

MACROECONOMIC AND BUDGETARY REVIEW

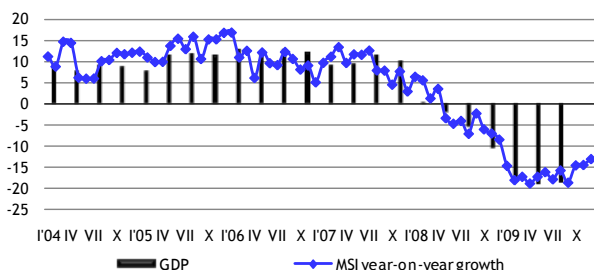


MINISTRY OF FINANCE
REPUBLIC OF LATVIA

December, 2009

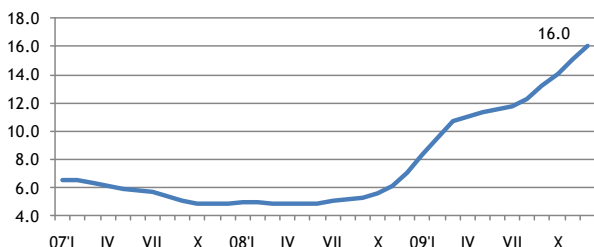
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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in December 2009 shrunk by 13.0% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the 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 December amounted to 5.2 mln t, down by 11.1% from the corresponding month of 2008. However, the volume of cargo transhipped in ports in January – December of 2009 totalled 62.0 mln t, which was 2.4% less than in the same period of the previous year. In December of 2009 **freight carried by rail** were 4.7 mln tons, a decrease of 13.2% compared to the same period of the previous year. Freight carried by rail in January – December of 2009 totalled 53.7 mln t, which was 4.2% less than in 2008.

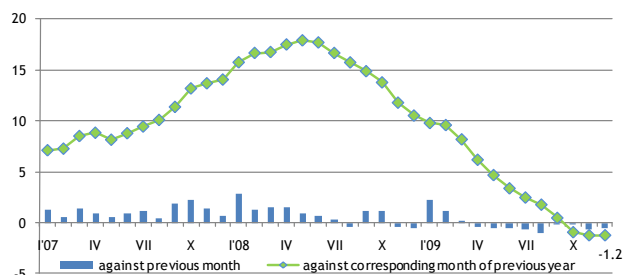


Officially registered unemployment rate, %

Officially registered **unemployment rate** in December increased by 0.9 percentage points and amounted to 16.0% of the economically active population at the end of the month. The number of the registered unemployed increased by 10.0 thsd people from the previous month and amounted to 179.2 thsd people. As compared with December 2008, the unemployment rate increased by 9.0 percentage points, but the number of the registered unemployed by 102.8 thsd people. The highest unemployment rate in December was registered in the region of Latgale, 21.1% (10.8% in December of 2008); in the region of Vidzeme, 17.9% (7.4%); and in the region of Zemgale, 17.8% (7.6%); and in the region of Kurzeme, 17.7% (7.5%). The lowest unemployment rate was registered in the region of Rīga, 13.2% (5.5%).

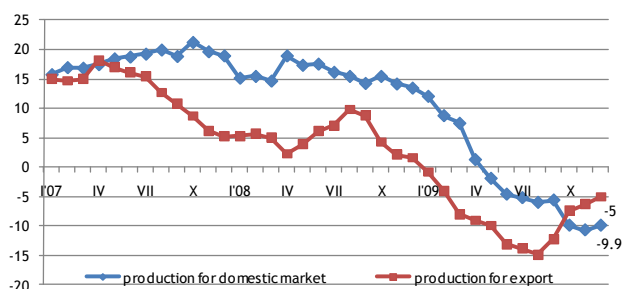
Consumer Price Index (CPI) in December, compared with November, decreased by 0.5%. Average price level for goods and services went down by 0.5%. Comparing with the corresponding month of previous year, consumer prices decreased by 1.2%, inter alia for goods decreased by 1.2% and for services by 1.0%.

The rise in the prices of fruits and milk products, as well as price reduction of clothes, footwear and fuel had the major impact on changes in consumer price in November. Due to the seasonal discounts and sales campaigns prices of footwear decreased by 6.3%, but of clothing – by 2.8%.



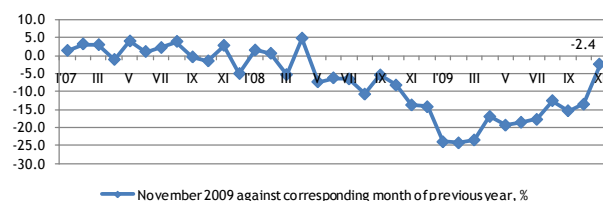
Consumer price index, %

Producer prices in December of 2009 comparing with November increased by 0.4%, but in comparison with corresponding month of previous year, producer prices reduced by 8.0%. In December of 2009 comparing with December of 2008 drop in tariffs of electricity, gas supply, heating and air conditioning prices lowered overall producer price level by 3.3 percentage points (pp), for manufacturing of food – by 1.5 pp., manufacturing of wood and wood products (excluding furniture) – by 1.3 pp., manufacturing of metals – by 1.1 pp.

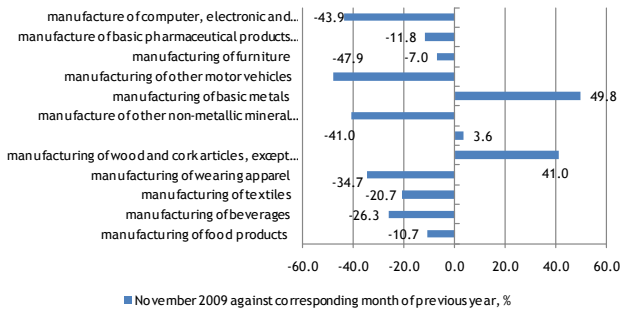


Producer price index, %

Compared to November of previous year, in November 2009 **industrial production output** decreased by 2.4%, of which mining and quarrying – by 9.1%, manufacturing – by 2.6%, but electricity and gas supply – by 0.8%.

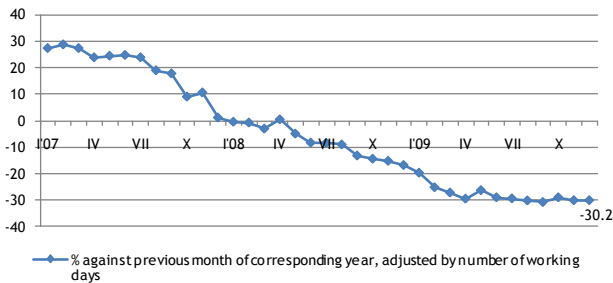


Industrial production index (seasonally adjusted data)



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 December 2009, compared to December 2008, has reduced by 30.2%. Most notable decrease was recorded in non-food product group – by 33.4%. Slightly smaller reduction was recorded in companies selling mainly food products – by 23.8%.



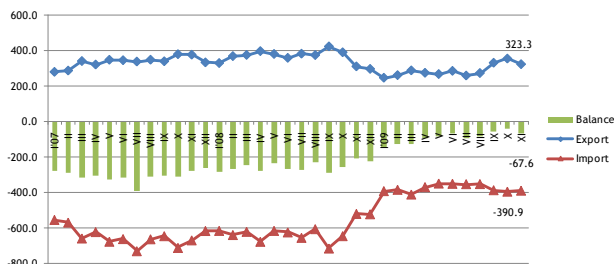
Turnover indices of retail trade (at constant prices)

In November 2009, **exports and imports of goods** amounted to 714.2 mln lats down by 16.5% or 141.4 mln lats from the same period last year.

In January - November of 2009, exports and imports of goods amounted to 7 462.1 mln lats down by 32.9% or 3 664.3 mln lats from the same period last year.

As compared with January - November last year, export of goods decreased by 21.6% and amounted to 3 235.7 mln lats, while import decreased by 39.6%, reaching the value of 4 226.4 mln lats.

In November 2009, as compared to the November 2008, the trade balance deficit decreased by 141.2 mln lats and amounted to 67.6 mln lats.



Foreign trade balance, mln lats

In November 2009 the most significant share in Latvia's export was export to the countries of European Union 70.3% (71.8% in November of 2008), followed by the export to CIS countries 15.0% (17.4%). Main export partners were Estonia 14.6% of total export (15.9%); Lithuania 14.4% (15.1%); Russia 9.8% (11.4%); Germany 8.3% (7.6%) and Sweden 6.7% (5.8%).

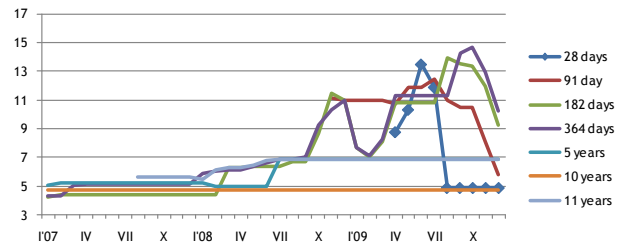
Latvia's main export products were agricultural and food products accounting for 19.9% of total amount; wood and wood products accounting for 19.1%; machinery, mechanical appliances and electrical equipment accounting for 10.8%; base metals and its articles accounting for 10.2%.

In November 2009 the most significant share in Latvia's import was import from the countries of European Union 76.3% (73.3% in November of 2008), followed by the import from CIS countries 16.2% (17.0%). Main import partners were Lithuania 16.2% of total import (16.8%); Germany 13.2% (10.9%); Russia 10.8% (12.9%); Poland 10.1% (6.9%) and Estonia 7.0% (6.9%).

Latvia's main import products were agricultural and food products for 18.0% of total amount; mineral products accounting for 17.3%; machinery and mechanical appliances accounting for 17.1%.

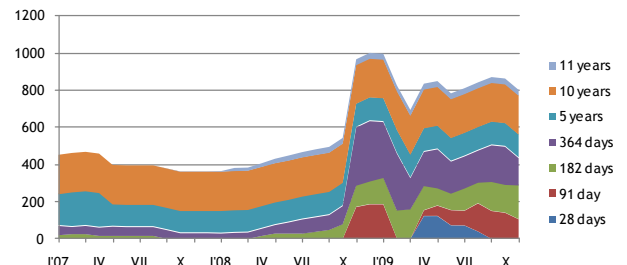
In December 2009 **government internal borrowing securities** competing multi-price securities auctions with term 91, 128 and 364 days were held. In auctions short-term government debt securities in the total amount of 74.7 mln lats were sold at nominal value, with the weighted average profit rate in the last auction from 5.816% to 10.248%.

In December 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 25.4 mln lats with the same weighted average profit rate in the last auction as government internal borrowing securities.

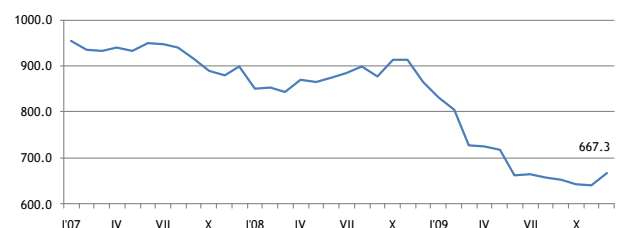


The average interest rate of government internal borrowing securities, %

In December 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 47.0% (36.8% in December 2008), but short-term government bond proportion reached 53.0% (63.2%).



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

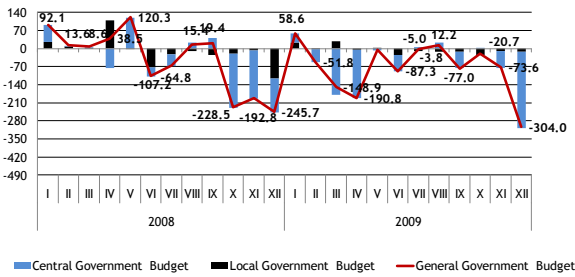


Cash in circulation, mln lats

	09'VII	VIII	IX	X	XI	XII
RIGIBOR (3month)	16.50	11.96	12.10	13.9	10.4	7.46
EURIBOR (3month)	0.92	0.84	0.74	0.73	0.72	0.71

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-December 2009) data, in 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 4734.7 mln lats which is 988.3 mln lats or 17.3% less than in 2008, mainly due to decrease of tax revenue in the central government basic budget by 767.6 mln lats. In 2009, the general government budget expenditure (including grants, donations and derived public persons) was 5626.8 mln lats, which is 627.3 mln lats or 10.0% less than in 2008. In 2009, the general government budget financial deficit was 892.1 mln lats, mainly due to deficit in the central government consolidated budget.



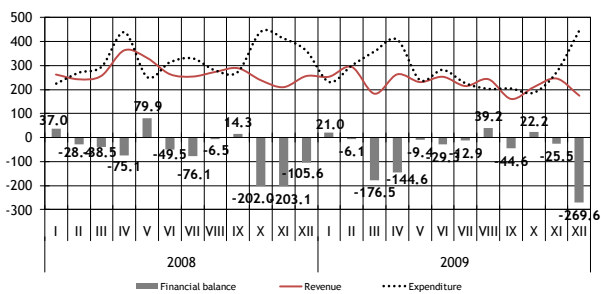
General government budget balance, mln lats

In 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 3915.3 mln lats, which is 761.6 mln lats or 16.3% less than in 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with 2008 was in the revenue from value added tax.

In 2009, the central government budget expenditure (including grants, donations and derived public persons) was 4753.7 mln lats, which is 352.8 mln lats or 6.9% less than in 2008. In 2009, the deficit of central government consolidated budget was in amount of 838.4 mln lats.

Central government basic budget revenue (including derived public persons) in 2009 was 2839.1 mln lats, which in comparison with 2008 is 404.6 mln lats or 12.5% less.

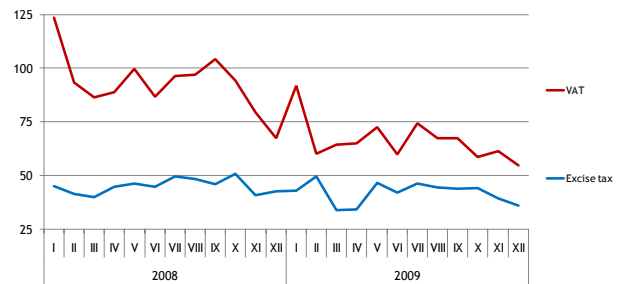
In comparison with 2008, tax revenue was 1662.9 mln lats, which is 767.6 mln lats or 31.6% less, mainly due to decrease of value added tax revenue by 318.7 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with 2008. In 2009 the non-tax revenue was 409.9 mln lats, which is 148.1 mln lats more than in 2008, mainly due to increase of percent revenue by 28.1 mln lats and revenue from dividends by 49.0 mln lats. In 2009, revenue from the paid services and self-earned revenue was 146.1 mln lats, which is 21.6 mln lats or 17.4% more, but revenue from the foreign financial assistance was 525.5 mln lats, which is 98.1 mln lats more than in 2008. Foreign financial assistance revenue in 2009 consisted of an interim payment of the European agriculture fund 77.3 mln lats of 2007-2013 programming period, an interim payment of Cohesion fund 67.8 mln lats and interim payments of the European Regional development fund 201.1 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In 2009, the central government basic budget expenditure (including derived public persons) was 3464.8 mln lats, which is 432.5 mln lats or 11.1% less than in 2008. In 2009, the central government basic budget non-capital expenditure was 3220.8 mln lats or 93.0% of total basic budget expenditure and in comparison with 2008 is 328.5 mln lats less, mainly due to decrease in wages and salaries, but percent expenditure, interest payments increased.

Wages and salaries in 2009 were 498.4 mln lats and in comparison with 2008 is 139.0 mln lats or 21.8% less. The central government basic budget capital expenditure in 2009 was 243.9 mln lats and in comparison with 2008 is 104.0 mln lats or 29.9% less. In 2009, the central government basic budget financial deficit was in amount of 625.6 mln lats.



Indirect tax revenue, mln lats

In 2009 in comparison with 2008, tax revenue considerably decreased. The most significant decrease was in revenue of value added tax.

Value added tax revenue in 2009 was 798.4 mln lats and in comparison with 2008 is 318.7 mln lats or 28.5% less.

In 2009, domestically net collected value added tax revenue was 628.1 mln lats or 78.7% of total value added tax revenue and in comparison with 2008 it is 242.9 mln lats or 27.9% less. The value added tax revenue collected on border was 75.8 mln lats or 30.8% less than in 2008.

Value added tax payments made by the biggest taxpayers formed 48.8% of total value added tax revenue in 2009.

Decrease of value added tax revenue, in comparison with 2008, and non-execution of plan of 2009 was mainly determined due to decrease in retail trade turnover and decrease in transaction value in general.

According to the State Revenue Service information after the value added tax return data, the total transaction value in 2009, in comparison with 2008 decreased by 26.4%.

In 2009 value added tax repayments decreased by 25.5%. 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 2009.

Corporate income tax revenue in 2009 was 197.2 mln lats and in comparison with 2008 is 305.9 mln lats or 60.8% less, mainly due to decrease of profit of the year 2008 or declared losses. As a result payments decreased and repayments increased.

In 2009 the corporate income tax payments made by the biggest tax payers were 78.0 mln lats and these payments formed 39.6% of total corporate income tax revenue.

Total **excise tax revenue** in 2009 was 504.1 mln lats, which is 36.8 mln lats or 6.8% less than in 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 2009, excise tax revenue from oil products was 284.1 mln lats or 56.4% of total excise tax revenue and in comparison with 2008 is 6.1 mln lats or 2.1% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In eleven months of 2009 in comparison to the same period of 2008, it decreased by 13.8%.

In 2009, the excise tax revenue from alcoholic beverages was 84.0 mln lats or 16.7% of total excise tax revenue and in comparison with 2008 is 7.0 mln lats or 7.7% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in eleven months of 2009 in comparison with ten months of 2008 decreased by 29.2%.

In 2009, excise tax revenue from tobacco products was 114.0 mln lats or 22.6% of total excise tax revenue and in comparison with 2008 is 29.6 mln lats or 20.6% less. The excise tax revenue from tobacco products in 2009 was affected by changes in channelled volume of cigarettes in Latvia, which in eleven months of 2009, in comparison with the same period of 2008, decreased by 40.2%.

Social security budget revenue in 2009 was 1248.5 mln lats, which is 192.7 mln lats or 13.4% less than in 2008.

The social security budget expenditure in 2009 was 1461.5 mln lats, which in comparison with 2008 is 247.6 mln lats or 20.4% more. Expenditure for pensions were 1069.4 mln lats or 73.9% of the social security budget expenditure, social security benefits were 230.3 mln lats or 15.9% and employment benefits were 137.2 mln lats or 9.5% of the social security budget expenditure.

In 2009, the social security budget financial deficit was 213.0 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in 2009 were 1330.3 mln lats and in comparison with 2008 is 337.2 mln lats or 20.2% less. The social security contributions in the state special budget were 1166.7 mln lats, but social security contributions in the funded pension scheme were 165.1 mln lats.

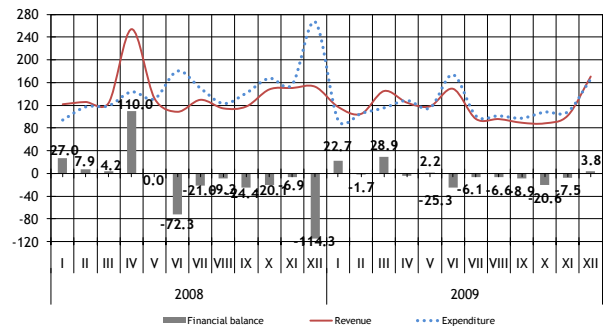
The decrease of social security contributions in 2009 in comparison with the same period of 2008 was affected by decrease of labour payment fund.

According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in November 2009 in comparison with November 2008 decreased by 20.0%, but wages in third quarter of 2009 in comparison with third quarter of 2008 decreased by 6.2%.

Local government consolidated budget revenue (including grants and donations) in 2009 was 1335.5 mln lats and in comparison with 2008 was 341.5 mln lats or 20.4% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in 2009 in comparison with 2008 was 292.6 mln lats or 16.3% less.

In comparison with 2008, the tax revenue was 219.2 mln lats or 24.3% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in 2009 was 5.4 mln lats or 16.4% less than in 2008, but the local government basic budget received payments were 63.7 mln lats or 8.5% less than in 2008. Local government basic budget revenue from the paid services and other self-earned revenue in 2009 was 5.6 mln lats or 5.3% less than in 2008.



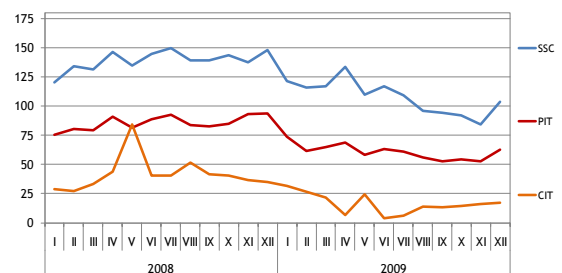
Local government basic budget, mln lats

In 2009 the local government consolidated budget expenditure was 1394.6 mln lats, which is 401.7 mln lats or 22.4% less than in 2008, mainly due to decrease of capital expenditure in local government basic budget by 126.3 mln lats.

In 2009, there was a financial deficit in amount of 59.1 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in 2009 was 653.2 mln lats and in comparison with 2008 is 120.7 mln lats less, int. al. wages and salaries is 95.5 mln lats less.

Personal income tax revenue. Personal income tax revenue in 2009 was 729.4 mln lats and in comparison with 2008 is 299.7 mln lats or 29.1% less. Personal income tax revenue was 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