MACROECONOMIC AND BUDGETARY REVIEW

MINISTRY OF FINANCE REPUBLIC OF LATVIA

November, 2009

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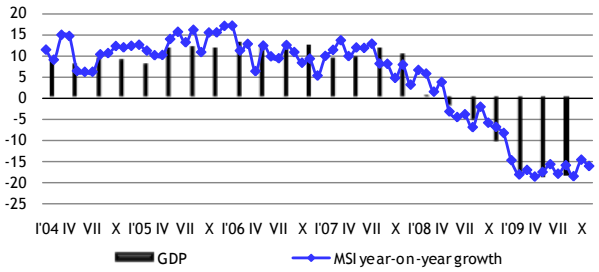
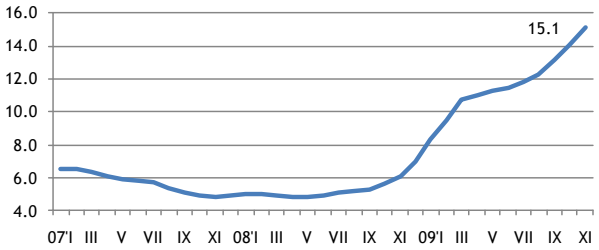
According to the estimations of the Ministry of Finance, **the Composite Index of Macroeconomic Indicators (MSI)** in November 2009 shrunk by 16.5% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the industrial output, the amount of cash in circulation as well as by decrease of the employment level.



Composite Index of Macroeconomic Indicators (MSI)

The volume of **cargo transhipped in Latvian ports** in November amounted to 4.5 mln t, down by 15.5% from the corresponding month of 2008. However, the volume of cargo transhipped in ports in January – November of 2009 totalled 56.8 mln t, which was 1.9% less than in the same period of the previous year. In November of 2009 **freight carried by rail** were 4.2 mln tons, a decrease of 17.1% compared to the same period of the previous year. Freight carried by rail in January – November of 2009 totalled 48.9 mln t, which was 3.3% less than in 2008.

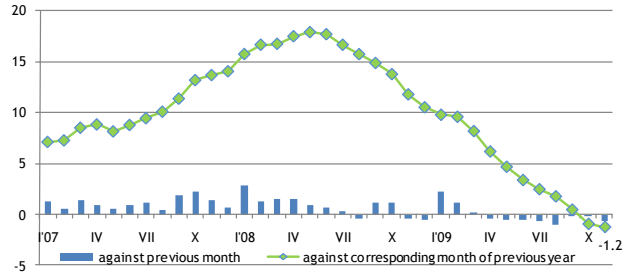


Officially registered unemployment rate, %

Officially registered **unemployment rate** in November increased by 1.0 percentage point and amounted to 15.1% of the economically active population at the end of the month. The number of the registered unemployed increased by 11.3 thsd people from the previous month and amounted to 169.2 thsd people. As compared with November 2008, the unemployment rate increased by 9.0 percentage points, but the number of the registered unemployed by 102.2 thsd people. The highest unemployment rate in November was registered in the region of Latgale, 20.2% (10.0% in November of 2008); in the region of Vidzeme, 16.8% (6.4%); and in the region of Kurzeme, 16.7% (6.3%); and in the region of Zemgale, 16.5% (6.5%). The lowest unemployment rate was registered in the region of Rīga, 12.5% (4.8%).

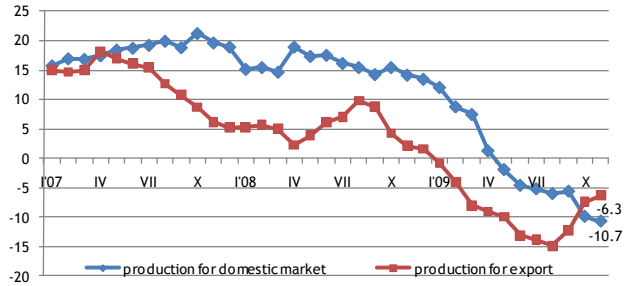
Consumer Price Index (CPI) in November, compared with October, decreased by 0.7%. Average price levels for goods went down by 0.6% and for services by 0.9%. Comparing with the corresponding month of previous year, consumer prices decreased by 1.2%, inter alia for goods decreased by 1.5% and for services by 0.2%.

The rise in the prices of fuel, as well as price reduction of heat energy, alcoholic beverages and food products had the major impact on consumer price changes in November. Prices of heat energy decreased by 4.7% in November, but compared with corresponding month of previous year by 22.1%.



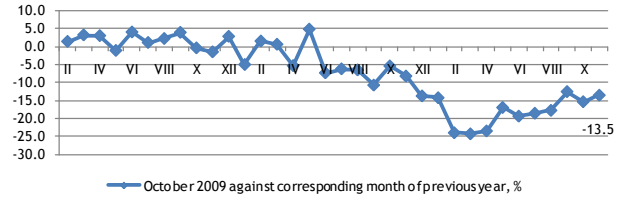
Consumer price index, %

Producer prices in November of 2009 comparing with October dropped by 1.7%, but in comparison with corresponding month of previous year, producer prices reduced by 9.0%. In November of 2009 comparing with November of 2008 drop in tariffs of electricity, gas supply, heating and air conditioning prices lowered overall producer price level by 3.2 percentage points (pp), for manufacturing of food – by 1.8 pp., manufacturing of wood and wood products (excluding furniture) – by 1.6 pp., manufacturing of metals – by 1.3 pp.

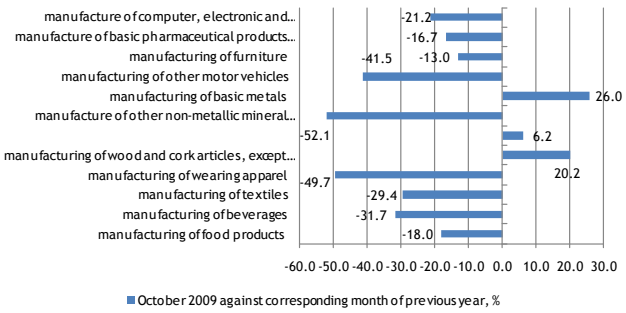


Producer price index, %

Compared to October of previous year, in October 2009 **industrial production output** decreased by 13.5%, of which manufacturing– by 15.8%, mining and quarrying – by 11.0%, but electricity and gas supply – by 2.0%.

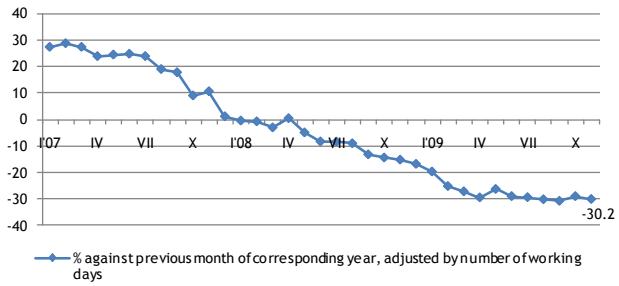


Industrial production index (seasonally adjusted data)



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 November 2009, compared to November 2008, has reduced by 30.2%. Most notable decrease was recorded in non-food product group – by 33.1%. Slightly smaller reduction was recorded in companies selling mainly food products – by 24.2%.



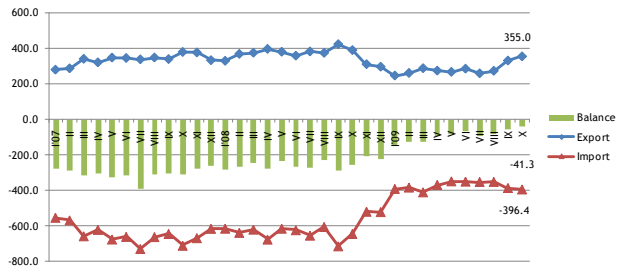
Turnover indices of retail trade (at constant prices)

In October 2009, **exports and imports of goods** amounted to 751.4 mln lats down by 30.5% or 329.0 mln lats from the same period last year.

In January - October of 2009, exports and imports of goods amounted to 6712.3 mln lats down by 34.6% or 3558.4 mln lats from the same period last year.

As compared with January - October last year, export of goods decreased by 23.8% and amounted to 2898.7 mln lats, while import decreased by 41.0%, reaching the value of 3813.6 mln lats.

In October 2009, as compared to the October 2008, the trade balance deficit decreased by 225.7 mln lats and amounted to 41.3 mln lats.



Foreign trade balance, mln lats

In October 2009 the most significant share in Latvia's export was export to the countries of European Union 68.3% (68.7% in October of 2008), followed by the export to CIS countries 13.2% (16.8%). Main export partners were Lithuania 15.3% of total export (16.5%); Estonia 13.6% (13.9%); Russia 9.0% (10.9%); Germany 8.2% (7.9%) and Sweden 5.6% (5.6%).

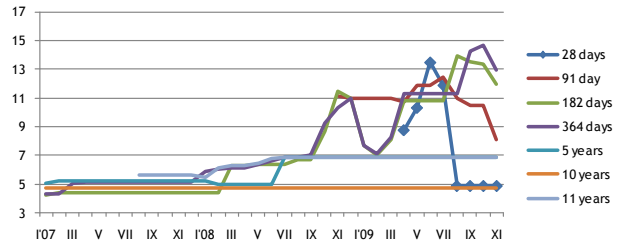
Latvia's main export products were agricultural and food products accounting for 21.6% of total amount (15.9% in October of 2008); wood and wood products accounting for 16.7% (17.1%); machinery, mechanical appliances and electrical equipment accounting for 13.7% (12.1%); base metals and its articles accounting for 13.7% (17.9%).

In October 2009 the most significant share in Latvia's import was import from the countries of European Union 76.0% (73.8% in October of 2008), followed by the import from CIS countries 15.5% (18.1%). Main import partners were Lithuania 18.6% of total import (17.0%); Germany 11.4% (11.8%); Russia 9.4% (13.1%); Poland 8.4% (7.4%) and Estonia 6.8% (7.2%).

Latvia's main import products were agricultural and food products for 18.7% of total amount (13.1% in October of 2008); mineral products accounting for 16.9% (15.6%) machinery and mechanical appliances accounting for 16.3% (17.9%).

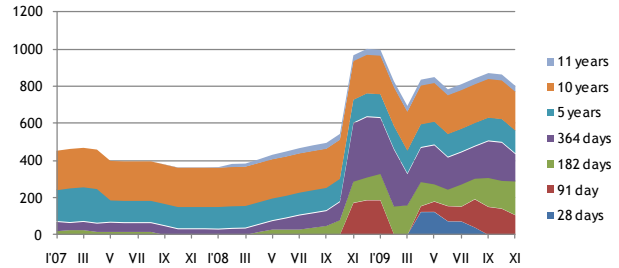
In November 2009 **government internal borrowing securities** competing multi-price securities auctions with term 91, 128 and 364 days were held. In auctions short-term government debt securities in the total amount of 79.0 mln lats were sold at nominal value, with the weighted average profit rate in the last auction from 8.096% to 12.970%.

In November 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 23.4 mln lats, with the weighted average profit rate in the last auction from 8.096% to 12.970%.

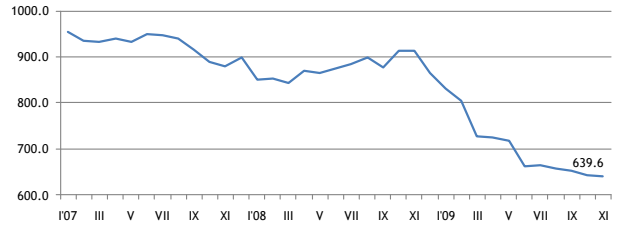


The average interest rate of government internal borrowing securities, %

In November 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 46.0% (38.1% in November 2008), but short-term government bond proportion reached 54.0% (61.9%).



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

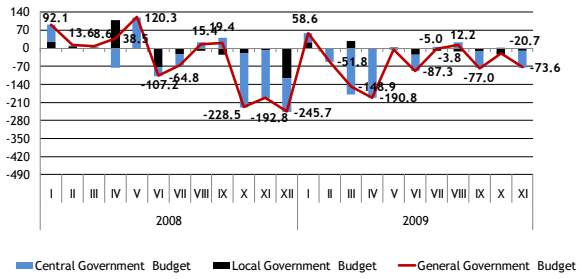


Cash in circulation, mln lats

	09'VI	VII	VIII	IX	X	XI
RIGIBOR (3month)	27.20	16.50	11.96	12.10	13.9	10.4
EURIBOR (3month)	1.15	0.92	0.84	0.74	0.73	0.72

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-November 2009) data, in eleven months of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 4377.3 mln lats which is 882.1 mln lats or 16.8% less than in eleven months of 2008, mainly due to decrease of tax revenue in the central government basic budget by 721.0 mln lats. In eleven months of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 4965.4 mln lats, which is 579.4 mln lats or 10.4% less than in eleven months of 2008. In eleven months of 2009, the general government budget financial deficit was 588.1 mln lats, mainly due to deficit in the central government consolidated budget.



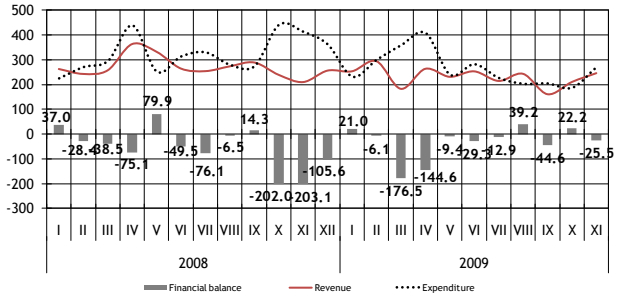
General government budget balance, mln lats

In eleven months of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 3631.3 mln lats, which is 648.0 mln lats or 15.1% less than in eleven months of 2008, mainly due to decrease of central government basic budget tax revenue. The most significant decrease in comparison with eleven months of 2008 was in the revenue from value added tax.

In eleven months of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 4175.2 mln lats, which is 401.7 mln lats or 8.8% less than in eleven months of 2008. In eleven months of 2009, the deficit of central government consolidated budget was in amount of 543.9 mln lats.

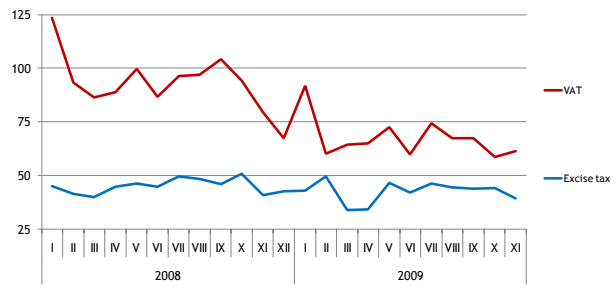
Central government basic budget revenue (including derived public persons) in eleven months of 2009 was 2642.7 mln lats, which in comparison with eleven months of 2008 is 344.9 mln lats or 11.5% less.

In comparison with eleven months of 2008, tax revenue was 1541.5 mln lats, which is 721.0 mln lats or 31.9% less, mainly due to decrease of value added tax revenue by 306.2 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with eleven months of 2008. In eleven months of 2009 the non-tax revenue was 371.6 mln lats, which is 129.3 mln lats more than in eleven months of 2008, mainly due to increase of percent revenue by 32.2 mln lats and revenue from dividends by 35.6 mln lats. In eleven months of 2009, revenue from the paid services and self-earned revenue was 135.3mln lats, which is 20.4mln lats or 17.7% more, but revenue from the foreign financial assistance was 515.9 mln lats, which is 147.9 mln lats more than in eleven months of 2008. Foreign financial assistance revenue in eleven months of 2009 consisted of an interim payment of the European agriculture fund 77.2 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 eleven months of 2009, the central government basic budget expenditure (including derived public persons) was 3002.9 mln lats, which is 532.6 mln lats or 15.1% less than in eleven months of 2008. In eleven months of 2009, the central government basic budget non-capital expenditure was 2810.5 mln lats or 93.6% of total basic budget expenditure and in comparison with eleven months of 2008 is 418.7 mln lats less, mainly due to decrease in wages and salaries, but percent expenditure, interest payments increased. Wages and salaries in eleven months of 2009 were 457.0 mln lats and in comparison with eleven months of 2008 is 123.8 mln lats or 21.3% less. The central government basic budget capital expenditure in eleven months of 2009 was 192.3 mln lats and in comparison with eleven months of 2008 is 114.0 mln lats or 37.2% less. In eleven months of 2009, the central government basic budget financial deficit was in amount of 360.2 mln lats.



Indirect tax revenue, mln lats

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

Value added tax revenue in eleven months of 2009 was 743.6 mln lats and in comparison with eleven months of 2008 is 306.2 mln lats or 29.2% less.

In eleven months of 2009, domestically net collected value added tax revenue was 585.7 mln lats or 78.8% of total value added tax revenue and in comparison with eleven months of 2008 it is 235.6 mln lats or 28.7% less. The value added tax revenue collected on border was 70.6 mln lats or 30.9% less than in eleven months of 2008.

Value added tax payments made by the biggest taxpayers formed 47.8% of total value added tax revenue in eleven months of 2009.

Decrease of value added tax revenue, in comparison with eleven months of 2008, and non-execution of eleven months plan 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 eleven months of 2009, in comparison with the same period of 2008 decreased by 26.5%.

In eleven months of 2009 value added tax repayments decreased by 23.7%. 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 eleven months of 2009.

Corporate income tax revenue in eleven months of 2009 was 179.7 mln lats and in comparison with eleven months of 2008 is 288.4 mln lats or 61.6% less, mainly due to decrease of profit of the year 2008 or declared losses. As a result payments decreased and repayments increased.

In eleven months of 2009 the corporate income tax payments made by the biggest tax payers were 67.7 mln lats and these payments formed 37.7% of total corporate income tax revenue.

Total **excise tax revenue** in eleven months of 2009 was 467.9 mln lats, which is 30.3 mln lats or 6.1% 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 eleven months of 2009, excise tax revenue from oil products was 263.7 mln lats or 56.4% of total excise tax revenue and in comparison with eleven months of 2008 is 3.9 mln lats or 1.4% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In ten months of 2009 in comparison to the same period of 2008, it decreased by 13.8%.

In eleven months of 2009, the excise tax revenue from alcoholic beverages was 76.8 mln lats or 16.4% of total excise tax revenue and in comparison with eleven months of 2008 is 6.6 mln lats or 7.9% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in ten months of 2009 in comparison with ten months of 2008 decreased by 29.7%.

In eleven months of 2009, excise tax revenue from tobacco products was 107.3 mln lats or 22.9% of total excise tax revenue and in comparison with eleven months of 2008 is 24.8 mln lats or 18.8% less. The excise tax revenue from tobacco products in eleven months of 2009 was affected by changes in channelled volume of cigarettes in Latvia, which in ten months of 2009, in comparison with the same period of 2008, decreased by 39.1%.

Social security budget revenue in eleven months of 2009 was 1143.2 mln lats, which is 177.1 mln lats or 13.4% less than in eleven month of 2008.

The social security budget expenditure in eleven months of 2009 was 1327.1 mln lats, which in comparison with eleven months of 2008 is 260.3 mln lats or 24.4% more. Expenditure for pensions were 966.9 mln lats or 72.9% of the social security budget expenditure, social security benefits were 212.7 mln lats or 16.0% and employment benefits were 124.9 mln lats or 9.4% of the social security budget expenditure.

In eleven months of 2009, the social security budget financial deficit was 183.8 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in eleven months of 2009 were 1221.0 mln lats and in comparison with eleven months of 2008 is 298.3 mln lats or 19.6% less. The social security contributions in the state special budget were 1063.1mln lats, but social security contributions in the funded pension scheme were 159.2 mln lats.

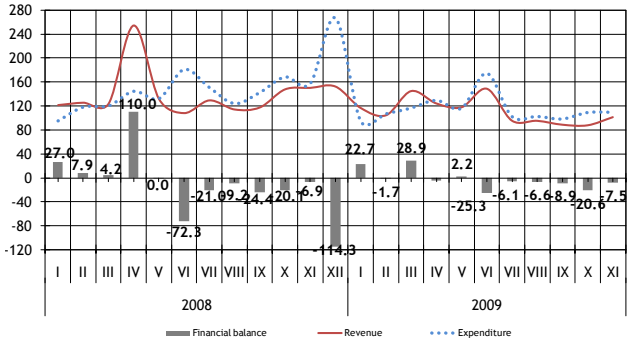
The decrease of social security contributions in eleven months of 2009 in comparison with the same period of 2008 was affected by decrease of labour payment fund.

According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in October 2009 in comparison with October 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 ten months of 2009 was 1184.4 mln lats and in comparison with eleven months of 2008 was 340.2 mln lats or 22.3% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in eleven months of 2009 in comparison with eleven months of 2008 was 295.9 mln lats or 18.2% less.

In comparison with eleven months of 2008, the tax revenue was 196.7 mln lats or 23.9% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in eleven months of 2009 was 4.0 mln lats or 13.5% less than in the same period of 2008, but the local government basic budget received payments were 88.1 mln lats or 13.1% less than in eleven months of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in eleven months of 2009 was 6.8 mln lats or 7.2% less than in eleven months of 2008.



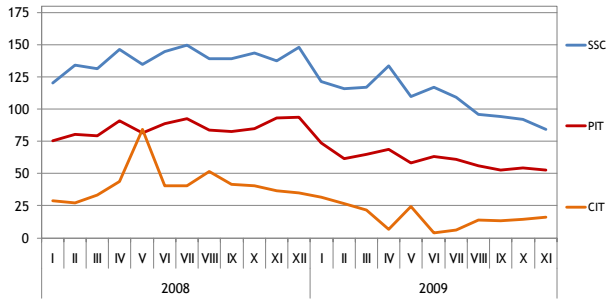
Local government basic budget, mln lats

In eleven months of 2009 the local government consolidated budget expenditure was 1231.3 mln lats, which is 298.1mln lats or 19.5% less than in eleven months of 2008, mainly due to decrease of capital expenditure in local government basic budget by 94.6 mln lats.

In eleven months of 2009, there was a financial deficit in amount of 47.0 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in eleven months of 2009 was 594.1 mln lats and in comparison with eleven months of 2008 is 73.6 mln lats less, int. al. wages and salaries is 57.9 mln lats less.

Personal income tax revenue. Personal income tax revenue in eleven months of 2009 was 666.9 mln lats and in comparison with eleven months of 2008 is 268.4 mln lats or 28.7% 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