

# MACROECONOMIC AND BUDGETARY REVIEW

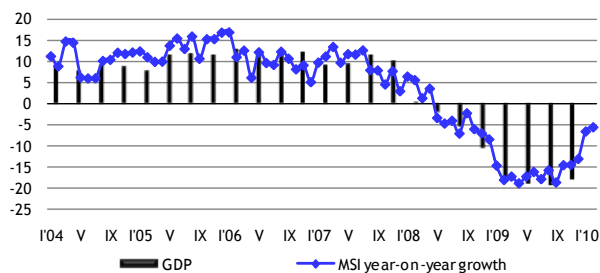


MINISTRY OF FINANCE  
REPUBLIC OF LATVIA

February, 2010

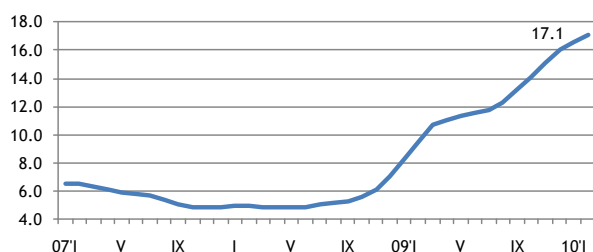
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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in February 2010 shrunk by 5.5% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, reduction of the amount of loaded/unloaded cargos and decrease of the employment level.



Composite Index of Macroeconomic Indicators (MSI)

The volume of **cargo transhipped in Latvian ports** in February amounted to 5.2 mln t, down by 5.0% from the corresponding month of 2009. In February of 2010 **freight carried by rail** were 4.3 mln tons, a decrease of 5.6% compared to the same period of the previous year. In recent months, the dynamics show that the freight turnover is declining both in ports and railways, because in separate groups of freight, there are negative trends, which are associated with increased competition in the Baltic Sea ports, as well as the overall economic situation of the main external trade partners.



Officially registered unemployment rate, %

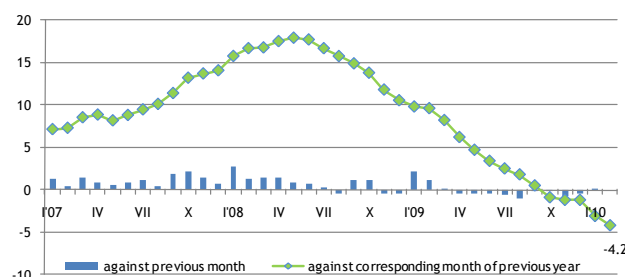
Officially registered **unemployment rate** in February increased by 0.5 percentage points and amounted to 17.1% of the economically active population at the end of the month. Positive that the unemployment rates of growth, compared with the end of 2009 has slowed down in the beginning of 2010. The number of the registered unemployed increased by 5.7 thsd people from the previous month and amounted to 192.0 thsd people. As compared with February 2009, the unemployment rate increased by 7.6 percentage points, but the number of the registered unemployed by 88.3 thsd people. Unemployment rate in the future will reduce in a slowly manner. In the summer months, probably there will be a little reduction in unemployment due to seasonal factors.

The highest unemployment rate in February was registered in the region of Latgale, 22.6% (13.4% in February of 2009); in the region of Zemgale, 19.5% (10.7%); and in the region of Vidzeme, 19.2% (10.2%); and in the region of Kurzeme, 18.9% (10.6%). The lowest unemployment rate was registered in the region of Riga, 14.1% (7.6%).

38.5 thsd (20.1% of total) unemployed participated in the active employment measures (including temporary work) organized by the State Employment Agency in February 2010.

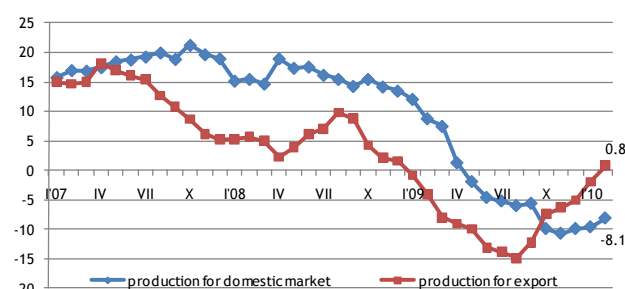
**Consumer Price Index (CPI)** in February of 2010, compared with January of 2010, remains stable. Average price level for goods went up by 0.1%, but for services went down by 0.4%. Comparing with the corresponding month of previous year, consumer prices decreased by 4.2%, inter alia for goods decreased by 3.9% and for services by 4.8%.

The rise in the prices of fresh vegetables, bread and fuel, as well as price decrease of clothing, footwear and insurance services had the major impact on changes of average consumer price level in February. Due to the seasonal factors prices of fresh vegetables increased by 8.3%, but of bread – by 1.1%.



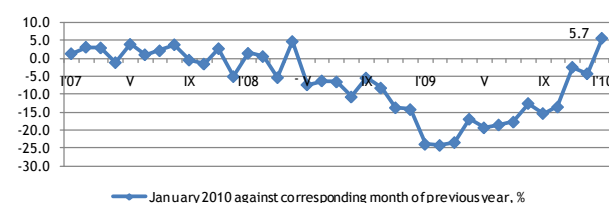
Consumer price index, %

**Producer prices** in February of 2010 comparing with January of 2010 increased by 0.5%. In February of 2010 comparing with February of 2009 producer prices reduced by 4.7%. Drop of the tariffs of electricity, gas, steam and air conditioning supply by 14.7% had the biggest impact on the overall level of producer prices. The decrease of prices in the manufacture of non-metallic mineral products - 7.7%, in the manufacture of basic metals - 6.0% and in the manufacture of food products was 5.5%.

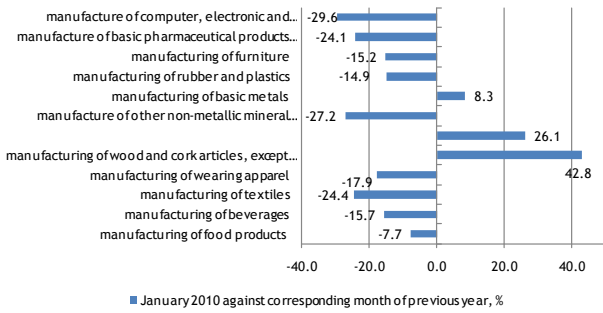


Producer price index, %

Compared to January of previous year **industrial production output** in January 2010 has grown by 5.7%, according to working day adjusted data at constant prices. The growth was influenced by the production increase in electricity and gas supply of 25.1%, because with the beginning of the cold season the demand for the energy sector products rose. But reduction, in turn, was observed in mining and quarrying - 3.0%, and in manufacturing - 0.1%. Industrial output growth in January 2010 is also due to the carryover from January 2009.

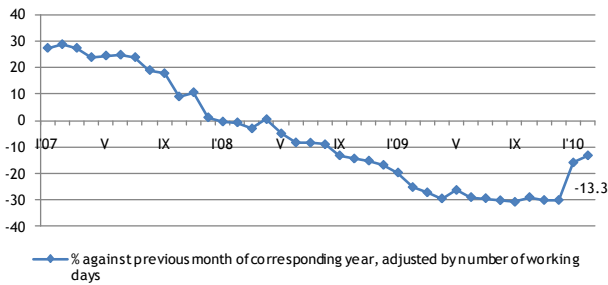


Industrial production index (seasonally adjusted data)



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 February 2010, compared to February 2009, has reduced by 13.3%. Most notable decrease was recorded in non - food product group – by 13.6%. Slightly smaller reduction was recorded in companies selling food products – by 12.7%. In February, the rate of decline in retail turnover continued to shrink due to carryover.



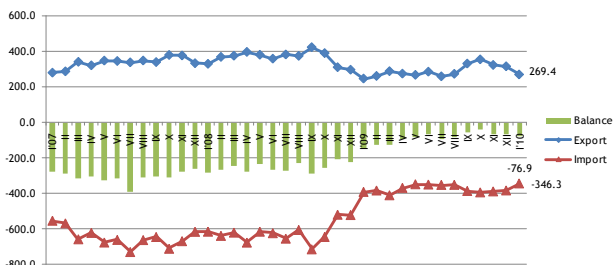
Turnover indices of retail trade (at constant prices)

In January 2010, **exports and imports of goods** amounted to 615.7 mln lats, down by 6.1% or 40.1 mln lats from the same period last year.

As compared with January last year, export of goods increased by 4.7% and amounted to 269.4 mln lats, while import fell by 13.1%, reaching the value of 346.3 mln lats.

In January continued from December 2009 the observed increase in exports of goods. Export recovery trend was seen in last year's second half. In January, exports fell from December last year mainly due to seasonal factors.

In January 2010, as compared to the January 2009, the trade balance deficit decreased by 64.3 mln lats and amounted to 76.9 mln lats.



Foreign trade balance, mln lats

In January 2010 the most significant share in Latvia's export was export to the countries of European Union 72.6% (74.5% in January of 2009), followed by the export to CIS countries 10.0% (12.9%). Main export partners were Lithuania 15.1% of total export (15.7%); Estonia 14.1% (13.6%); Germany 9.0% (9.4%); Sweden 8.3% (7.3%) and Russia 6.6% (6.4%).

Latvia's main export products were wood and wood products accounting for 19.9% of total amount; agricultural and food products accounting for 19.0%;

base metals and its articles accounting for 12.2%; machinery, mechanical appliances and electrical equipment accounting for 11.0%.

In January 2010 the most significant share in Latvia's import was import from the countries of European Union 67.1% (69.0% in January of 2009), followed by the import from CIS countries 24.4% (21.7%). Main import partners were Russia 17.3% of total import (17.4%); Lithuania 16.7% (15.6%); Germany 9.2% (9.9%); Poland 7.2% (7.7%) and Estonia 6.7% (6.8%).

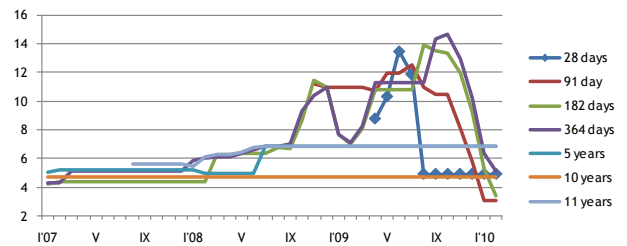
Latvia's main import products were mineral products accounting for 22.6% of total amount; agricultural and food products for 17.6%; machinery and mechanical appliances accounting for 14.2%.

In February 2010 **government domestic securities competitive multi-price auctions** with term 128 and 364 days were held. In auctions short-term government debt securities in the total amount of 60.1 mln lats were sold.

After a half year break, the Treasury in February sold **two-year bonds** for a total amount of 8 mln lats. Overall investor demand for bonds in this period reached 36.2 mln lats in a nominal value.

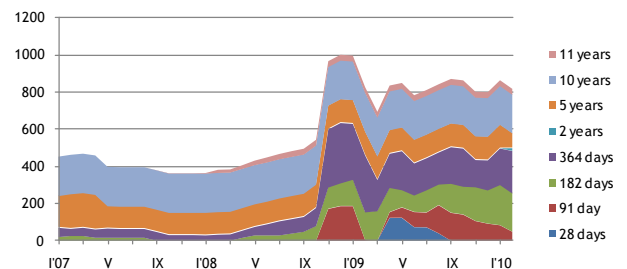
In February the **non-competitive fixed rate auctions** took place with term 128 days, 364 days and 2 years. Bonds were sold at auctions for a total sum of 18.0 mln lats.

The six-month bills average weighted interest rate was 3.415%, which is 0.71% lower than previous six-month rate, 12-month bills average weighted interest rate was - 5.135%, which is 0.48% lower than previous 12-month rate. The weighted average interest rate for 2-year bonds was 6.071% (coupon rate 6.0%).

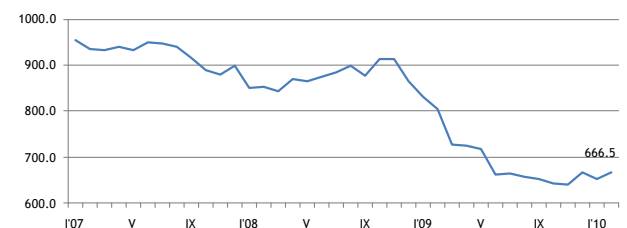


The average interest rate of government internal borrowing securities, %

In February 2010 government medium and long term bond weight in the domestic debt portfolio amounted to 42.0% (34.8% in February 2009), but short-term government bond proportion reached 58.0% (65.2%).



Structure of government internal borrowing securities turnover in February 2010, mln lats

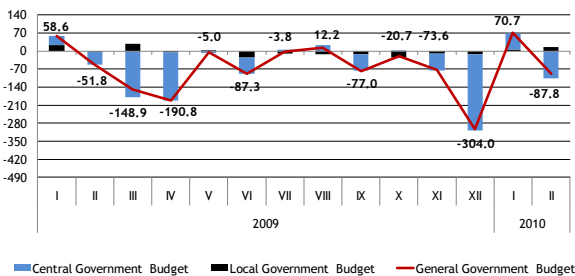


Cash in circulation, mln lats

	IX	X	XI	XII	10'1	II
RIGIBOR (3month)	12.10	13.9	10.4	7.46	4.00	2.81
EURIBOR (3month)	0.74	0.73	0.72	0.71	0.67	0.66

#### 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-February 2010) data, in two months of 2010 the **General Government Budget** revenue (including grants, donations and derived public persons) was 76.2 mln lats which is 96.2 mln lats or 11.2% less than in two months of 2009, mainly due to decrease of tax revenue in the central government basic budget by 76.3 mln lats. In two months of 2010, the general government budget expenditure (including grants, donations and derived public persons) was 779.3 mln lats, which is 72.2 mln lats or 8.5% less than in two months of 2009. In two months of 2010, the general government budget financial deficit was 17.2 mln lats, mainly due to deficit in the Central government basic budget.



#### General government budget balance, mln lats

In two months of 2010 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 65.9 mln lats, which is 65.3 mln lats or 9.1% less than in two months of 2009, mainly due to decrease of foreign financial assistance revenue and central government basic budget tax revenue.

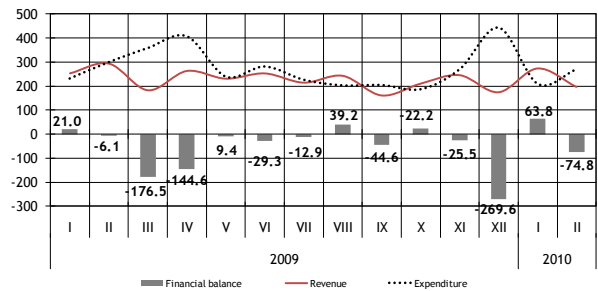
In two months of 2010, the central government budget expenditure (including grants, donations and derived public persons) was 693.3 mln lats, which is 37.2 mln lats or 5.1% less than in two months of 2009. In two months of 2010, the deficit of central government consolidated budget was in amount of 42.4 mln lats.

**Central government basic budget** revenue in two months of 2010 was 470.3 mln lats, which in comparison with two months of 2009 is 50.5 mln lats or 9.7% less.

In comparison with two months of 2010, tax revenue was 260.2 mln lats, which is 76.3 mln lats or 22.7% less, mainly due to decrease of corporate income tax revenue by 34.1 mln lats and excise tax revenue by 20.5 mln lats, but central government basic budget and self-earned revenue increased, in comparison with two months of 2009.

In two months of 2010 the non-tax revenue was 68.0 mln lats, which is 40.0 mln lats more than in two months of 2009, which affected revenue from state-owned unit of greenhouse gas emissions trading.

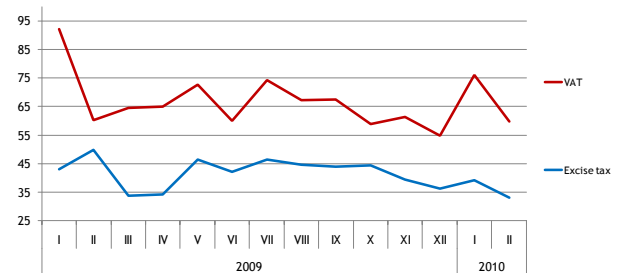
In two months of 2010, revenue from the paid services and self-earned revenue was 8.9 mln lats, which is 3.7 mln lats or 29.6% less, but revenue from the foreign financial assistance was 133.2 mln lats, which is 10.5 mln lats less than in two months of 2009. Foreign financial assistance revenue in two months of 2009 consisted of an interim payment of the European agriculture fund 38.3 mln lats of 2007-2013 programming period, an interim payment of Cohesion fund 44.6 mln lats and interim payments of the European Regional development fund 12.0 mln lats of 2007-2013 programming period.



#### Central government basic budget, mln lats

In two months of 2010, the central government basic budget expenditure was 481.3 mln lats, which is 30.4 mln lats or 5.9% less than in two months of 2009. In two months of 2010, the central government basic budget non-capital expenditure was 465.3 mln lats or 96.7% of total basic budget expenditure and in comparison with two months of 2009 is 19.4 mln lats less, mainly due to decrease in wages and remuneration, but percent expenditure, interest payments increased.

Remuneration in two month 2010 was 68.7 mln lats and in comparison with two months of 2009 is 31.2 mln lats or 31.2% less. The central government basic budget capital expenditure in two months of 2010 was 15.9 mln lats and in comparison with two months of 2009 is 11.0 mln lats or 40.8% less. In two months of 2010, the central government basic budget financial deficit was in amount of 11.0 mln lats.



#### Indirect tax revenue, mln lats

In two months of 2010, tax revenue continued to decrease, significant decrease was in revenue of corporate income tax.

**Value added tax** revenue in two months of 2010 was 135.9 mln lats and in comparison with two months of 2009 is 16.4 mln lats or 10.8% less.

In two months of 2010, domestically net collected value added tax revenue was 119.8 mln lats or 88.2% of total value added tax revenue and in comparison with two months of 2009 it is 1.7 mln lats or 1.4% less. The value added tax revenue collected on border was 16.1 mln lats or 47.8% less than in two months of 2009.

Value added tax payments made by the biggest taxpayers formed 71.7% of total value added tax revenue in two months of 2010.

Decrease of value added tax revenue, in comparison with two months 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 January 2010, in comparison with the same period of 2009 decreased by 22.7%.

In January 2010 value added tax repayments decreased by 22.1%. 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 two month 2010.

**Corporate income tax** revenue in two months of 2010 was 24.2 mln lats and in comparison with two months of 2009 is 34.1 mln lats or 58.4% less, mainly due to sharp decrease of payments by 23.6% in comparison with two month 2009, as well as increase of repayments. In two month 2010 in comparison with two month 2009 repayments increased more than four times.

In two months of 2010 the corporate income tax payments made by the biggest tax payers were 10.6 mln lats and these payments formed 43.9% of total corporate income tax revenue.

Total **excise tax revenue** in two months of 2010 was 72.1 mln lats, which is 20.5 mln lats or 22.2% less than in the same period of 2009. The decrease of excise tax revenue is due to sharp decrease of the sale volume of goods, in comparison with the previous year.

In two months of 2010, excise tax revenue from oil products was 43.4 mln lats or 60.2% of total excise tax revenue and in comparison with two months of 2009 is 0.7 mln lats or 1.6% less, mainly due to increase of excise tax revenue from diesel. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products continues to decrease. In January 2010 in comparison to the same in January 2009, it decreased by 8.6%.

In two months of 2010, the excise tax revenue from alcoholic beverages was 12.6 mln lats or 17.5% of total excise tax revenue and in comparison with two months of 2009 is 0.8 mln lats or 5.9% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in January 2010 in comparison with in January 2009 decreased by 16.8%.

In two months of 2010, excise tax revenue from tobacco products was 12.9 mln lats or 17.8% of total excise tax revenue and in comparison with two months of 2009 is 20.1 mln lats or 61.0% less. The excise tax revenue from tobacco products in two months of 2010 was affected by changes in channelled volume of cigarettes in Latvia, which in January 2010, in comparison with the same period in January 2009, decreased by 73.6%.

**Social security budget** revenue in two months of 2010 was 191.8 mln lats, which is 3.1 mln lats or 1.6% less than in two months of 2009.

The social security budget expenditure in two months of 2010 was 228.6 mln lats, which in comparison with two months of 2009 is 4.3 mln lats or 1.9% more. Expenditure for pensions were 166.0 mln lats or 72.6% of the social security budget expenditure, social security benefits were 35.7 mln lats or 15.6% and employment benefits were 25.0 mln lats or 10.9% of the social security budget expenditure.

In two months of 2010, the social security budget financial deficit was 36.7 mln lats.

**Social security contributions** (including contributions into the State Funded Pension Scheme) in two months of 2010 were 178.7 mln lats and in comparison with two months of 2009 is 58.4 mln lats or 24.6% less. The social security contributions in the state special budget were 167.8 mln lats, but social security contributions in the funded pension scheme were 10.9 mln lats.

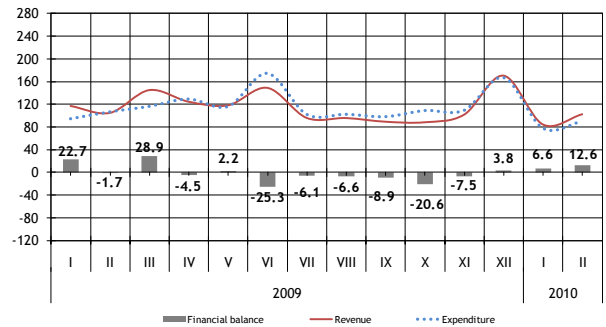
The decrease of social security contributions in two months of 2010 in comparison with the same period of 2009 was affected by decrease of labour payment fund.

According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in January 2010 in comparison with January 2009 decreased by 17.7%, but wages in four quarter of 2009 in comparison with four quarter of 2008 decreased by 12.0%.

**Local government consolidated budget** revenue (including grants and donations) in two months of 2010 was 179.4 mln lats and in comparison with two months of 2009 was 42.0 mln lats or 19.0% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in two months of 2010 in comparison with two months of 2009 was 59.0 mln lats or 24.1% less.

In comparison with two months of 2009, the tax revenue was 13.1 mln lats or 11.0% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in two months of 2010 was 0.5 mln lats or 14.2% more than in the same period of 2009, but the local government basic budget received payments were 42.2 mln lats or 40.5% less than in two months of 2009. Local government basic budget revenue from the paid services and other self-earned revenue in two months of 2010 was 4.1 mln lats or 23.1% less than in two months of 2009.



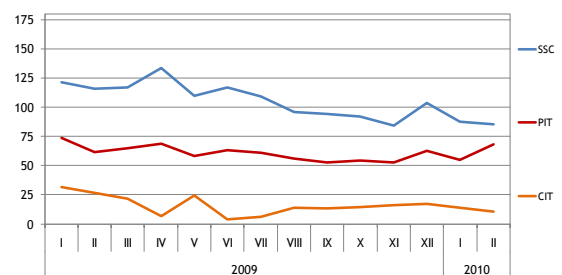
Local government basic budget, mln lats

In two months of 2010 the local government consolidated budget expenditure was 156.7 mln lats, which is 43.8 mln lats or 21.8% less than in two months of 2009, mainly due to remuneration in local government basic budget by 38.6 mln lats.

In two months of 2010, there was a financial surplus in amount of 22.8 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in two months of 2010 was 67.4 mln lats and in comparison with two months of 2009 is 38.6 mln lats less, int. al. wages and salaries decreased by 32.1 mln lats.

**Personal income tax revenue.** Personal income tax revenue in two months of 2010 was 114.0 mln lats and in comparison with two months of 2009 is 21.2 mln lats or 15.7% 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