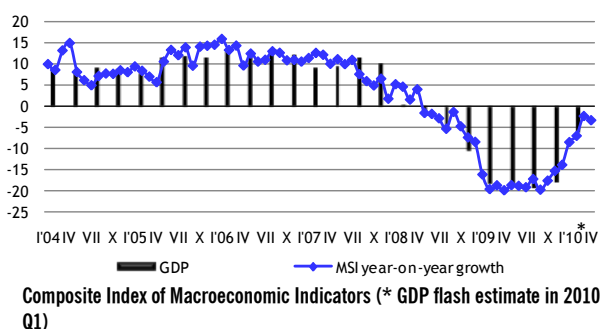


MACROECONOMIC AND BUDGETARY REVIEW

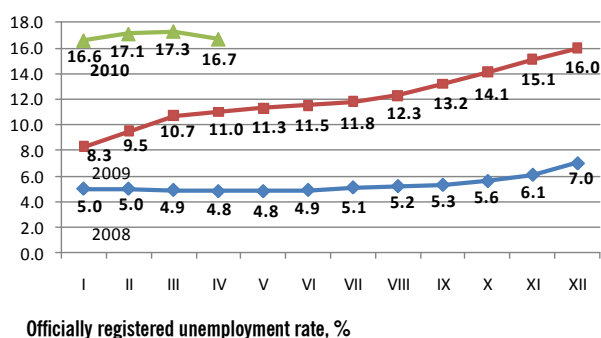
April, 2010

Smiļšu street 1. Rīga. Phones 27095545, 27095543,
<http://www.fm.gov.lv>

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 April 2010 shrunk by 3.1% at constant prices. The decrease of index was caused by a slowdown in retail trade turnover and decrease of the employment level.



Officially registered **unemployment rate** in April compared with the previous month increased by 0.6 percentage points and amounted to 16.7% of the economically active population at the end of the month. Essential that during last two years the unemployment rate has decreased first time. The number of the registered unemployed fell by 4.4 thsd people from the previous month and amounted to 189.9 thsd people at the end of the April. The number of registered vacancies in the State Employment Agency in April increased more rapidly than in the previous months - by 24.5% and reached 2.1 thsd. These indicators have improved due to seasonal factors and it is expected that unemployment rate will continue to decrease in next months.



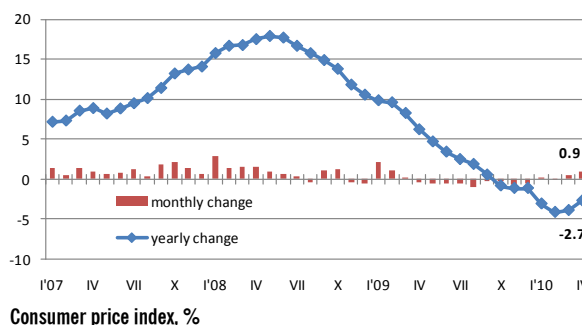
The highest unemployment rate in April was still registered in the region of Latgale, 23.1% (14.9% in April 2009); in the region of Zemgale, 18.6% (12.2%); in the region of Vidzeme, 18.7% (11.9%); and in the region of Kurzeme, 17.9% (12.0%). The lowest unemployment rate was registered in the region of Riga, 13.7% (9.1%). Compared to March unemployment rate has grown only in region of Latgale - by 0.2 percentage points.

Important that the registered unemployed are active in participating in the programme providing working places with stipend (WWS) of 100 lats. From the beginning of this supporting activity in September 2009

until the end of April 2010 34.9 thsd people were already recruited in the programme. In total, 50.8 thsd WWS are planned in the programme running until December 2010, but in the end of April there were 44.5 thsd unemployed in the waiting list for WWS. Most unemployed participating in WWS are in the region of Latgale, 37.5% of the total number of unemployed involved in WWS. There was also the highest unemployment rate in this part of Latvia.

In the beginning of April the number of employed decreased by 12.4% or 13.6 thsd people compared with the same period of 2009 and reached 916.7 thsd people. **Employment rate** fell by 6.9 percentage points in this period and in the beginning of April there were 51.7% employed of total number of working age population. There were 620.8 thsd economically inactive people in April in the country, and it is by 8.7% more than in the same period of the previous year. It has to be noted that the number of people who have lost expectations to get job has increased twice and reached 60.5 thsd people (9.7% of number of economically inactive population).

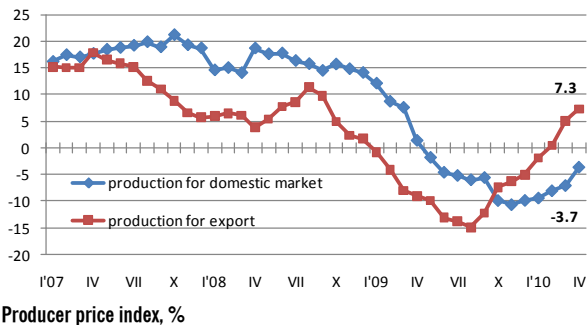
Consumer Price Index (CPI) in April 2010, compared with March 2010, increased by 0.9%. Average price level of goods rose by 1.4%, but for services it went down by 0.5%. Comparing with the corresponding month of previous year, consumer prices decreased by 2.7%. Price level on goods declined by 1.5%, for services - by 5.8%.



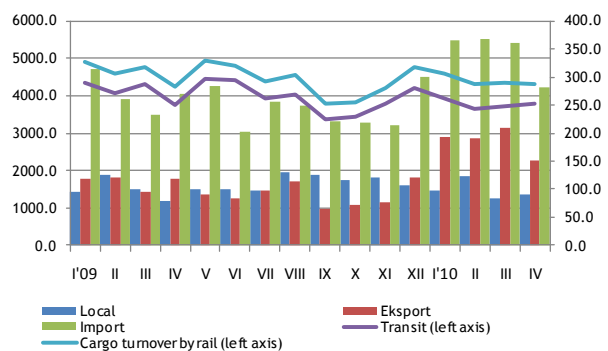
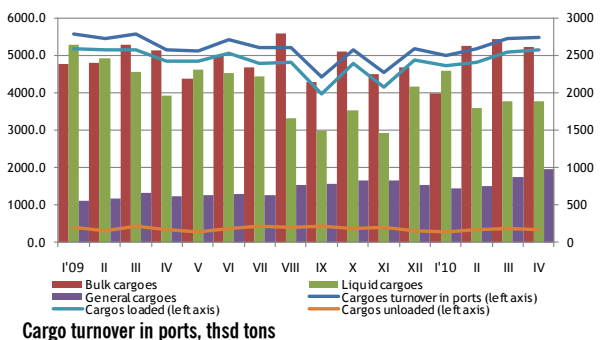
Reasons for price changes in April were mostly driven by the increase in heating energy, fuel and healthcare related prices and fall in communications and culture sector prices. The major impact on the price level came from the rise of tariffs on heating energy where prices, comparing with the previous month, grew by 13.9%. Consumers are yet to feel the full scale of this tariff growth only in upcoming heating season, now it applies only to water heating.

Producer prices in April 2010 comparing with March 2010 increased by 2.2%. In April 2010 comparing with April 2009 producer prices increased by 0.5%. Substantial contribution to price changes came from the manufacturing of basic metals that showed a rise by 27%, waste collection, processing and disposal, material recycling prices increased by 87.1%, wood and wood product (except furniture) prices gained 9.8%. There was a decrease in producer prices for electricity, gas, steam and air conditioning supply by 8.4%, manufacturing of non-metallic mineral products by 8.0%, manufacturing of food products by

1.9%. The rise of exported production prices can be explained with rapid recovery of external demand combined with increasing prices of resources.



The volume of **cargo transhipped in Latvian ports** in April amounted to 5.5 mln t, up by 6.4% from the corresponding month of 2009. In April 2010 **freight carried by rail** were 4.3 mln tons, an increase of 2.1% compared to the same period of the previous year. April monthly data show that the cargo turnover, compared to the previous month, slightly increased in the ports but decreased in the railway. Positive that ports cargo turnover has increased for goods with greater added value – general cargos.

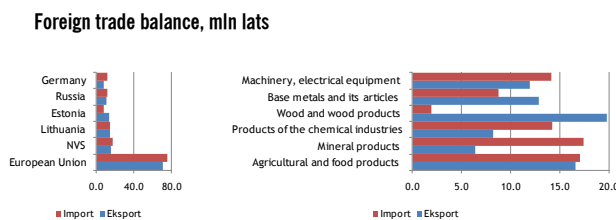
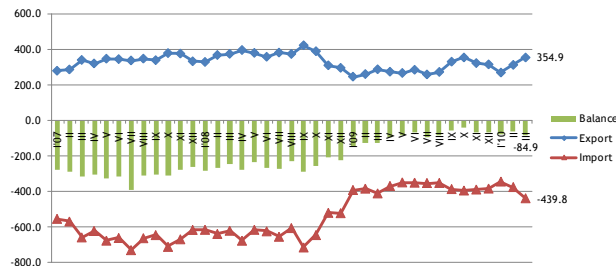


In March 2010 the total **foreign trade** turnover at current prices reached 794.7 mln lats – more by 104.5 mln lats or 15.1% than a month before and more by 78.7 mln lats or 11.0% than in March 2009, according to provisional data of Central Statistical Bureau.

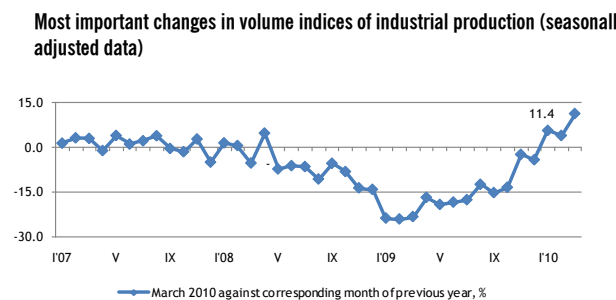
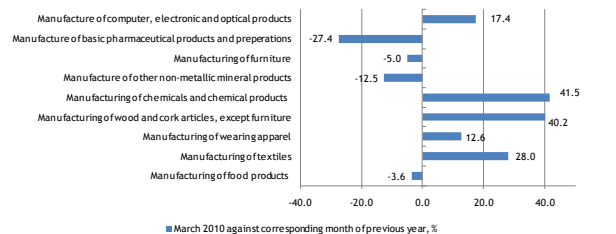
In January - March 2010 total volume of goods in foreign trade of Latvia at current prices reached 2094.1 mln lats – an increase of 69.3 mln lats or 3.4%, if compared to January – March 2009. Of which exports volume grew by 115.9 mln lats or 14.1%, but imports volume – reduced by 46.6 mln lats or 3.9%.

In March 2010, as compared to the March 2009, the trade balance deficit decreased by 38.1 mln lats and amounted to 84.9 mln lats.

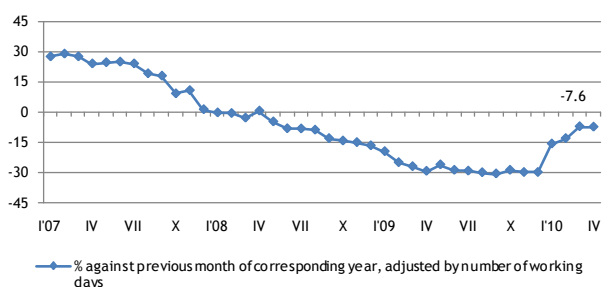
Although exports continue to rise, trade deficit has reached its highest level since July 2009.



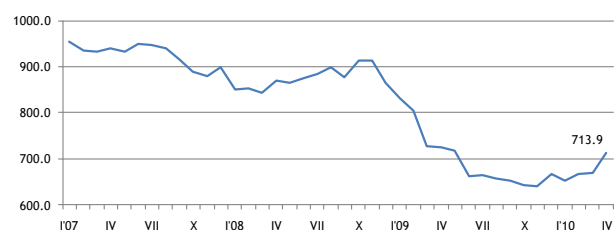
Compared to March of previous year **industrial production output** in March 2010 has increased by 11.4%, according to working day adjusted data at constant prices. The growth was influenced by the production increase in electricity and gas supply by 12.9%, in manufacturing – by 11.1%, in mining and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



According to working (trade) day adjusted data, **retail trade turnover** in constant prices in April 2010, compared to April 2009, has reduced by 7.6%. Most notable decrease was recorded in food product group – by 9.1%. Slightly smaller reduction was recorded in companies selling non-food products – by 6.8%. Compared to March 2010, retail trade decrease by 0.4% after increase by 2.9% in March, compared to February.



Turnover indices of retail trade (at constant prices)



Cash in circulation, mln lats

	XI	XII	10'I	II	III	IV
RIGIBOR (3month)	10.4	7.46	4.00	2.81	2.25	2.08
EURIBOR (3month)	0.72	0.71	0.67	0.66	0.64	0.65

Money Market Indexes RIGIBID and EURIBOR for last 6 month on 25th date of each month

In accordance to the State Treasury's official monthly reports' January – April 2010 (I – IV 2010) data, in general, the central government and the local government budget revenue and expenditure decrease was observed.

	I-IV 2010 execution, mln lats	I-IV 2010 execution changes against I-IV of 2009, %
GENERAL GOVERNMENT BUDGET		
Revenue	1 548.06	-5.9
Expenditure	1 736.28	-12.2
Financial Balance	-188.22	
CENTRAL GOVERNMENT BUDGET		
Revenue	1 286.24	-4.1
Expenditure	1 527.00	-11.3
Financial Balance	-240.76	
Central government basic budget		
Revenue	914.12	-8.0
Expenditure	945.67	-27.2
Financial Balance	-31.55	
Central government special budget		
Revenue	373.10	-13.2
Expenditure	587.02	16.5
Financial Balance	-213.92	
LOCAL GOVERNMENT BUDGET		
Revenue	399.19	-18.7
Expenditure	352.67	-20.8
Financial Balance	46.52	

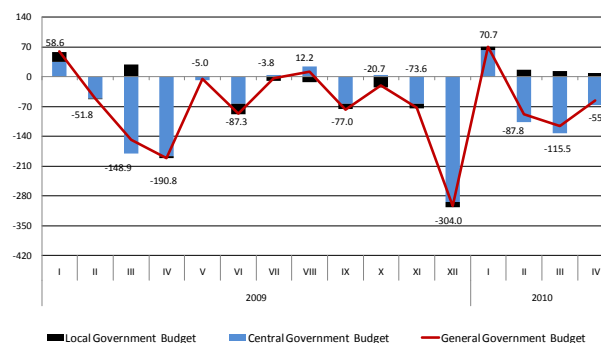
Budget revenue and expenditure

General government budget revenue (in first four months of 2010) decreased by 5.9% in comparison with the same period of 2009. It was influenced by economy's recession, which was reflected as decrease in all tax revenue.

General government budget expenditure decreased by 242.1 mln lats, in comparison with four months of 2009, mainly, it was influenced by

reduction in the central government basic budget, local government basic budget and local government special budget expenditure.

In first four months of 2010, the general government budget financial deficit was in amount of 188.2 mln lats, which was due to deficit in the central government budget.



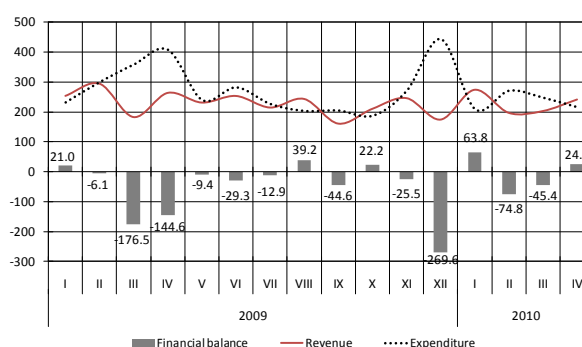
General government budget balance, mln lats

In first four months of 2010, **the central government budget** revenue (including grants, donations and derived public persons) was 1286.2 mln lats, which was by 4.1% less than in the same period of 2009.

By contrast, the central government budget expenditure decrease was more significant – by 11.3%, mainly, due to expenditure reduction in the central government basic budget.

In first four months of 2010, the central government budget financial deficit was in amount of 240.8 mln lats (in the same period of 2009, financial deficit was in amount of 380.1 mln lats).

Central government basic budget revenue in first four months of 2010 was 914.1 mln lats, which, in comparison with the same period of 2009, was by 8.0% less.



Central government basic budget, mln lats

In comparison with first four months of 2009, central government basic budget expenditure decrease by 22.1% during the same period of 2010, mainly, due to maintenance cost reduction. Remuneration expenditure was 63.0 mln lats or 30.7% less. Also capital expenditure decreased by 58.6% in the same period of 2010. In accordance to functional categories the largest expenditure decrease in first four months of 2010 was observed in the local areas and housing management field – in comparison with first four months of 2009, expenses decreased by 75.2%, as well as the significant expenditure reduction by 61.8% was in the environmental protection field.

In comparison with the central government basic budget, special budget, as well as the local government basic budget expenditure

reduction, the **central government special budget** expenses increased. In regard to first four months of 2009, the central government special budget expenditure increased by 16.5%, which was determined by 17.5% increase in social security benefits. An amount of 467.5 mln lats was directed for pensions and benefits, which was 93.1 mln lats or 24.9% more than in first four months of 2009 due to the pension detention refund in April 2010. Given that the unemployment rate in first four months of 2010 was higher than in the same period of 2009, unemployment benefit expenditure was 45.0 mln lats, which was 6.0 mln lats or 15% more than in four months of 2009.

Local government budget revenue decrease, in comparison with first four months of 2009 mainly, was due to the personal income tax, which is collected by the local government, revenue reduction by 9.4%, as well as decrease by 18.4% in revenue from property tax on buildings. In first four months of 2010, revenue from the lottery and gambling tax, in comparison with the same period of 2009, was lower by 36.2%.

Local government budget expenditure decrease by 20.8%, in comparison with first four months of 2009 mainly was due to the local government basic budget maintenance expenditure reduction by 25.6%, which includes wage reduction by 31.5%, goods and services expenditure reduction by 11.3%. By contrast, the local government basic budget expenditure on social benefits, in comparison with four months of 2009, was by 44.9% more.

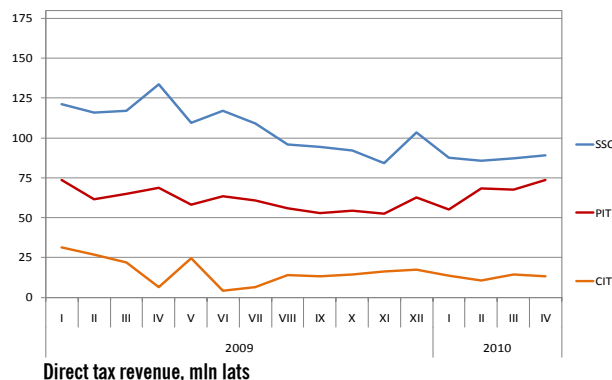
It should be noted that in first four months of 2010, the local government budget financial surplus was in amount of 46.5 mln lats.

In first four months of 2010, major **tax revenue** plan was exceeded by 4.4%, because the corporate income tax and value added tax revenue was significantly higher than expected.

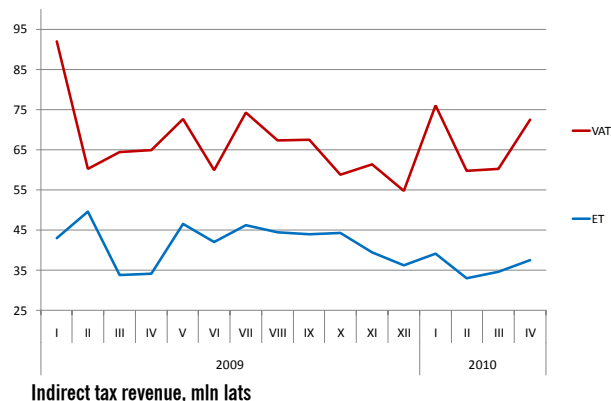
	I-IV 2010 execution, mln lats	I-IV 2010 execution of the same period plan, %	IV 2010 execution of IV 2010 plan, %	I-IV 2010 execution changes against I-IV 2009, %
Personal income tax	251.2	98.8	107.9	-6.6
Social security contributions	344.2	99.5	98.6	-7.8
Corporate income tax	51.6	122.8	146.0	-40.6
Value added tax	268.6	122.8	129.9	-4.6
Excise tax	144.3	93.8	97.8	-10.2
Lottery and gambling tax	5.3	97.8	98.6	-36.3
Customs tax	4.8	94.0	107.6	-32.1
Natural resources tax	3.4	96.6	130.9	-5.5
Total	1073.3	104.4	109.2	-9.8

Major tax revenue

Corporate income tax (CIN) revenue decrease, in comparison with first four months of 2009, was due to domestic economic activity decline, which negatively influenced all sectors of economy. As a result, in comparison with first four months of 2009, corporate income tax revenue reduced by 40.6%. From total corporate income tax revenue change, decrease of 29.8% or 10.50 mln lats were in the financial services industry, which in previous years provided major corporate tax revenue. Situation in first four months of 2010, especially in April, was significantly better than expected - the corporate income tax revenue plan exceeded by 22.8% in four months of 2010 and by 45.6% in April 2010. It was mainly influenced by the corporate income tax overpayments, which, in comparison with the end of 2009, increased by 46.04 mln lats or 73.6%.



In first four months of 2010, decline in the **social security contributions (SSC)** and **personal income tax (PIT)** revenue, in comparison with the same period of 2009, mostly was influenced by decrease in employment. In April 2010, revenue from personal income tax was by 7.9% higher than expected, because in accordance with the Pension detention reimbursement law the State Social Insurance Agency (henceforth – SSIA) disbursed part of the pensions, which was withheld or not received. As a result the personal income tax in amount of 12 mln lats was received in budget in April 2010.



Based on the **value added tax (VAT)** declaration data, the total transaction value (in four months of 2010) decreased by 16.5% in comparison with four months of 2009. The major decline was in value of taxable transactions with the value added tax rate 21% - by 22.1%, which was influenced by the retail trade turnover decrease in the previous periods and consumer price drop.

Excise tax (ET) revenue decrease is still influenced by the excise tax rate increase in the beginning of 2009, which affected illegal excise goods amount increase in the market.

In first four months of 2010, general government budget **non-tax revenue**, in comparison with the same period of 2009, showed increase of 44.2 mln lats or 32.4%. This mainly was due to the Latvia Bank payment and revenue from dividends on the state capital.

In first four months of 2010, revenue from the paid services and self-earned revenue was 74.6 mln lats, which is by 22.5% less than in four months of 2009.

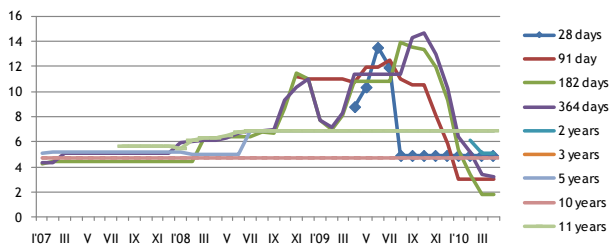
Foreign financial assistance revenue was 222.7 mln lats, which is 8.1% less than in four months of 2009.

Public debt in first four months of 2010 increased by 588 mln lats and was 4,727 mln lats in the end of April 2010. Domestic public debt was

887.7 mln lats in the end of April, which is 1.2 mln lats more than in the end of December 2009. External public debt increased by 586 mln lats during four months of 2010 and was 3 839.2 mln lats in the end of April 2010.

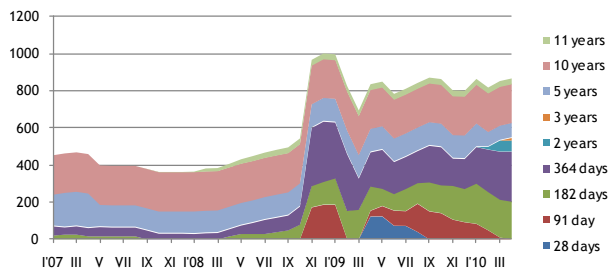
The Treasury in April sold **treasury bills** for a total amount of 21.5 mln lats. Overall investor demand for bonds in this period reached 68.4 mln lats in a nominal value. The six-month bills average weighted interest rate in last auction was 1.804%, 12-month bills average weighted interest rate was - 3.180%.

The Treasury in April sold **three-year bonds** for a total amount of 13,7 mln lats. Overall investor demand for bonds in this period reached 29.3 mln lats in a nominal value. The weighted average interest rate for 3-year bonds was 5.933%.



The average interest rate of government internal borrowing securities, %

In April 2010 government medium and long term bond weight in the domestic debt portfolio amounted to 46.0% (43.0% in April 2009), but short-term government bond proportion reached 54.0% (57.0%).



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