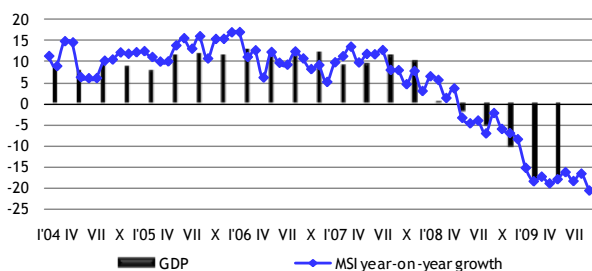


# MACROECONOMIC AND BUDGETARY REVIEW

September, 2009

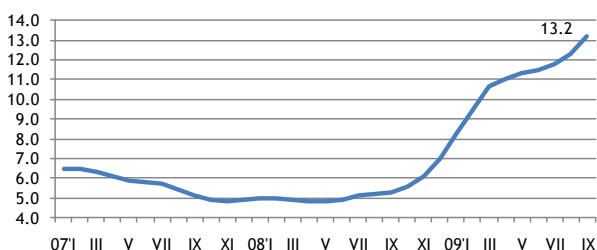
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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in September 2009 shrunk by 20.5% at constant prices reaching the lowest value since the Global economic crisis has begun. The decrease 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 September amounted to 4.4 mln t, down by 13.5% from the corresponding month of 2008. However, the volume of cargo transhipped in ports in January – September of 2009 totalled 47.1 mln t, which was 0.9% less than in the same period of the previous year. In September of 2009 **freight carried by rail** were 3.8 mln tons, a decrease of 9.4% compared to the same period of the previous year. Freight carried by rail in January – September of 2009 totalled 40.9 mln t, which was 0.02% more than in 2008.

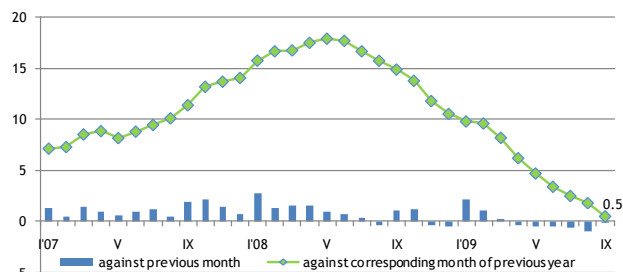


Officially registered unemployment rate, %

Officially registered **unemployment rate** in September increased by 0.9 percentage points and amounted to 13.2% of the economically active population at the end of the month. The number of the registered unemployed increased by 10.2 thsd people from the previous month and amounted to 147.8 thsd people. As compared with September 2008, the unemployment rate increased by 7.9 percentage points, but the number of the registered unemployed by 90.1 thsd people. The highest unemployment rate in September was registered in the region of Latgale, 17.6% (9.3% in September of 2008); in the region of Kurzeme, 14.6% (5.5%); and in the region of Zemgale, 14.2% (5.3%); and in the region of Vidzeme, 14.0% (5.3%). The lowest unemployment rate was registered in the region of Rīga, 11.1% (4.0%).

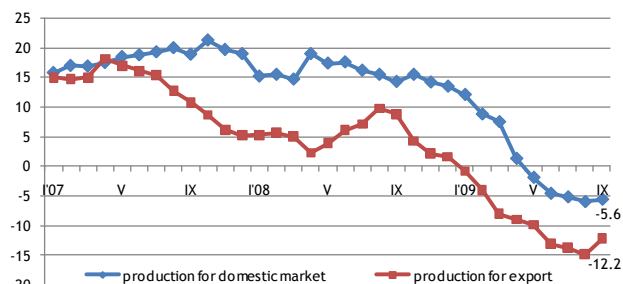
Consumer Price Index (CPI) in September, compared with August, decreased by 0.2%. Average price levels for goods went up by 0.1% and for services went down by 1.0%. Comparing with the corresponding month of previous year, consumer prices marked up by 0.5%, inter alia for goods remain stable but for services decreased by 1.8%.

The rise in the prices of education services, clothes and footwear, as well as price reduction of fruit, vegetables and catering services had the major impact on consumer price changes in September. Because of seasonal effects price of fruit become cheaper by 7.1%, but catering services become cheaper by 2.2%.



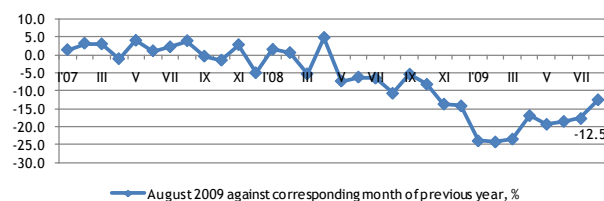
Consumer price index, %

Producer prices in September of 2009 comparing with August rose by 0.3%, but in comparison with corresponding month of previous year, producer prices reduced by 8.0%. In September of 2009 comparing with September of 2008 average producer price level was mostly affected by drop in prices for manufacturing of metals by 3.9 percentage points (pp), manufacturing of wood and wood products (excluding furniture) – by 1.9 pp., manufacturing of food – by 1.6 pp. Producer price level marked up only due to increase in tariffs of electricity, gas supply, heating and air conditioning – by 1.0%.

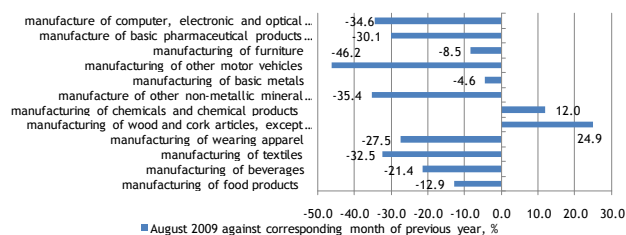


Producer price index, %

Compared to August of previous year, in August 2009 **industrial production output** decreased by 12.5%, of which manufacturing – by 13.2%, electricity and gas supply – by 12.0%, but mining and quarrying output increased – by 9.5%.



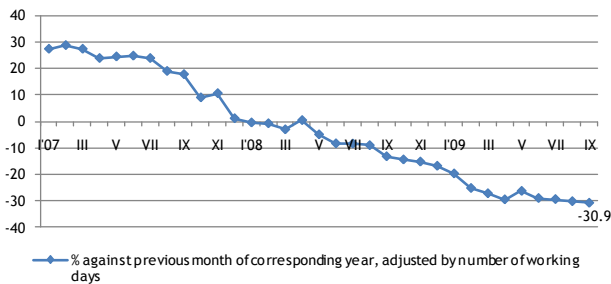
Industrial production index (seasonally adjusted data)



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 September 2009, compared to September 2008, has reduced by 30.9%. Most notable decrease was recorded in non-food product group – by 34.6%. Slightly smaller reduction was recorded in companies selling mainly food products – by 22.7%.

Total retail trade turnover in September 2009 constituted 285.7 mln lats, down by 17.8 mln lats compared to August 2009. Total retail trade turnover in January – September of 2009 constituted 2746.2 mln lats.



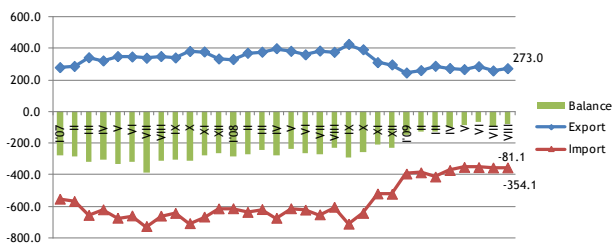
Turnover indices of retail trade (at constant prices)

In August 2009, **exports and imports of goods** amounted to 627.1 mln lats down by 36.4% or 358.9 mln lats from the same period last year.

In January - August of 2009, exports and imports of goods amounted to 5174.0 mln lats down by 35.7% or 2877.1 mln lats from the same period last year.

As compared with January -August last year, export of goods decreased by 26.5% and amounted to 2183.9 mln lats, while import decreased by 41.1%, reaching the value of 2990.1 mln lats.

In August 2009, as compared to the August 2008, the trade balance deficit decreased by 156.9 mln lats and amounted to 81.1 mln lats.



Foreign trade balance, mln lats

In August 2009 the most significant share in Latvia's export was export to the countries of European Union 75.1% (71.2% in August of 2008), followed by the export to CIS countries 14.4% (14.7%). Main export partners were Lithuania 17.8% of total export (15.7%); Estonia 13.4% (14.0%); Germany 10.3% (6.7%); Russia 9.4% (9.5%) and Sweden 7.1% (6.6%).

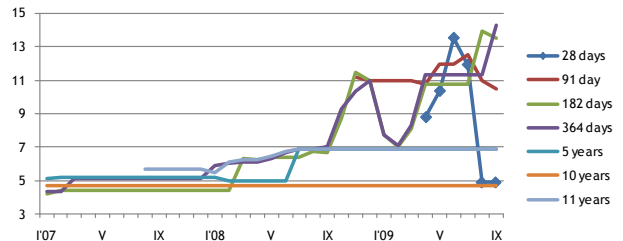
Latvia's main export products were agricultural and food products accounting for 17.4% of total amount (15.6% in August of 2008); wood and wood products accounting for 18.7% (14.1%); machinery, mechanical appliances and electrical equipment accounting for 12.1% (11.9%); base metals and its articles accounting for 11.6% (22.1%).

In August 2009 the most significant share in Latvia's import was import from the countries of European Union 76.5% (75.7% in August of 2008), followed by the import from CIS countries 14.1% (15.7%). Main import partners were Lithuania 18.8% of total import (19.8%); Germany 12.1% (11.4%); Poland 8.4% (7.6%); Russia 7.8% (11.2%) and Estonia 7.5% (7.0%).

Latvia's main import products were agricultural and food products for 19.3% of total amount (13.9% in August of 2008); mineral products accounting for 16.1% (19.9%) machinery and mechanical appliances accounting for 15.1% (18.1%).

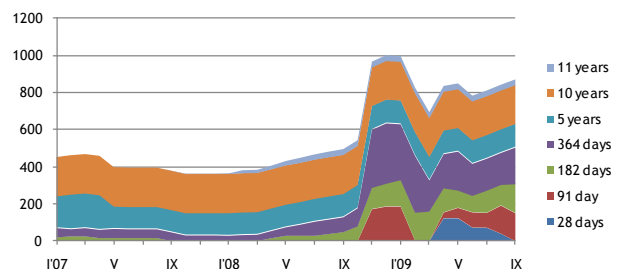
In September 2009 government internal borrowing securities competing multi-price securities auctions with term 91, 128 and 364 days were held. In auctions short-term government debt securities in the total amount of 41.1 mln lats were sold at nominal value with the weighted average profit rate from 10.4% to 14.3%.

In September the government short-term bond auctions took place with term 91, 128 and 364 days. Bonds were sold at auctions for a total sum of 72.4 mln lats, with the weighted average profit rate from 10.4% to 14.3%.

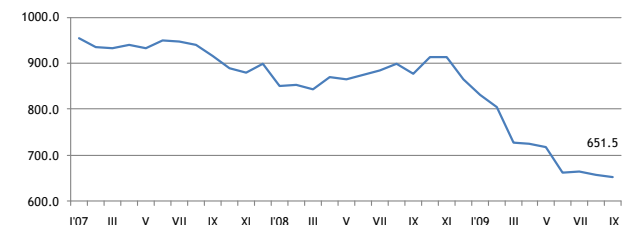


The average interest rate of government internal borrowing securities, %

In September 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 42.0% (74.3% in September 2008), but short-term government bond proportion reached 58.0% (25.7%).



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

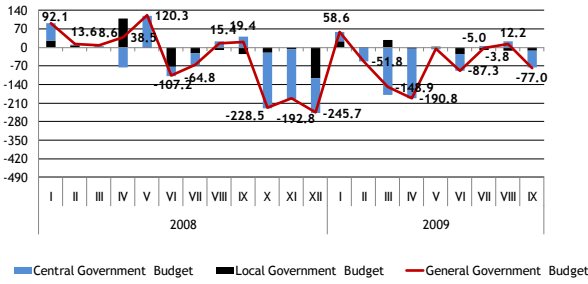


Cash in circulation, mln lats

	09'IV	V	VI	VII	VIII	IX
RIGIBOR (3month)	12.54	13.60	27.20	16.50	11.96	12.10
EURIBOR (3month)	1.40	1.26	1.15	0.92	0.84	0.74

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-September 2009) data, in nine months of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 3553.7 mln lats which is 843.5 mln lats or 19.2% less than in nine months of 2008, mainly due to decrease of tax revenue in the central government basic budget by 593.8 mln lats. In nine months of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 4047.5 mln lats, which is 213.9mln lats or 5.0% less than in nine months of 2008. In nine months of 2009, the general government budget financial deficit was 493.7 mln lats, mainly due to deficit in the central government consolidated budget.



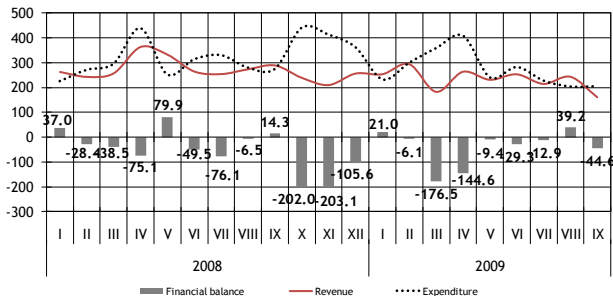
General government budget balance, mln lats

In nine months of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 2990.0 mln lats, which is 638.5 mln lats or 17.6% less than in nine months of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with nine months of 2008 was in the revenue from value added tax.

In nine months of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 3474.0 mln lats, which is 55.9 mln lats or 1.6% more than in nine months of 2008. In nine months of 2009, the deficit of central government consolidated budget was in amount of 484.0 mln lats.

**Central government basic budget** revenue (including derived public persons) in nine months of 2009 was 2162.1 mln lats, which in comparison with nine months of 2008 is 376.9 mln lats or 14.8% less.

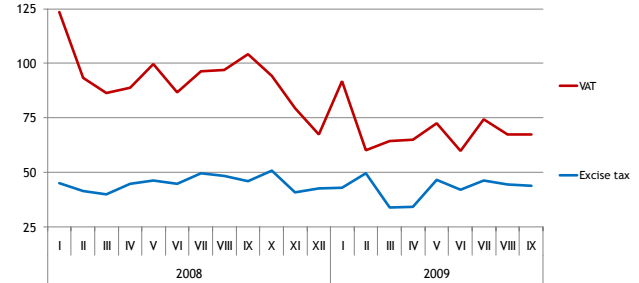
In comparison with nine months of 2008, tax revenue was 1282.5 mln lats, which is 593.8 mln lats or 31.6% less, mainly due to decrease of value added tax revenue by 252.6 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with nine months of 2008. In nine months of 2009 the non-tax revenue was 261.5 mln lats, which is 50.1 mln lats more than in nine months of 2008, mainly due to increase of percent revenue by 19.4 mln lats and revenue from dividends by 11.5 mln lats. In nine months of 2009, revenue from the paid services and self-earned revenue was 117.3 mln lats, which is 24.6 mln lats or 26.5% more, but revenue from the foreign financial assistance was 439.1 mln lats, which is 80.5 mln lats more than in nine months of 2008. Foreign financial assistance revenue in nine months of 2009 consisted of an interim payment of the European agriculture fund 75.7 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 171.4 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In nine months of 2009, the central government basic budget expenditure (including derived public persons) was 2519.5 mln lats, which is 162.4 mln lats or 6.1% less than in nine months of 2008. In nine months of 2009, the central government basic budget non-capital expenditure was 2352.2 mln lats or 93.4% of total basic budget expenditure and in comparison with nine months of 2008 is 115.0 mln lats less, mainly due to decrease in wages and salaries, but percent expenditure, interest payments increased. Wages and salaries in

nine months of 2009 were 389.2 mln lats and in comparison with nine months of 2008 is 72.6 mln lats or 15.7% less. The central government basic budget capital expenditure in nine months of 2009 was 167.2 mln lats and in comparison with nine months of 2008 is 47.4 mln lats or 22.1% less. In nine months of 2009, the central government basic budget financial deficit was in amount of 357.4 mln lats.



Indirect tax revenue, mln lats

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

**Value added tax** revenue in nine months of 2009 was 623.3 mln lats and in comparison with nine months of 2008 is 252.6 mln lats or 28.8% less.

In nine months of 2009, domestically net collected value added tax revenue was 495.1 mln lats or 79.4% of total value added tax revenue and in comparison with nine months of 2008 it is 190.8 mln lats or 27.8% less. The value added tax revenue collected on border was 61.8 mln lats or 32.5% less than in nine months of 2008.

Value added tax payments made by the biggest taxpayers formed 46.0% of total value added tax revenue in nine months of 2009.

Decrease of value added tax revenue, in comparison with nine months of 2008, and non-execution of nine 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 September 2009 in comparison with September 2008 retail trade turnover decreased by 30.8%.

According to the State Revenue Service information after the value added tax return data, the total transaction value in nine months of 2009, in comparison with the same period of 2008 decreased by 25.8%.

In nine months of 2009 value added tax repayments decreased by 7.5%. 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 nine months of 2009.

**Corporate income tax** revenue in nine months of 2009 was 149.1 mln lats and in comparison with nine months of 2008 is 242.1 mln lats or 61.9% less, mainly due to decrease of profit of the year 2008 or declared losses. As a result payments decreased and repayments increased.

In nine months of 2009 the corporate income tax payments made by the biggest tax payers were 50.8 mln lats and these payments formed 34.1% of total corporate income tax revenue.

**Total excise tax revenue** in nine months of 2009 was 384.0 mln lats, which is 22.3 mln lats or 5.5% less than in the same period of 2008. The decrease of excise tax revenue is due to sharp decrease of the sale volume of goods, in comparison with the previous year.

In nine months of 2009, excise tax revenue from oil products was 214.0 mln lats or 55.7% of total excise tax revenue and in comparison with nine months of 2008 is 2.2 mln lats or 1.0% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products

continues to decrease. In eight months of 2009 in comparison to the same period of 2008, it decreased by 13.0%.

In nine months of 2009, the excise tax revenue from alcoholic beverages was 64.0 mln lats or 16.7% of total excise tax revenue and in comparison with nine months of 2008 is 4.0 mln lats or 5.9% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in eight months of 2009 in comparison with eight months of 2008 decreased by 29.4%.

In nine months of 2009, excise tax revenue from tobacco products was 89.6 mln lats or 23.3% of total excise tax revenue and in comparison with nine months of 2008 is 19.6 mln lats or 18.0% less. The excise tax revenue from tobacco products in nine months of 2009 was affected by changes in channelled volume of cigarettes in Latvia, which in eight months of 2009, in comparison with the same period of 2008, decreased by 38.0%.

**Social security budget** revenue in nine months of 2009 was 962.4 mln lats, which is 133.3 mln lats or 12.2% less than in nine month of 2008.

The social security budget expenditure in nine months of 2009 was 1088.8 mln lats, which in comparison with nine months of 2008 is 239.2 mln lats or 28.2% more. Expenditure for pensions were 792.8 mln lats or 82.4% of the social security budget expenditure, social security benefits were 176.4 mln lats or 18.3% and employment benefits were 100.0 mln lats or 10.4% of the social security budget expenditure.

In nine months of 2009, the social security budget financial deficit was 126.5 mln lats.

**Social security contributions** (including contributions into the State Funded Pension Scheme) in nine months of 2009 were 1032.5 mln lats and in comparison with nine months of 2008 is 206.1 mln lats or 16.6% less. The social security contributions in the state special budget were 886.7mln lats, but social security contributions in the funded pension scheme were 146.9mln lats.

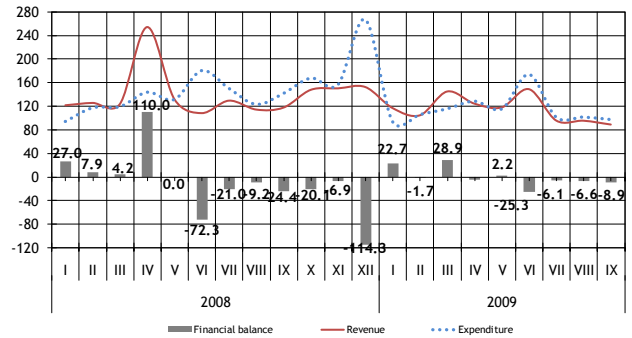
According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in August 2009 in comparison with August 2008 decreased by 19.6%, but wages in second quarter of 2009 in comparison with second quarter of 2008 decreased by 1.0%.

The decrease of social security contributions in nine months of 2009 in comparison with the same period of 2008 was affected by decrease of labour payment fund.

**Local government consolidated budget** revenue (including grants and donations) in nine months of 2009 was 1003.1 mln lats and in comparison with nine months of 2008 was 223.5 mln lats or 18.2% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in nine months of 2009 in comparison with nine months of 2008 was 168.3 mln lats or 12.9% less.

In comparison nine months of 2008, the tax revenue was 141.6 mln lats or 21.2% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in nine months of 2009 was 0.2 mln lats or 1.0% more than in the same period of 2008, but the local government basic budget received payments were 23.8 mln lats or 4.4% less than in nine months of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in nine months of 2009 was 2.7 mln lats or 3.5% less than in nine months of 2008.



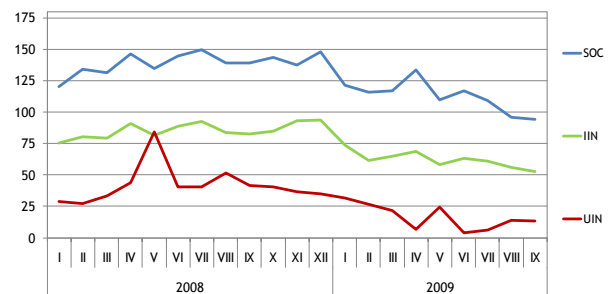
Local government consolidated budget, mln lats

In nine months of 2009 the local government consolidated budget expenditure was 1015.3 mln lats, which is 189.2 mln lats or 15.7% less than in nine months of 2008, mainly due to decrease of capital expenditure in local government basic budget by 77.3 mln lats.

In nine months of 2009, there was a financial deficit in amount of 12.2 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in nine month of 2009 was 510.9 mln lats and in comparison with nine months of 2008 is 18.2 mln lats less, int. al. wages and salaries is 12.0 mln lats less.

**Personal income tax revenue.** Personal income tax revenue in nine months of 2009 was 560.0 mln lats and in comparison with nine months of 2008 is 197.3 mln lats or 26.1% 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