MACROECONOMIC AND BUDGETARY REVIEW 2020

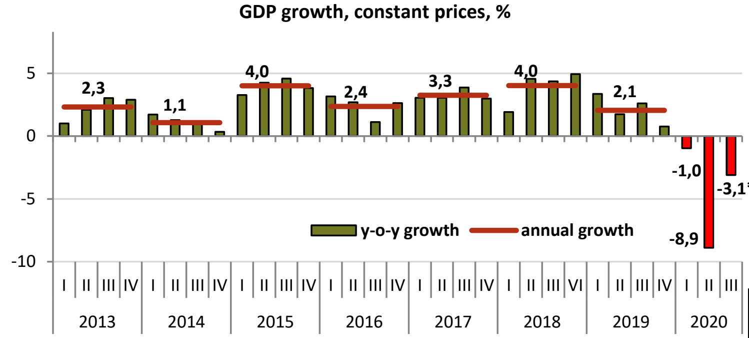
No. 9

Main macroeconomic indicators	2019	Forecasts** 2020	2021	2022	2023
Gross domestic product (GDP)					
current prices (mln euro and growth, %)*	30463	-7,4	6,5	5,3	5,2
constant prices (mln euro and growth, %)*	27561	-7,0	5,1	3,1	3,1
GDP deflator* *(y-o-y), %*	2,4	-0,5	1,3	2,0	2,0
Consumer price index *(y-o-y), %*	2,8	0,2	1,2	2,0	2,0
Average monthly gross wage *(euro and growth at current prices, %)*	1076	-1,0	3,0	5,0	5,0
Employment *(thsds and growth rate, %)*	910	-4,4	0,6	1,0	-0,1
Jobseeker rate *(annual average), %*	6,3	10,5	9,8	8,1	7,3
Exports of goods and services					
current prices (mln euro and growth, %)*	18317	-14,8	7,7	4,6	5,7
constant prices (mln euro and growth, %)*	17438	-10,3	6,5	3,0	4,0
Imports of goods and services, mln euro					
current prices (mln euro and growth, %)*	18572	-16,3	9,0	6,3	6,5
constant prices (mln euro and growth, %)*	18763	-11,5	6,8	3,2	3,4

**According to GDP data revision published on 30/09/2020 by Central Statistical Bureau, not changing projections*

*** Projections revised in June 2020 for the preparation of Latvia's medium term budget framework 2021-2023*

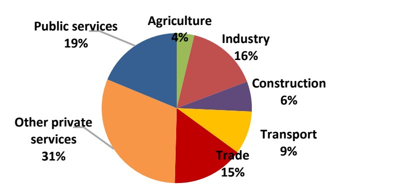
GDP growth, constant prices, %



** GDP flash estimate*

GDP

Structure of value-added in 2019, %

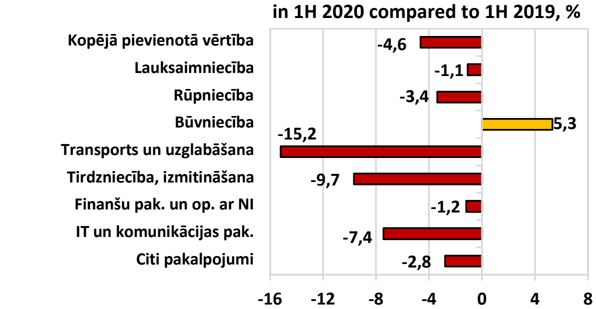


GDP growth in the Baltic states, % y-o-y

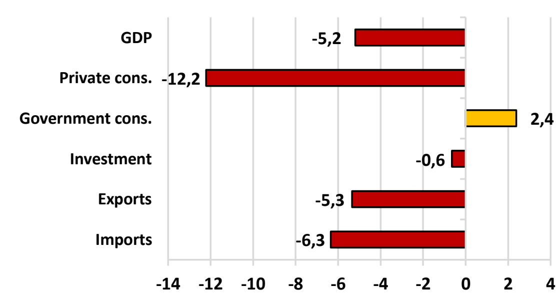
	19'IV	20'I	II	III*
Latvia	0,8	-1,0	-8,9	-3,1
Lithuania	4,2	2,4	-4,6	-0,1
Estonia	5,3	-0,7	-6,9	n.d.a.

As Latvia's economy was recovering from the COVID-19 crisis experienced in the previous months, gross domestic product (GDP) grew at an unprecedented rate in the third quarter of this year, increasing by 6.6% quarter on quarter according to seasonally and calendar-adjusted data. Compared to the third quarter of last year, GDP decreased by 3.1% which was almost three times smaller fall than in the previous quarter when economy contracted by 8.9%. GDP flash estimate suggests that producing sectors grew by 0.4% year on year, while drop in the service sectors by 4.8% was twice as small as in the previous quarter. Among the service sectors positive results demonstrated retail trade, which rose by 4.3% y-o-y. Along with these positive developments, the outlook for Latvia's economic prospects has once again begun to be threatened by the spread of COVID-19, with many European countries starting to impose restrictions that will inevitably affect economic growth. ESI economic sentiment indicator for the EU has not risen further in October after five consecutive months of growth, still lagging behind the long-term average. In Latvia, the ESI index has already decreased in October driven by deterioration of industrial sector, construction sector and service sector sentiment.

GDP growth by sectoral breakdown and from expenditure side in 1H 2020 compared to 1H 2019, %



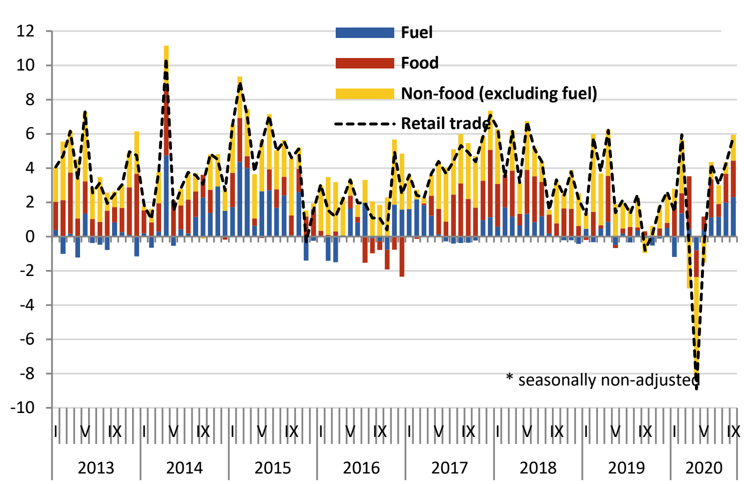
GDP breakdown



Economic contraction in the first half of 2020 was determined by falling private consumption caused by restrictions that have been introduced to limit spread of COVID-19 disease thus significantly reducing consumers activity. At the same time, investments performed rather well, decreasing by only 0.6%, stimulated by a 5.3% increase in the construction sector. Thanks to exports declining slower than imports, net exports provided a positive contribution and the econo+A84mic downturn was also limited by a 2.4% increase in public consumption expenditures. From the sectoral side, the economic contraction was most significantly affected by a 15.2% decline in the transport sector. Accommodation and food service activities fell by 38.7%, arts, entertainment and recreation - by 27.9% and information and communication services sector - by 7.4% in the first half of 2020. The first half of the year also saw declines in other service sectors, as well as in agriculture and manufacturing. A slight increase in the first half of 2020 was recorded only in the industry, except manufacturing, - by 0.4% and in public administration and defense - by 1.4%, compared to the first half of 2019.

Source: CSP, Eurostat, Ministry of Finance of the Republic of Latvia

Retail trade growth contributions by product type*, y-o-y, %



Retail trade

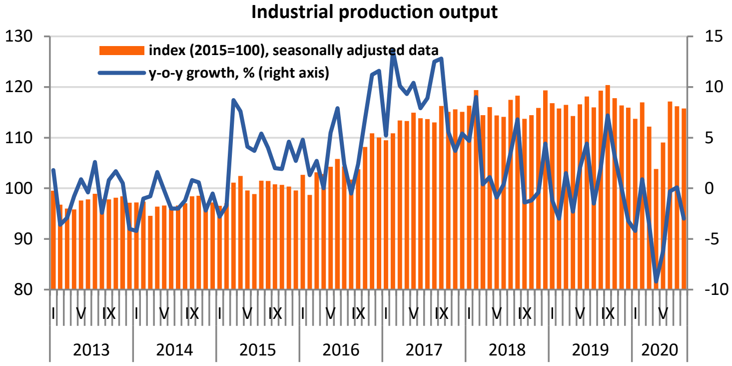
Structure of retail trade turnover in 2019, %

Y-o-y growth, c.a., 2020 Jan.-Sept.

Total	**+1.6%**	Non-food (excl. fuel)	**-0.7%**
Food	**+3.2%**	Fuel	**+4.6%**

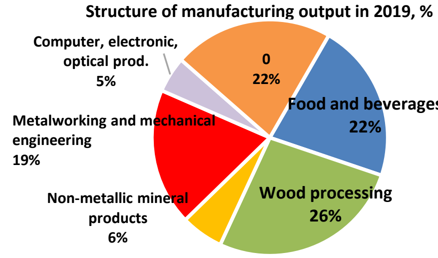
In September 2020, retail trade demonstrated strong growth - compared to a corresponding month of 2019, total retail volumes in constant prices increased by 5.9%. Among the product groups, in September strong expansion was registered in fuel trade – its sales rose by 13.4% y-o-y stimulated by falling oil prices that have affected also prices of fuel. Trade of other non-food products increased by 3.5% y-o-y determined by strong growth in retail sales of electrical household appliances, medical goods as well as watches, jewellery and other new goods. Retail trade in food stores rose by 5.3% y-o-y in September. However, in the nine months overall, retail sector's growth was still weak, constituting 1.6%.

Industrial production output



Industry

Structure of manufacturing output in 2019, %

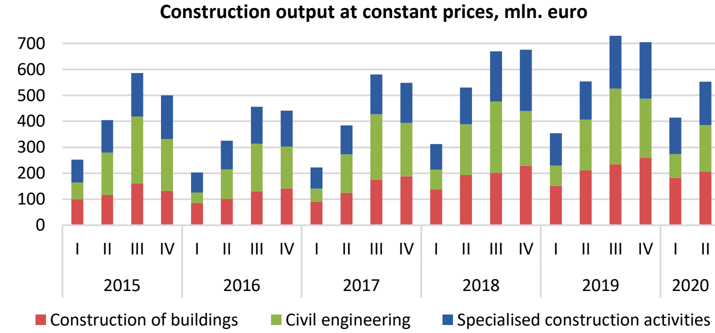


Industry, y-o-y growth, 2020 Jan.-Aug c.a.

Industry total	**-3.2%**	Mining, quarrying	**+4.4%**
Manufacturing	**-3.3%**	Energy	**-4.4%**

Following the relatively good industrial production results observed in the previous two months when output volumes remained at the previous year's level, in August industrial production output again declined. Compared to August of the last year, total industrial production output decreased by 3.0% due to output contraction in manufacturing and electricity and gas supply by 1.5% and 11.7% respectively. Despite the total manufacturing output fall, in August, similarly to July, strong growth was registered in wood processing industry which expanded by 6.9% y-o-y, output increased also in printing and reproduction of recorded media - by 7.6% y-o-y, manufacture of paper products rose by 5.9% y-o-y. Meanwhile, for the sixth consecutive month contraction was demonstrated in manufacture of fabricated metal products, in August its output decreased by 8.2% y-o-y and in the eight months of 2020 - by 4.7% y-o-y. Even stronger fall was registered in manufacture of motor vehicles and trailers - in August its output contracted by 27.4% y-o-y and in the eight months - by 25.4% y-o-y. Developments in the mechanical engineering and metalworking sectors depend on the situation in export markets which during the past half a year has been determined by coronavirus and restrictions imposed to contain its spread that have severely affected car production industry in Europe and throughout the world. In August, significant fall was registered also in repair and installation of machinery and equipment - its output declined by 18.1% y-o-y. While output volumes in the second largest manufacturing sub-sector, food production, have been stable in the past few months and in August manufacture of food products declined only by 0.8% y-o-y.

Construction output at constant prices, mln. euro

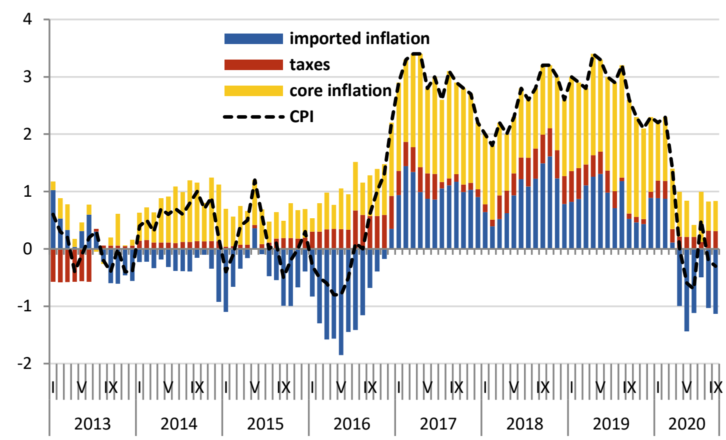


Construction

Following the strong expansion of construction output in the Q1 2020 (+16.9% current prices), sector's growth slowed down in the Q2 2020 when construction output was at the same level as a year ago. In the second quarter, fall was registered in construction of buildings - by 2.5% y-o-y, driven by lower construction volumes of residential buildings, hotels, industrial buildings and warehouses, as well as in construction of civil engineering that contracted by 7.9% y-o-y. While specialised construction activities continued to increase in the second quarter - by 13.9% y-o-y. In the Q2 2020, the expected construction space as indicated in the granted building permits fell by 20.9% y-o-y which was considerably stronger decline than that of the first quarter (-5.7%). This data suggest that construction of buildings could contract in the following quarters while sector's development will be stimulated by implementation of infrastructure projects.

Source: CSP, Eurostat, Ministry of Finance of the Republic of Latvia

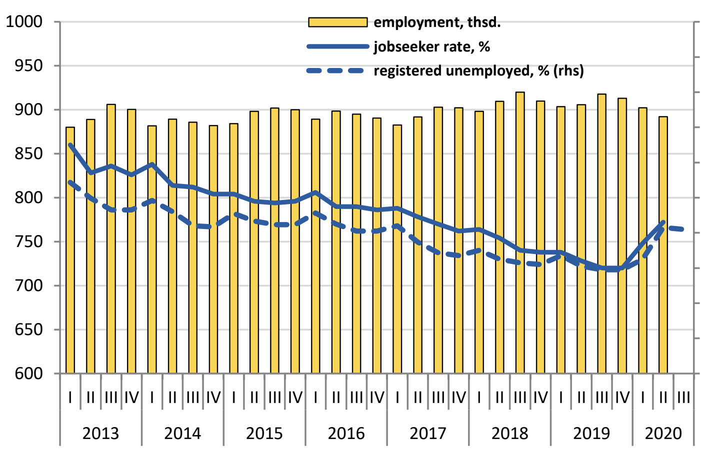
Inflation breakdown by origin, y-o-y, %



Inflation

In September 2020, average consumer prices remained at the previous month's level, however compared to September of the previous year prices declined by 0.3%. Prices for goods decreased by 1.1% y-o-y determined by lower prices for fuel, clothing and several food products, while prices for services increased by 1.7% y-o-y. Similarly to previous months when deflation was registered in Latvia, in September the largest contribution to consumer price decline was provided by price changes for fuel which demonstrated a contraction of 11.6% determined by falling oil prices that also triggered price decline for gas and heating. In September, price decreased also for electricity – by 3.0% y-o-y. Overall, in the nine months of 2020 consumer prices increased by 0.5% y-o-y. However, considering the sharp price decline for fuel, gas and heating as well as for the services aimed at foreign tourists, it is expected that also in October and November deflation will remain.

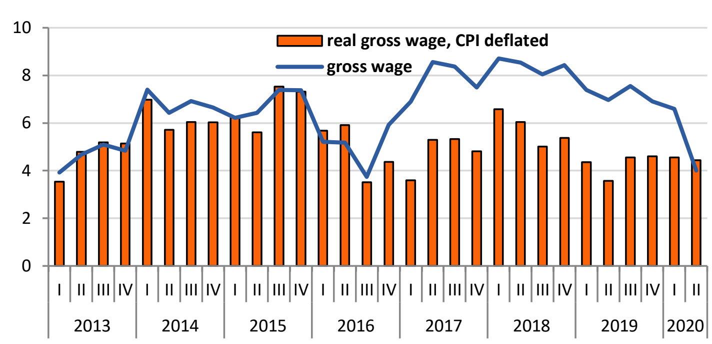
Unemployment rate, % of economically active population (15-74)



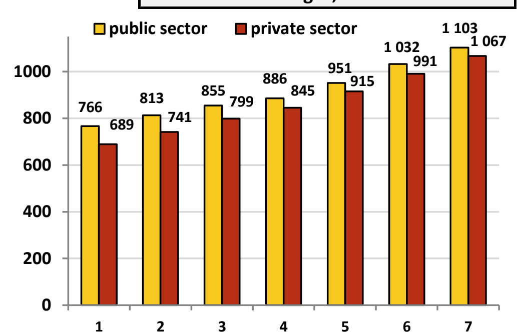
Employment

The impact of COVID-19 crisis in the labour market was felt already in the first quarter of 2020, when the number of employed persons decreased by 0.2%, compared to the corresponding quarter of 2019. In the second quarter the number of employed persons decreased by 1.5% y-o-y and unemployment rate grew by 2.2 percentage points to 8.6% of economically active population, labour force survey data showed. However, such an increase in unemployment can be assessed as quite moderate, with the unemployment rate returning only to the level of 2017 and lagging behind the heights reached during the 2009-2010 crisis. According to the State Employment Agency data, between the end of February and the end of June, the number of registered unemployed increased by 20 thousand or 34.4% and registered unemployment rate grew from 6.3% to 8.6%. Since July, the unemployment rate has been declining and the number of registered unemployed decreased by 11.1 thousand or 14.2% by the end of October. On October 31, the total number of registered unemployed was 67.1 thousand and the unemployment rate - 7.4% of the economically active population - 1.7 percentage points higher than a year ago.

Wage dynamics, changes year over year, %



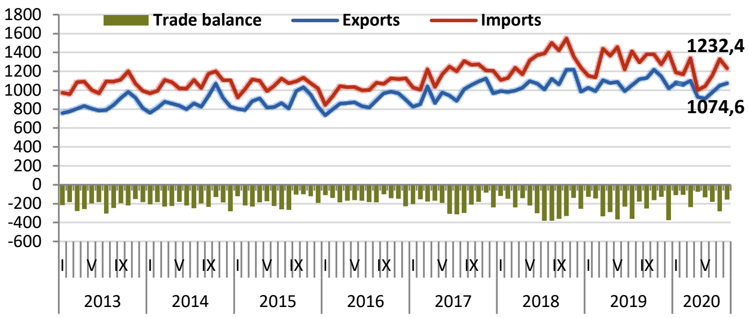
Wages, euro



In the first quarter of 2020, average gross wage, compared to the corresponding quarter of 2019, had increased by 6.6%, but in the second quarter wage growth slowed down to 3.9% due to the COVID-19 crisis. In April 2020, compared to April 2019, average gross monthly wage increased by 3.6%, in May the annual growth rate was the lowest - 2.5%, but in June it increased again to 5.6%. In the second quarter of 2020, wage growth rates were the same in the private and in the public sector - 3.8%, compared to the corresponding quarter of 2019. Higher salary remained in the public sector, where the average wage was 1138 euro, while in the private sector it constituted 1108 euro. Average gross wage in the total economy constituted 1118 euro. Compared to the second quarter of 2019, wages increased the most in other service activities (activities of membership organisations, repair of computers, personal goods) - by 14.3% and in professional service activities - by 8.0%, while in in accommodation and food service activities average wage declined by 16.5% and in transportation sector - by 5.1% y-o-y.

Source: CSP, Eurostat, Ministry of Finance of the Republic of Latvia

Foreign trade, current prices, euro

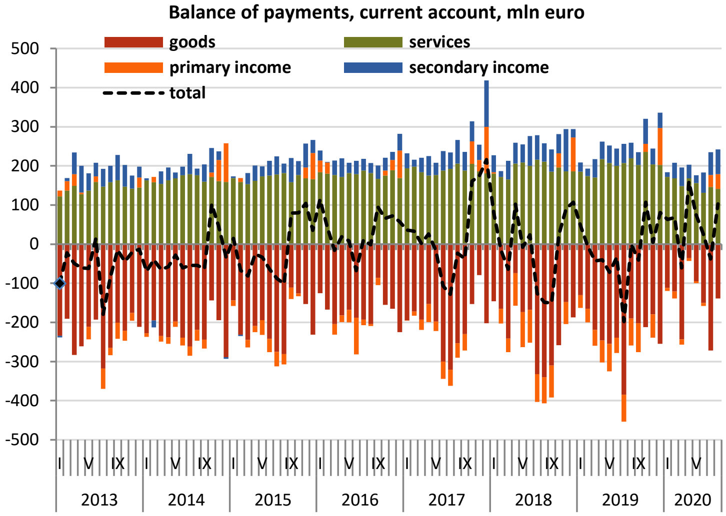


Foreign trade

Exports, Jan-Aug 2020	Structure	Annual growth
Total	100%	-3,2%
Food	19,9%	1.4
Mech/Electr appl	18,6%	10.1
Wood	17,3%	-9.1
Metals	8,8%	-5.0
Chemical manuf.	8,1%	1.6
Transport vehicles	5,0%	-26.7
Mineral products	4,3%	-23.1
Plastics	3,6%	-0.2
Others	14,4%	-0.9

In August, the value of Latvia's exports of goods decreased by 3.7% y-o-y, thus demonstrating a decline for the sixth consecutive month. At the same time, since June export decline constituted only a few percent, in contrast to 15% contraction registered in April and May. This indicates that negative effects of the pandemic are gradually diminishing. Moreover, on monthly basis, the value of exported goods has increased over the last three months. Export value of goods in August amounted to 1075 mln euro, which is broadly in line with the pre-COVID-19 crisis level, as well as the average level of last year. Thereby, it can be concluded that Latvia's exports of goods have overcome the first wave of the pandemic relatively well. While in the 8 months of 2020 compared to the same period a year ago, exports of goods declined by 3.2%. Deepest decline of exports was recorded for transport equipment which export value was by 26.7% lower than a year ago determined by decline in re-exports of cars. Exports of mineral products also decreased significantly (-23.1%), which was affected by the decrease in exports of petroleum oils and gases due to falling oil prices and lower transport volumes. In addition, this product group was negatively affected by the decrease in electricity exports. While exports of wood and wood products decreased by 9.1%. In August, imports of goods declined by 4.8% y-o-y, but in the 8 months the value of imported goods shrunk by 9.8%. Since imports of goods declined faster than exports, foreign trade deficit of goods in the 8 months of this year decreased by 752 mln euro to 1279 mln euro.

Balance of payments, current account, mln euro



Current account

In August 2020, Latvia's balance of payments current account recorded a surplus of 103 mln euro, in contrast to 1 mln euro deficit a year ago. Growth in the current account surplus was driven by improvements in the goods, primary and secondary account balances. Since the value of imported goods decreased faster than exports of goods, goods account deficit shrank by 51 mln euro. The situation was opposite in the services account, however. Due to the declining exports of transport services and foreign tourist expenditure, exports of services fell faster than imports of services. Thereby, services account surplus dropped by 78 mln euro. Nevertheless, the services account surplus of 141 mln euro fully offset the goods account deficit of 139 mln euro. Due to lower dividend payments to foreign investors, primary income account surplus increased by 107 mln euro. While secondary income account surplus grew by 23 mln euro, largely because of the lower payments to the EU budget. Overall, in the 8 months of 2020 current account run a surplus of 395 mln euro. This was stimulated by narrowing of the goods account deficit driven by sharp decline in imports of goods, as well as lower dividend payments to foreign investors.

Main macroeconomic indicators, annual growth rates (unless stated otherwise)

	18'II	III	IV	19'I	II	III	IV	20'I	II	III*
GDP, constant prices, %	4,6	4,4	4,9	3,4	1,7	2,6	0,8	-1.0	-8,9	-3,1
GDP, current prices, %	8,5	8,6	9,2	7,0	4,6	4,8	2,2	0,0	-9,9	n.d.a.
Inflation, %	2,4	2,9	2,9	2,9	3,3	2,9	2,2	1,9	-0,4	0,0
Nominal wages, %	8,5	8,0	8,4	7,4	7,0	7,5	6,9	6,6	4,0	n.d.a.
Real wages, CPI deflated, %	6,1	5,1	5,5	4,5	3,7	4,6	4,7	4,7	4,4	n.d.a.
Employed persons, %	2,0	1,9	0,8	0,6	-0,4	-0,2	0,4	-0,2	-1,5	n.d.a.
Unemployed, % of active pop.	7,7	7,0	6,9	6,9	6,4	6,0	6,0	7,4	8,6	n.d.a.
Productivity, %	2,5	2,4	4,1	2,7	2,2	2,9	0,4	-0,8	-7,5	n.d.a.
Retail trade, %	5,0	3,0	2,7	3,5	3,2	1,0	1,5	2,2	-1,6	4,4
Industrial production, %	0,2	2,9	0,9	-0,8	1,4	2,5	0,0	-2,3	-5,1	n.d.a.
Goods exports, %	14,7	7,9	7,3	5,2	-1,1	3,4	-1,0	3,7	-10,8	n.d.a.
Goods imports, %	11,7	14,2	12,3	7,3	4,9	-5,2	-2,2	-1,0	-20,8	n.d.a.
Trade balance, mln euro	-664,1	-1124,2	-723,7	-606,6	-886,6	-789,0	-665,8	-453,6	-387,4	n.d.a.
Current account, % of GDP	1,6	-5,6	2,8	0,0	-1,9	-3,0	2,4	1,0	3,8	n.d.a.

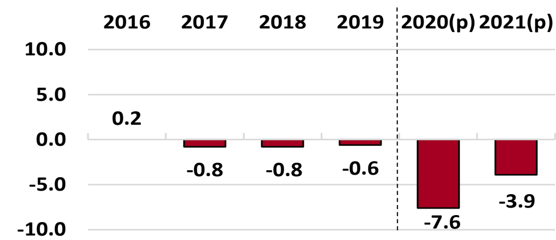
** GDP flash estimate*

Source: CSP, Eurostat, Ministry of Finance of the Republic of Latvia, Bank of Latvia

According to the results of the October 2020 notification, the general government budget deficit of Latvia in 2019 was 174.2 mln euro or 0.6% of GDP, which is by 0.2 pp lower compared to 2018, improving local government budget balance.
According to the Ministry of Finance, the general government budget deficit for 2020 is projected at 7.6% of GDP, which is significantly higher than planned by law "On the medium-term budgetary framework for 2020, 2021 and 2022", when the prevalence of Covid-19 was not predicted.
To mitigate the effects of the infection on the economy, the government has approved support measures of 3.1 billion euro or 11.1% of GDP, where the direct negative impact on the general government budget balance is 1.2 billion euros or 4.3% of GDP and by 20 September this year, the actual impact on the balance sheet is estimated at 0.7 billion euro.

General government budget balance

General government budget balance, % of GDP



According to the ESA 2010

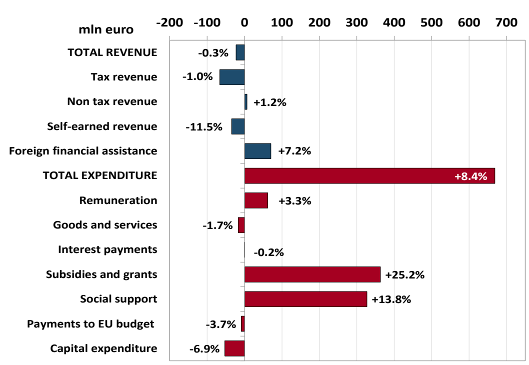
Consolidated General Budget

Budget Revenue and Expenditure

	2019 I-IX execution mln euro	2020 I-IX execution mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	8441,2	8418,4	-22,7	-0,3%
Expenditure	7919,6	8588,6	669,0	8,4%
Financial Balance	***521,6***	***-170,1***	***-691,7***	
CONSOLIDATED STATE BUDGET*				
Revenue	7005,6	7065,4	59,8	0,9%
Expenditure	6597,6	7346,6	749,1	11,4%
Financial Balance	***408,0***	***-281,2***	***-689,2***	
State basic budget				
Revenue	4804,0	4864,7	60,7	1,3%
Expenditure	4675,4	5200,0	524,6	11,2%
Financial Balance	***128,6***	***-335,3***	***-464,0***	
State special budget				
Revenue	2240,1	2236,3	-3,9	-0,2%
Expenditure	1992,7	2218,0	225,3	11,3%
Financial Balance	***247,4***	***18,3***	***-229,1***	
CONSOLIDATED LOCAL GOVERNMENT BUDGET**				
Revenue	2133,6	2079,1	-54,5	-2,6%
Expenditure	2020,0	1968,0	-52,1	-2,6%
Financial Balance	***113,6***	***111,1***	***-2,5***	

According to cash flow methodology
**Including grants, donations and derived public persons*
***Including grants and donations*

Revenue and Expenditure in I-IX 2020 (cash based changes in mln euro and in per cent against respective period of 2019)



According to the information published by the Treasury, the revenue of the consolidated general budget in the first nine months of 2020 was 8418.4 mln euro, but expenses were made in 8588.6 mln euro, thus in consolidated general budget was 170.1 mln. euro deficit and the situation differs significantly from 2019, when in in the respective period was 521.6 mln. euro surplus. The deterioration of the general budget balance compared to nine months last year was determined by lower tax revenues in the reporting period, while, the support measures approved by the government to mitigate the effects of Covid-19 and the increase in social benefits expenditure contributed to a faster increase in general government expenditure.

Revenues of the consolidated general budget in the first nine months of this year were received by 22.7 mln euro or 0.3% less than in the corresponding period of the previous year, which was mainly influenced by the decrease of tax revenue (6555.2 mln euro) by 66.1 mln euro or 1.0%.

Tax revenues depend on the economic situation in the country, and restrictions on the spread of Covid-19 severely affected the activities of several sectors. The largest declines in tax revenue are overall in sectors such as accommodation and food services, transport and storage, arts, entertainment and recreation. Tax revenues this year are also affected by the approved support for companies and individuals, which is reflected in extensions of calculated tax payment terms with a repayment term of up to three years. In the first nine months of 2020, the consolidated gener budget tax revenue was by 573.7 mln euro or 8% behind the nine-month plan. In fact, all tax revenues are lagging behind the plan, except for personal income taxes (PIT) received 41.5 mln euro or 3.3% above the plan. This can be explained by the high overflow of the plan in January-February, which was formed by the rising level of labor income in the beginning of 2020, when the situation in Covid-19 had not yet developed, as well as settlements at the beginning of the year for dividend payments made in December 2019. TThe biggest non-fulfillment of the plan in the consolidated general budget is VAT, receiving 284.3 mln euro or 13.5% less than planned.

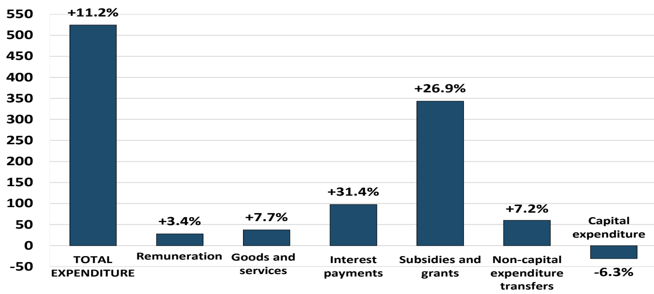
Expenditures of the consolidated general budget in the reporting period were made by 669.0 mln euro or 8.4% more than last year, amounting to 8588.6 mln euro. The increase in expenditure was influenced by 363.2 mln euro or 25.2% higher expenses for subsidies and grants (1803.1 mln euro), as well as social benefits (2694.5 mln euro) increasing by 327.2 mln or 13.8%. Higher subsidies and grants amounted to 100 mln eruo allocated to the financial institution ALTUM to provide loans and provide financing with guarantees to the economic operators affected by the Covid-19 crisis. Subsidies and grants to the health sector related to the purchase of Covid-19 protective equipment and disposable materials have increased significantly.

In some items in the general budget in January-September there is a decrease in expenditures compared to the corresponding period last year. Expenditure on goods and services decreased by 17.1 mln euro or 1.7%, but capital expenditures decreased by 52.8 mln euro or 6.9%. The decrease in these expenditures is mainly observed in the local government budget.

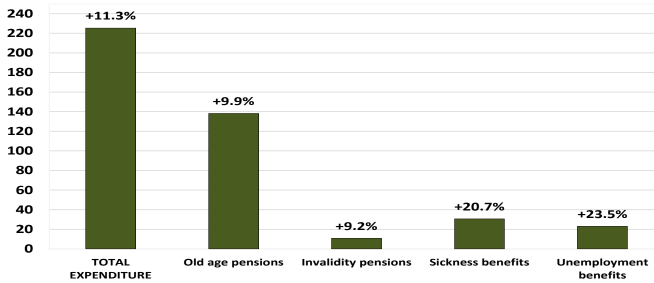
Source: The State Treasury, Ministry of Finance of the Republic of Latvia, Eurostat, Draft Budgetary Plan of the Republic of Latvia 2021

State Budget

State Basic Budget Expenditure in I-IX 2020
(cash based changes in mln euro and in per cent against respective period of 2019)



State Special Budget Expenditure in I-IX 2020
(cash based changes in mln euro and in per cent against respective period of 2019)



According to the data of the State Treasury in nine months of 2020, in the consolidated local government budget was 109.7 mln euro deficit, while last year in the corresponding period was 259.3 mln. euro surplus.

State basic budget revenue in the first nine months of this year reached 4864.7 mln euro and compared to January-September 2019, revenues increased by 60.7 mln euro or 1.3%. The largest increase in revenue was ensured by corporate income tax (CIT) revenue, which has increased by 140.8 mln euro compared to 2019 nine months, increase in foreign financial assistance revenue by 70.0 mln euro or 7.3% and an increase of non-tax revenues by 8.3 mln euro or 1.8%. In the first nine months of this year, the increase in CIT revenues can be explained by the low amount of CIT revenues last year as a result of the CIT reform, which was facilitated by both high repayments and significant pre-reform profits. The non-tax revenue plan in the central government basic budget in the reporting period was exceeded by 20.7 mln euro or 4.7%. Revenues from the over-plan were generally provided mainly by higher dividend payments from one state-owned company, however, revenues from individual fees were significantly lower than planned. For example, state fees for state-provided security and legal and other services have been received for 10.7 mln euro or 17.3% less than planned due to the restrictions introduced in the spring, extending the validity of identity documents and thus issuing fewer documents, as well as reducing consular services.

Meanwhile, in the first nine months of this year, a significant increase is observed in the state basic budget expenditure, increasing by 524.6 mln euro or 11.2%. The increase in the state basic budget expenditure was determined by the funding directed to mitigate the effects of Covid-19, as well as higher expenditures for financing the health sector. The increase in expenditures in the state basic budget was mainly ensured by an increase in subsidies and grants by 343.2 mln euro or 26.9%, largely allocating funds to the financial institution ALTUM and the Latvian Investment and Development Agency to realize the implementation of loans, guarantees and subsidized jobs by implementing the measures approved by the government to mitigate the consequences of Covid-19. There was also a rapid increase in social benefits expenditure in the central government basic budget by 97.5 mln euro or 31.4%, which is related to the payment of downtime benefits 53.6 mln euro in the amount of and 17 mln euro paid in July for unemployment benefits from the state basic budget.

According to the State Treasury published information, the state special budget in the nine months of this year had 18.3 mln euro surplus, which was by 229.1 mln euro less than in the corresponding period of 2019.

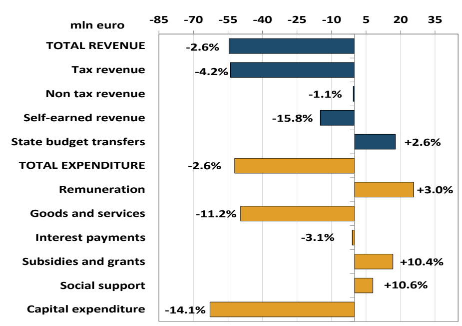
In the first nine months of this year, the state special budget revenue was received at approximately the level of the previous year (-0.2%), while the state special budget shows a significant increase in expenditures. Expenditure increased by 225.3 mln euro or 11.3%. It should be noted that expenditure on pensions in the first nine months of this year, taking into account the indexation performed in October last year, has increased by 151.0 mln euro or 9.7% and is broadly in line with the planned level. Expenditure on other benefits increased by 72.9 mln euro or 17.3%, amounting to 494.5 mln. euro. Expenditure on other benefits increased by 72.9 mln or 17.3% euro in the reporting period, making 494.5 mln euro. Expenditure on unemployment and sickness benefits has increased significantly.

Expenditure on unemployment benefits in the first nine months of this year was 23.0 mln euro or 23.5% more than in January-September last year. Given, that in July, 17 mln euro for unemployment benefits were paid from the state basic budget, unemployment benefits increased by 40 mln euro or 40.7%. According to the data of the State Employment Agency (SEA), the registered unemployment rate at the end of September was 7.7% or 70 306 unemployed, which is 34% more than in the corresponding period of 2019.

Expenditure on sickness benefits in the state special budget was made by 30.6 mln euro or 20.7% more than in January-September last year. According to the State Social Insurance Agency (SSIA), the number of sickness benefit recipients increased by 19% in September, and the average insurance contribution salary for benefit recipients in January-September this year was on average more than 10% higher than last year, as well as in January-September the number of days for which payment is made, thus also affecting the total number of paid days.

Consolidated Local Government Budget

Revenue and Expenditure in I-IX 2020 (changes in mln euro and in per cent against respective period of 2019)



According to the data of the State Treasury, in the first nine months of 2020, in the local government budget both revenues and expenditures have decreased by a similar amount - by 2.6%, thus providing 111.1 mln. euro surplus. In Local government budget revenues have decreased by 54.5 mln euro or 2.6% compared to the corresponding period of the previous year, amounting to 2079.1 mln euro. The decrease in revenue was mainly influenced by the decrease in personal income tax (PIT) revenue in the local government budget by 37.1 mln euro or 3.4%. The decrease in revenue was also determined by real estate tax (RET) revenue, which decreased by 8.3 mln. euro or 4.4%. This can be explained by the possibility to postpone RET payments in 2020, which is one of the support measures introduced to mitigate the effects of Covid-19. Self earned revenues of local government have also decreased by 14.9 mln euros or 15.8% due to impact of Covid-19, including reduction of revenues from education fees, including interest education, rental of premises and ticket sales.The local government budget expenditures in the first nine months of this year has decreased by 52.1 mln euro or 2.6% compared to the corresponding period last year, amounting to 1968.0 mln euro. The decrease can be explained by a decrease in capital expenditure by 62.8 mln euro or 14.1%. Capital expenditures for the implementation of EU fund projects decreased by 10.8 mln euro and for the implementation of basic local government functions by 52.1 mln euro. If the decrease of capital expenditures for EU funded projects can be explained by end of 2014-2020 inventment cycle, then reduction of expenditure on basic functions was mainly driven by borrowing constraints. In turn, expenditures on goods and services in the local government budget have decreased by 49.5 mln euro or 11.2% compared to the corresponding period last year, amounting to 393.1 mln euro, which can be explained by the reduction of catering expenses for the maintenance of persons in the care of the state and local governments. Decreases in expenditure are also observed for business trips and business trips, transport services for institutional needs, fuel, expenditure on heat, including heating, fuel stocks, materials, energy resources and other items.

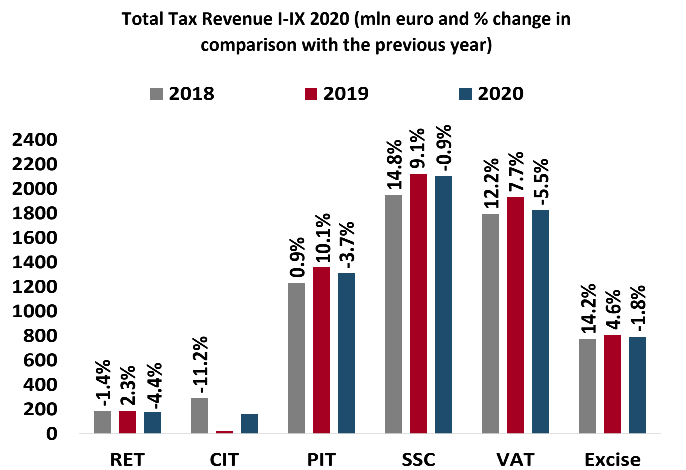
On the other hand, expenses for compensation have increased by 25.7 mln euro or 3.0%. Subsidies and grants also increased by 16.7 mln euro or 10.4%. The increase was provided by subsidies and grants to businesses for the provision of public transport services. Expenditure on social support measures has increased by 8.0 mln. euro or 10.6%, which can be explained by an increase in expenditure on benefits for meals and care at home and for ensuring a guaranteed minimum income level and other social assistance to the population. Expenditures have also increased for payments for services provided by long-term social care and rehabilitation institutions.

Source: The Treasury

Tax Revenue

Consolidated General budget Tax Revenue

	2019 I-IX execution, mln euro	2020 I-IX execution, mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %	January execution of the same period plan
Consolidated general budget tax revenue	**6621,2**	**6555,2**	**-66,1**	**-1,0%**	**92,0%**
Social security contributions	2123,1	2103,4	-19,8	-0,9%	*93,8%*
in State special budget	*2049,0*	*2032,6*	*-16,3*	*-0,8%*	*93,8%*
1% for the health financing	*73,5*	*70,7*	*-2,8*	*-3,8%*	*94,8%*
Value added tax	1930,8	1825,0	-105,8	-5,5%	86,5%
Personal income tax	1357,8	1307,5	-50,4	-3,7%	*103,3%*
in State budget	*272,2*	*258,9*	*-13,3*	*-4,9%*	*102,3%*
in Local government budget	*1085,6*	*1048,5*	*-37,1*	*-3,4%*	*103,5%*
Excise tax	805,9	791,6	-14,3	-1,8%	87,8%
Corporate income tax	20,5	161,2	-	-	77,5%
Real estate tax	186,0	177,7	-8,3	-4,4%	*92,0%*
Informative:					
Social security contributions to the state funded pension scheme	438,6	427,9	-10,7	*-2,5%*	-



Consolidated general budget tax revenue in the first nine months of this year received 6555.2 mln euro, which is by 66.1 mln euro or 1.0% less than in the corresponding period of 2019. The decrease in tax revenues was influenced not only by the decline in economic activity, but also by the approved support for companies and individuals, which is expressed in extensions of the calculated tax payment term with a repayment term of up to three years. In particular, tax revenues have fallen this year in the sectors hardest hit by the crisis: accommodation and food services, transport and storage, arts, entertainment and recreation.

Value added tax (VAT) revenue has fallen the most, compared to the first nine months of 2019, by 105.8 mln euro or 5.5%. The largest decrease in VAT revenues was in construction, real estate, and accommodation and food service activities. The decrease in the total tax revenue of the construction sector related to the abolition of the reverse charge procedure for construction materials as of 1 January 2020, which affected the increase in VAT refunds.

In the first nine months of this year, the mandatory state social insurance contributions are 2103.4 mln euro, which is by 19.8 mln. euro or 0.9% less than in the corresponding period of 2019, which is related to the situation in the labor market, where the unemployment rate this year significantly exceeds the level of 2019. PIT revenues in the first nine months of 2020 decreased by 50.4 mln euro or 3.7% compared to January-September 2019, amounting to 1307.5 mln euro, which was planned in advance Revenues have decreased due to the increase of the PIT non-taxable minimum for employees and pensioners, similarly, this year the benefits for dependents have increased, reducing the PIT taxable base accordingly. Dividend income has also decreased significantly.

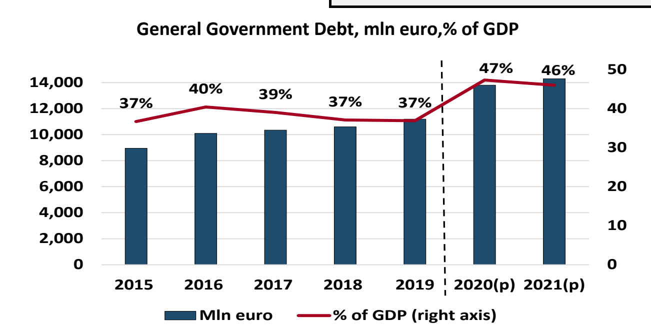
Excise tax revenue in the first nine months of this year is 791.6 million. euros, which is by 14.3 mln. euros or 1.8% less compared to the first nine months of 2019. Revenues decreased in all product groups, except for petroleum products and other excise goods (coffee, soft drinks, e-cigarette refills). The largest decrease was in excise tax revenues from alcoholic beverages by 10.9 mln euro significantly affected by restrictions on movement, assembly and entertainment due to the spread of Covid-19. Revenues from excise duty on oil products have increased by 5.5 mln euro, due to price increases for fuel.

In contrast, corporate income tax (CIT) increased by 140.8 mln euro, reaching 161.2 mln euro, given that the level of CIT revenue last year, after the implementation of the reform was very low (20.5 mln euros in January-September 2019). If the fluctuations of CIT revenues as a result of the reform are not taken into account, the revenues of all other taxes in the first nine months of this year actually amounted to 206.9 mln euro or 3.1% lower than in the corresponding period of 2019.

General Government Debt

According to Eurostat data, general government debt at the end of 2019 reached 11.2 billion euro or 37% of gross domestic product. From 2017 and until the beginning of 2020, the general government debt had a stabilizing and decreasing trend in relation to the gross domestic product. The level of general government debt is expected to increase to 47%, given the significant increase in borrowing caused by the need to finance measures to be taken and planned to mitigate the effects of the Covid-19 outbreak and to support the economy.

On October 2020, the international credit rating agency Fitch affirmed Latvia's long-term foreign currency sovereign credit ratings at the 'A-' level, but the outlook was revised to stable (previously - negative). As a determining reason for changing the outlook, Fitch points out the limited impact of the Covid-19 outbreak on the Latvian economy and public finances, supported by effective and operational support measures to mitigate the effects of the Covid-19 outbreak and the resilience of the Latvian economy to external shocks.



According to the ESA 2010

Source: The State Treasury, Ministry of Finance of the Republic of Latvia, Eurostat, Draft Budgetary Plan of the Republic of Latvia 2021