

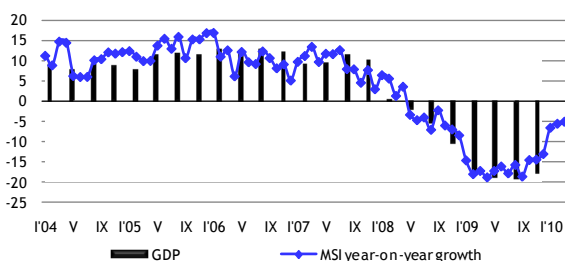
# MACROECONOMIC AND BUDGETARY REVIEW



March, 2010

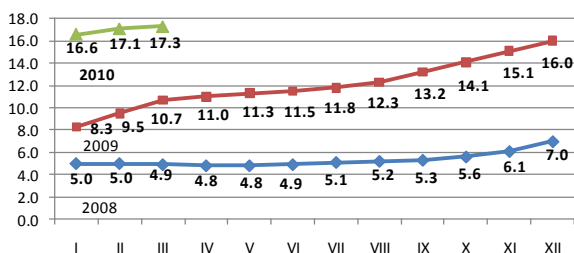
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According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators** (index is calculated using operative data on economy, in order to get a view of possible GDP growth) in March 2010 shrunk by 4.5% at constant prices. The decrease of index was caused by a slowdown in retail trade turnover, reduction of the amount of loaded/unloaded cargoes and decrease of the employment level.



Composite Index of Macroeconomic Indicators

Officially registered **unemployment rate** in March increased by 0.2 percentage points and amounted to 17.3% 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 and also slightly increased the number of registered vacancies in the State Employment Agency. However, there are negative trend that, there are a lot of unemployed people who have not found a job for more than a year. Early March, in the NVA had registered more than 34.0 thsd long term unemployed. Currently, continued the work on labour market programs and Social safety measures to deal with unemployment problems. Unemployment rate in the future will reduce in a slowly manner. In the summer months, according estimations there could be a little reduction in unemployment due to seasonal factors.

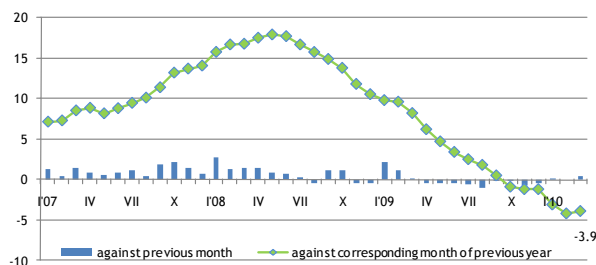


Officially registered unemployment rate, %

The number of the registered unemployed increased by 2.2 thsd people from the previous month and amounted to 194.3 thsd people at the end of the March. As compared with March 2009, the unemployment rate increased by 6.6 percentage points, but the number of the registered unemployed by 77.5 thsd people.

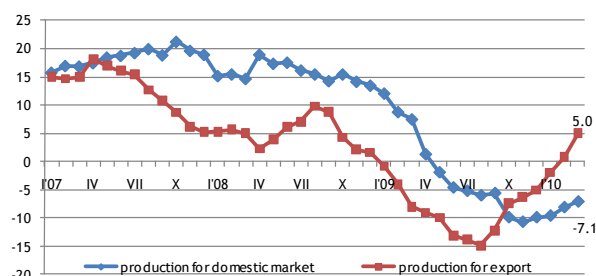
**Consumer Price Index (CPI)** in March of 2010, compared with February of 2010, increased by 0.5%. Average price level for goods went up by 0.7%, but for services went down by 0.1%. Comparing with the corresponding month of previous year, consumer prices decreased by 3.9%, inter alia for goods decreased by 3.1% and for services by 6.0%.

The rise in the prices of vegetables, fuel, clothing and footwear as well as price decrease of medical services and goods, bread and cereals had the major impact on changes of average consumer price level in March. Due to seasonal influence prices of vegetables and fruit grew by 15.2% and 2.2% respectively.



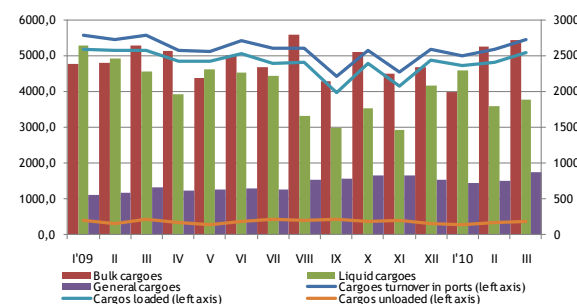
Consumer price index, %

**Producer prices** in March of 2010 comparing with February of 2010 increased by 0.8%. In case of commodity price growth in the world, in the last month producer prices mostly increased due to metal price growth. In March of 2010 comparing with March of 2009 producer prices reduced by 2.5%. The decrease of the prices of electricity, gas, steam and air conditioning supply by 14.2% and in manufacture of food products by 2.8%, as well as price increase in the manufacture of non-metallic mineral products by 7.8%, in the manufacture of basic metals by 16.1%, in the manufacture of wood and of products of wood, except furniture by 5.6%) and in waste collection, treatment and disposal activities; materials recovery by 57.0% had the biggest impact on the overall level of producer prices.

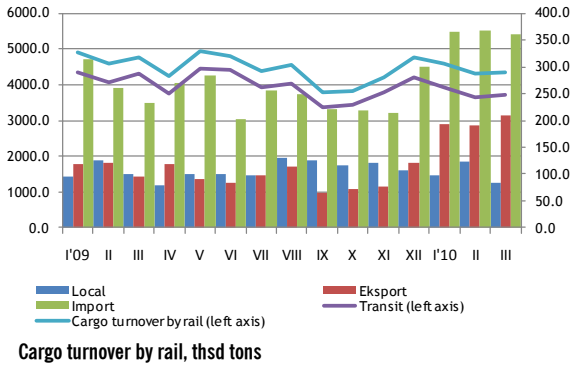


Producer price index, %

The volume of **cargo transhipped in Latvian ports** in March amounted to 5.5 mln t, down by 2.3% from the corresponding month of 2009. In March of 2010 **freight carried by rail** were 4.4 mln tons, a decrease of 8.1% compared to the same period of the previous year. March monthly data show that the cargo turnover, compared to the previous month, slightly increased both in the ports and railway. Positive, that the ports cargo turnover has increased for goods with greater added value – general cargoes, as well as increased exports of goods transported by rail.



Cargo turnover in ports, thsd tons



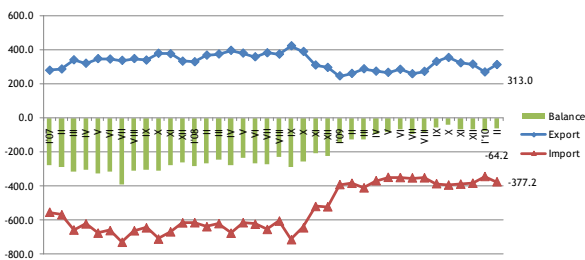
Cargo turnover by rail, thsd tons

In February 2010 **foreign trade** improved, compared with a fall this year January, which was due to seasonality. Compared with January, exports rose faster than imports, improving the trade balance.

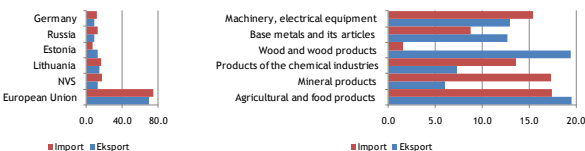
In February 2010, exports and imports of goods amounted to 690.2 mln lats, up by 5.8% or 38.0 mln lats from the same period last year.

As compared with February last year, export of goods increased by 18.2% and amounted to 313.0 mln lats, while import fell by 2.6%, reaching the value of 377.2 mln lats.

In February 2010, as compared to the February 2009, the trade balance deficit decreased by 58.2 mln lats and amounted to 64.2 mln lats.

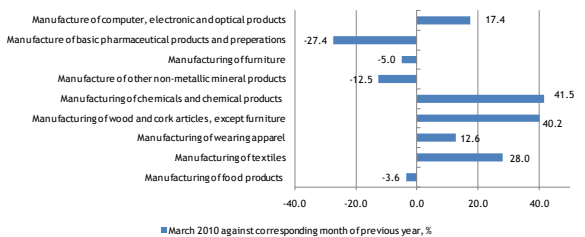


Foreign trade balance, mln lats

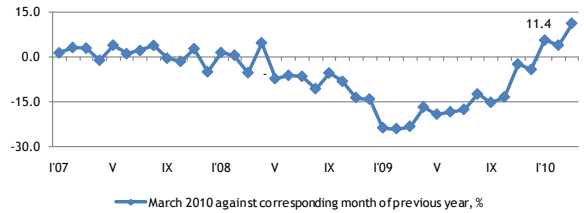


Main trading partners and commodities in Latvia's foreign trade, in February

Compared to March of previous year **industrial production output** in March 2010 has increased by 11.4%, according to working day adjusted data at constant prices. The growth was influenced by the production increase in electricity and gas supply by 12.9%, in manufacturing – by 11.1%, in mining and quarrying – by 9.0%. Over the past three months industrial output is positive, after more than a year and a half drop.

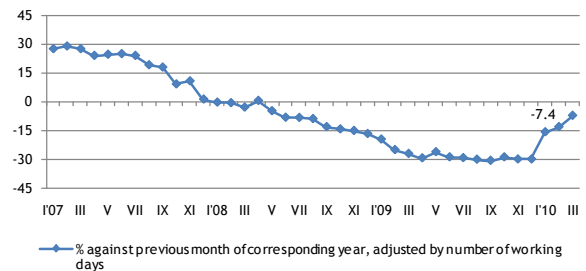


Most important changes in volume indices of industrial production (seasonally adjusted data)



Industrial production index (seasonally adjusted data)

According to working (trade) day adjusted data, **retail trade turnover** in constant prices in March 2010, compared to March 2009, has reduced by 7.4%. Most notable decrease was recorded in non-food product group – by 7.8%. Slightly smaller reduction was recorded in companies selling food products – by 6.7%. Compared to 2009, retail trade fall begins to decrease.



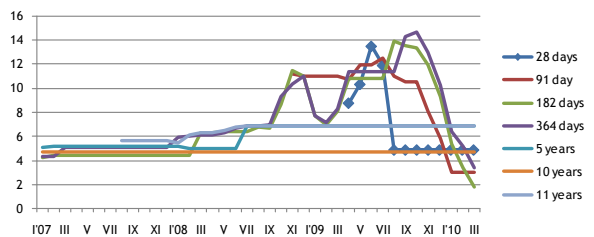
Turnover indices of retail trade (at constant prices)

In March 2010 **government domestic securities competitive multi-price auctions** with term 182 and 364 days were held. In auctions short-term government debt securities in the total amount of 48.0 mln lats were sold.

The Treasury in March sold **two-year bonds** for a total amount of 32 mln lats. Overall investor demand for bonds in this period reached 50.0 mln lats in a nominal value.

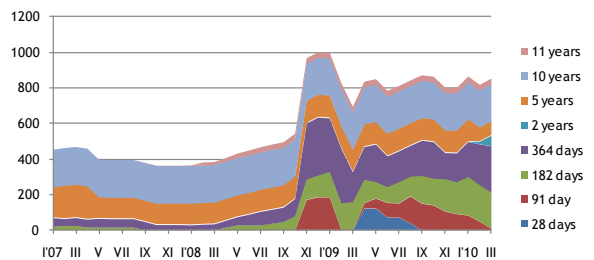
In March the **non-competitive fixed rate auctions** took place with term 182 days, 364 days and 2 years. Bonds were sold at auctions for a total sum of 20.0 mln lats.

The six-month bills average weighted interest rate in last auction was 1.834%, 12-month bills average weighted interest rate was - 3.427%. The weighted average interest rate for 2-year bonds was 5.093%.

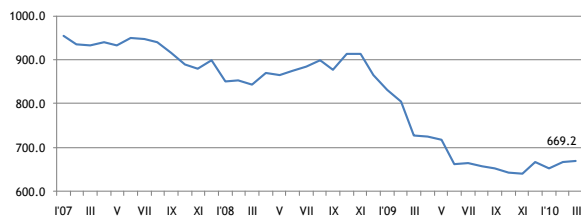


The average interest rate of government internal borrowing securities, %

In March 2010 government medium and long term bond weight in the domestic debt portfolio amounted to 45.0% (53.1% in March 2009), but short-term government bond proportion reached 55.0% (46.9%).



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

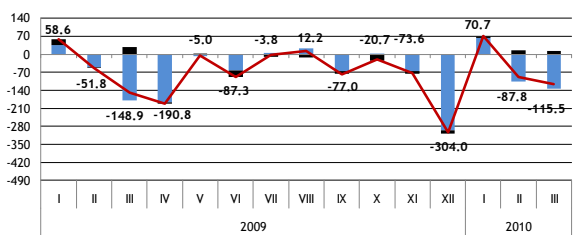


Cash in circulation, mln lats

	X	XI	XII	10'I	II	III
RIGIBOR (3month)	13.9	10.4	7.46	4.00	2.81	2.25
EURIBOR (3month)	0.73	0.72	0.71	0.67	0.66	0.64

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-March 2010) data, in three months of 2010 the **General Government Budget** revenue (including grants, donations and derived public persons) was 1140.2 mln lats which is 69.3 mln lats or 5.7% less than in three months of 2009, mainly due to decrease of tax revenue in the central government basic budget by 86.3 mln lats. In three months of 2010, the general government budget expenditure (including grants, donations and derived public persons) was 1272.8 mln lats, which is 78.7 mln lats or 5.8% less than in three months of 2009. In three months of 2010, the general government budget financial deficit was 132.7 mln lats, mainly due to deficit in the Central government social security budget.



General government budget balance, mln lats

In three months of 2010 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 950.2 mln lats, which is 31.9 mln lats or 3.3% less than in three months of 2009, mainly due to decrease central government basic budget tax revenue.

In three months of 2010, the central government budget expenditure (including grants, donations and derived public persons) was 1125.0 mln lats, which is 51.0 mln lats or 4.3% less than in three months of 2009. In three months of 2010, the deficit of central government consolidated budget was in amount of 174.7 mln lats.

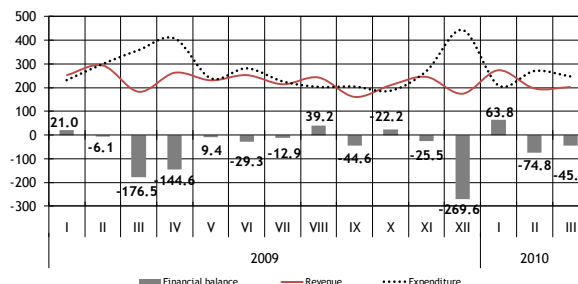
**Central government basic budget** revenue in three months of 2010 was 672.9 mln lats, which in comparison with three months of 2009 is 16.5 mln lats or 2.4% less.

In comparison with three months of 2010, tax revenue was 384.6 mln lats, which is 86.3 mln lats or 18.3% less, mainly due to decrease of corporate income tax revenue by 41.8 mln lats and value added tax revenue by 20.5 mln lats, but central government basic budget foreign financial assistance revenue increased, in comparison with three months of 2009.

In three months of 2010 the non-tax revenue was 79.7 mln lats, which is 39.0 mln lats more than in three months of 2009, which affected revenue from state-owned unit of greenhouse gas emissions trading.

In three months of 2010, revenue from the paid services and self-earned revenue was 12.9 mln lats, which is 5.5 mln lats or 29.9% less, but revenue from the foreign financial assistance was 195.6 mln lats, which is 36.2 mln lats

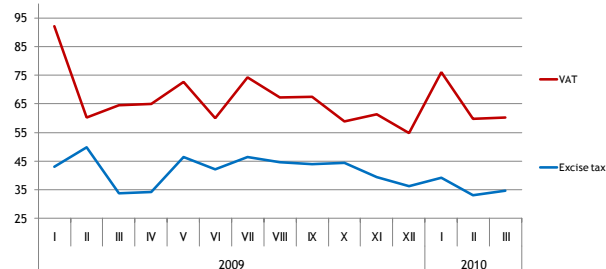
less than in three months of 2009. Foreign financial assistance revenue in three months of 2009 consisted of an interim payment of the European agriculture fund 38.5 mln lats of 2007-2013 programming period, an interim payment of Cohesion fund 59.0 mln lats and interim payments of the European Regional development fund 28.7 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In three months of 2010, the central government basic budget expenditure was 729.3 mln lats, which is 127.3 mln lats or 14.9% less than in three months of 2009. In three months of 2010, the central government basic budget non-capital expenditure was 705.9 mln lats or 96.8% of total basic budget expenditure and in comparison with three months of 2009 is 88.1 mln lats less, mainly due to decrease in wages and remuneration, but percent expenditure, interest payments increased.

Remuneration in three months of 2010 was 105.9 mln lats and in comparison with three months of 2009 is 44.2 mln lats or 29.4% less. The central government basic budget capital expenditure in three months of 2010 was 23.4 mln lats and in comparison with three months of 2009 is 39.2 mln lats or 62.6% less. In three months of 2010, the central government basic budget financial deficit was in amount of 56.4 mln lats.



Indirect tax revenue, mln lats

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

**Value added tax** revenue in three months of 2010 was 196.1 mln lats and in comparison with three months of 2009 is 20.5 mln lats or 9.5% less.

In three months of 2010, domestically net collected value added tax revenue was 172.8 mln lats or 88.2% of total value added tax revenue and in comparison with three months of 2009 it is 1.2 mln lats or 0.7% more. The value added tax revenue collected on border was 21.8 mln lats or 48.4% less than in three months of 2009.

Value added tax payments made by the biggest taxpayers formed 71.0% of total value added tax revenue in three months of 2010.

Decrease of value added tax revenue, in comparison with three 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 February 2010, in comparison with the same period of 2009 decreased by 20.6%

In three months of 2010 value added tax repayments decreased by 26.0%. 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 three months of 2010 was 38.5 mln lats and in comparison with three months of 2009 is 41.8 mln lats or 52.1% less, mainly due to sharp decrease of payments by 37.0% in comparison with three months of 2009, as well as increase of repayments. In three months of 2010 in comparison with three months of 2009 repayments increased more than two times.

In three months of 2010 the corporate income tax payments made by the biggest tax payers were 20.6 mln lats and these payments formed 53.7% of total corporate income tax revenue.

Total **excise tax revenue** in three months of 2010 was 106.7 mln lats, which is 19.8 mln lats or 15.6% 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 three months of 2010, excise tax revenue from oil products was 65.4 mln lats or 61.3% of total excise tax revenue and in comparison with three months of 2009 is 2.0 mln lats or 2.9% less, mainly due to increase of excise tax revenue from fuel oil. It is necessary to note, that according to the State Revenue Service information the total consumption of oil products begins to increase. In February 2010 in comparison to the same period of 2009, it increased by 5.0%.

In three months of 2010, the excise tax revenue from alcoholic beverages was 18.1 mln lats or 17.0% of total excise tax revenue and in comparison with three months of 2009 is 3.4 mln lats or 15.9% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in February 2010 in comparison with February 2009 decreased by 33.1%.

In three months of 2010, excise tax revenue from tobacco products was 18.2 mln lats or 17.1% of total excise tax revenue and in comparison with three months of 2009 is 16.1 mln lats or 46.9% less. The excise tax revenue from tobacco products in three months of 2010 was affected by changes in channelled volume of cigarettes in Latvia, which in February 2010, in comparison with the same period of 2009, decreased by 54.8%.

**Social security budget** revenue in three months of 2010 was 280.6 mln lats, which is 40.1 mln lats or 12.5% less than in three months of 2009.

The social security budget expenditure in three months of 2010 was 405.0 mln lats, which in comparison with three months of 2009 is 52.0 mln lats or 14.7% more. Expenditure for pensions were 312.5 mln lats or 77.2% of the social security budget expenditure, social security benefits were 54.0 mln lats or 13.3% and employment benefits were 35.3 mln lats or 8.7% of the social security budget expenditure.

In three months of 2010, the social security budget financial deficit was 124.4 mln lats.

**Social security contributions** (including contributions into the State Funded Pension Scheme) in three months of 2010 were 271.0 mln lats and in comparison with three months of 2009 is 83.0 mln lats or 23.5% less. The social security contributions in the state special budget were 254.9 mln lats, but social security contributions in the funded pension scheme were 16.5 mln lats.

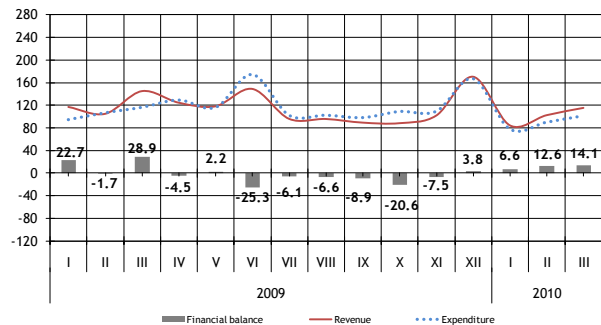
The decrease of social security contributions in three months of 2010 in comparison with the same period of 2009 was affected by decrease of labour payment fund.

According to the State Revenue Service information, the number of employees and wages continues to decrease. The number of employees in February 2010 in comparison with February 2009 decreased by 15.8%, but wages in fourth quarter of 2009 in comparison with fourth quarter of 2008 decreased by 12.0%.

**Local government consolidated budget** revenue (including grants and donations) in three months of 2010 was 291.1 mln lats and in comparison with three months of 2009 was 75.3 mln lats or 20.5% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in three months of 2010 in comparison with three months of 2009 was 103.3 mln lats or 25.5% less.

In comparison with three months of 2009, the tax revenue was 14.0 mln lats or 20.5% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in three months of 2010 was 0.7 mln lats or 12.4% more than in the same period of 2009, but the local government basic budget received payments were 83.6 mln lats or 46.4% less than in three months of 2009. Local government basic budget revenue from the paid services and other self-earned revenue in three months of 2010 was 6.3 mln lats or 22.1% less than in three months of 2009.



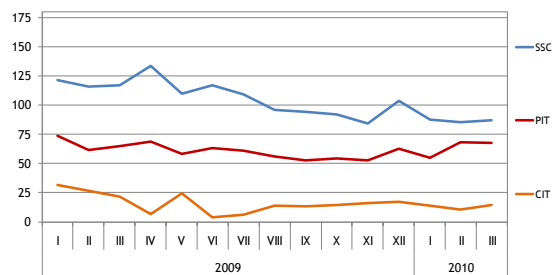
Local government basic budget, mln lats

In three months of 2010 the local government consolidated budget expenditure was 268.1 mln lats, which is 85.9 mln lats or 24.3% less than in three months of 2009, mainly due to decrease of remuneration in local government basic budget by 52.8 mln lats.

In three months of 2010, there was a financial surplus in amount of 36.4 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in three months of 2010 was 112.4 mln lats and in comparison with three months of 2009 is 52.8 mln lats less, int. al. wages and salaries decreased by 43.0 mln lats.

**Personal income tax revenue.** Personal income tax revenue in three months of 2010 was 189.8 mln lats and in comparison with three months of 2009 is 10.6 mln lats or 5.3% 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