

* GDP flash estimate

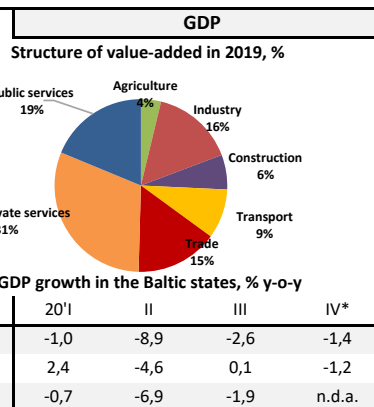
In the fourth quarter of 2020 compared to the previous quarter, Latvia's gross domestic product (GDP) according to the seasonally and calendar adjusted data increased by 1.1% despite the rapid spread of COVID-19 and security measures introduced to contain the virus. Hence, in annual terms economic contraction in the fourth quarter constituted only 1.4%, suggests GDP flash estimate published by the Central Statistical Bureau.

Similarly to the previous quarters, COVID-19 has mostly affected service sectors which declined by 3.2% y-o-y in the fourth quarter. While producing industries demonstrated rather strong growth which constituted 3.7% y-o-y that was determined by stable development in manufacturing, high grain harvest as well as growth in forestry and logging sector. Also, construction sector where output volumes remained high during entire last year, demonstrated growth also in the fourth quarter. According to the budget execution figures, expenditures for state investments rose significantly in the fourth quarter that have also positively affected construction sector's performance.

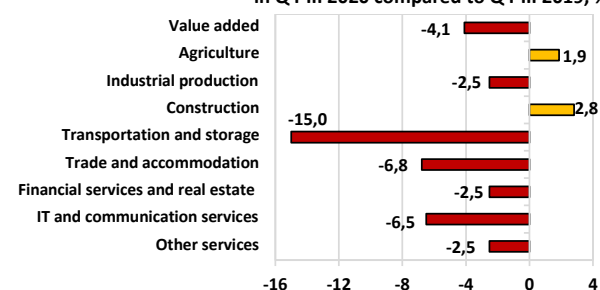
Available data about human mobility and economic activity in the trade and recreation venues as well as transport hubs already suggested that the measures to control spread of the virus did not influence economic activity as much as in spring of the last year and their impact on economic performance might have been smaller. It was confirmed by the latest GDP data which demonstrated that service sectors declined by only 3.2% y-o-y, while in the second quarter service sectors' value added collapsed by 11% and in the third quarter when economic activity resumed rapidly service sectors' fall nevertheless was stronger – by 4.5% y-o-y.

Taking into account the moderate GDP contraction rate in the fourth quarter, in 2020 overall Latvia's economy fell by 3.5% which was twice as small fall as was expected at the beginning of the COVID-19 crisis in spring and summer of 2020. Unfortunately, so far Latvia has been less successful in limiting the spread of the virus than sustaining economic activity, as COVID-19 infection rate has remained high since November. This will inevitably affect negatively economic performance throughout the first half of the year until the moment when there will be more or less strict measures to stop the COVID-19 disease which could be around the time when the largest part of Latvia's population will get their vaccine.

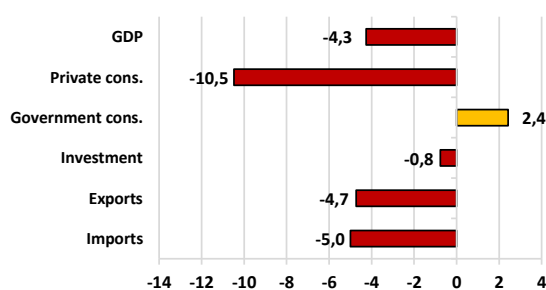
In January, economic confidence indicators in Latvia deteriorated for the third consecutive month, however they were still significantly above the level that was observed in April and May of the last year, thus confirming that despite the stronger restrictions economic activity remains higher than in the second quarter of 2020. Also, in Europe and in the world overall economic impact of COVID-19 is less profound than in the second quarter. At the same time, regionally the situation is becoming more and more heterogeneous, and unfortunately developments in Europe which is Latvia's main export market tend to lag behind, while global economic growth forecasts for 2021, especially in the USA and developing countries, are being raised.



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



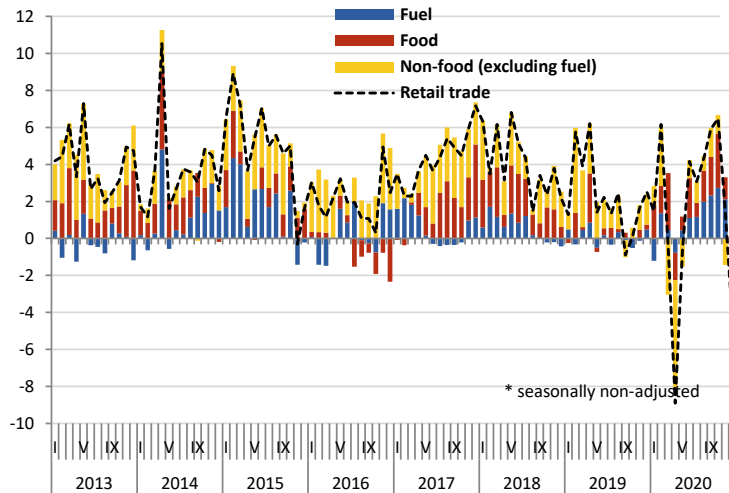
GDP breakdown



In 2020, economic contraction was 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 0.8% 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 of 2020, 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 2020, %

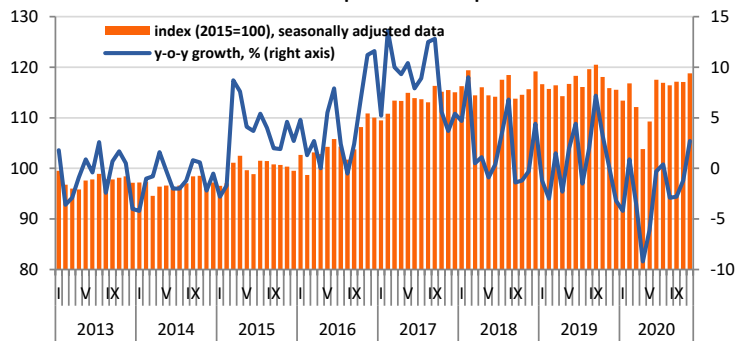


Y-o-y growth, c.a., 2020 Jan.-Dec.

Total	+1.5%	Non-food (excl. fuel)	-1.9%
Food	+3.5%	Fuel	+6.4%

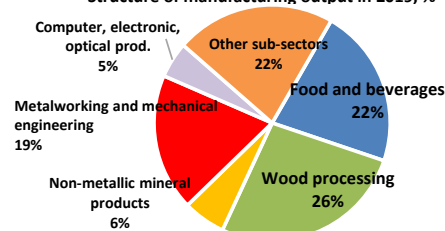
In December 2020 compared to a corresponding month a year ago, retail trade volumes in Latvia decreased by 4.4% which was first and foremost determined by COVID-19 restrictions introduced in the trade sector. Taking into account that these restrictions affected only trade of non-food products, total retail trade fall was determined by declining sales of these products. Thus, in December trade volumes of non-food products, except for fuel, contracted by 13.1% y-o-y. At the same time, sales of fuel and food products continued to increase in December - by 6.1% y-o-y and 3.4% y-o-y respectively. Contraction of retail trade in December was already expected which negatively affected results of entire year, nevertheless in 2020 overall retail trade managed to demonstrate slight growth of 1.5%.

Industrial production output



Industry

Structure of manufacturing output in 2019, %

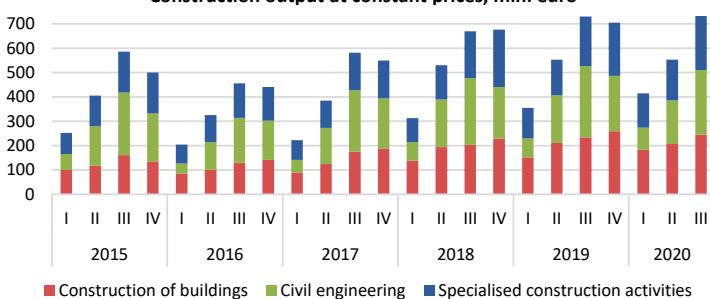


Industry, y-o-y growth, 2020 Jan.-Nov. c.a.

Industry total	-2.3%	Mining, quarrying	+8.3%
Manufacturing	-1.8%	Energy	-8.0%

In November 2020 compared to a corresponding period a year ago, industrial production output increased by 2.7% which was the strongest growth in the sector over the past year. Industrial production growth was stimulated by manufacturing output increase of 4.3% y-o-y as well as strong output expansion in mining industry (+20.5% y-o-y). While stronger growth of industrial production was hampered by prolonged output contraction in energy and gas supply which fell by 10% y-o-y in November. Taking into account manufacturing fall at the beginning of 2020, impact of Covid-19 crisis and weak performance of energy sector during the last year, in eleven months of 2020 industrial sector demonstrated output contraction of 2.3% y-o-y, including manufacturing fall by 1.8% y-o-y. Among the manufacturing sub-sectors, in November 2020 outstanding results were demonstrated by wood processing industry which output expanded by 14.6% y-o-y. Thus, not only providing the largest contribution to manufacturing growth, but also reaching record-high output within one month. Since wood processing industry demonstrated strong output growth for the fifth consecutive month, in eleven months of 2020 overall its output has also increased - by 3%. In eleven months growth has been registered also in printing and reproduction of recorded media (+6.4% y-o-y), manufacture of electrical equipment (+6.2% y-o-y) as well as in chemical industry (+5.7% y-o-y).

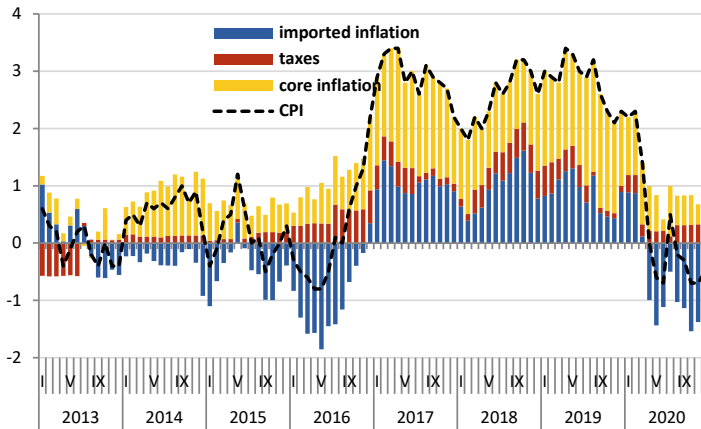
Construction output at constant prices, mln. euro



Construction

Following the strong expansion of construction output in the Q1 2020 (+16.9% current prices), sector's growth slowed down in the following two quarters when construction output was close to the previous 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 constituted 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.

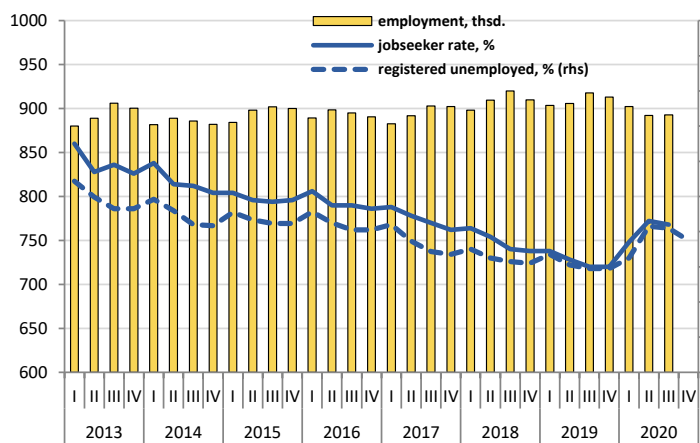
Inflation breakdown by origin, y-o-y, %



Inflation

In December 2020 compared to November, average consumer price level did not change, however compared to December of the previous year consumer prices decreased by 0.5%. Thus, deflation in Latvia was registered for the fifth consecutive month. In December, prices for goods decreased by 1.4% y-o-y that was mainly determined by falling prices for fuel, gas, heating, clothing and footwear as well as several food products. Meanwhile, prices for services continued to increase – by 1.6% y-o-y. Price growth for services was stimulated by rising prices for healthcare, education, catering as well as recreation and culture services. Although last year deflation was registered in seven months, in 2020 average consumer price level increased by 0.2% which precisely corresponds to the forecast of the Ministry of Finance. Hence, last year's inflation level was the lowest during the last four years.

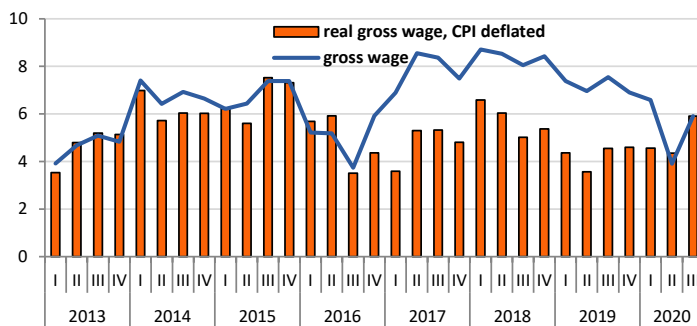
Unemployment rate, % of economically active population (15-74)



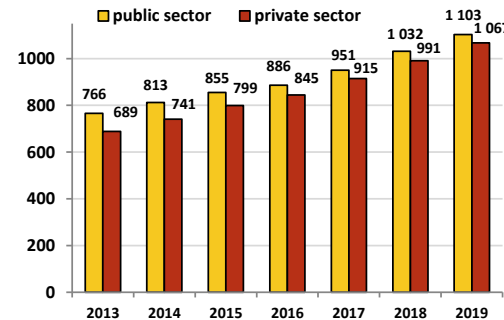
Employment

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 2020 and the end of June, the registered unemployment rate grew from 6.3% to 8.6%. Thereafter, the unemployment rate fell - to 7.4% at the end of October. In the following months, due to seasonal factors and the faster spread of COVID-19, unemployment rate started to rise again, reaching 8.0% at the end of January 2021. This was by 0.3 percentage points higher than at the end of December 2020 and by 1.6 percentage points higher than a year ago.

Wage dynamics, changes year over year, %



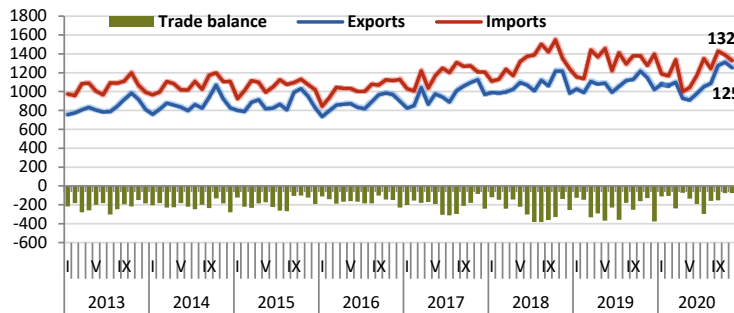
Wages, euro



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

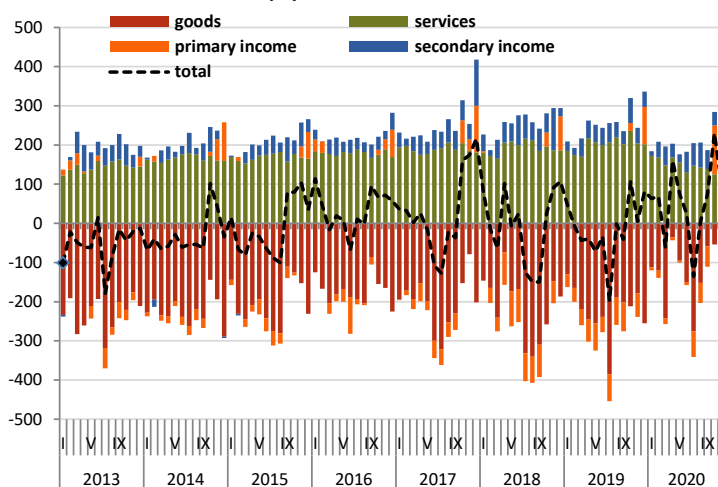
Foreign trade, current prices, euro



Foreign trade		
Exports, Jan-Nov 2020	Structure	Annual growth
Total	100%	0,7%
Food	21,8%	5,8
Mech/Electr appl	18,8%	15,6%
Wood	16,5%	-4,9%
Metals	8,4%	-2,6%
Chemical manuf.	7,8%	0,9%
Transport vehicles	5,1%	-19,2%
Mineral products	4,1%	-18,4%
Plastics	3,6%	6,4%
Others	14,0%	-0,6%

Despite significant drop in external demand and weaker economic activity caused by the COVID-19 crisis in both the EU and other important export markets to Latvia, Latvia's exports of goods continue to grow. The value of exported goods in November 2020 was by 9.1% higher than in the corresponding month of the previous year. Thus, for the third consecutive month Latvia's exports of goods showed an unexpectedly rapid increase - in September, value of exports of goods increased by 13.0% y-o-y, in October - by 7.7% y-o-y and in November - by 9.1% y-o-y. Export growth in autumn of the last year was stimulated by export of cereals, oilseeds, wood and wood products, as well as re-exports of electrical equipment. While in the 11 months of 2020 compared to the same period a year ago, exports of goods increased by 0.7%. Export growth in autumn reduced the negative results of the economic activity caused by the COVID-19, slightly increasing the total value of exports. However, changes in exports by product groups were uneven. The largest contribution to export growth in 11 months was ensured by a 15.6% increase in exports of machinery and electrical equipment, which was largely driven by an increase in the re-exports of mobile phones, monitors and projectors. Significant increase in exports was also recorded for food and agricultural goods, with the value of their exports increasing by 5.8%. Especially, exports of cereals and oilseeds demonstrated particularly high growth increasing by 19% and 65% respectively. On the other hand, the value of exports in such groups as wood and wood products, mineral products and transport vehicles decreased by 4.9%, 18.4% and 19.2% respectively. In November, imports of goods declined by 4.1% y-o-y, but in the 11 months the value of imported goods shrunk by 6.0%.

Balance of payments, current account, mln euro



Current account

In November 2020, Latvia's balance of payments current account recorded a surplus of 97 mln euro. Thus, compared to November of the previous year, the surplus increased by 92 mln euro. Improvements in the current account balance were determined by an increase in exports of goods and a decrease in the dividend payments to foreign investors. With exports of goods growing faster than imports of goods, the balance of goods account has improved by 83 mln euro, with the deficit decreasing to 96 mln euro. On the other hand, exports of services decreased faster than imports of services, thereby the services account surplus decreased by 71 mln euro. However, the surplus of the services account of 133 mln euro was still higher than the goods account deficit. Due to lower dividend payments to foreign investors, primary income account balance improved by 96 mln euro. While secondary income account balance deteriorated by 16 mln euro due to higher payments to the EU budget. Overall, in the 11 months of 2020 current account run a surplus of 600 mln euro.

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

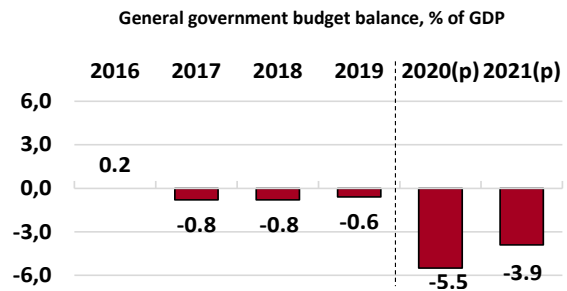
	18'III	IV	19'I	II	III	IV	20'I	II	III	IV*
GDP, constant prices, %	4,4	4,9	3,4	1,7	2,6	0,8	-1,0	-8,9	-2,6	-1,4
GDP, current prices, %	8,6	9,2	7,0	4,6	4,8	2,2	0,0	-9,9	-3,1	n.d.a.
Inflation, %	2,9	2,9	2,9	3,3	2,9	2,2	1,9	-0,4	0,0	-0,6
Nominal wages, %	8,0	8,4	7,4	7,0	7,5	6,9	6,6	3,9	5,9	n.d.a.
Real wages, CPI deflated, %	5,0	5,4	4,4	3,6	4,6	4,6	4,6	4,4	5,9	n.d.a.
Employed persons, %	1,9	0,8	0,6	-0,4	-0,2	0,4	-0,2	-1,5	-2,7	n.d.a.
Unemployed, % of active pop.	7,0	6,9	6,9	6,4	6,0	6,0	7,4	8,6	8,4	n.d.a.
Productivity, %	2,4	4,1	2,7	2,2	2,9	0,4	-0,8	-7,5	0,2	n.d.a.
Retail trade, %	3,0	2,7	3,5	3,2	1,0	1,5	2,2	-1,6	4,4	0,9
Industrial production, %	2,9	0,9	-0,8	1,4	2,5	0,0	-2,3	-5,1	-1,8	n.d.a.
Goods exports, %	7,9	7,3	5,2	-1,1	3,4	-1,0	3,7	-10,8	3,5	n.d.a.
Goods imports, %	14,2	12,3	7,3	4,9	-5,2	-2,2	-1,0	-20,5	-1,6	n.d.a.
Trade balance, mln euro	-1124,2	-723,7	-606,6	-886,6	-789,0	-665,8	-453,6	-399,4	-608,0	n.d.a.
Current account, % of GDP	-5,6	2,8	0,0	-1,9	-3,0	2,4	1,0	3,8	-0,7	n.d.a.

* GDP flash estimate

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

According to the Ministry of Finance Republic of Latvia (MoF), the general government budget deficit according to the methodology of the European System of National and Regional Accounts in 2020 was 1.57 billion euro or 5.5% of GDP, taking into account the preliminary estimate of GDP for the previous year. Official data on the general government budget deficit level in 2020 will be available in April later this year, when calculations for all general government sector transactions, including the performance of general government corporations, will be completed, and the Central Statistical Bureau of Latvia will submit a general government budget deficit and debt notification to Eurostat. Due to the Covid-19 pandemic, the budgetary situation differed significantly from the plans set out in the law "On the State Budget for 2020", which was prepared on the basis of the macroeconomic development scenario developed in June 2019, when the pandemic was not yet predicted. In 2020, government support for Covid-19 mitigation amounted to 1.9 billion euro (6.9% of GDP) and currently approved support measures provide around 2 billion euro (6.6% of GDP) in support of the economy in 2021. According to the MoF, the measures approved by the government accounted for the largest share of the general government budget deficit in 2020, affecting it by 1.1 billion euro or 3.8% of GDP.

General government budget balance



According to the ESA 2010

Budget Revenue and Expenditure

Consolidated General Budget

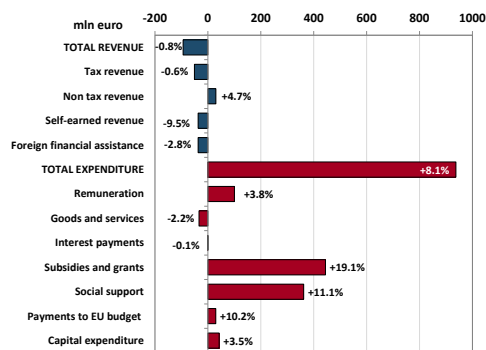
	2019 execution mln euro	2020 execution mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	11414,4	11320,5	-93,8	-0,8%
Expenditure	11532,0	12469,4	937,4	8,1%
<i>Financial Balance</i>	-117,6	-1148,9	-1 031,3	
CONSOLIDATED STATE BUDGET*				
Revenue	9428,0	9464,8	36,8	0,4%
Expenditure	9595,8	10574,3	978,5	10,2%
<i>Financial Balance</i>	-167,8	-1109,5	-941,7	
State basic budget				
Revenue	6431,1	6425,1	-6,0	-0,1%
Expenditure	6916,2	7667,0	750,9	10,9%
<i>Financial Balance</i>	-485,0	-1242,0	-756,9	
State special budget				
Revenue	3050,3	3107,6	57,2	1,9%
Expenditure	2750,8	2992,6	241,9	8,8%
<i>Financial Balance</i>	299,6	114,9	-184,6	
CONSOLIDATED LOCAL GOVERNMENT BUDGET**				
Revenue	2921,2	2818,3	-102,9	-3,5%
Expenditure	2871,1	2857,7	-13,4	-0,5%
<i>Financial Balance</i>	50,2	-39,4	-89,6	

According to cash flow methodology

*Including grants, donations and derived public persons

**Including grants and donations

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



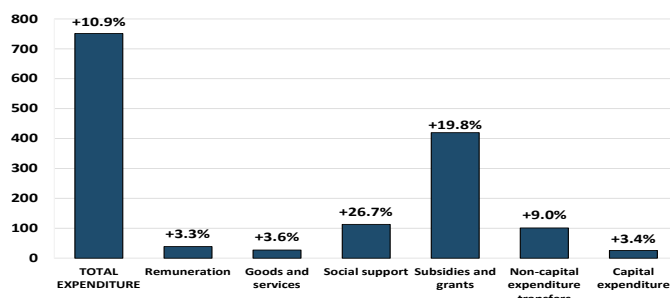
According to the information published by the State Treasury, in the consolidated general budget in 2020 there was 1148.9 mln euro deficit, which was the highest deficit level since 2009, when Latvia was shaken by the global financial crisis. Revenues of the consolidated general budget in 2020 received 11.3 billion euro, which is 93.8 mln euro or 0.8% less compared to 2019. About 80% of revenues are taxes, which in 2020 in the total budget amounted to 9057.3 mln euro, not reaching the level of 2019 by 50.8 mln euro or 0.6%. The largest decrease is observed in personal income tax and value added tax revenues, by 110 mln euro or 5.7% and 103.7 mln euro or 3.9%.

Significant reductions in tax revenues in 2020 were observed in sectors such as accommodation and food services, transport and storage, construction, arts, entertainment and recreation, including real estate rental and management. The second largest revenue item of the consolidated general budget consists of foreign financial assistance (FFA) revenue, which in 2020, compared to 2019, decreased by 36.8 mln euro or 2.8% and amounted to 1283.7 mln euro. FFA revenues fluctuate from month to month, depending on when the European Commission reimburses the implementation of projects. We can emphasize the increase in non-tax revenues of the consolidated general budget, which in 2020 was by 30.2 mln euro or 4.7% higher than in 2019. 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 2020 amounted to 12.5 billion euro, increasing by 937.4 mln euro or 8.1% compared to 2019, which was affected by the initially planned expenditures, such as raising the salaries of health care workers, indexation of pensions and others, as well as the approved support measures to reduce the impact of Covid-19 on the economy. The most significant increase in the consolidated general budget in 2020 was in subsidy and grant expenditures, which increased by 444.3 mln euro or 19.1%, amounting to 2773.8 mln euro. The increase in expenses was due to support related to Covid-19, which was granted to the financial institution ALTUM for the provision of support programs for entrepreneurs. The increase in this expenditure was also influenced by the planned and additional funding allocated to the health sector. In the consolidated general budget, capital expenditures in 2020 amounted to 1251.9 mln euro, by 42.5 mln euro or 3.5% exceeding the level of 2019, which indicates an overall increasing level of investment also during the Covid-19 pandemic. The increase was ensured by the government's decision to allocate an additional 75 mln euro in 2020, as well as raising the local government borrowing limit by 150 mln euro, thus ensuring the availability of loans to local governments for high-readiness investment projects important to the national economy.

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 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 2020 there was 1242.0 mln euro deficit, which was by 756.9 mln euro higher than in 2019.

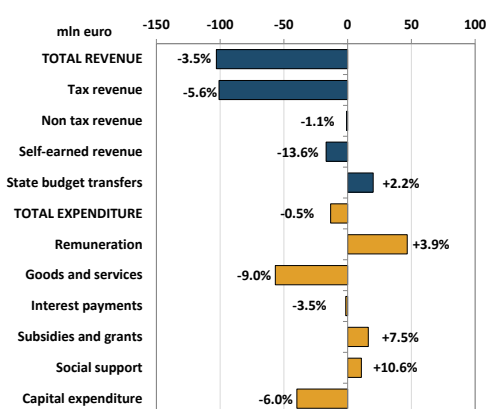
The state basic budget revenue in 2020 amounted to 6425.1 mln euro and, compared to 2019, revenues decreased by 6.0 mln euro or 0.1%. A significant increase is observed in the state basic budget expenditures, increasing by 750.9 mln euro or 10.9%. This is due to the fact that virtually all support measures approved by the government to mitigate the effects of Covid-19 are financed from the state basic budget.

Subsidies and grants in the state basic budget in 2020 amounted to 2534.0 mln euro, increasing by 419.5 mln euro or 19.8%, and mainly by directing these funds to the financial institution ALTUM for the provision of support programs for businesses, as well as the planned and additional funding allocated to the health sector.

In 2020, the state basic budget also saw a sharp increase in social benefits expenditure by 112.8 mln euro or 26.7%, which is related to the payment of downtime benefits and the use of funds in certain months for unemployment benefits.

Capital expenditures in the state basic budget in 2020, compared to 2019, have increased by 25.9 mln euro or 3.4%, amounting to 789.9 mln euro. In 2020, there was a slowdown in the amount of EU funds invested, which was largely due to the redistribution of EU funds in favour of investments aimed at mitigating the impact of Covid-19 and promoting economic recovery, and the launch of new projects rescheduled accordingly.

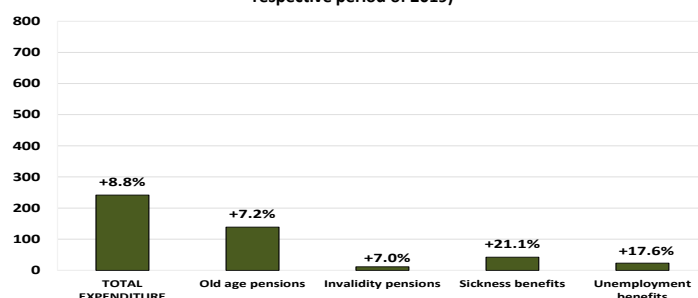
Revenue and Expenditure in 2020 (changes in mln euro and in per cent against respective period of 2019)



According to the State Treasury data, in 2020 the consolidated local government budget had a deficit of 39.4 mln euro compared to 2019, when it ended with a surplus of 50.2 mln euro. Although in 2020 the consolidated local government budget personal income tax (PIT) revenues have been higher than planned, they still are much lower than in 2019, which is also the main reason for the local government budget deficit. Consolidated local government budget revenue in 2020 amounted to 2818.3 mln euro, which is by 102.9 mln euro or 3.5% less than in 2019.

State Budget

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



In 2020, the state special budget had a surplus of 114.9 mln euro, decreased by 184.6 mln euro compared to 2019. euro. State special budget revenue in 2020 has increased by 57.2 mln euro or 1.9% and expenses have increased by 241.9 mln euro or 8.8%.

Expenditure on old age pensions in the state special budget in 2020 amounted to 2078.6 mln euro, increased by 138.8 mln euro or 7.2%. Higher expenditures on old age pensions can be explained by the performed indexations of pensions in October 2019 and 2020. Expenditure on other benefits in 2020 increased by 88.7 mln euro or 15.6%, which is related to a significant increase in expenditure on unemployment and sickness benefits.

Unemployment benefits, which were paid both from the state special budget and in some months from the state basic budget, in 2020 amounted to 43.4 mln euro or 32.9% higher than in 2019. According to the data of the State Social Insurance Agency (SSIA), the number of recipients of unemployment benefits has increased by 31.2% in 2020, from 32.5 thousand per month in 2019 to 42.6 thousand per month in 2020. According to the State Employment Agency, the registered unemployment rate was 7.7% in December and increased by 0.3 percentage points compared to November.

Expenditure on sickness benefits in the state special budget in 2020 amounted to 242.5 mln euro, which is by 42.2 mln euro or 21.1% more than in 2019. SSIA data also indicate an increase of 5.8% in the number of recipients of sickness benefits, from an average of 35.5 thousand per month in 2019 to 37.6 thousand per month in 2020. At the same time, the number of paid days per case of illness is growing even faster, indicating a longer illness.

Consolidated Local Government Budget

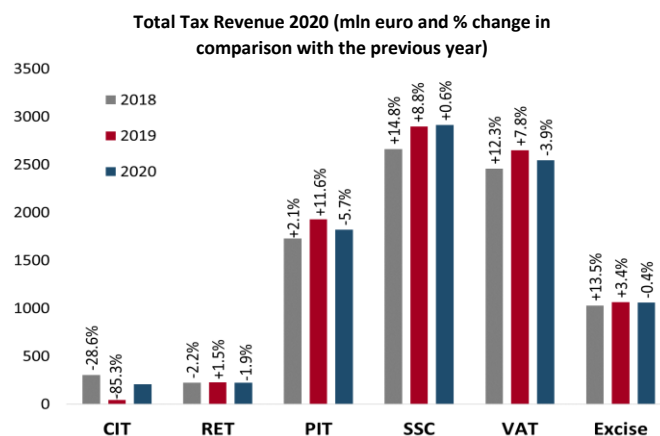
The decrease in revenue was influenced by the decrease in PIT revenue in the consolidated local government budget by 84.0 mln euro or 5.5% and a decrease in revenue from paid services by 16.9 mln euro or 13.6%. The decrease in PIT was mainly influenced by the high PIT revenue base in 2019 due to the CIT tax reform, the effect of which is no longer observed since March this year, as well as the planned increase of PIT relief as of January 1, 2020 and government decisions on tax extensions and advance payment abolition in support of taxpayers under the influence of Covid-19.

The level of consolidated local government budget expenditures in 2020 has decreased by 13.4 mln euro or 0.5% compared to 2019, amounting to 2,857.7 mln euro. The decrease can be explained by a decrease in catering expenses for the maintenance of persons in state and municipal care, as well as business trips and business trips, transport services for institutional needs, fuel, expenses for heat energy, including heating, fuel stocks, materials and energy resources.

Capital expenditures in the consolidated local government budget have decreased by 39.8 mln euro or 6.0% compared to 2019, amounting to 625.6 mln euro. The decrease in expenditure was mainly due to a decrease in capital investment in fund projects, which can be explained by the end of the 2014-2020 investment cycle.

Some expenditure items increased in 2020, including compensation expenditure, subsidies and grants, as well as social payments. Expenses for compensation have increased by 46.8 mln euro or 3.9%, including an increase in expenditure on teachers' fees. Expenditures on subsidies and grants have also increased by 16.2 mln euro or 7.5% mainly for municipal merchants and public transport service providers. Social expenditures have increased by 10.8 mln euro or 10.6%, which can be explained by the increase in expenditure for the implementation of voluntary initiatives, payment for services provided by long-term social care and rehabilitation institutions and other social services.

Consolidated General budget Tax Revenue				Tax Revenue	
	2019 execution, mln euro	2020 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	9057,3	9006,5	-50,8	-0,6%	93,0%
Social security contributions	2895,7	2913,2	17,5	0,6%	95,2%
<i>in State budget (1% for the health)</i>	100,0	97,3	-2,7	-2,7%	95,8%
<i>in State special budget</i>	2795,0	2815,9	20,9	0,7%	95,2%
Value added tax	2648,3	2544,7	-103,7	-3,9%	88,2%
Personal income tax	1929,6	1819,7	-110,0	-5,7%	103,5%
<i>in State budget</i>	389,2	363,3	-25,9	-6,7%	103,3%
<i>in Local government budget</i>	1540,4	1456,4	-84,0	-5,5%	103,5%
Excise tax	1064,1	1059,7	-4,4	-0,4%	88,1%
Corporate income tax	44,8	207,5	162,7	-	79,5%
Real estate tax	226,4	222,2	-4,3	-1,9%	94,3%
Informative:					
<i>Social security contributions to the state funded pension scheme</i>	590,9	569,9	-21,0	-3,6%	97,6%



Consolidated general budget tax revenue in 2020, received in amount of 9006.5 mln euro, which is by 50.8 mln euro or 0.6% less than in 2019. According to the State Treasury data tax revenue is by 675.4 mln euro or 7% less than planned in 2020. The decrease in the planned revenue can be explained by the measures introduced to limit the spread of COVID-19, forcing certain groups of taxpayers to significantly limit or suspend their economic activity.

The most significant tax revenue decline or half of the non-fulfillment of the plan is due to the decrease in VAT revenue, collected by 340 mln euro or 11.8% less than planned in 2020 and by 103.7 mln euro or 3.9% less than in 2019. VAT revenue were significantly affected by the decline in contributions during the Emergency Situation introduced in March 2020, which could not be offset by the increase in contributions observed since July. The largest decrease in VAT revenue 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. Decline in tax revenues observed in accommodation and food services as well as real estate rental and management field.

The second largest position in non-fulfillment of the plan is formed by social security contributions, which were collected in the amount of 95.2% or by 145.2 mln euro less than planned in 2020. And again, the main reason for the decline in revenue is the measures introduced to limit the spread of COVID-19 from March 2020, which significantly restricted economic activity for taxpayers in certain sectors. The most significant tax revenue has fallen in the sectors such as transport and storage, accommodation and food services. But despite the decrease in the number of employees and higher unemployment in the eleven months of 2020 social security contributions were in fact at the 2019 level, because the average wage in the country was still higher than year before.

In turn, PIT revenues in 2020 decreased by 110 mln euro or 5.7% compared to 2019, amounting to 1819.7 mln euro. The decline in the income 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. Income of dividends has also decreased significantly. It should be noted that labor taxes were not deducted from downtime allowance.

The third largest non-fulfillment of planned revenue is observed in excise tax, amounted by 1059.7 mln euro in 2020 and that is by 143.7 mln euro or 11.9% less than planned and by 4.4 mln euro or 0.4% less compared to 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 9.6 mln euro or 4.8%, 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 16.3 mln euro or 3.0%, which was facilitated by the increase in fuel rates. However, it should be noted that the planned amount of excise tax revenue for oil products in 2020 was fulfilled only by 88% or by 75.7 mln euro less. This can be explained by the decrease in fuel sales, which was significantly affected by the state of emergency declared in the country and, consequently, the decrease in consumption in several sectors of the economy.

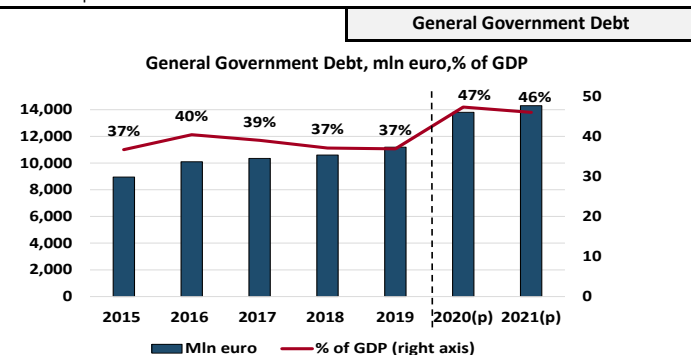
CIT revenue in 2020 have increased by 162.7 mln euro compared to 2019, but the plan has been fulfilled only in the amount of 79.5% or by 53.6 mln euro less, which was significantly affected by the non-fulfillment of the tax revenue plan in May, when evaluating the results of the annual reports of the companies to be submitted, taxpayers make a profit distribution. Probably due to the economic situation, part of taxpayers is postponed profit distribution for an indefinite period.

According to Eurostat data since 2016 the general government debt had a stabilizing and decreasing trend in relation to the gross domestic product and at the end of 2019 debt reached 11.2 billion euro or 37% of gross domestic product. The level of general government debt is expected to increase to 47% in 2020, 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 January 25, 2021, the Japanese credit rating agency R&I maintained Latvia's credit rating at "A" level and a stable future assessment. According to R&I, the pandemic has not affected the growth potential of the economy, it's growth fundamentals remain intact so that the economy is likely to return to its pre-pandemic growth trajectory once the pandemic settles down.

The economy would grow only moderately in 2021 but is likely to experience a high growth for the next few years from 2022, thanks to funds from the EU Recovery and Resilience Facility and the implementation of investment projects.

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



According to the ESA 2010