison with the same period of 2008, decreased by 33.6%.

Social security budget revenue in six months of 2009 was 647.4 mln lats, which is 57.0 mln lats or 8.1% less than in six month of 2008.

The social security budget expenditure in six months of 2009 was 752.7 mln lats, which in comparison with six months of 2008 is 207.9 mln lats or 38.2% more. Expenditure for pensions were 550.6 mln lats or 73.1% of the social security budget expenditure, social security benefits were 124.7 mln lats or 16.6% and employment benefits were 63.7 mln lats or 8.5% of the social security budget expenditure.

In six months of 2009, the social security budget financial deficit was 105.3 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in six months of 2009 were 714.3 mln lats and in comparison with six months of 2008 is 96.2 mln lats or 11.9% less. The social security contributions in the state special budget were 587.2 mln lats, but social security contributions in the funded pension scheme were 127.8 mln lats.

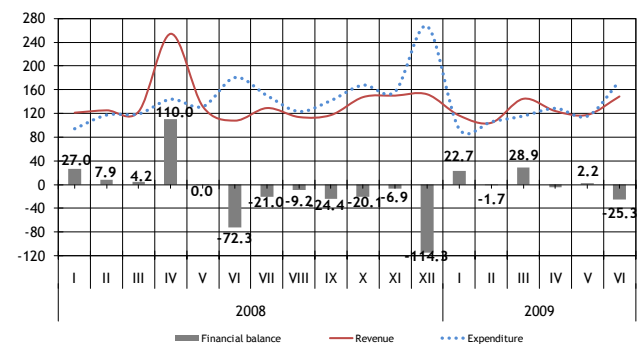
According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in May 2009 in comparison with May 2008 decreased by 13.4%, but wages in first quarter of 2009 in comparison with fourth quarter of 2008 decreased by 6.2%.

Social security contributions in six months of 2009 formed 109.9% of six months plan.

Local government consolidated budget revenue (including grants and donations) in six months of 2009 was 757.5 mln lats and in comparison with six months of 2008 was 107.6 mln lats or 12.4% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in six months of 2009 in comparison with six months of 2008 was 79.0 mln lats or 8.4% less.

In comparison with six months of 2008, the tax revenue was 74.1 mln lats or 16.8% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in six months of 2009 was 1.6 mln lats or 12.0% more than in the same period of 2008, but the local government basic budget received payments were 12.2 mln lats or 2.8% less than in six months of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in six months of 2009 was 5.1 mln lats or 10.0% more than in six months of 2008.



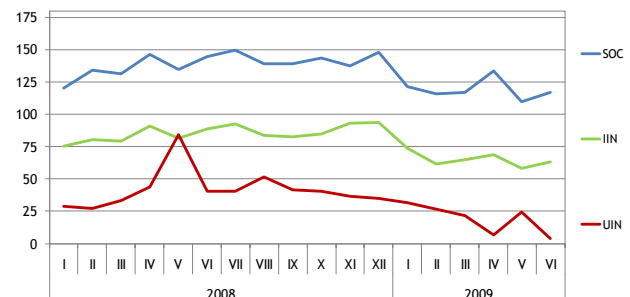
Local government consolidated budget, mln lats

In six months of 2009 the local government consolidated budget expenditure was 735.2 mln lats, which is 53.2 mln lats or 6.7% less than in six months of 2008, mainly due to decrease of capital expenditure in local government basic budget by 33.2 mln lats.

In six months of 2009, there was a financial surplus in amount of 22.4 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in six month of 2009 was 395.1 mln lats and in comparison with six months of 2008 is 12.5 mln lats more, int. al. wages and salaries is 11.4 mln lats more.

Personal income tax revenue. Personal income tax revenue in six months of 2009 was 390.5 mln lats and in comparison with six months of 2008 is 108.0 mln lats or 21.7% 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