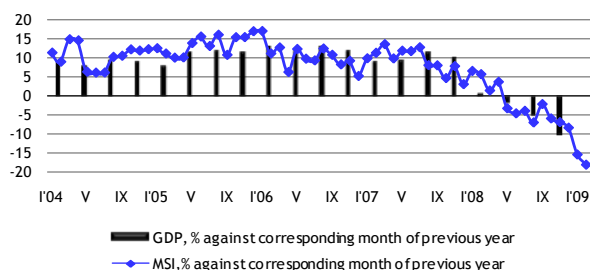


MACROECONOMIC AND BUDGETARY REVIEW

March, 2009

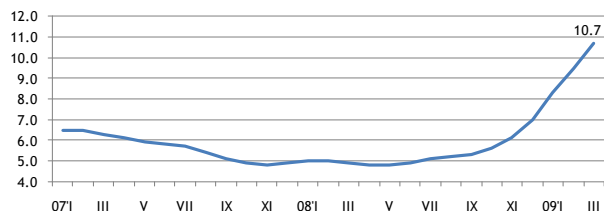
Smilšu street 1. Rīga. Phone 7095539. Fax 095541,
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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in March 2009 shrank by 17.3% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the industrial output, as well as slowdown of cash in circulation.



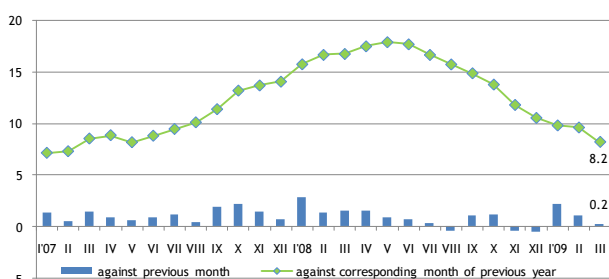
Composite Index of Macroeconomic Indicators (MSI)

The volume of **cargo transhipped in Latvian ports** in March amounted to 5.6 mln t, down by 2.4% 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 March of 2009 **freight carried by rail** were 4.7 mln tons, an increase of 0.5% 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, %

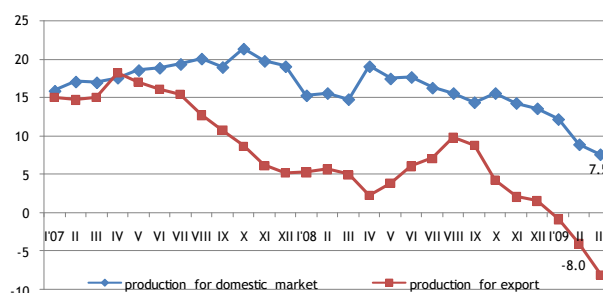
Officially registered **unemployment rate** in March increased by 1.2 percentage points and amounted to 10.7% of the economically active population at the end of the month. The number of the registered unemployed increased by 13.0 thsd people from the previous month and amounted to 116.8 thsd people. As compared with March 2008, the unemployment rate increased by 5.8 percentage points, but the number of the registered unemployed by 64.0 thsd people. The highest unemployment rate in March was registered in the region of Latgale, 14.8% (9.5% in March of 2008); in the region of Zemgale, 12.2% (5.0%); and in the region of Kurzeme, 11.9% (5.2%); and in the region of Vidzeme, 11.5% (4.9%). The lowest unemployment rate was registered in the region of Rīga, 8.7% (3.5%).



Consumer price index, %

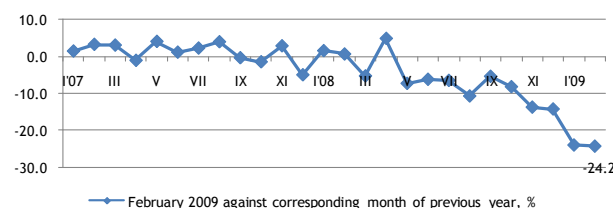
Consumer Price Index (CPI) in March, compared with February, increased by 0.2%. Average price levels for goods went down by 0.1%, but for services grew by 1.2%. Comparing with the corresponding month of the previous year, consumer prices marked up by 8.2%, inter alia for goods – by 7.1% and for services – by 11.3%.

The rise in the prices of hospital and out-patient services, clothing and footwear, fuel as well as price decrease of food products had the greatest impact on consumer price changes. Starting from March 2009 the rise in the prices of administered out-of-pocket payments for hospital services increased 2.7 times, specialist practitioners medical advice 2.5 times and family doctor 2 times. Due to the end of seasonal sales campaigns prices went up for wearing apparel by 2.1% and footwear by 7.7%. Food products in March become cheaper by 1.3%.

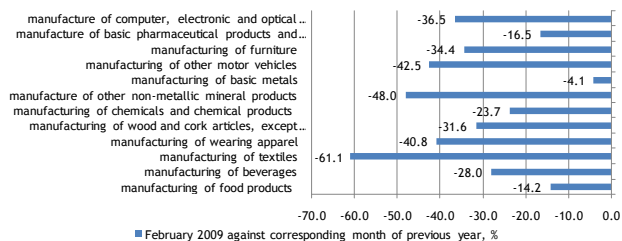


Producer price index, %

Producer prices in March of 2009 comparing with February reduced by 1.6%, but in comparison with the corresponding month of the previous year, producer prices grew by 1.5%. In March of 2009 comparing with March of 2008, producer price level was mostly affected by increase in tariffs of electricity, gas supply, heating and air conditioning – by 6.6%. 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 2.3 pp, refuse collection, utilization and disposal; material processing – by 0.7 pp.



Industrial production index (seasonally adjusted data)

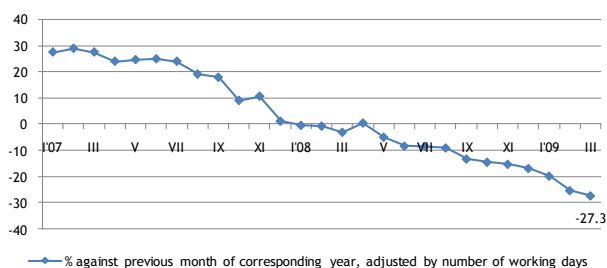


Biggest changes in volume indices of industrial production (seasonally adjusted data)

Compared to February of previous year, in February 2009 **industrial production output** decreased by 24.2%, of which manufacturing – by 28.3%, mining and quarrying – by 6.0%, but electricity and gas supply – by 8.2%. Compared to 2007 industrial production output in 2008 (at constant prices) decreased by 6.7%.

Compared March 2009 to March 2008, according to working (trade) day adjusted data, calculating at constant prices, **retail trade turnover** has reduced by 27.3%. Most notable decrease was recorded in non-food product group – by 30.7%. Slightly less it has reduced in companies selling mainly food products – by 20.6%.

Total retail trade turnover in March 2009 constituted 301.2 mln lats, up by 13.2 mln lats compared to February 2009. Total retail trade turnover in 2008 constituted 4018 mln lats, of which in December –369 mln lats.

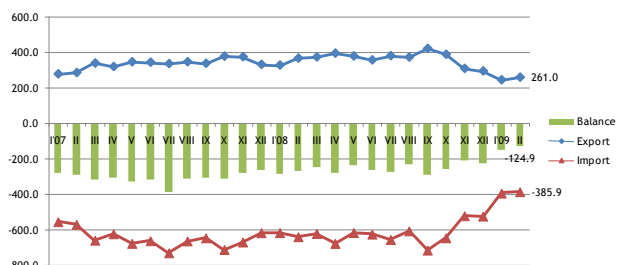


Turnover indices of retail trade (at constant prices)

In February 2009, **exports and imports of goods** amounted to 646.9 mln lats down by 35.9% from the same period last year.

As compared with February last year, export of goods decreased by 29.3% and amounted to 261.0 mln lats, while import decreased by 39.6%, reaching the value of 385.9 mln lats.

In February 2009, as compared to the February 2008, the trade balance deficit decreased by 145.3 mln lats and amounted to 124.9 mln lats.



Foreign trade balance, mln lats

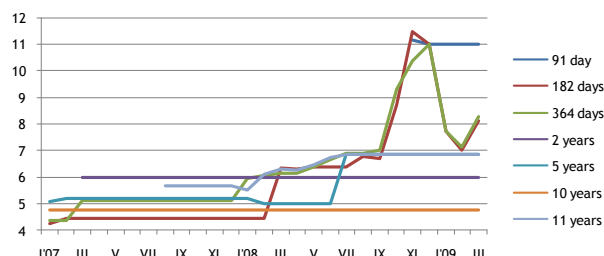
In February 2009 the most significant share in Latvia's export had export to the countries of European Union 70.4% (76.8% in February of 2008), followed by the export to CIS countries 14.6% (15.0%). Main export partners were Lithuania 16.4% of total export (17.0%); Estonia 13.1% (12.7%); Russia 8.2% (10.2%); Germany 8.0% (8.6%) and Sweden 6.7% (6.8%).

Latvia's main export products were agricultural and food products accounting for 19.0% of total amount (15.4% in February of 2008); wood and wood products accounting for 15.6% of total amount (18.7%); base metals and its articles accounting for 14.4% of total amount (14.9%).

In February 2009 the most significant share in Latvia's import had import from the countries of European Union 68.8% (77.8% in February of 2008), followed by the import from CIS countries 21.0% (14.2%). Main import partners were Russia 16.8% of total import (9.4%); Lithuania 14.0% (14.8%); Germany 11.3% (14.9%); Poland 7.2% (7.2%) and Estonia 5.9% (7.4%).

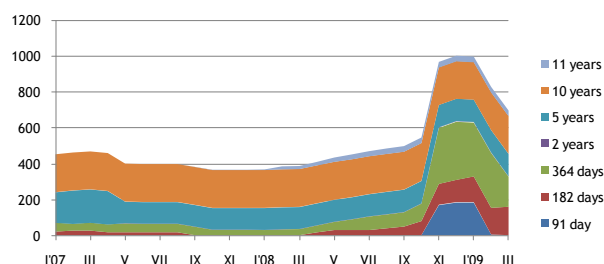
Latvia's main import products were mineral products for 18.8% of total amount (13.5% in February of 2008); agricultural and food products accounting for 16.7% of total amount (12.8%) machinery and mechanical appliances accounting for 14.4% of total amount (18.5%).

In March 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 20.0 mln lats at nominal value. Overall sales were 9.0 mln lats after nominal value with the weighted average profit rate of 8.09% for 6 month T-bills and 8.275% for 1 year T-bills. In March the government internal borrowing short-term fixed-rate securities auctions took a place. Securities were sold at auction for a total sum of 4.9 mln lats, with the weighted average profit rate of 8.09%.

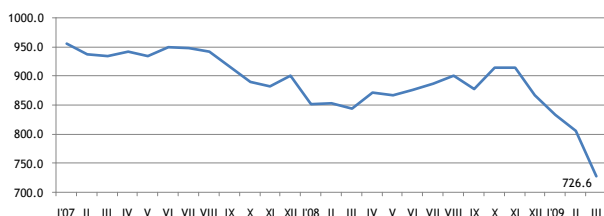


The average interest rate of government internal borrowing securities, %

In March 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 53.0% (90.0% in March 2008), but short-term government bond proportion reached 47.0% (10.0%).



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

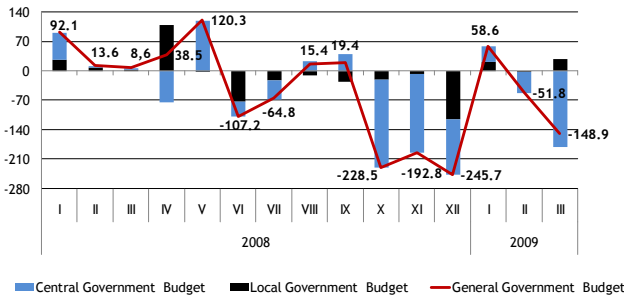


Cash in circulation, mln lats

	X	XI	XII	09'I	II	III
RIGIBOR (3month)	11.57	13.5	13.54	10.66	11.30	12.18
EURIBOR (3month)	4.91	3.94	2.97	2.15	1.85	1.55

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-March 2009) data, in three month of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 1209.5 mln lats which is 139.9 mln lats or 10.4% less than in three month of 2008, mainly due to decrease of tax revenue in the central government basic budget by 115.0 mln lats. In three month of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 1351.5mln lats, which is 116.4 mln lats or 9.4% more than in three month of 2008. In three month of 2009, the general government budget financial deficit was 142.0 mln lats, mainly due to deficit in the central government consolidated budget.



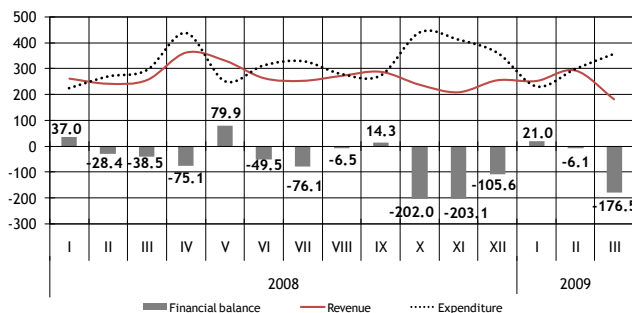
General government budget balance, mln lats

In three month of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 982.2 mln lats, which is 126.3 mln lats or 11.4% less than in three month of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with three month of 2008 was in the revenue from value added tax.

In three month of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 1176.0 mln lats, which is 138.0 mln lats or 13.3% more than in three month of 2008. In three month of 2009, the deficit of central government consolidated budget was in amount of 193.8 mln lats.

Central government basic budget revenue (including derived public persons) in three month of 2009 was 729.8 mln lats, which in comparison with three month of 2008 is 32.6 mln lats or 4.3% less.

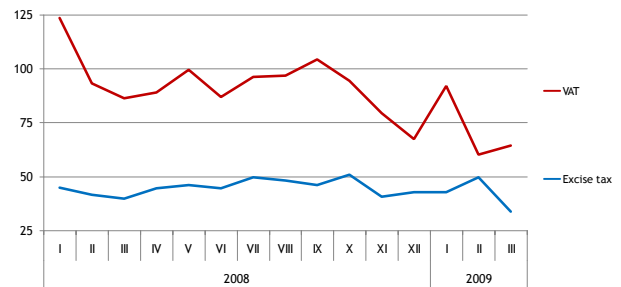
In comparison with three month of 2008, tax revenue was 470.9 mln lats, which is 115.0 mln lats or 19.6% less, mainly due to decrease of value added tax revenue by 86.6 mln lats, but central government basic budget non-tax revenue, self-earned revenue and foreign financial assistance increased, in comparison with three month of 2008. In three month of 2009 the non-tax revenue was 41.8 mln lats, which is 3.4 mln lats more than in three month of 2008, mainly due to increase of percent revenue by 9.9 mln lats. In three month of 2009, revenue from the paid services and self-earned revenue was 40.8 mln lats, which is 9.0 mln lats or 28.2% more, but revenue from the foreign financial assistance was 159.5 mln lats, which is 53.0 mln lats more than in three month of 2008. Foreign financial assistance revenue in March consisted of an interim payment of 2004-2006 of the Cohesion Fund 10.8 mln lats and 2.3 mln lats the European agriculture guarantee fund interim payment of programming period from 2007 to 2013.



Central government basic budget, mln lats

In three month of 2009, the central government basic budget expenditure (including derived public persons) was 891.3mln lats, which is 99.1 mln lats or 12.5% more than in three month of 2008. In three month of 2009, the central government basic budget non-capital expenditure was 827.2 mln lats or 92.8% of total basic budget expenditure and in comparison with three month of 2008 is 71.1 mln lats more, mainly due to increase of percent expenditure and capital expenditure, but wages and salaries decreased. Wages and salaries in three month of 2009 were 127.5 mln lats and in comparison with three month of 2008 is 9.7 mln lats or 7.1% less. In comparison with three month of 2008

payments in EU budget increased by 2.2 mln lats and interest payment increased by 72.5 mln lats. The central government basic budget capital expenditure in three month of 2009 was 62.4mln lats and in comparison with three month of 2008 is 28.0 mln lats or 77.4% more. In three month of 2009, the deficit of central government basic budget was planned in amount of 40.5 mln lats, but actually there was a financial deficit in amount of 161.5 mln lats.



Indirect tax revenue, mln lats

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

Value added tax revenue in three month of 2009 was 216.6 mln lats and in comparison with three month of 2008 is 86.6 mln lats or 28.6% less.

In three month of 2009, domestically net collected value added tax revenue was 171.7 mln lats or 79.2% of total value added tax revenue and in comparison with three month of 2008 it is 71.2 mln lats or 29.3% less. The value added tax revenue collected on border was 15.4 mln lats or 25.6% less than in three month of 2008.

Value added tax payments made by the biggest taxpayers formed 41.7% of total value added tax revenue in three month of 2009.

The execution of three month of 2009 plan of value added tax revenue was 74.6%. Decrease of value added tax revenue, in comparison with three month of 2008, and non-execution of three 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 February 2009 in comparison with February 2008 retail trade turnover decreased by 27.3% (in actual prices).

According to the State Revenue Service information after the value added tax return data, the total transaction value in 2009 in three months, in comparison with the same period of 2008 decreased by 14.8%.

Value added tax revenue in three month of 2009 affected the increase of value added tax repayments by 5.7%, in comparison with the same period of 2008, but it was significantly less than in the three month of 2008, when the repayments grew by 47.6%, 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 three month of 2009 too.

Total excise tax revenue in three month of 2009 was 126.5 mln lats, which is on the level of the same period of 2008. Excise tax revenue formed 87.2% of three 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 three month of 2009, excise tax revenue from oil products was 67.4 mln lats or 53.3% of total excise tax revenue and in comparison with three month of 2008 is 0.4 mln lats or 0.6% more. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In two month of 2009 in comparison to the same period of 2008, decreased by 21.2%.

In three month of 2009, the excise tax revenue from alcoholic beverages was 21.5mln lats or 17.0% of total excise tax revenue and in comparison with three month of 2008 is 2.4 mln lats or 10.0% less. This is related with the increase of

tax rates from the 1st February of 2009, which compensated the decrease of sale volume of alcoholic beverages. According to the State Revenue Service information the total consumption of the alcoholic beverages in two month of 2009 in comparison with two month of 2008 decreased by 31.4%.

In three month of 2009, excise tax revenue from tobacco products was 34.3 mln lats or 27.1% of total excise tax revenue and in comparison with three month of 2008 is 1.9 mln lats or 6.0% more. The excise tax revenue from tobacco products in three 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. This revenue made 1.3 mln lats.

The excise tax revenue form tobacco products in March 2009 was 1.3 mln lats, which affected the decrease of the sale volume of the tobacco products, as well as at the end of January in the period of wholesale trade made huge trade stock. The tax about them was paid in February. According to the State Revenue Service information the total consumption of cigarettes in two month of 2009, in comparison of two month 2008, decreased by 23.7%.

Since February 2009 the tax rates for other smoking tobacco is increased, and the March revenue was impacted by this to.

Social security budget revenue in three month of 2009 was 320.7 mln lats, which is 34.4 mln lats or 9.7% less than in three month of 2008.

The social security budget expenditure in three month of 2009 was 353.0 mln lats, which in comparison with three month of 2008 is 99.3 mln lats or 39.1% more. Expenditure for pensions were 258.8 mln lats or 73.3% of the social security budget expenditure, social security benefits was 62.3 mln lats or 17.7% and employment benefits was 26.9 mln lats or 7.6% of the social security budget expenditure.

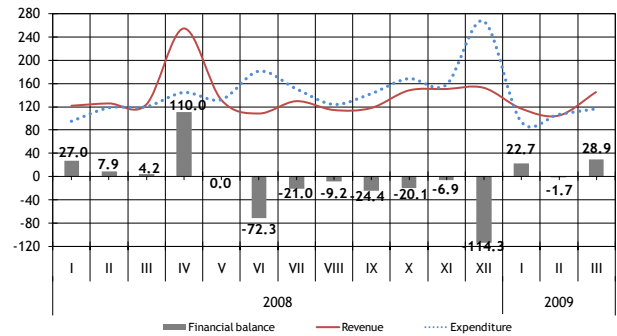
In three month of 2009, the social security budget financial deficit was 32.3mln lats, which is slightly less than planned (plan – 66.7 mln lats deficit).

Social security contributions (including contributions into the State Funded Pension Scheme) in three month of 2009 were 354.0 mln lats and in comparison with three month of 2008 is 31.3 mln lats or 8.1% less. According to the State Revenue Service information, the number of employees continues to decrease. In February 2009 in comparison with February 2008 it decreased by 9.5%. Social security contributions in three month of 2009 formed 112.0% of three month plan, which is mainly affected by the fact that funded pensions are paid into the state budget with four-month lag, so that in three month of 2009 they were paid even after the previous rate.

Local government consolidated budget revenue (including grants and donations) in three month of 2009 was 366.4 mln lats and in comparison with three month of 2008 was 4.6 mln lats or 1.2% less.

In three month of 2009 the local government consolidated budget expenditure was 316.4mln lats, which is 15.5 mln lats or 4.7% less than in three month of 2008, mainly due to decrease of capital expenditure in local government basic budget by 18.2mln lats. In three month of 2009, the financial surplus of 49.9 mln lats was in the local government consolidated budget.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in three month of 2009 in comparison with three month of 2008 was 8.4 mln lats or 2.1% more. In comparison with three month of 2008, the tax revenue was 12.8 mln lats or 6.3% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in three month of 2009 in comparison with three month of 2008 was 0.2 mln lats or 3.4% more, but the local government basic budget received payments was 19.6 mln lats or 12.2% more. Local government basic budget revenue from the paid services and other self-earned revenue in three month of 2009 was 1.7 mln lats or 6.5% more than in three month of 2008.



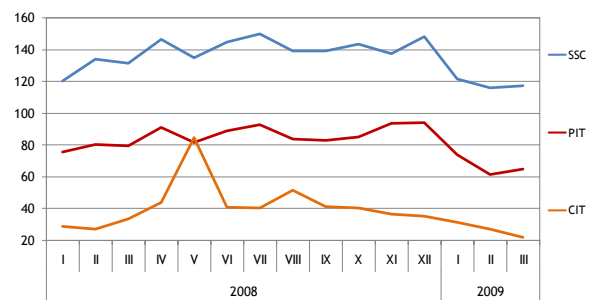
Local government consolidated budget, mln lats

Local government basic budget expenditure for remuneration in three month of 2009 was 165.2 mln lats and in comparison with three month of 2008 is 8.1 mln lats more, int. al. wages and salaries is 6.9 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 three month of 2009 was 200.4mln lats and in comparison with three month of 2008 is 36.9 mln lats or 15.5% less. Personal income tax revenue in three month of 2009 formed 106.6% of three 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 three month of 2009 was 80.2 mln lats and in comparison with three month of 2008 is 9.1 mln lats or 10.2% less. The execution of three month plan of corporate income tax revenue was 138.3%. In three month of 2009 mainly were paid corporate income tax advance payments, which were calculated on the basis of taxpayers' profits in 2007.

In three month of 2009 the corporate income tax payments made by the biggest tax payers were 41.9mln lats and these payments formed 52.2% of total corporate income tax revenue.



Direct tax revenue, mln lats