

# MACROECONOMIC AND BUDGETARY REVIEW

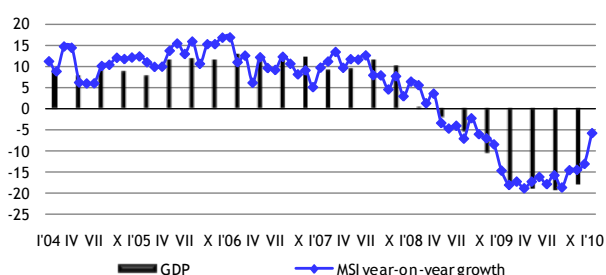


MINISTRY OF FINANCE  
REPUBLIC OF LATVIA

January, 2010

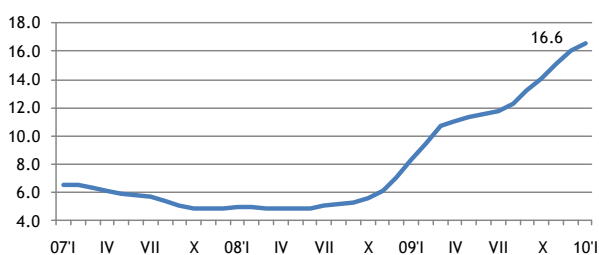
Smilšu street 1. Rīga. Phone 7095539. Fax 095541,  
<http://www.fm.gov.lv>

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in January 2010 shrunk by 5.7% 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 January amounted to 5.0 mln t, down by 10.4% from the corresponding month of 2009. 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 January of 2010 **freight carried by rail** were 4.6 mln tons, a decrease of 6.0% 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.

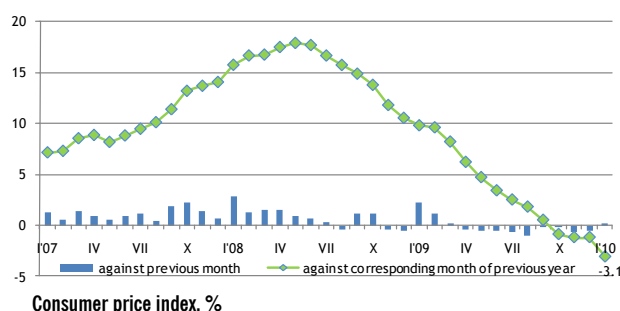


Officially registered unemployment rate, %

Officially registered **unemployment rate** in January increased by 0.6 percentage points and amounted to 16.6% of the economically active population at the end of the month. The number of the registered unemployed increased by 7.1 thsd people from the previous month and amounted to 186.3 thsd people. As compared with January 2009, the unemployment rate increased by 8.3 percentage points, but the number of the registered unemployed by 95.9 thsd people. The highest unemployment rate in January was registered in the region of Latgale, 21.8% (12.2% in January of 2009); in the region of Zemgale, 18.9% (9.2%); and in the region of Vidzeme, 18.6% (8.8%); and in the region of Kurzeme, 18.4% (9.1%). The lowest unemployment rate was registered in the region of Riga, 13.7% (6.6%).

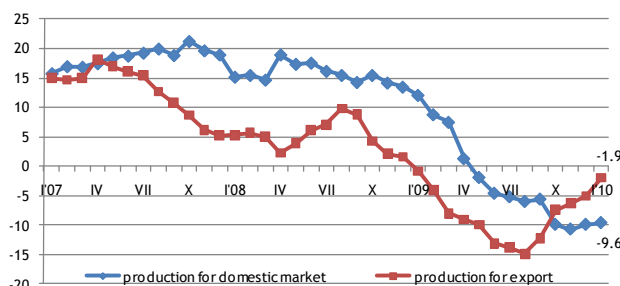
**Consumer Price Index (CPI)** in January of 2010, compared with December of 2009, increased by 0.2%. Average price level for goods went up by 0.5%, but for services went down by 0.6%. Comparing with the corresponding month of previous year, consumer prices decreased by 3.1%, inter alia for goods decreased by 2.9% and for services by 3.8%.

The rise in the prices of fresh vegetables, fruits and milk products, as well as price reduction of natural gas, hospital and outpatient services had the major impact on changes of average consumer price level in January. Due to the seasonal factors prices of fresh vegetables increased by 27.6%, but of fruits – by 6.7%.



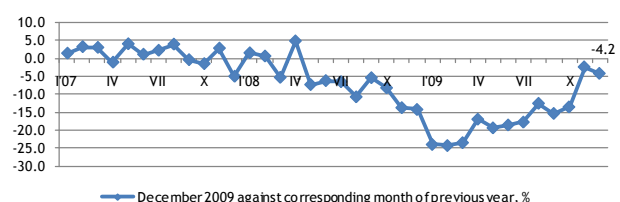
Consumer price index, %

**Producer prices** in January of 2010 comparing with December of 2009 increased by 0.8%, but in comparison with corresponding month of previous year, producer prices reduced by 6.6%. In January of 2010 comparing with January of 2009 the drop of the tariffs of electricity, gas, steam and air conditioning supply by 15.4% had the biggest impact on the overall level of producer prices. The decrease of prices in the manufacture of food products was 6.7%, in the manufacture of non-metallic mineral products - 12.4% and in the manufacture of basic metals - 9.5%.

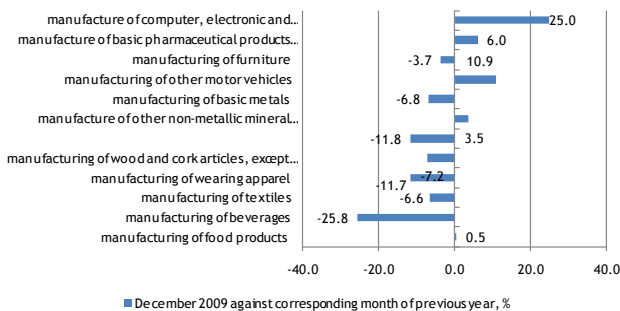


Producer price index, %

Compared to December of previous year, in December 2009 **industrial production output** decreased by 4.2%, of which manufacturing – by 5.7%, but mining and quarrying output increased – by 7.4%, but electricity and gas supply – by 1.8%. Compared to 2008, industrial production output in 2009 has reduced by 15.8%.

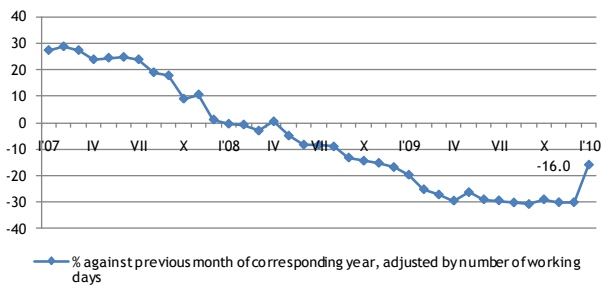


Industrial production index (seasonally adjusted data)



**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 January 2010, compared to January 2009, has reduced by 16.0%. Most notable decrease was recorded in food product group – by 16.2%. Slightly smaller reduction was recorded in companies selling non - food products – by 15.9%.



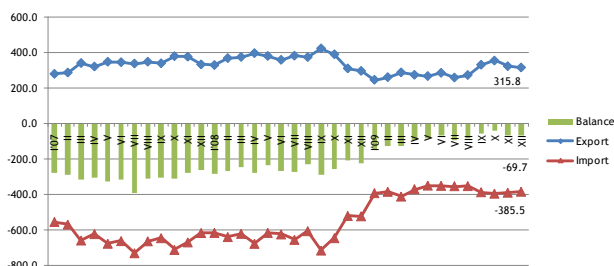
**Turnover indices of retail trade (at constant prices)**

In December 2009, **exports and imports of goods** amounted to 701.3 mln lats, down by 15.5% or 129.0 mln lats from the same period last year.

In January - December of 2009, exports and imports of goods amounted to 8 205.3 mln lats, down by 31.4% or 3 751.3 mln lats from the same period last year.

As compared with January - December last year, export of goods decreased by 19.4% and amounted to 3 571.6 mln lats, while import fell by 38.4%, reaching the value of 2 894.0 mln lats.

In December 2009, as compared to the December 2008, the trade balance deficit decreased by 155.6 mln lats and amounted to 69.7 mln lats.



**Foreign trade balance, mln lats**

In December 2009 the most significant share in Latvia's export was export to the countries of European Union 69.9% (72.2% in December of 2008), followed by the export to CIS countries 14.2% (16.1%). Main export partners were Lithuania 16.1% of total export (16.2%); Estonia 14.6% (15.1%); Russia 9.3% (9.8%); Germany 6.7% (7.2%) and Sweden 5.7% (6.2%).

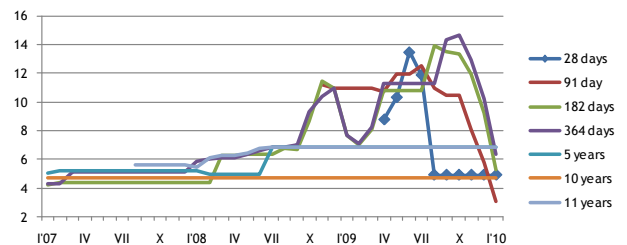
Latvia's main export products were agricultural and food products accounting for 19.6% of total amount; wood and wood products accounting for 16.1%; machinery, mechanical appliances and electrical equipment accounting for 14.6%; base metals and its articles accounting for 13.4%.

In December 2009 the most significant share in Latvia's import was import from the countries of European Union 73.2% (72.9% in December of 2008), followed by the import from CIS countries 19.0% (18.6%). Main import partners were Lithuania 18.6% of total import (15.1%); Russia 13.4% (13.8%); Germany 12.6% (12.3%); Poland 7.8% (6.8%) and Estonia 6.5% (6.8%).

Latvia's main import products were agricultural and food products for 17.9% of total amount; mineral products accounting for 20.4%; machinery and mechanical appliances accounting for 15.5%.

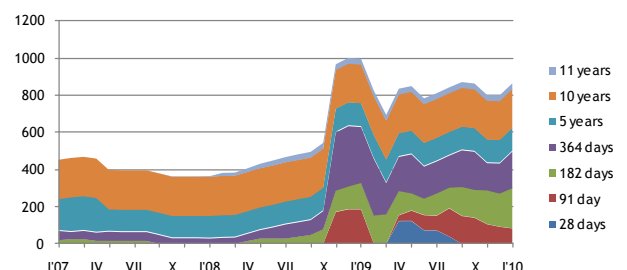
In January 2010 **government internal borrowing securities** competing multi-price securities auctions with term 91, 128 and 364 days were held. In auctions short-term government debt securities in the total amount of 65.4 mln lats were sold at nominal value, with the weighted average profit rate in the last auction from 3.038% to 6.373%.

In January 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 20.0 mln lats with the same weighted average profit rate in the last auction as government internal borrowing securities.

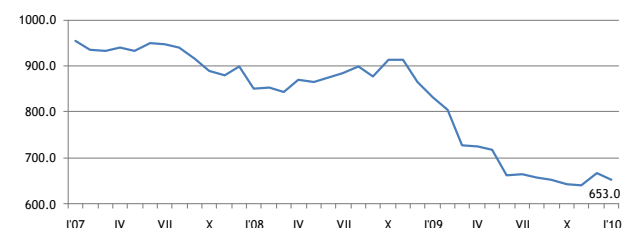


**The average interest rate of government internal borrowing securities, %**

In January 2010 government medium and long term bond weight in the domestic debt portfolio amounted to 42.0% (28.0% in January 2009), but short-term government bond proportion reached 58.0% (72.0%).



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

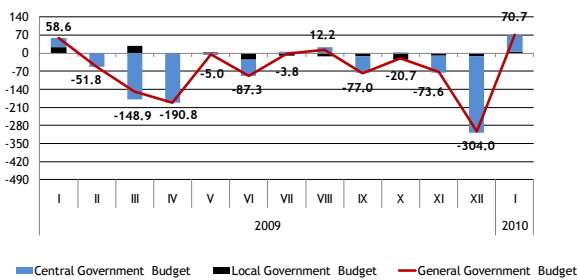


**Cash in circulation, mln lats**

	VIII	IX	X	XI	XII	10 <sup>1</sup>
RIGIBOR (3month)	11.96	12.10	13.9	10.4	7.46	4.00
EURIBOR (3month)	0.84	0.74	0.73	0.72	0.71	0.67

**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 2010) data, in January 2010 the **General Government Budget** revenue (including grants, donations and derived public persons) was 411.9 mln lats which is 1.0 mln lats or 0.2% less than in January 2009, mainly due to decrease of tax revenue in the central government basic budget by 42.7 mln lats. In January 2010, the general government budget expenditure (including grants, donations and derived public persons) was 341.2 mln lats, which is 13.1 mln lats or 3.7% less than in January 2009. In January 2010, the general government budget financial surplus was 70.7 mln lats, mainly due to surplus in the Central government basic budget.



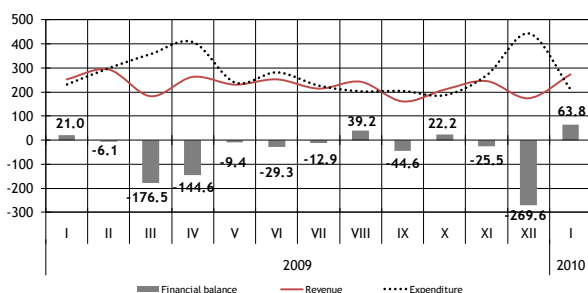
General government budget balance, mln lats

In January 2010 the **central government consolidated budget** revenue (including grants, donations and derived public persons) was 360.4 mln lats, which is 18.9 mln lats or 5.5% more than in January 2009, mainly due to increase of central government basic budget non-tax and foreign financial assistance revenue.

In January 2010, the central government budget expenditure (including grants, donations and derived public persons) was 296.6 mln lats, which is 9.0 mln lats or 3.0% less than in January 2009. In January 2010, the surplus of central government consolidated budget was in amount of 63.7 mln lats.

**Central government basic budget** revenue in January 2010 was 273.8 mln lats, which in comparison with January 2009 is 31.6 mln lats or 13.1% more.

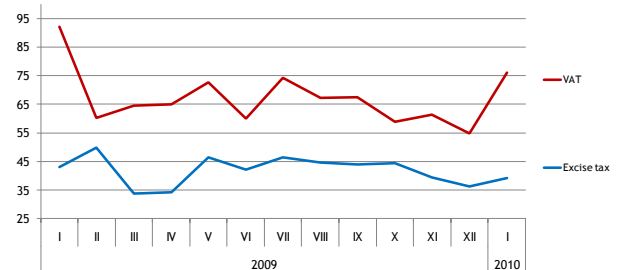
In comparison with January 2010, tax revenue was 142.8 mln lats, which is 42.7 mln lats or 23.0% less, mainly due to decrease of corporate income tax revenue by 17.8 mln lats and value added tax revenue by 15.9 mln lats, but central government basic budget non-tax revenue and self-earned revenue increased, in comparison with January 2009. In January 2010 the non-tax revenue was 43.0 mln lats, which is 26.3 mln lats more than in January 2009, affected revenue from state – owned unit of greenhouse gas emissions trading. In January 2010, revenue from the paid services and self-earned revenue was 4.8 mln lats, which is 2.0 mln lats or 30.1% less, but revenue from the foreign financial assistance was 83.4 mln lats, which is 50.1 mln lats more than in January 2009. Foreign financial assistance revenue in January 2009 consisted of an interim payment of the European agriculture fund 36.1 mln lats of 2007-2013 programming period, an interim payment of Cohesion fund 38.4 mln lats and interim payments of the European Regional development fund 5.7 mln lats of 2007-2013 programming period.



Central government basic budget, mln lats

In January 2010, the central government basic budget expenditure was 210.0 mln lats, which is 13.3 mln lats or 5.9% less than in January 2009. In January 2010, the central government basic budget non-capital expenditure was 203.1 mln lats or 96.7% of total basic budget expenditure and in comparison with January 2009 is 8.4 mln lats less, mainly due to decrease in wages and remuneration, but percent expenditure, interest payments increased.

Remuneration in January 2010 was 32.5 mln lats and in comparison with January 2009 is 14.3 mln lats or 30.6% less. The central government basic budget capital expenditure in January 2010 was 6.9 mln lats and in comparison with January 2009 is 4.9 mln lats or 41.7% less. In January 2010, the central government basic budget financial surplus was in amount of 63.8 mln lats.



Indirect tax revenue, mln lats

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

**Value added tax** revenue in January 2010 was 76.1 mln lats and in comparison with January 2009 is 15.9 mln lats or 17.3% less.

In January 2010, domestically net collected value added tax revenue was 68.1 mln lats or 89.5% of total value added tax revenue and in comparison with January 2009 it is 7.4 mln lats or 9.8% less. The value added tax revenue collected on border was 8.0 mln lats or 51.6% less than in January 2009.

Value added tax payments made by the biggest taxpayers formed 69.0% of total value added tax revenue in January 2010.

Decrease of value added tax revenue, in comparison with January 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 27.9%.

In January 2010 value added tax repayments decreased by 14.6%. 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 January 2010.

**Corporate income tax** revenue in January 2010 was 13.7 mln lats and in comparison with January 2009 is 17.8 mln lats or 56.5% less, mainly due to sharp decrease of additional payments by 39.4% in comparison with January 2009, as well as increase of repayments.

In January 2010 in comparison with January 2009 repayments increased more than five times.

In January 2010 the corporate income tax payments made by the biggest tax payers were 5.6 mln lats and these payments formed 40.8% of total corporate income tax revenue.

**Total excise tax revenue** in January 2010 was 39.1 mln lats, which is 3.8 mln lats or 8.9% 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 January 2010, excise tax revenue from oil products was 21.6 mln lats or 55.2% of total excise tax revenue and in comparison with January 2009 is

0.3 mln lats or 1.5% more, 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 2009 in comparison to the same period of 2008, it decreased by 14.2%.

In January 2010, the excise tax revenue from alcoholic beverages was 7.6 mln lats or 19.5% of total excise tax revenue and in comparison with January 2009 is 0.1 mln lats or 1.9% less. According to the State Revenue Service information the total consumption of the alcoholic beverages in 2009 in comparison with 2008 decreased by 29.1%.

In January 2010, excise tax revenue from tobacco products was 8.2 mln lats or 21.0% of total excise tax revenue and in comparison with January 2009 is 4.6 mln lats or 35.9% less. The excise tax revenue from tobacco products in January 2010 was affected by changes in channelled volume of cigarettes in Latvia, which in 2009, in comparison with the same period of 2008, decreased by 40.7%.

**Social security budget** revenue in January 2010 was 98.5 mln lats, which is 7.9 mln lats or 7.5% less than in January 2009.

The social security budget expenditure in January 2010 was 99.9 mln lats, which in comparison with January 2009 is 8.0 mln lats or 8.7% more. Expenditure for pensions were 67.5 mln lats or 68.2% of the social security budget expenditure, social security benefits were 18.9 mln lats or 19.1% and employment benefits were 12.6 mln lats or 12.7% of the social security budget expenditure. In January 2010, the social security budget financial deficit was 1.4 mln lats.

**Social security contributions** (including contributions into the State Funded Pension Scheme) in January 2010 were 87.7 mln lats and in comparison with January 2009 is 33.6 mln lats or 27.7% less. The social security contributions in the state special budget were 82.2 mln lats, but social security contributions in the funded pension scheme were 5.5 mln lats.

The decrease of social security contributions in January 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 December 2009 in comparison with December 2008 decreased by 18.8%, but wages in third quarter of 2009 in comparison with third quarter of 2008 decreased by 6.4%.

**Derived public persons budget, partly financed from the state budget** revenue in January 2010 was 10.9 mln lats, which in comparison with the same period of 2009 is 0.2 mln lats or 2.0% less.

In January 2010, in comparison with January of 2009, the derived public persons, partly financed from state budget, the revenue from paid services and other self-earned revenue decreased by 2.0 mln lats, which affected the budget revenue decrease.

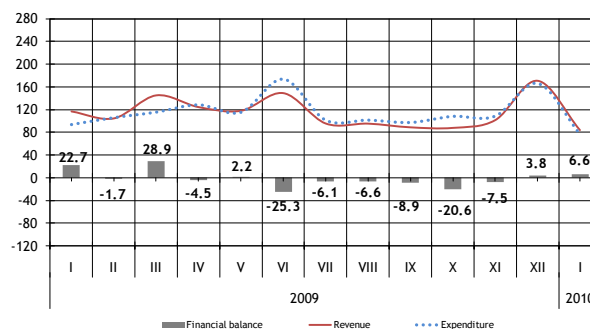
Derived public persons partly financed from state budget, expenditure in January 2010 increased by 0.3 mln lats or 3.2%. The most significant increase was in subsidies and grants by 1.0 mln lats.

**Local government consolidated budget** revenue (including grants and donations) in January 2010 was 80.0 mln lats and in comparison with January 2009 was 36.8 mln lats or 31.5% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in January 2010 in comparison with January 2009 was 43.8 mln lats or 34.2% less.

In comparison with January 2009, the tax revenue was 15.8 mln lats or 25.5% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in January 2010 was 1.0 mln lats or 44.5% more than in the same period of 2009, but the local government basic budget received payments were 26.5 mln lats or 48.4% less than in January 2009. Local government basic budget revenue from the paid services

and other self-earned revenue in January 2010 was 2.3 mln lats or 26.8% less than in January 2009.



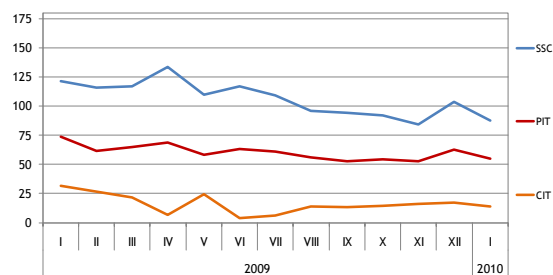
Local government basic budget, mln lats

In January 2010 the local government consolidated budget expenditure was 73.5 mln lats, which is 20.7 mln lats or 22.0% less than in January 2009, mainly due to decrease of non-capital expenditure in local government basic budget by 38.0 mln lats.

In January 2010, there was a financial surplus in amount of 6.6 mln lats in the local government consolidated budget.

Local government basic budget expenditure for remuneration in January 2010 was 25.5 mln lats and in comparison with January 2009 is 21.9 mln lats less, int. al. wages and salaries decreased by 18.4 mln lats.

**Personal income tax revenue.** Personal income tax revenue in January 2010 was 55.1 mln lats and in comparison with January 2009 is 18.7 mln lats or 25.3% 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