

MACROECONOMIC AND BUDGETARY REVIEW

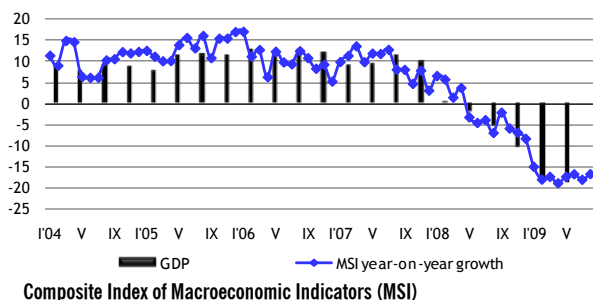


MINISTRY OF FINANCE
REPUBLIC OF LATVIA

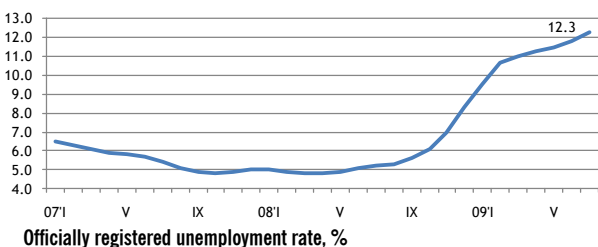
August, 2009

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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in August 2009 shrunk by 16.8% 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.



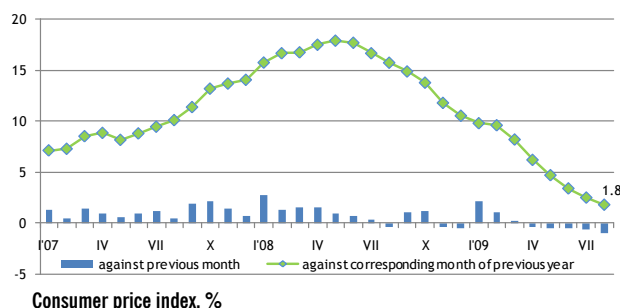
The volume of **cargo transhipped in Latvian ports** in August amounted to 5.2 mln t, up by 10.0% from the corresponding month of 2008. However, the volume of cargo transhipped in ports in January – August of 2009 totalled 42.7 mln t, which was 0.6% more than in the same period of the previous year. In August of 2009 **freight carried by rail** were 4.5 mln tons, an increase of 6.9% compared to the same period of the previous year. Freight carried by rail in January – August of 2009 totalled 37.1 mln t, which was 1.1% more than in 2008.



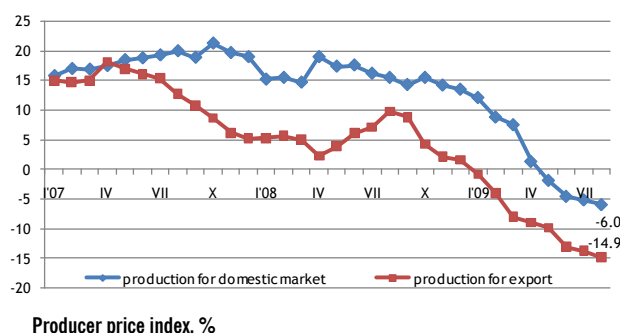
Officially registered **unemployment rate** in August increased by 0.5 percentage points and amounted to 12.3% of the economically active population at the end of the month. The number of the registered unemployed increased by 5.1 thsd people from the previous month and amounted to 137.6 thsd people. As compared with August 2008, the unemployment rate increased by 7.1 percentage points, but the number of the registered unemployed by 81.3 thsd people. The highest unemployment rate in August was registered in the region of Latgale, 16.3% (9.2% in August of 2008); in the region of Kurzeme, 13.6% (5.5%); and in the region of Zemgale, 13.1% (5.1%); and in the region of Vidzeme, 12.7% (5.2%). The lowest unemployment rate was registered in the region of Rīga, 10.5% (3.9%).

Consumer Price Index (CPI) in August, compared with July, decreased by 1.0%. Average price levels for goods went down by 1.3% and for services by 0.4%. Comparing with the corresponding month of previous year, consumer prices marked up by 1.8%, inter alia for goods – by 0.8% and for services – by 4.5%.

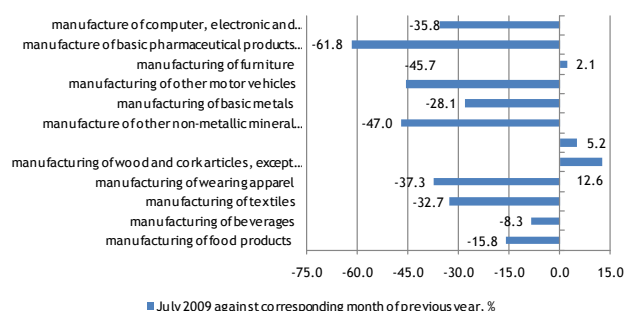
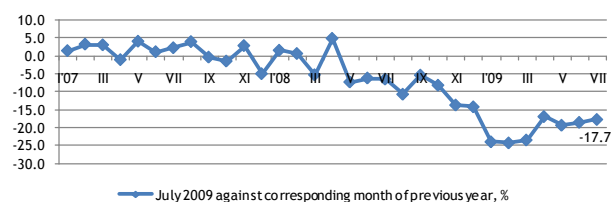
The rise in the prices of fuel, as well as price reduction of vegetables, fruit, clothes and footwear had the major impact on consumer price changes in August. Because of seasonal effects price of vegetables become cheaper by 17.8%, but fruits – by 13.8%.



Producer prices in August of 2009 comparing with July remained stable, but in comparison with corresponding month of previous year, producer prices reduced by 9.3%. In August of 2009 comparing with August of 2008 drop in prices for manufacturing of metals lowered overall producer price level by 5.5 percentage points (pp), manufacturing of wood and wood products (excluding furniture) – by 1.7 pp., manufacturing of food – by 1.4 pp. Producer price level was mostly affected upwards by increase in tariffs of electricity, gas supply, heating and air conditioning – by 1.1%.



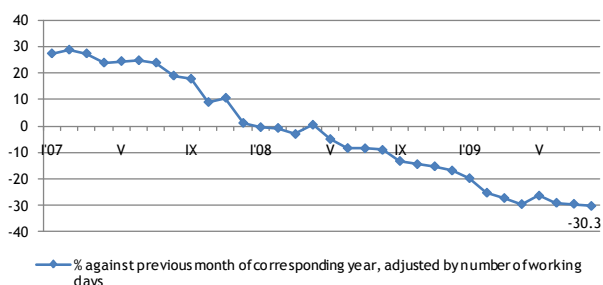
Compared to July of previous year, in July 2009 **industrial production output** decreased by 17.7%, of which mining and quarrying output – by 2.1%, manufacturing – by 18.8%, but electricity and gas supply – by 13.0%.



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 August 2009 compared to August 2008 has reduced by 30.3%. Most notable decrease was recorded in non-food product group – by 33.6%. Slightly smaller reduction was recorded in companies selling mainly food products – by 23.2%.

Total retail trade turnover in August 2009 constituted 303.5 mln lats, down by 13.8 mln lats compared to July 2009. Total retail trade turnover in January – August of 2009 constituted 2458.0 mln lats.



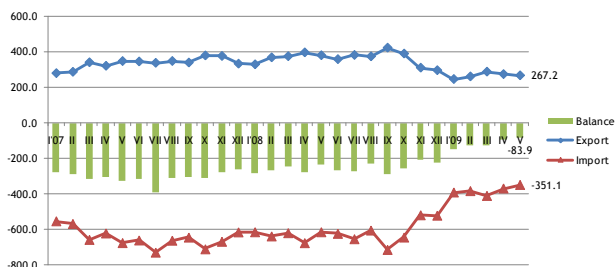
Turnover indices of retail trade (at constant prices)

In July 2009, exports and imports of goods amounted to 613.3 mln lats down by 41.1% or 427.6 mln lats from the same period last year.

In January - July of 2009, exports and imports of goods amounted to 4517.6 mln lats down by 36.1% or 2547.5 mln lats from the same period last year.

As compared with January - July last year, export of goods decreased by 27.2% and amounted to 1891.6 mln lats, while import decreased by 41.2%, reaching the value of 2626.0 mln lats.

In July 2009, as compared to the July 2008, the trade balance deficit decreased by 177.4 mln lats and amounted to 95.7 mln lats.



Foreign trade balance, mln lats

In July 2009 the most significant share in Latvia's export was export to the countries of European Union 74.3% (74.8% in July of 2008), followed by the export to CIS countries 14.6% (15.0%). Main export partners were Lithuania 16.9% of total export (18.2%); Estonia 14.7% (14.0%); Germany 9.8% (8.3%); Russia 9.7% (10.2%) and Sweden 5.0% (6.1%).

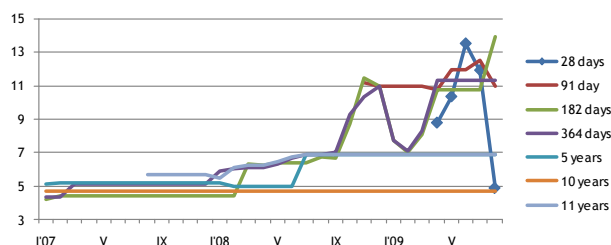
Latvia's main export products were agricultural and food products accounting for 16.8% of total amount (14.8% in July of 2008); wood and wood products accounting for 16.7% (18.4%); machinery, mechanical appliances and electrical equipment accounting for 15.5% (11.7%); base metals and its articles accounting for 11.8% (18.1%).

In July 2009 the most significant share in Latvia's import was import from the countries of European Union 77.3% (74.8% in July of 2008), followed by the import from CIS countries 13.6% (16.4%). Main import partners were Lithuania 17.1% of total import (17.4%); Germany 12.3% (13.4%); Poland 9.5% (6.9%); Russia 7.8% (10.8%) and Estonia 7.4% (7.4%).

Latvia's main import products were agricultural and food products for 18.6% of total amount (12.9% in July of 2008); mineral products accounting for 16.0% (14.8%) machinery and mechanical appliances accounting for 15.8% (18.0%).

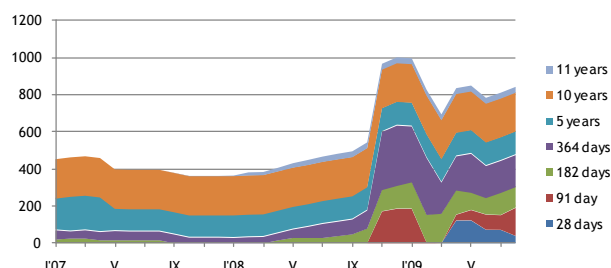
In August 2009 government internal borrowing securities competing multi-price securities auctions with term 28, 91 and 128 days were held. In auctions short-term government debt securities in the total amount of 42.1 mln lats were sold at nominal value with the weighted average profit rate from 4.9% to 13.6%.

In August the government short-term bond auctions took place with term 28, 91 and 128 days. Bonds were sold at auctions for a total sum of 46.3 mln lats, with the weighted average profit rate from 11.0% to 13.9%.

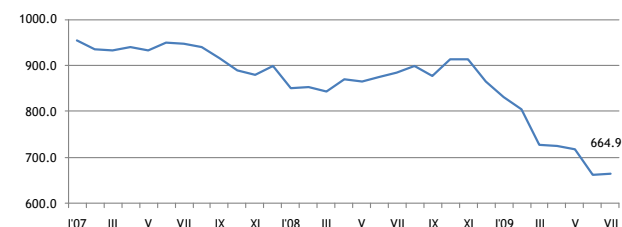


The average interest rate of government internal borrowing securities, %

In August 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 44.0% (75.4% in August 2008), but short-term government bond proportion reached 56.0% (24.6%).



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

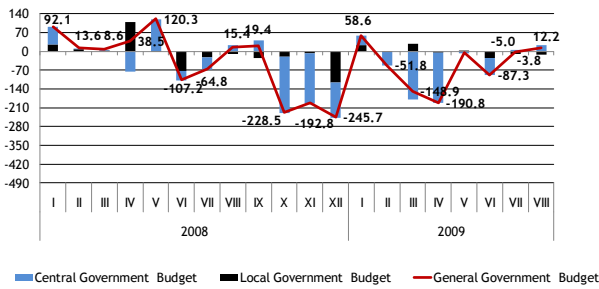


Cash in circulation, mln lats

	09'III	IV	V	VI	VII	VIII
RIGIBOR (3month)	12.18	12.54	13.60	27.20	16.50	11.96
EURIBOR (3month)	1.55	1.40	1.26	1.15	0.92	0.84

Money Market Indexes RIGIBOR and EURIBOR for last 6 month on 25th date of each month

In accordance with the State Treasury's official monthly report's (January-August 2009) data, in eight months of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 3245.7 mln lats which is 642.8 mln lats or 16.5% less than in eight months of 2008, mainly due to decrease of tax revenue in the central government basic budget by 517.0 mln lats. In eight months of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 3662.4 mln lats, which is 109.6 mln lats or 2.9% less than in eight months of 2008. In eight months of 2009, the general government budget financial deficit was 416.7 mln lats, mainly due to deficit in the central government consolidated budget.



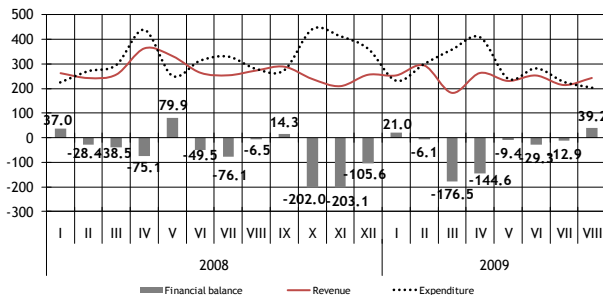
General government budget balance, mln lats

In eight months of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 2727.0 mln lats, which is 457.6 mln lats or 14.4% less than in eight months of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with eight months of 2008 was in the revenue from value added tax.

In eight months of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 3147.3 mln lats, which is 20.6 mln lats or 0.7% more than in eight months of 2008. In eight months of 2009, the deficit of central government consolidated budget was in amount of 420.2 mln lats.

Central government basic budget revenue (including derived public persons) in eight months of 2009 was 1990.3 mln lats, which in comparison with eight months of 2008 is 259.8 mln lats or 11.5% less.

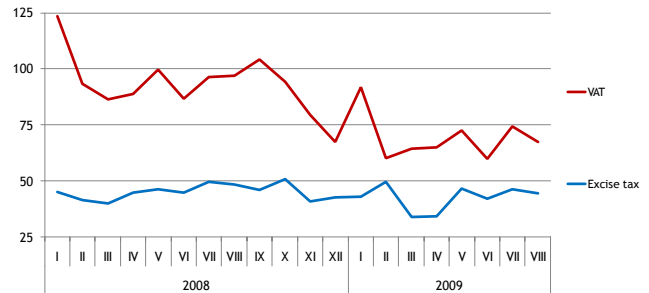
In comparison with eight months of 2008, tax revenue was 1146.9 mln lats, which is 517.0 mln lats or 31.1% less, mainly due to decrease of value added tax revenue by 215.9 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with eight months of 2008. In eight months of 2009 the non-tax revenue was 248.5 mln lats, which is 62.7 mln lats more than in eight months of 2008, mainly due to increase of revenue from dividends by 23.4 mln lats and percent revenue by 20.5 mln lats. In eight months of 2009, revenue from the paid services and self-earned revenue was 103.2 mln lats, which is 23.0 mln lats or 28.7% more, but revenue from the foreign financial assistance was 433.6 mln lats, which is 113.5 mln lats more than in eight months of 2008. Foreign financial assistance revenue in eight months of 2009 consisted of an interim payment of the European agriculture fund 75.1 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 171.1 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In eight months of 2009, the central government basic budget expenditure (including derived public persons) was 2304.6 mln lats, which is 102.6 mln lats or 4.3% less than in eight months of 2008. In eight months of 2009, the central government basic budget non-capital expenditure was 2155.6 mln lats or 93.5% of total basic budget expenditure and in comparison with eight months of 2008 is 66.2 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 eight months of 2009 were 355.4 mln lats and in comparison with eight months of 2008 is 55.8 mln lats or 13.6% less. The central government basic budget capital expenditure in eight months of 2009 was 148.9 mln lats and in comparison with eight months of 2008 is 36.4 mln lats or 19.7% less. In eight months of 2009, the central government basic budget financial deficit was in amount of 314.3 mln lats.



Indirect tax revenue, mln lats

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

Value added tax revenue in eight months of 2009 was 555.9 mln lats and in comparison with eight months of 2008 is 215.9 mln lats or 28.0% less.

In eight months of 2009, domestically net collected value added tax revenue was 440.9 mln lats or 79.3% of total value added tax revenue and in comparison with eight months of 2008 it is 163.3 mln lats or 27.0% less. The value added tax revenue collected on border was 52.6 mln lats or 31.4% less than in eight months of 2008.

Value added tax payments made by the biggest taxpayers formed 45.7% of total value added tax revenue in eight months of 2009.

Decrease of value added tax revenue, in comparison with eight months of 2008, and non-execution of eight 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 August 2009 in comparison with August 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 eight months of 2009, in comparison with the same period of 2008 decreased by 25.1%.

In eight 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 eight months of 2009.

Corporate income tax revenue in eight months of 2009 was 135.7 mln lats and in comparison with eight months of 2008 is 214.2 mln lats or 61.2% less, mainly due to decrease of profit of the year 2008 or declared losses. As a result payments decreased and repayments increased.

In eight months of 2009 the corporate income tax payments made by the biggest tax payers were 45.1 mln lats and these payments formed 33.2% of total corporate income tax revenue.

Total excise tax revenue in eight months of 2009 was 340.0 mln lats, which is 20.2 mln lats or 5.6% 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 eight months of 2009, excise tax revenue from oil products was 187.7 mln lats or 55.2% of total excise tax revenue and in comparison with eight months of 2008 is 3.2 mln lats or 1.7% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products

continues to decrease. In seven months of 2009 in comparison to the same period of 2008, it decreased by 15.7%.

In eight months of 2009, the excise tax revenue from alcoholic beverages was 57.5 mln lats or 16.9% of total excise tax revenue and in comparison with eight months of 2008 is 3.5 mln lats or 5.7% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in seven months of 2009 in comparison with seven months of 2008 decreased by 35.3%.

In eight months of 2009, excise tax revenue from tobacco products was 80.5 mln lats or 23.7% of total excise tax revenue and in comparison with eight months of 2008 is 16.5 mln lats or 17.0% less. The excise tax revenue from tobacco products in eight months of 2009 was affected by changes in channelled volume of cigarettes in Latvia, which in seven months of 2009, in comparison with the same period of 2008, decreased by 36.0%.

Social security budget revenue in eight months of 2009 was 866.6 mln lats, which is 93.5 mln lats or 9.7% less than in eight months of 2008.

The social security budget expenditure in eight months of 2009 was 972.2 mln lats, which in comparison with eight months of 2008 is 231.7 mln lats or 31.3% more. Expenditure for pensions were 707.3 mln lats or 72.8% of the social security budget expenditure, social security benefits were 159.1 mln lats or 16.4% and employment benefits were 87.8 mln lats or 9.0% of the social security budget expenditure.

In eight months of 2009, the social security budget financial deficit was 105.6 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in eight months of 2009 were 932.1 mln lats and in comparison with eight months of 2008 is 167.5 mln lats or 15.2% less. The social security contributions in the state special budget were 792.4 mln lats, but social security contributions in the funded pension scheme were 140.6 mln lats.

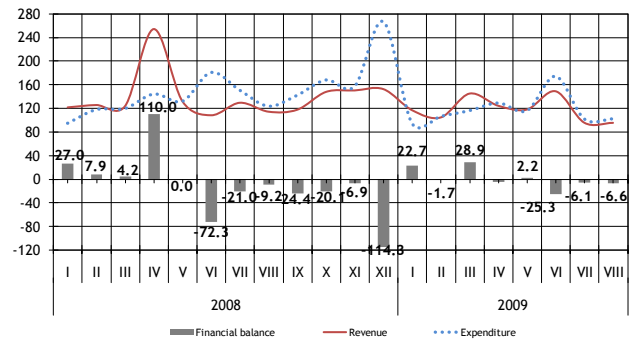
According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in July 2009 in comparison with July 2008 decreased by 19.0%, but wages in second quarter of 2009 in comparison with second quarter of 2008 decreased by 1.0%.

The decrease of social security contributions in eight 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 eight months of 2009 was 927.2 mln lats and in comparison with eight months of 2008 was 181.6 mln lats or 16.4% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in eight months of 2009 in comparison with eight months of 2008 was 134.7 mln lats or 11.4% less.

In comparison eight months of 2008, the tax revenue was 118.7 mln lats or 19.9% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in eight months of 2009 was 0.6 mln lats or 2.7% more than in the same period of 2008, but the local government basic budget received payments were 15.6 mln lats or 3.1% less than in eight months of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in eight months of 2009 was 1.0 mln lats or 1.5% less than in eight months of 2008.



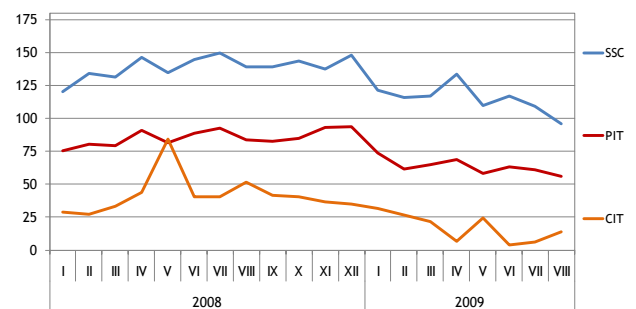
Local government consolidated budget, mln lats

In eight months of 2009 the local government consolidated budget expenditure was 926.2 mln lats, which is 136.1 mln lats or 12.8% less than in eight months of 2008, mainly due to decrease of capital expenditure in local government basic budget by 61.8 mln lats.

In eight months of 2009, there was a financial surplus in amount of 1.0 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in eight month of 2009 was 475.1 mln lats and in comparison with eight months of 2008 is 4.1 mln lats less, int. al. wages and salaries is 0.2 mln lats less.

Personal income tax revenue. Personal income tax revenue in eight months of 2009 was 507.2 mln lats and in comparison with eight months of 2008 is 167.4 mln lats or 24.8% 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