

MACROECONOMIC AND BUDGETARY REVIEW 2020

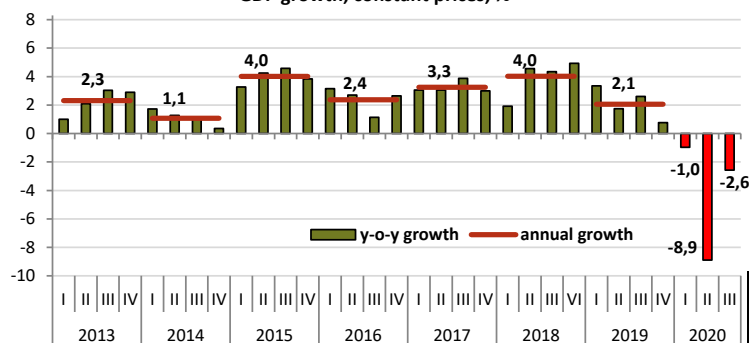
No. 10

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 (thsd 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

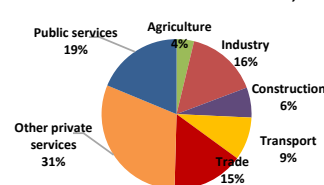
** Projections revised in June 2020 for the preparation of Latvia's medium term budget framework 2021-2023

GDP growth, constant prices, %



GDP

Structure of value-added in 2019, %

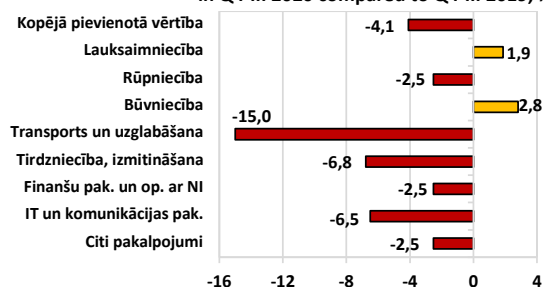


GDP growth in the Baltic states, % y-o-y

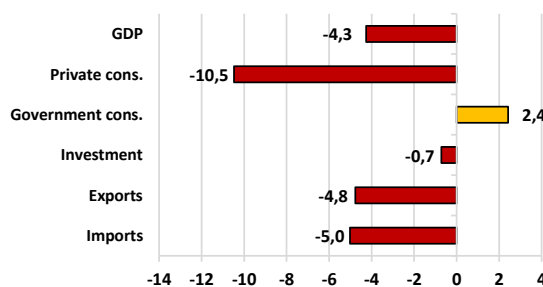
	19'IV	20'I	II	III
Latvia	0,8	-1,0	-8,9	-2,6
Lithuania	4,2	2,4	-4,6	0,1
Estonia	5,3	-0,7	-6,9	-1,9

In the third quarter of 2020 compared to a corresponding quarter a year ago, Latvia's gross domestic product (GDP) declined by 2.6% that was considerably better performance than in the second quarter when Latvia's economy contracted by 8.9% y-o-y. Latest data suggest that, similarly to the Q2 when economic contraction turned out less severe than expected, also economy recovered faster – producing sectors did not demonstrate output contraction and service sectors resumed economic activity rather swiftly. In the three quarters of 2020, Latvia's economy has declined by 4.3% meaning that economic recovery from the COVID crisis has been more successful than previously projected and economic contraction in 2020 overall is not going to be as strong as MoF projected in June. At the same time, economic developments in Q4 could be worse taking into account rapid spread of COVID-19 since the beginning of October and restrictions that were imposed to limit the virus. Nevertheless, so far fall of economic activity has been milder than in the second quarter and thus GDP decline is not going to be as strong as in Q2.

GDP growth by sectoral breakdown and from expenditure side in Q I-III 2020 compared to Q I-III 2019, %



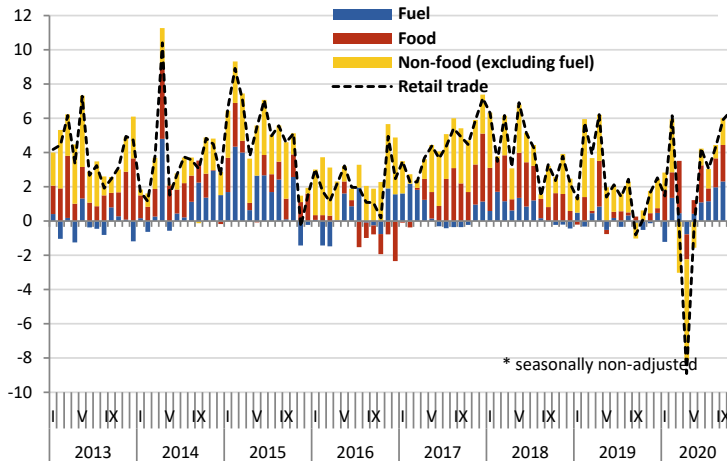
GDP breakdown



This year, economic contraction is determined by falling private consumption caused by restrictions that have been introduced to limit spread of COVID-19 disease thus significantly reducing economic activity as well as deteriorating consumer confidence negatively affects domestic demand. At the same time, investments performed rather well, decreasing by only 0.7% in the three quarters of 2020, and economic contraction 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 15.0% decline in the transport sector. Accommodation and food service activities fell by 34.9%, arts, entertainment and recreation - by 26.1%. In the three quarters, economic performance was negatively affected also by a 2.7% fall in trade and other service sectors such as information and communication services, professional, scientific and technical services, as well as decrease in industrial production. Growth of value added in the three quarters was demonstrated only by construction and agriculture sector, and public administration and defence.

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, %

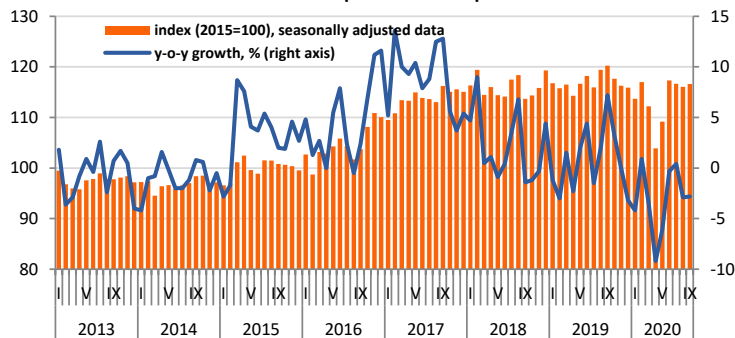
17	41	42
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Y-o-y growth, c.a., 2020 Jan.-Oct.

Total	+2.1%	Non-food (excl. fuel)	-0.4%
Food	+3.6%	Fuel	+5.8%

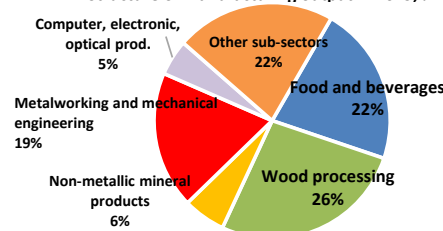
In October 2020, retail trade demonstrated strongest growth during this year – compared to a corresponding month of the last year sales volumes in the retail stores increased by 6.4%. However, in the ten months of 2020, total retail trade volumes have increased only moderately – by 2.1% that was determined by strong retail trade contraction in April. In October, retail trade growth was largely stimulated by rising sales volumes in food stores – by 7.2% y-o-y, and fuel stations – by 16.4% y-o-y. While retail sales of other non-food products increased slower in October – by 2.2% y-o-y.

Industrial production output



Industry

Structure of manufacturing output in 2019, %

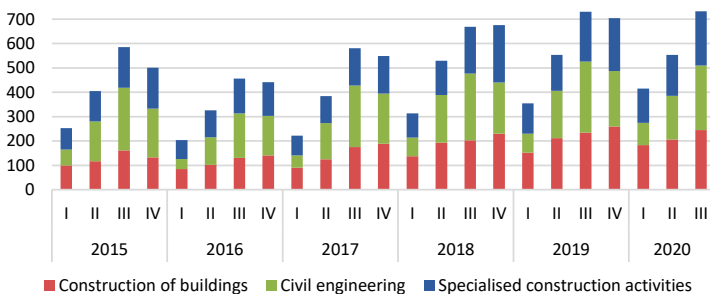


Industry, y-o-y growth, 2020 Jan.-Sept. c.a.

Industry total	-3.1%	Mining, quarrying	+6.5%
Manufacturing	-2.9%	Energy	-6.5%

In September 2020 compared to a corresponding month a year ago, industrial production output declined by 2.8% demonstrating similar rate of decrease as in the previous month. The largest negative contribution to sector's fall was provided by contraction of electricity and gas supply by 22.7% y-o-y due to sharp decline in electricity production in combined heat and power plants (CHP). While manufacturing demonstrated a slight fall in September – by 0.6%, despite of growth in the largest manufacturing sub-sectors. For the third consecutive month growth was registered in wood-processing industry, the largest manufacturing sub-sector. In September, its output increased by 4.1% y-o-y. Manufacture of food products increased slightly slower – by 1.5%, thus maintaining output stability observed over the last few months. While, following six months of rather strong output contraction, in September positive surprise was provided by manufacture of fabricated metal products – its output increased by 4.1% y-o-y, thus returning to the pre-COVID production level. In September, output rose also in other manufacturing sub-sectors, however strong fall continued in repair and installation of machinery and equipment (-33.7%). Since the beginning of COVID crisis, output volumes have been declining in manufacture of beverages and textiles, and in September these sub-sectors demonstrated output contraction by 11.3% and 14.2% respectively. In the nine months overall, industrial production has declined by 3.1%, including manufacturing – by 2.9%.

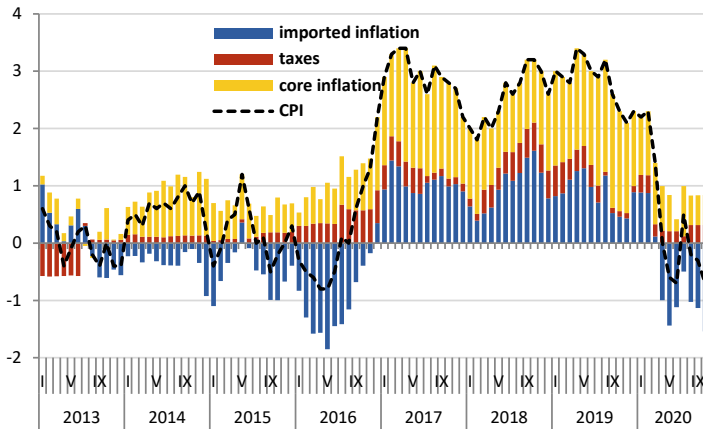
Construction output at constant prices, mln. euro



Construction

Following the strong expansion of construction output in the Q1 2020 (+16.9% current prices), sector's growth slowed down in the following two quarters when construction output was close to the last year's level. In the Q3, construction output increased by 0.3% y-o-y driven by output growth in construction of buildings and specialised construction activities by 4.5% y-o-y and 8.8% y-o-y respectively. However, fall continued in civil engineering - by 9% y-o-y. In the three quarters of 2020, construction output growth constitutes 3.8%. In the Q3 2020, the expected construction space as indicated in the granted building permits fell at a slightly faster rate than in the previous quarter - by 22.4% y-o-y, and in the three quarters overall - by 17%. 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.

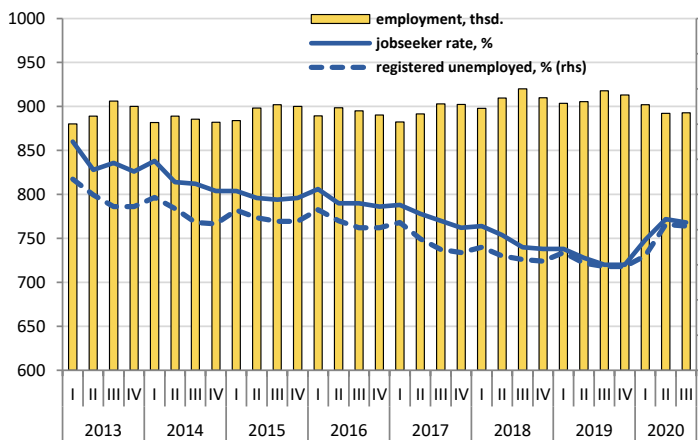
Inflation breakdown by origin, y-o-y, %



Inflation

In October 2020 compared to the previous month, average consumer price level did not change, however compared to a corresponding month a year ago prices decreased by 0.7%. Thus, for the third consecutive month deflation was registered in Latvia. Overall, prices for goods declined by 1.6% y-o-y in October, while prices for services continued to increase and were by 1.5% y-o-y higher than a year ago. However, the negative impact of COVID pandemic can be observed also in the services sector, especially reflected through prices for tourism services, for example, air transport and accommodation services. The largest negative contribution to consumer price changes was provided by fuel price decline by 14.0% y-o-y determined by falling oil prices. Due to lower oil prices, prices for gas and heating also decrease – in October they declined by 11.8% and 12.3% y-o-y respectively. Overall, in the ten months of 2020 consumer prices in Latvia have been by 0.4% higher than in the previous year.

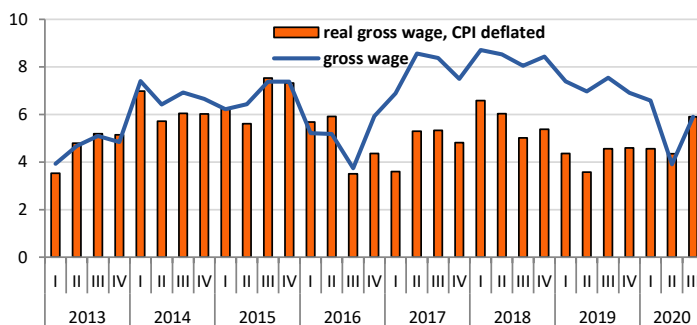
Unemployment rate, % of economically active population (15-74)



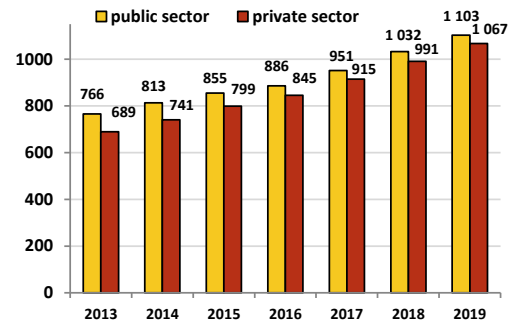
Employment

Due to the COVID-19 crisis, the number of employed persons decreased by 0.2% in the first quarter of 2020, by 1.5% in the second quarter and by 2.7% in the third quarter, compared to a corresponding quarter of 2019. According to the labour force survey data, the unemployment rate in the third quarter was 8.4% - 0.2 percentage points lower than in the second quarter, but 2.4 percentage points higher than a year ago. Such an increase in unemployment is quite moderate, with unemployment rate returning only to the level of 2017 and being far from 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. In November, the number of unemployed again slightly increased, but the unemployment rate did not change during the month, remaining at 7.4%, which is however by 1.6 percentage points higher than a year ago.

Wage dynamics, changes year over year, %



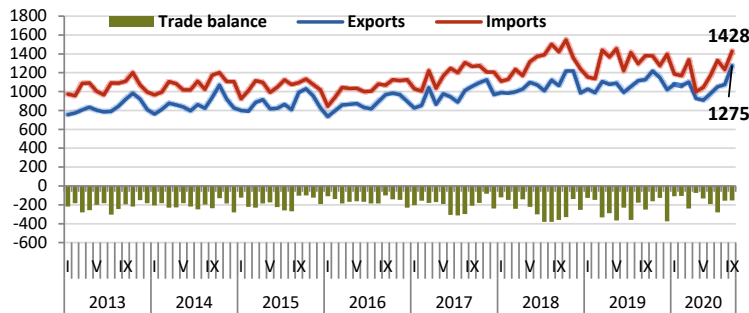
Wages, euro



Average monthly gross wages and salaries in the first quarter of 2020 increased by 6.6%, compared to the corresponding quarter of 2019, in the second quarter wage growth rate slowed down to 3.9% due to the COVID-19 crisis, and in the third quarter, as economic growth recovered rapidly, increase of the average salary again reached 5.9%. In the third quarter of 2020, average gross wage in the total economy constituted 1147 euro. Higher salary remained in the public sector, where the average wage was 1160 euro, while in the private sector it constituted 1144 euro. Meanwhile, faster wage growth was recorded in the private sector, where the average monthly gross wage grew by 7.1% year on year, while in the public sector it increased moderately - by 3.3% y-o-y. Compared to the third quarter of 2019, wages increased the most in other service activities (activities of membership organisations, repair of computers, personal goods) - by 14.8%, in mining and quarrying - by 14.1% and in arts, entertainment and recreation - by 10.1%, while in accommodation and food service activities average wage declined by 0.3% and in transportation sector - by 1.6% y-o-y.

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

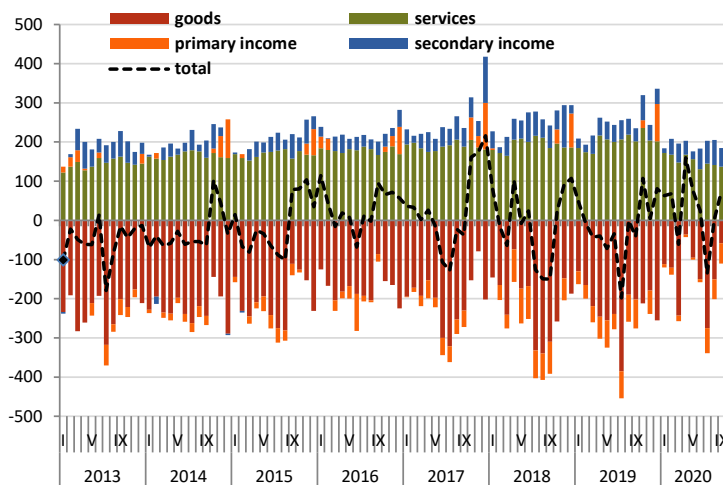
Foreign trade, current prices, euro



Foreign trade		
Exports, Jan-Sep 2020	Structure	Annual growth
Total	100%	-1,3%
Food	21,1%	5,7
Mech/Electr appl	18,7%	13,3
Wood	16,7%	-8,4
Metals	8,7%	-3,8
Chemical manuf.	8,0%	1,5
Transport vehicles	4,9%	-26,7
Mineral products	4,2%	-21,4
Plastics	3,6%	2,9
Others	14,3%	-0,3

In September, after a 6-month continuous decline Latvia's exports of goods grew by 13,0% y-o-y, which was the fastest growth rate since August 2018. The value of exports of goods in September amounted to 1275 mln euro, thus exceeding the pre-pandemic export value. This sharp rise of exports was largely driven by a 30.9% y-o-y growth in exports of agricultural and food products, stimulated by higher exports of cereals and oilseeds. Electrical and mechanical equipment also provided a significant contribution to the export growth in September, with exports increasing by 37.0% compared to a corresponding month of the last year. However, it should be noted that increase in exports of this product group was determined by re-exports. Strong export growth rates were also recorded in such product groups as metals, plastics, paper products. While in the 9 months of 2020 compared to the same period a year ago, exports of goods declined by 1,3%. 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 slowed down significantly, too (-21,4%), which was affected by decrease in exports of petroleum oils and gases, as well as by reduction in electricity exports. While exports of wood and wood products decreased by 8,4% over the same period. In August, imports of goods declined by 3,5% y-o-y, but in the 9 months the value of imported goods shrunk by 8,1%.

Balance of payments, current account, mln euro



Current account

In September 2020, Latvia's balance of payments current account recorded a surplus of 75 mln euro, in contrast to 41 mln euro deficit a year ago. Growth in the current account surplus was driven by improvements in the goods, primary and secondary account balances. However, the main contribution to the increase in the surplus was provided by the goods account. Due to the rapid growth of exports of goods, the goods account deficit has decreased by 144 mln. Thus, the goods account deficit declined to 58 mln. euro. In September, both exports and imports of services decreased. However, the decline in exports was faster, thus the services account surplus fell by 65 mln euro and amounted to 137 mln euro. Due to lower dividend payments to foreign investors, primary income account deficit was by 22 mln euro lower than a year ago. While secondary income account surplus grew by 15 mln euro. Overall, in the 9 months of 2020 current account run a surplus of 273 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	-2,6
GDP, current prices, %	8,5	8,6	9,2	7,0	4,6	4,8	2,2	0,0	-9,9	-3,1
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	3,9	5,9
Real wages, CPI deflated, %	6,0	5,0	5,4	4,4	3,6	4,6	4,6	4,6	4,4	5,9
Employed persons, %	2,0	1,9	0,8	0,6	-0,4	-0,2	0,4	-0,2	-1,5	-2,7
Unemployed, % of active pop.	7,7	7,0	6,9	6,9	6,4	6,0	6,0	7,4	8,6	8,4
Productivity, %	2,5	2,4	4,1	2,7	2,2	2,9	0,4	-0,8	-7,5	0,2
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	-1,8
Goods exports, %	14,7	7,9	7,3	5,2	-1,1	3,4	-1,0	3,7	-10,8	3,1
Goods imports, %	11,7	14,2	12,3	7,3	4,9	-5,2	-2,2	-1,0	-20,5	-2,4
Trade balance, mln euro	-664,1	-1124,2	-723,7	-606,6	-886,6	-789,0	-665,8	-453,6	-399,4	-590,4
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.

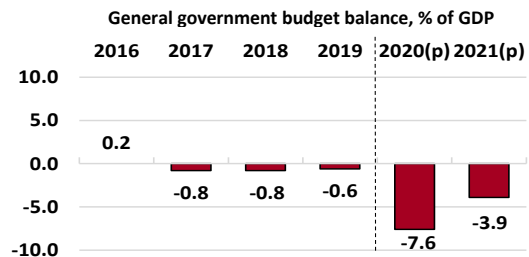
Source: CSP, Eurostat, Ministry of Finance of the Republic of Latvia, Bank of Latvia

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 reduce the impact of the infection on the economy, the government has approved support measures of 3.2 billion euro or 11.5% of GDP, increasing the general government budget deficit by 1.3 billion euro or 4.5% of GDP in 2020. Until November 22 of this year actually spent around 0.8 billion euro.

General government budget balance



According to the ESA 2010

Budget Revenue and Expenditure

Consolidated General Budget

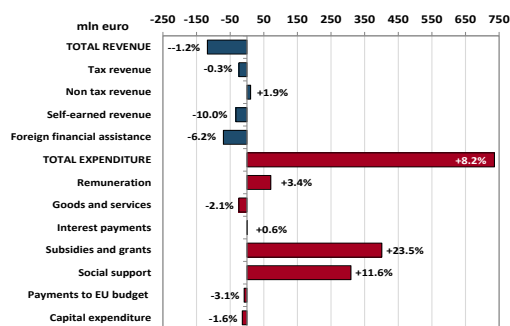
	2019 I-X execution mln euro	2020 I-X execution mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	9442,5	9324,7	-117,8	-1,2%
Expenditure	8998,5	9734,6	736,1	8,2%
Financial Balance	444,0	-409,9	-853,9	
CONSOLIDATED STATE BUDGET*				
Revenue	7845,4	7815,0	-30,4	-0,4%
Expenditure	7508,9	8313,5	804,6	10,7%
Financial Balance	336,5	-498,4	-835,0	
State basic budget				
Revenue	5379,4	5355,0	-24,4	-0,5%
Expenditure	5357,4	5956,0	598,6	11,2%
Financial Balance	22,1	-600,9	-623,0	
State special budget				
Revenue	2509,7	2499,1	-10,6	-0,4%
Expenditure	2249,2	2452,6	203,4	9,0%
Financial Balance	260,4	46,4	-214,0	
CONSOLIDATED LOCAL GOVERNMENT BUDGET**				
Revenue	2380,7	2311,5	-69,2	-2,9%
Expenditure	2273,3	2223,0	-50,3	-2,2%
Financial Balance	107,5	88,5	-18,9	

According to cash flow methodology

*Including grants, donations and derived public persons

**Including grants and donations

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



According to the information published by the State Treasury, the consolidated general budget in the ten months of this year was 409.9 mln euro deficit, while last year in the corresponding period the general budget had a surplus of 444 mln euros. Deterioration of the consolidated general budget balance, compared to ten months last year, determined lower tax revenue in the reporting period and government approved support measures to mitigate the effects of Covid-19, of which, the increase in social benefits expenditure contributed to a faster increase in consolidated general budget expenditure.

Revenues of the consolidated general budget in the ten months of this year were received 9324.7 mln euro, which was by 117.8 mln euro or 1.2% less than in the corresponding period of the previous year. Tax revenue of the consolidated general budget in January-October was by 23.8 mln euro or 0.3% lower than in the corresponding period of 2019. Tax revenue was by 595.6 mln euro or 7.5% lower than planned, which means worsening the consolidated general budget balance.

Covid-19 negative impact on economic development and certain restrictions affected the operations of several sectors. The largest declines in overall tax revenues are in the sectors of accommodation and food service activities, transport and storage, arts, entertainment and recreation, including real estate rental and management. Tax revenues this year are also affected by the approved support for companies and individuals, which takes the form of extensions of estimated tax payment periods with a repayment period of up to three years.

The increase in non-tax revenues of the consolidated general budget should be highlighted, which in the ten months of this year by 10.9 mln euro or 1.9% exceeds the level of the respective period last year, also exceeding the planned amount. The higher level of non-tax revenues was ensured by the revenues received from confiscation of criminal proceeds.

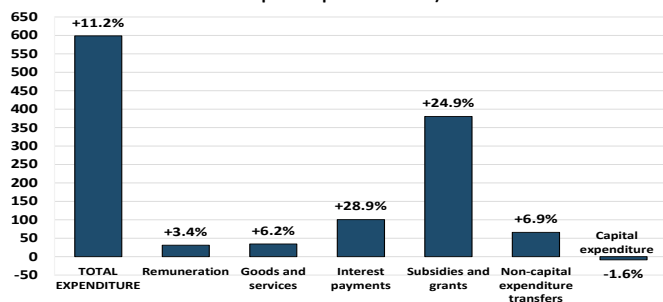
Expenditures of the consolidated general budget in the reporting period were made by 736.1 mln euro or 8.2% more than last year, forming 9734.6 mln euro. The increase in expenditure is due to both the support measures approved by the government, to reduce the economic impact of Covid-19 restrictions (ALTUM programs, downtime benefits, additional funding for road construction and others), as well as expenditure measures already planned in the budget.

Subsidies and grants in the consolidated general budget in ten months of this year increased by 401.3 mln euro or 23.5%, allocating a large part to the financial institution ALTUM and the Latvian Investment and Development Agency, to implement government-approved Covid-19 mitigation measures in the form of loans, guarantees and subsidized jobs. Significantly increased Subsidies and grants to the health sector related to the purchase of Covid-19 protective equipment and disposable materials.

In some items in the consolidated general budget in January-October there is a decrease in expenditures compared to the corresponding period last year. Expenditure on goods and services decreased by 24.0 mln euro or 2.1%, but capital expenditures decreased by 13.9 mln euro or 1.6%. 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 Basic Budget Expenditure in I-X 2020
(cash based changes in mln euro and in per cent against
respective period of 2019)



According to the information published by the State Treasury in the state basic budget in the ten months of this year was 600.9 mln euro deficit, while last year in the corresponding period was 22.1 mln euro surplus.

State basic budget revenue in ten months of this year reached 5355.0 mln euro and compared to January-October 2019, revenue decreased by 24.4 mln euro or 0.5%. In the state basic budget, compared to ten months of 2019, by 19.4 mln euro or 17.4% decreased revenue from paid services and other self-earned revenues, due to the effects of the restrictions imposed by Covid-19.

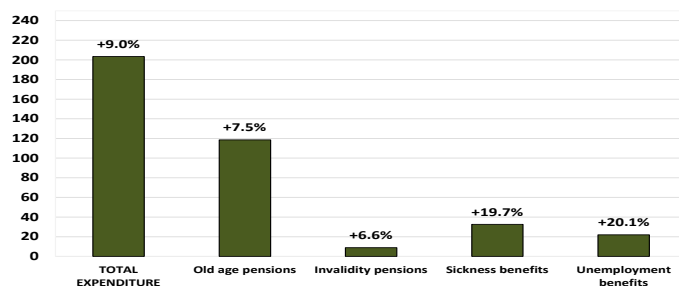
In the first ten months of this year, there has been a significant increase in basic budget expenditure, increasing by 598.6 mln euro or 11.2%. Practically all support measures approved by the government to mitigate the effects of Covid-19 are financed from the state basic budget, thus, the central government basic budget expenditure has increased during the reporting period. It should be noted that the budget law for 2020 forecasted that expenditures would be 4.7% higher than in 2019.

Subsidies and grants in the state basic budget in ten months of this year increased by 380.4 mln euro or 24.9%, to a large extent by channeling funds to the financial institution ALTUM and the Latvian Investment and Development Agency to implement the introduction of loans, guarantees and subsidized jobs through government-approved measures to mitigate the effects of Covid-19.

There has also been a rapid growth in the state basic budget expenditure on social benefits by 100.4 mln euro or 28.9%, related to the payment of downtime benefits 64.2 mln euro and 17 mln euro disbursed in June for unemployment benefits from the state basic budget.

State Budget

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

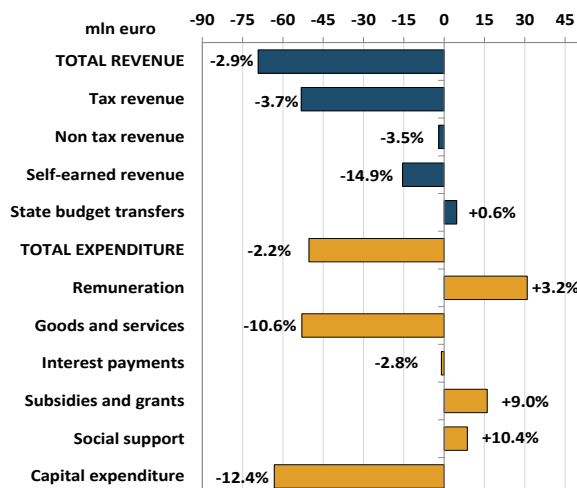


State special budget revenues in the first ten months of this year were received approximately at the level of the previous year (-0.4%), while there is a significant increase in expenditures. Expenditure increased by 203.4 mln euro or 9.0%. It should be noted that expenditure on old-age pensions in the ten months of this year, having regard to the indexation carried out last October, increased by 118.5 mln euro or 7.5% and is broadly in line with the planned level. Expenditure on other benefits during the reporting period increased by 73.7 mln euro or 15.6%, associated with a significant increase in expenditure on unemployment and sickness benefits.

Expenditures on unemployment benefits in the state special budget in ten months are by 21.9 mln euro or 20.1% higher than in the corresponding period last year, related to the increase in the number of recipients of unemployment benefits. According to the data of the State Social Insurance Agency (SSIA), in January-October of this year, an average of 43.5 thousand people received unemployment benefits, which is by 33.4% or 10.9 thousand people more than in the first ten months of last year. According to the State Employment Agency, the number of unemployed has increased in the sectors with the greatest Covid-19 impact - transport and storage, administrative and support service activities, accommodation and food service activities, wholesale and retail trade.

Expenditure on sickness benefits in the state special budget was made by 32.6 mln euro or 19.7% more than in January-October last year. Expenditure on sickness benefits was higher throughout the year than last year and according to the SSIA data it is related to the increase in the number of adult recipients of sickness benefits, the number of sick days has also increased. According to the SSIA data, in October of this year, compared to September, the number of recipients of sickness benefits increased by 23%.

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



Consolidated Local Government Budget

According to the data of the State Treasury, in the ten months of this year, both revenues and expenditures in the consolidated local government budget have decreased, thus providing 88.5 mln euro surplus, which is by 18.9 mln euro less than in the corresponding period a year earlier.

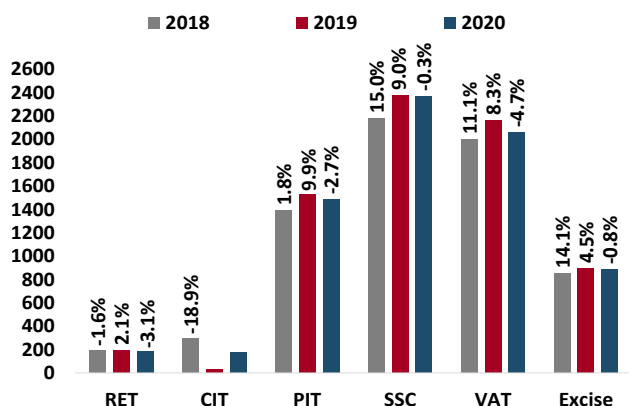
Local government consolidated budget revenue in the first ten months of this year amounted to 2311.5 mln euro, which is by 69.2 mln euro or 2.9% less than in the corresponding period of the previous year. The decrease in revenue was influenced by the decrease in personal income tax (PIT) revenue in the local government budget by 37.9 mln euro or 3.1% and revenue from self-earned revenue decreased by 15.5 mln euro or 14.9%. The epidemiological situation limited the ability of municipalities to provide services such as interest education, as well as to organize conferences and seminars, which had a corresponding impact on their revenues. The decrease in total revenue was also determined by real estate tax (RET) revenue, which decreased by 6.1 mln euro or 3.1%. 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.

The level of consolidated local government budget expenditures has decreased by 50.3 mln euro or 2.2% compared to the corresponding period last year, amounting to 2223.0 mln euro. In the municipal budget, the largest decrease in ten months was in capital expenditure, which have decreased by 63.2 mln euro or 12.4%. If the reduction of capital expenditures for EU fund projects can be explained by the end of the investment cycle of 2014-2020, then the decline in expenditure on basic functions was mainly driven by borrowing constraints and the impact of Covid-19.

Expenditures on goods and services in the local government budget have decreased by 52.9 mln euro or 10.6% compared to the corresponding period last year, amounting to 446.6 mln euro. There has been a significant reduction in catering costs as well expenditures on utilities, heating and business trips have decreased.

Consolidated General budget Tax Revenue				Tax Revenue	
	2019 I-X execution, mln euro	2020 I-X 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	7406,7	7382,9	-23,8	-0,3%	92,5%
Social security contributions	2381,0	2373,0	-8,0	-0,3%	94,2%
<i>in State budget (unallocated funds)</i>	-	20,1	-	-	-
<i>in State budget (1% for the health)</i>	82,3	79,0	-3,4	-4,1%	94,4%
<i>in State special budget</i>	2298,0	2273,9	-24,1	1,0%	93,3%
Value added tax	2165,6	2062,8	-102,8	-4,7%	87,1%
Personal income tax	1528,0	1487,4	-40,6	-2,7%	104,3%
<i>in State budget</i>	306,8	304,1	-2,7	-0,9%	106,6%
<i>in Local government budget</i>	1221,2	1183,3	-37,9	-3,1%	103,7%
Excise tax	894,0	886,9	-7,1	-0,8%	88,7%
Corporate income tax	26,2	175,0	-	-	77,8%
Real estate tax	193,6	187,6	-6,1	3,1%	93,3%
Informative:					
Social security contributions to the state funded pension scheme	488,6	473,9	-14,8	-3,0%	98,4%

Total Tax Revenue I-X 2020 (mln euro and % change in comparison with the previous year)



Consolidated general budget tax revenue in the ten months of this year, received in amount of 7382.9 mln euro, which is by 23.8 mln euro or 0.3% less than in the corresponding period of 2019. The decline in tax revenues was not only due to a contraction in economic activity, but also approved aid to companies and individuals, which takes the form of extensions of estimated tax payment periods with a repayment period of up to three years. The most significant tax revenue has fallen in the sectors most affected by the restriction, such as accommodation and food services, transport and storage, arts, entertainment and recreation, including the field of real estate rental and management.

In the reporting period, virtually all major tax revenues decreased. VAT revenues have decreased most significantly in the 10 months of this year, charged by 102.8 mln. euros or 4.7% less, compared to the ten months of 2019. 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 is related to the abolition of the reverse charge procedure for construction materials as of January 1, 2020, which affected the increase in VAT refunds.

In the ten months of this year, the mandatory state social insurance contributions are 2373.0 mln euro, which is by 8.0 mln euro or 0.3% less than in the corresponding period of 2019. Social security contributions were in fact at the 2019 level, because, despite the decrease in the number of employees and higher unemployment this year, the average wage in the country was still higher than last year. PIT revenues in ten months of 2020 decreased by 40.6 mln euro or 2.7% than in January-October 2019, amounting to 1487.4 mln euro. The decline in the income of the population was already planned taking into account the raising of the PIT-free minimum for employees and pensioners, allowances for dependents have also increased this year, reducing the PIT taxable base accordingly.

Excise tax revenue in ten months of this year is 886.9 mln euro, which is by 7.1 mln euro or 0.8% less compared to the first nine months of 2019. Revenues decreased in all product groups, except for oil products and other excise goods (coffee, soft drinks). The largest decrease was in excise tax revenues from alcoholic beverages by 10.0 mln euro or 5.8%, significantly affected by restrictions on recreation, entertainment, tourism and socialization due to the spread of Covid-19. Revenues from excise duty on oil products have increased by 10.4 mln euro or 2.3%, which was facilitated by the increase in fuel rates.

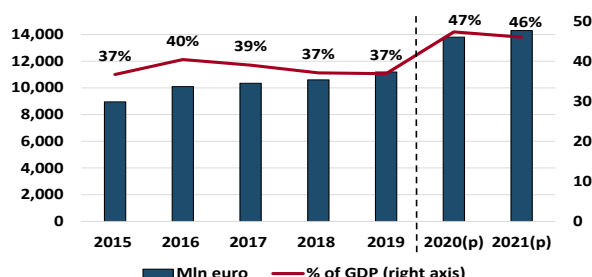
In contrast, corporate income tax (CIT) revenues related to the reform of the CIT payment system and the correspondingly low level of revenue in 2019 were received in the amount of 148.8 mln euro more than in the corresponding period last year.

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.

General Government Debt, mln euro, % of GDP



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