

MACROECONOMIC AND BUDGETARY REVIEW

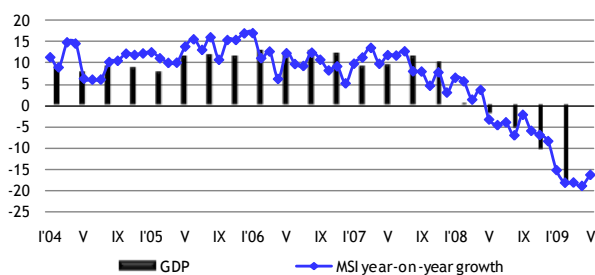


MINISTRY OF FINANCE
REPUBLIC OF LATVIA

May, 2009

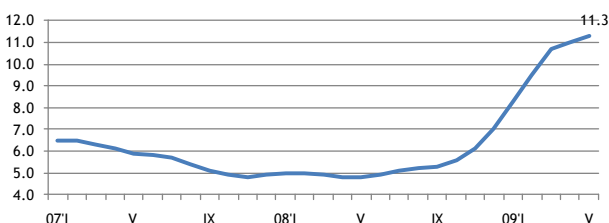
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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in May 2009 shrunk by 16.3% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the industrial 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 May amounted to 5.1 mln t, down by 2.4% from the corresponding month of 2008. However the volume of cargo transhipped in ports in January – May of 2009 totalled 26.9 mln t, which was 1.2% less than in the same period of the previous year. In May of 2009 **freight carried by rail** were 4.9 mln tons, an increase of 6.1% compared to the same period of the previous year. Freight carried by rail in January – May of 2009 totalled 23.4 mln t, which was 0.4% more than in 2008.

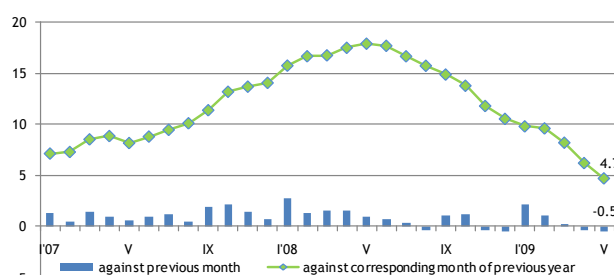


Officially registered unemployment rate, %

Officially registered **unemployment rate** in May increased by 0.3 percentage points and amounted to 11.3% of the economically active population at the end of the month. The number of the registered unemployed increased by 3.5 thsd people from the previous month and amounted to 126.6 thsd people. As compared with May 2008, the unemployment rate increased by 6.5 percentage points, but the number of the registered unemployed by 74.4 thsd people. The highest unemployment rate in May was registered in the region of Latgale, 15.2% (9.1% in May of 2008); in the region of Zemgale, 12.3% (4.9%); and in the region of Kurzeme, 12.4% (5.1%); and in the region of Vidzeme, 12.0% (4.8%). The lowest unemployment rate was registered in the region of Rīga, 9.5% (3.4%).

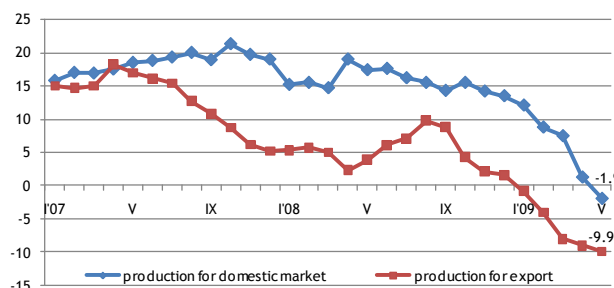
Consumer Price Index (CPI) in May, compared with April, decreased by 0.5%. Average price levels for goods went down by 0.6%, and for services by 0.4%. Comparing with the corresponding month of previous year, consumer prices marked up by 4.7%, inter alia for goods – by 3.3% and for services – by 8.4%.

The rise in the prices of fuel, tobacco products and vegetables, as well as price reduction of heat, transport vehicles, fruit and dairy products had the major impact on consumer price changes in May.



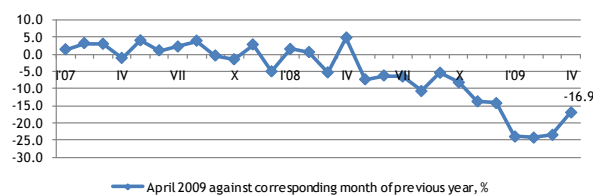
Consumer price index, %

Producer prices in May of 2009 comparing with April reduced by 0.9% but in comparison with corresponding month of previous year, producer prices reduced by 4.8%. In May of 2009 comparing with May of 2008, producer price level was mostly affected by increase in tariffs of electricity, gas supply, heating and air conditioning – by 2.4%. Drop in prices for manufacturing of metals lowered overall producer price level by 2.9 percentage points (pp), manufacturing of wood and wood products (excluding furniture) – by 2.5 pp.

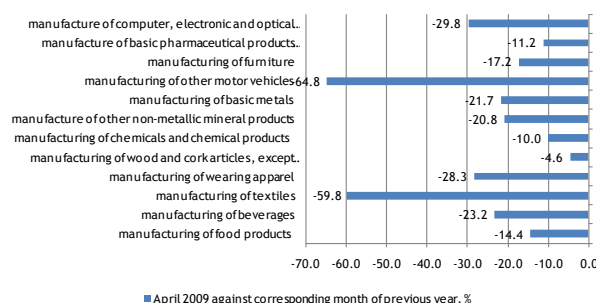


Producer price index, %

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%.



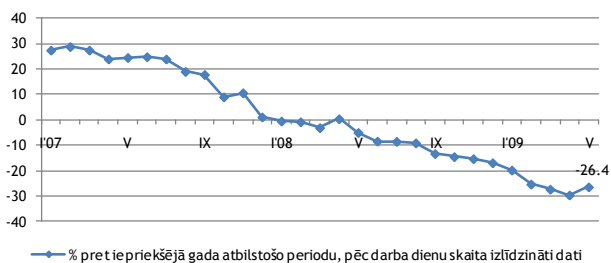
Industrial production index (seasonally adjusted data)



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

Compared May 2009 to May 2008, according to working (trade) day adjusted data, calculating at constant prices, **retail trade turnover** has reduced by 26.4%. Most notable decrease was recorded in non-food product group – by 29.9%. Slightly less it has reduced in companies selling mainly food products – by 18.9%.

Total retail trade turnover in May 2009 constituted 317.8 mln lats, up by 8.5 mln lats compared to April 2009. Total retail trade turnover in January – May of 2009 constituted 1525.4 mln lats.



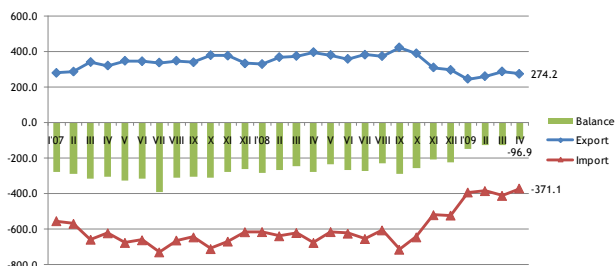
Turnover indices of retail trade (at constant prices)

In April 2009, **exports and imports of goods** amounted to 645.4 mln lats down by 40.2% or 433.1 mln lats from the same period last year.

In January - April of 2009, exports and imports of goods amounted to 2632.4 mln lats down by 34.7% or 1397.0 mln lats from the same period last year.

As compared with April last year, export of goods decreased by 30.9% and amounted to 274.3 mln lats, while import decreased by 45.6%, reaching the value of 371.1 mln lats.

In April 2009, as compared to the April 2008, the trade balance deficit decreased by 188.1 mln lats and amounted to 96.9 mln lats.



Foreign trade balance, mln lats

In April 2009 the most significant share in Latvia's export had export to the countries of European Union 70.8% (72.9% in April of 2008), followed by the export to CIS countries 14.8% (14.5%). Main export partners were Lithuania 16.2% of total export (16.6%); Estonia 15.0% (14.1%); Russia 9.4% (9.8%); Germany 8.0% (9.7%) and Sweden 6.9% (7.8%).

Latvia's main export products were agricultural and food products accounting for 18.8% of total amount (15.1% in April of 2008); wood and wood products accounting for 15.7% of total amount (19.2%); machinery, mechanical appliances and electrical equipment accounting for 12.4% of total amount (11.6%); base metals and its articles accounting for 12.3% of total amount (16.0%).

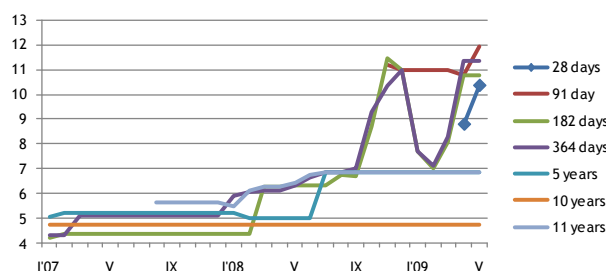
In April 2009 the most significant share in Latvia's import had import from the countries of European Union 72.3% (76.8% in April of 2008), followed by the import from CIS countries 15.8% (14.9%). Main import partners were Lithuania 16.7% of total import (15.1%); Germany 10.7% (15.1%); Russia 10.4% (9.4%); Poland 8.9% (6.9%) and Estonia 6.9% (7.1%).

Latvia's main import products were agricultural and food products for 19.6% of total amount (13.2% in April of 2008); mineral products accounting for 14.5%

of total amount (13.4%) machinery and mechanical appliances accounting for 14.0% of total amount (18.4%).

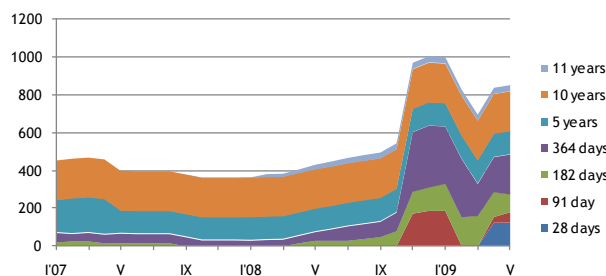
In May 2009 government internal borrowing securities competing multi-price securities with term 28 and 91 day were held. In auctions were sold short-term government debt securities in the total amount of 28.9 mln lats at nominal value with the weighted average profit rate from 10.344% to 11.924%.

In May the government short-term bond auctions took a place with term 28 and 91 day. Bonds were sold at auctions for a total sum of 7.6 mln lats, with the weighted average profit rate from 10.344% to 11.924%.

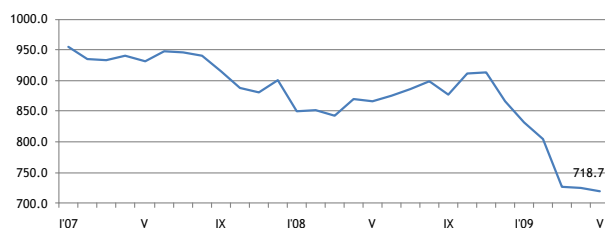


The average interest rate of government internal borrowing securities, %

In May 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 45.0% (82.38% in May 2008), but short-term government bond proportion reached 55.0% (17.62%).



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

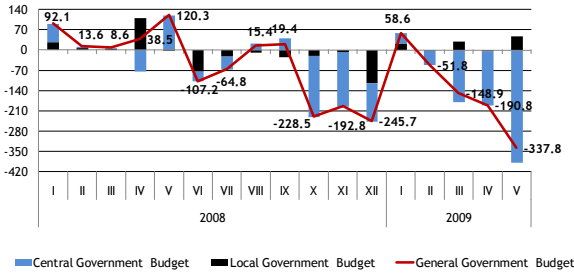


Cash in circulation, mln lats

	XII	09'I	II	III	IV	V
RIGIBOR (3month)	13.54	10.66	11.30	12.18	12.54	13.60
EURIBOR (3month)	2.97	2.15	1.85	1.55	1.40	1.26

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-May 2009) data, in five month of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 2059.9 mln lats which is 403.2 mln lats or 16.4% less than in five month of 2008, mainly due to decrease of tax revenue in the central government basic budget by 289.7 mln lats. In five month of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 2397.8 mln lats, which is 207.6 mln lats or 9.5% more than in five month of 2008. In five month of 2009, the general government budget financial deficit was 337.8 mln lats, mainly due to deficit in the central government consolidated budget.



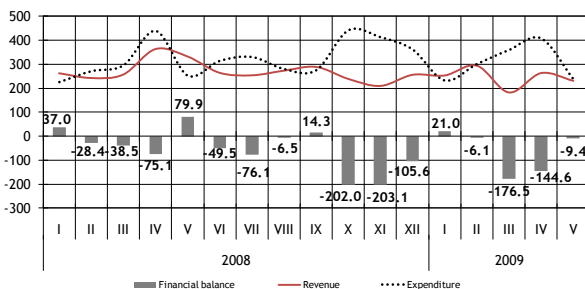
General government budget balance, mln lats

In five month of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 1680.3 mln lats, which is 348.8 mln lats or 17.2% less than in five 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 five month of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 2067.7 mln lats, which is 154.5 mln lats or 8.1% more than in five month of 2008. In five month of 2009, the deficit of central government consolidated budget was in amount of 387.4 mln lats.

Central government basic budget revenue (including derived public persons) in five month of 2009 was 1236.7 mln lats, which in comparison with five month of 2008 is 221.7 mln lats or 15.2% less.

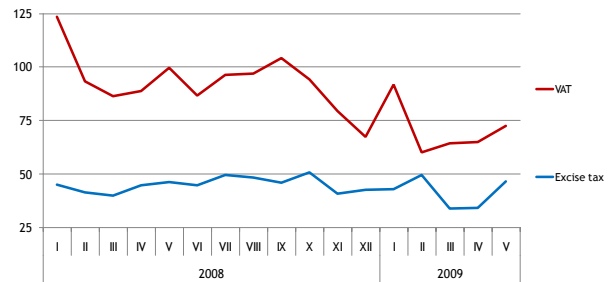
In comparison with five month of 2008, tax revenue was 750.5 mln lats, which is 289.7 mln lats or 27.9% less, mainly due to decrease of value added tax revenue by 137.4 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with five month of 2008. In five month of 2009 the non-tax revenue was 130.1 mln lats, which is 21.5 mln lats more than in five month of 2008, mainly due to increase of percent revenue by 15.6 mln lats. In five month of 2009, revenue from the paid services and self-earned revenue was 66.1 mln lats, which is 16.3 mln lats or 32.8% more, but revenue from the foreign financial assistance was 255.6 mln lats, which is 4.2 mln lats less than in five month of 2008. Foreign financial assistance revenue in five month of 2009 consisted of an interim payment of the European agriculture fund 63.8 mln lats of 2007-2013 programming period, an interim payment of Cohesion fund 43.3 mln. lats and interim payments of the European Reconstruction and development fund 68.6 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In five month of 2009, the central government basic budget expenditure (including derived public persons) was 1552.0 mln lats, which is 68.6 mln lats or 4.6% more than in five month of 2008. In four month of 2009, the central government basic budget non-capital expenditure was 1459.0 mln lats or 94.0% of total basic budget expenditure and in comparison with four month of 2008 is 46.0 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 five month of 2009 were 218.4 mln lats and in comparison with five month of 2008 is 20.6 mln lats or 8.6% less. The

central government basic budget capital expenditure in five month of 2009 was 93.0 mln lats and in comparison with five month of 2008 is 22.6 mln lats or 32.2% more. In five month of 2009, the central government basic budget financial deficit was in amount of 315.3 mln lats.



Indirect tax revenue, mln lats

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

Value added tax revenue in five month of 2009 was 354.3 mln lats and in comparison with five month of 2008 is 137.4 mln lats or 27.9% less.

In five month of 2009, domestically net collected value added tax revenue was 282.9 mln lats or 79.8% of total value added tax revenue and in comparison with five month of 2008 it is 103.7 mln lats or 26.8% less. The value added tax revenue collected on border was 33.6 mln lats or 32.0% less than in four month of 2008.

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

The execution of five month of 2009 plan of value added tax revenue was 79.7%. Decrease of value added tax revenue, in comparison with five month of 2008, and non-execution of five 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 May 2009 in comparison with May 2008 retail trade turnover decreased by 26.4%.

According to the State Revenue Service information after the value added tax return data, the total transaction value in 2009 in five months, in comparison with the same period of 2008 decreased by 22.0%.

Value added tax revenue in five month of 2009 affected the sharp increase of value added tax debts and in previous periods accrued overpayment repayments to the tax payers. In five month of 2009 value added tax repayments decreased by 0.3%. 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 five month of 2009.

Corporate income tax revenue in five month of 2009 was 111.4 mln lats and in comparison with five month of 2008 is 106.1 mln lats or 48.8% less. The execution of five month plan of corporate income tax revenue was 106.6%. In five month of 2009 mainly were paid corporate income tax advance payments, which were calculated on the basis of taxpayers' profits in 2007.

In five month of 2009 the corporate income tax payments made by the biggest tax payers were 39.7 mln lats and these payments formed 35.6% of total corporate income tax revenue.

Total **excise tax revenue** in five month of 2009 was 207.2 mln lats, which is 10.3 mln lats or 4.8% less than in the same period of 2008. Excise tax revenue formed 85.0% of five 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 five month of 2009, excise tax revenue from oil products was 112.6 mln lats or 54.4% of total excise tax revenue and in comparison with five month of 2008 is 1.5 mln lats or 1.3% 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 12.0%.

In five month of 2009, the excise tax revenue from alcoholic beverages was 35.9 mln lats or 17.3% of total excise tax revenue and in comparison with five month of 2008 is 3.4 mln lats or 8.7% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in four month of 2009 in comparison with four month of 2008 decreased by 29.0%.

In five month of 2009, excise tax revenue from tobacco products was 52.2 mln lats or 25.2% of total excise tax revenue and in comparison with five month of 2008 is 5.6 mln lats or 9.7% less. The excise tax revenue from tobacco products in five month of 2009 affected the increase of tax rates for cigarettes since January 2009, as well as changes in for sale in Latvia channelled volume of cigarettes, which in four month of 2009, in comparison with the same period of 2008, decreased by 32.0%.

The excise tax revenue from tobacco products in May 2009 was 12.6 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 April 2009, in comparison April 2008, decreased by 16.0%.

Social security budget revenue in five month of 2009 was 534.6 mln lats, which is 49.8 mln lats or 8.5% less than in five month of 2008.

The social security budget expenditure in five month of 2009 was 606.4 mln lats, which in comparison with five month of 2008 is 167.0 mln lats or 38.0% more. Expenditure for pensions were 440.3 mln lats or 72.6% of the social security budget expenditure, social security benefits was 104.9 mln lats or 17.3% and employment benefits was 51.3 mln lats or 8.5% of the social security budget expenditure.

In five month of 2009, the social security budget financial deficit was 71.8 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in five month of 2009 were 597.2 mln lats and in comparison with five month of 2008 is 68.9 mln lats or 10.3% less. The social security contributions in the state special budget were 476.5 mln lats, but social security contributions in the funded pension scheme were 121.3 mln lats.

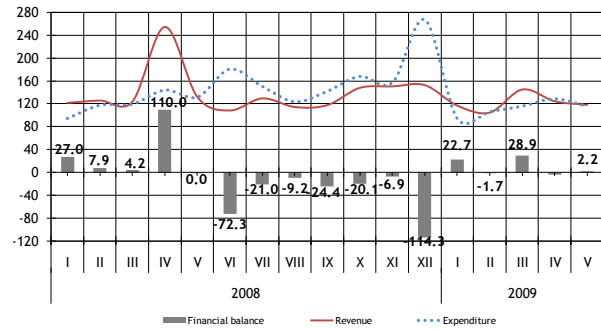
According to the State Revenue Service information, the number of employees and wages continue to decrease. The number of employees in April 2009 in comparison with April 2008 decreased by 11.8%, but wages in first quarter of 2009 in comparison with fourth quarter of 2008 decreased by 6.2%.

Social security contributions in five month of 2009 formed 111.0% of five month plan.

Local government consolidated budget revenue (including grants and donations) in five month of 2009 was 608.7 mln lats and in comparison with five month of 2008 was 148.2 mln lats or 19.6% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in five month of 2009 in comparison with five month of 2008 was 132.2 mln lats or 16.3% less.

In comparison with five month of 2008, the tax revenue was 55.9 mln lats or 15.2% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in five month of 2009 was 2.3 mln lats or 22.8% more than in the same period of 2008, but the local government basic budget received payments were 79.8 mln lats or 20.7% less than in five month of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in five month of 2009 was 1.8 mln lats or 3.9% more than in five month of 2008.



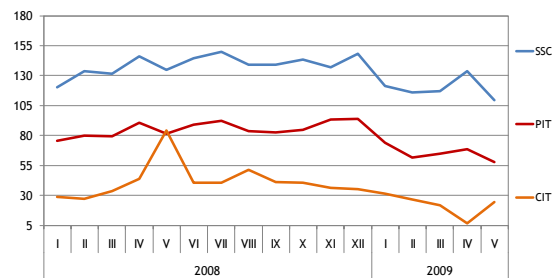
Local government consolidated budget, mln lats

In five month of 2009 the local government consolidated budget expenditure was 561.0 mln lats, which is 46.8 mln lats or 7.7% less than in five month of 2008, mainly due to decrease of capital expenditure in local government basic budget by 30.4 mln lats.

In five month of 2009, the financial surplus of 47.7 mln lats was in the local government consolidated budget.

Local government basic budget expenditure for remuneration in five month of 2009 was 288.2 mln lats and in comparison with five month of 2008 is 6.6 mln lats more, int. al. wages and salaries is 6.7 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 five month of 2009 was 327.0 mln lats and in comparison with five month of 2008 is 82.6 mln lats or 20.2% 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