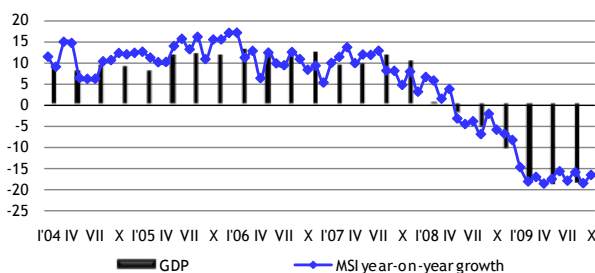


MACROECONOMIC AND BUDGETARY REVIEW

October, 2009

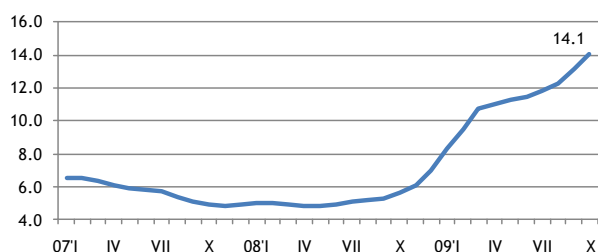
Smilšu street 1. Rīga. Phone 7095539. Fax 095541,
<http://www.fm.gov.lv>

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in October 2009 shrunk by 16.7% 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 October amounted to 5.1 mln t, up by 3.4% from the corresponding month of 2008. However, the volume of cargo transhipped in ports in January – October of 2009 totalled 52.3 mln t, which was 0.5% less than in the same period of the previous year. In October of 2009 **freight carried by rail** were 3.8 mln tons, a decrease of 17.4% compared to the same period of the previous year. Freight carried by rail in January – October of 2009 totalled 44.7 mln t, which was 1.8% less than in 2008.



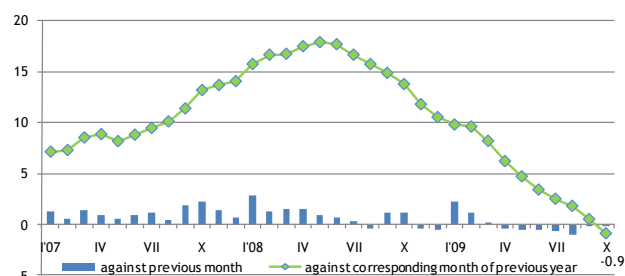
Officially registered unemployment rate, %

Officially registered **unemployment rate** in October increased by 0.9 percentage points and amounted to 14.1% of the economically active population at the end of the month. The number of the registered unemployed increased by 10.1 thsd people from the previous month and amounted to 157.9 thsd people. As compared with October 2008, the unemployment rate increased by 8.5 percentage points, but the number of the registered unemployed by 96.8 thsd people. The highest unemployment rate in October was registered in the region of Latgale, 18.9% (9.5% in October of 2008); in the region of Kurzeme, 15.7% (5.7%); and in the region of Zemgale, 15.1% (5.7%); and in the region of Vidzeme, 15.3% (5.7%). The lowest unemployment rate was registered in the region of Rīga, 11.7% (4.3%).

Consumer Price Index (CPI) in October, compared with September, decreased by 0.2%. Average price levels for goods remain stable and for services went down by 0.7%. Comparing with the corresponding month of previous year, consumer prices decreased by 0.9%, inter alia for goods decreased by 1.5% and for services increased by 1.8%.

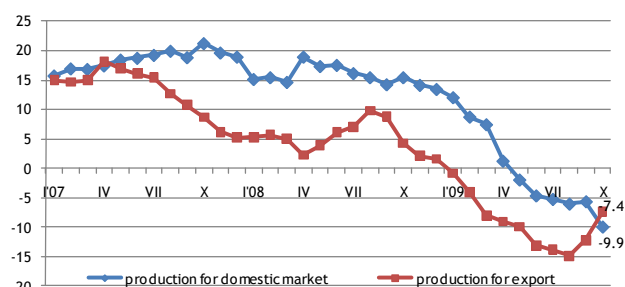
The rise in the prices of vegetables, clothes and footwear, as well as price reduction of fuel and heat energy had the major impact on consumer price

changes in October. Because of seasonal affect price of vegetables become more expensive by 15.4%, but clothes – by 0.9% and footwear – by 3.0%.



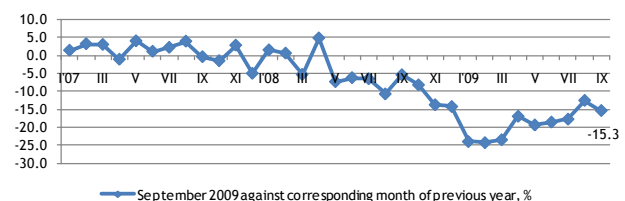
Consumer price index, %

Producer prices in October of 2009 comparing with September rise by 0.1%, but in comparison with corresponding month of previous year, producer prices reduced by 8.8%. In October of 2009 comparing with October of 2008 drop in tariffs of electricity, gas supply, heating and air conditioning prices lowered overall producer price level by 2.9 percentage points (pp), for manufacturing of metals – by 1.9 pp., manufacturing of wood and wood products (excluding furniture) – by 1.5 pp., manufacturing of food – by 1.4 pp.

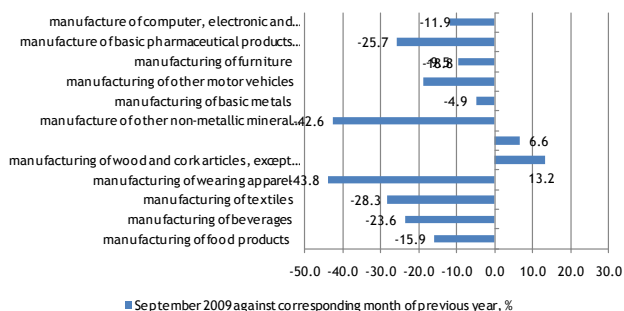


Producer price index, %

Compared to September of previous year, in September 2009 **industrial production output** decreased by 15.3%, of which electricity and gas supply – by 18.6%, manufacturing – by 15.1%, but mining and quarrying output – by 3.0%.

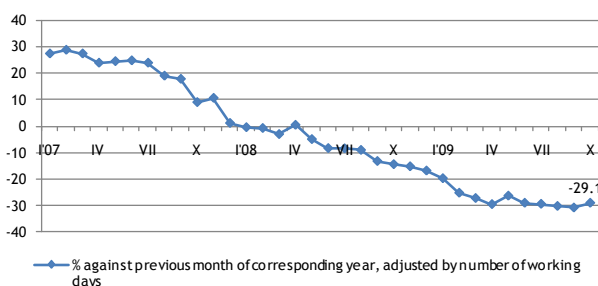


Industrial production index (seasonally adjusted data)



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 October 2009, compared to October 2008, has reduced by 29.1%. Most notable decrease was recorded in non-food product group – by 32.3%. Slightly smaller reduction was recorded in companies selling mainly food products – by 21.9%.



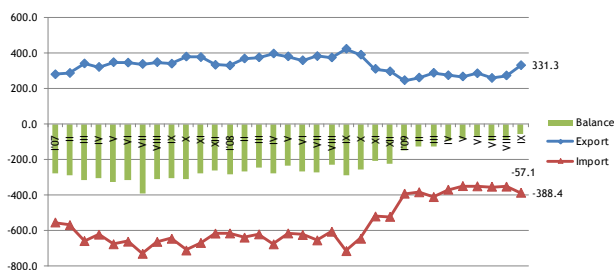
Turnover indices of retail trade (at constant prices)

In September 2009, **exports and imports of goods** amounted to 719.7 mln lats down by 36.8% or 419.5 mln lats from the same period last year.

In January - September of 2009, exports and imports of goods amounted to 5918.7 mln lats down by 35.6% or 3271.6 mln lats from the same period last year.

As compared with January - September last year, export of goods decreased by 22.1% and amounted to 331.3 mln lats, while import decreased by 45.6%, reaching the value of 388.4 mln lats.

In September 2009, as compared to the September 2008, the trade balance deficit decreased by 231.5 mln lats and amounted to 57.1 mln lats.



Foreign trade balance, mln lats

In September 2009 the most significant share in Latvia's export was export to the countries of European Union 65.2% (68.8% in September of 2008), followed by the export to CIS countries 15.6% (16.0%). Main export partners were Lithuania 14.1% of total export (15.2%); Estonia 13.8% (13.4%); Russia 10.9% (10.3%); Germany 7.9% (7.0%) and Sweden 5.6% (6.5%).

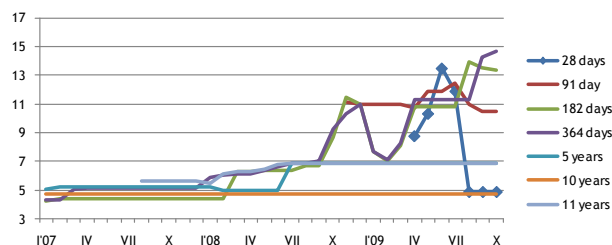
Latvia's main export products were agricultural and food products accounting for 21.0% of total amount (17.1% in September of 2008); wood and wood products accounting for 14.7% (13.3%); machinery, mechanical appliances and electrical equipment accounting for 14.7% (12.1%); base metals and its articles accounting for 14.0% (18.7%).

In September 2009 the most significant share in Latvia's import was import from the countries of European Union 77.0% (76.0% in September of 2008), followed by the import from CIS countries 12.8% (16.5%). Main import partners were Lithuania 19.9% of total import (18.0%); Germany 11.4% (12.7%); Poland 8.6% (7.0%); Estonia 7.3% (6.9%) and Russia 7.0% (10.5%).

Latvia's main import products were agricultural and food products for 18.9% of total amount (13.2% in September of 2008); mineral products accounting for 17.7% (18.5%) machinery and mechanical appliances accounting for 15.8% (16.4%).

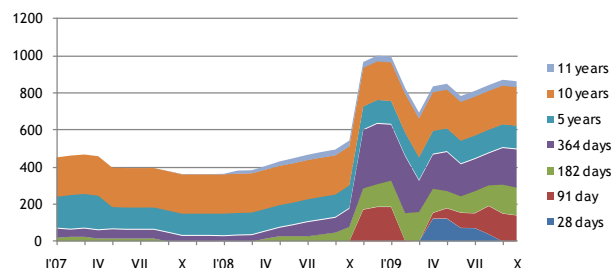
In October 2009 government internal borrowing securities competing multi-price securities auctions with term 91, 128 and 364 days were held. In auctions short-term government debt securities in the total amount of 7.57 mln lats were sold at nominal value with the weighted average profit rate from 10.497% to 14.750%.

In October 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 7.1 mln lats, with the weighted average profit rate from 10.5% to 14.7%.

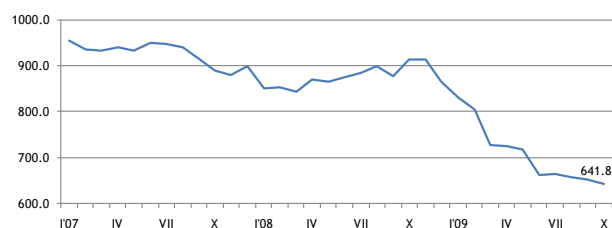


The average interest rate of government internal borrowing securities, %

In October 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 42.0% (67.3% in October 2008), but short-term government bond proportion reached 58.0% (32.7%).



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

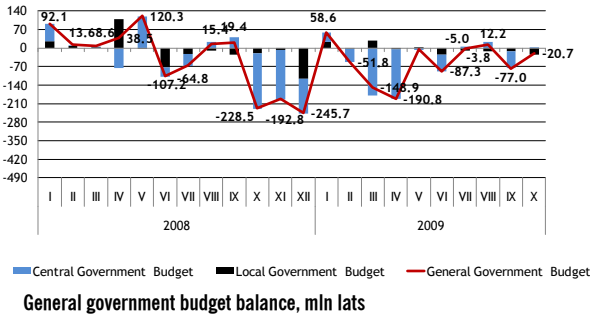


Cash in circulation, mln lats

	09'V	VI	VII	VIII	IX	X
RIGIBOR (3month)	13.60	27.20	16.50	11.96	12.10	13.9
EURIBOR (3month)	1.26	1.15	0.92	0.84	0.74	0.73

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-October 2009) data, in ten months of 2009 the **General Government Budget** revenue (including grants, donations and derived public persons) was 3979.4 mln lats which is 866.0 mln lats or 17.9% less than in ten months of 2008, mainly due to decrease of tax revenue in the central government basic budget by 671.4 mln lats. In ten months of 2009, the general government budget expenditure (including grants, donations and derived public persons) was 4493.9 mln lats, which is 444.1 mln lats or 9.0% less than in ten months of 2008. In ten months of 2009, the general government budget financial deficit was 514.5 mln lats, mainly due to deficit in the central government consolidated budget.



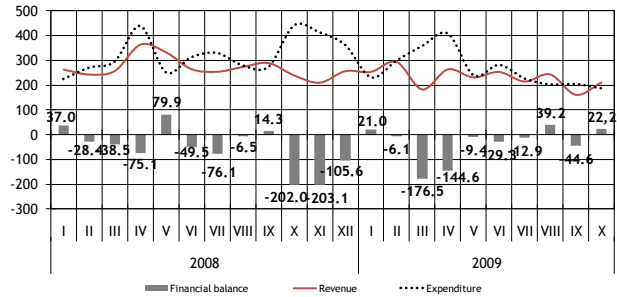
General government budget balance, mln lats

In ten months of 2009 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 3294.4 mln lats, which is 666.8 mln lats or 16.8% less than in ten 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 ten months of 2009, the central government budget expenditure (including grants, donations and derived public persons) was 3774.6 mln lats, which is 297.5 mln lats or 7.3% less than in ten months of 2008. In ten months of 2009, the deficit of central government consolidated budget was in amount of 480.2 mln lats.

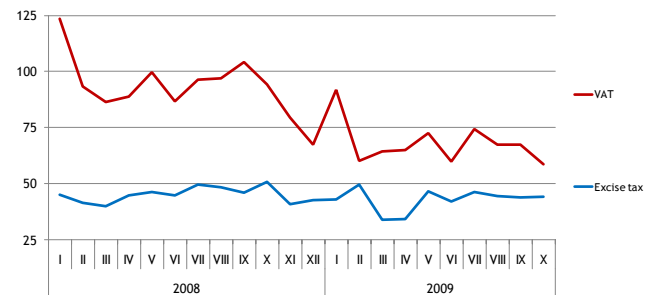
Central government basic budget revenue (including derived public persons) in ten months of 2009 was 2384.8 mln lats, which in comparison with ten months of 2008 is 393.1 mln lats or 14.2% less.

In comparison with ten months of 2008, tax revenue was 1413.3 mln lats, which is 671.4 mln lats or 32.2% less, mainly due to decrease of value added tax revenue by 288.2 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with ten months of 2008. In ten months of 2009 the non-tax revenue was 285.2 mln lats, which is 55.2 mln lats more than in ten months of 2008, mainly due to increase of percent revenue by 20.8 mln lats and revenue from dividends by 16.7 mln lats. In ten months of 2009, revenue from the paid services and self-earned revenue was 125.0 mln lats, which is 18.6 mln lats or 17.5% more, but revenue from the foreign financial assistance was 489.1 mln lats, which is 132.2 mln lats more than in ten months of 2008. Foreign financial assistance revenue in ten months of 2009 consisted of an interim payment of the European agriculture fund 76.8 mln lats of 2007-2013 programming period, an interim payment of Cohesion fund 64.3 mln lats and interim payments of the European Regional development fund 193.8 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In ten months of 2009, the central government basic budget expenditure (including derived public persons) was 2718.9 mln lats, which is 403.9 mln lats or 12.9% less than in ten months of 2008. In ten months of 2009, the central government basic budget non-capital expenditure was 2537.9 mln lats or 93.3% of total basic budget expenditure and in comparison with ten months of 2008 is 320.8 mln lats less, mainly due to decrease in wages and salaries, but percent expenditure, interest payments increased. Wages and salaries in ten months of 2009 were 423.3 mln lats and in comparison with ten months of 2008 is 95.5 mln lats or 18.4% less. The central government basic budget capital expenditure in ten months of 2009 was 181.0 mln lats and in comparison with ten months of 2008 is 83.1 mln lats or 31.5% less. In ten months of 2009, the central government basic budget financial deficit was in amount of 334.0 mln lats.



Indirect tax revenue, mln lats

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

Value added tax revenue in ten months of 2009 was 682.2 mln lats and in comparison with ten months of 2008 is 288.2 mln lats or 29.7% less.

In ten months of 2009, domestically net collected value added tax revenue was 539.4 mln lats or 79.1% of total value added tax revenue and in comparison with ten months of 2008 it is 241.1 mln lats or 30.9% less. The value added tax revenue collected on border was 47.1 mln lats or 24.8% less than in ten months of 2008.

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

Decrease of value added tax revenue, in comparison with ten months of 2008, and non-execution of ten 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 ten months of 2009, in comparison with the same period of 2008 decreased by 26.2%.

In ten months of 2009 value added tax repayments decreased by 7.2%. 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 ten months of 2009.

Corporate income tax revenue in ten months of 2009 was 163.6 mln lats and in comparison with ten months of 2008 is 268.1mln lats or 62.1% less, mainly

due to decrease of profit of the year 2008 or declared losses. As a result payments decreased and repayments increased.

In ten months of 2009 the corporate income tax payments made by the biggest tax payers were 57.3 mln lats and these payments formed 35.0% of total corporate income tax revenue.

Total **excise tax revenue** in ten months of 2009 was 428.4 mln lats, which is 28.9 mln lats or 6.3% 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 ten months of 2009, excise tax revenue from oil products was 240.8 mln lats or 56.2% of total excise tax revenue and in comparison with ten months of 2008 is 2.7 mln lats or 1.1% less. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In nine months of 2009 in comparison to the same period of 2008, it decreased by 13.5%.

In ten months of 2009, the excise tax revenue from alcoholic beverages was 70.5 mln lats or 16.5% of total excise tax revenue and in comparison with ten months of 2008 is 5.0 mln lats or 6.6% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in nine months of 2009 in comparison with nine months of 2008 decreased by 29.2%.

In ten months of 2009, excise tax revenue from tobacco products was 98.8 mln lats or 23.1% of total excise tax revenue and in comparison with ten months of 2008 is 25.6 mln lats or 20.6% less. The excise tax revenue from tobacco products in ten months of 2009 was affected by changes in channelled volume of cigarettes in Latvia, which in nine months of 2009, in comparison with the same period of 2008, decreased by 38.8%.

Social security budget revenue in ten months of 2009 was 1057.3 mln lats, which is 155.1 mln lats or 12.8% less than in ten month of 2008.

The social security budget expenditure in ten months of 2009 was 1203.2 mln lats, which in comparison with ten months of 2008 is 229.5 mln lats or 23.6% more. Expenditure for pensions were 875.2 mln lats or 72.7% of the social security budget expenditure, social security benefits were 194.7 mln lats or 16.2% and employment benefits were 112.3 mln lats or 9.3% of the social security budget expenditure.

In ten months of 2009, the social security budget financial deficit was 145.9 mln lats.

Social security contributions (including contributions into the State Funded Pension Scheme) in ten months of 2009 were 1130.5 mln lats and in comparison with ten months of 2008 is 251.6 mln lats or 18.2% less. The social security contributions in the state special budget were 978.8 mln lats, but social security contributions in the funded pension scheme were 152.9 mln lats.

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

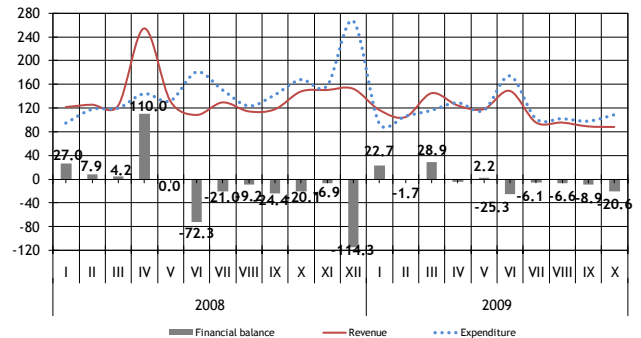
According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in September 2009 in comparison with September 2008 decreased by 19.5%, but wages in second quarter of 2009 in comparison with second quarter of 2008 decreased by 1.0%.

Local government consolidated budget revenue (including grants and donations) in ten months of 2009 was 1086.5 mln lats and in comparison with ten months of 2008 was 287.8 mln lats or 20.9% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in ten months of 2009 in comparison with ten months of 2008 was 232.1 mln lats or 15.9% less.

In comparison with ten months of 2008, the tax revenue was 164.3 mln lats or 22.3% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in ten months of

2009 was 2.5 mln lats or 9.3% less than in the same period of 2008, but the local government basic budget received payments were 60.5 mln lats or 10.0% less than in ten months of 2008. Local government basic budget revenue from the paid services and other self-earned revenue in ten months of 2009 was 4.9 mln lats or 5.7% less than in ten months of 2008.



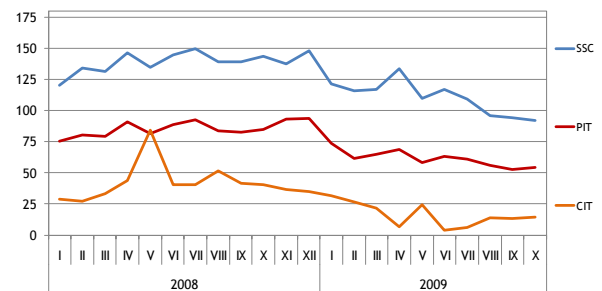
Local government basic budget, mln lats

In ten months of 2009 the local government consolidated budget expenditure was 1123.4 mln lats, which is 248.9 mln lats or 18.1% less than in ten months of 2008, mainly due to decrease of capital expenditure in local government basic budget by 93.0 mln lats.

In ten months of 2009, there was a financial deficit in amount of 36.9 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in ten months of 2009 was 554.5 mln lats and in comparison with ten months of 2008 is 41.3 mln lats less, int. al. wages and salaries is 30.9 mln lats less.

Personal income tax revenue. Personal income tax revenue in ten months of 2009 was 614.3 mln lats and in comparison with ten months of 2008 is 227.6 mln lats or 27.0% 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