

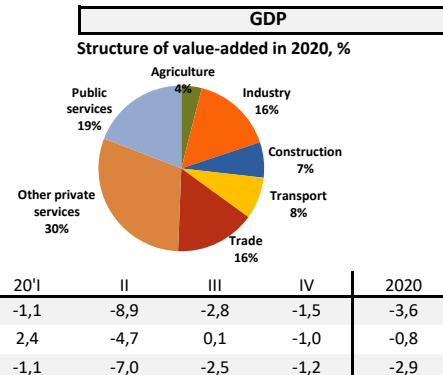
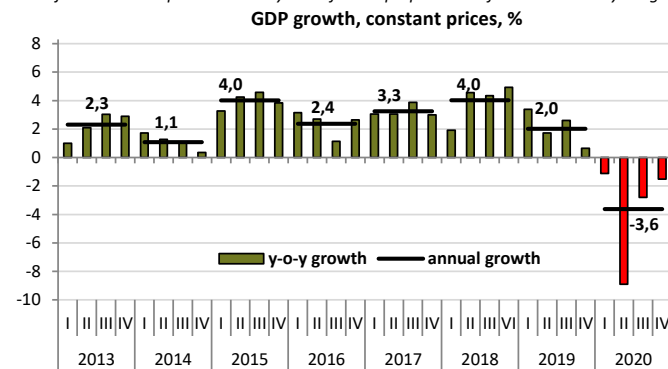
MACROECONOMIC AND BUDGETARY REVIEW 2021

No. 1

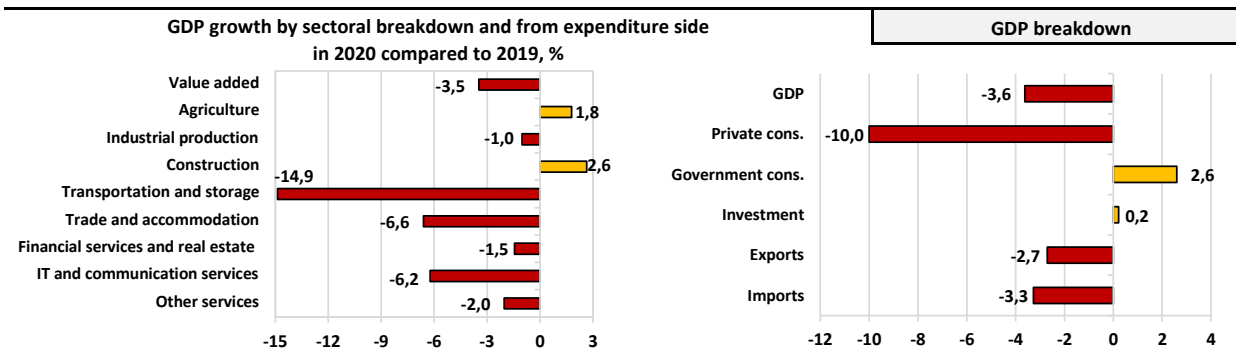
Main macroeconomic indicators		Forecasts**			
	2020*	2021	2022	2023	2024
Gross domestic product (GDP)					
current prices (mln euro and growth, %)	29334	4,4	6,4	5,2	5,0
constant prices (mln euro and growth, %)	26555	3,0	4,5	3,2	2,8
GDP deflator (y-o-y), %	0,1	1,4	1,8	2,0	2,1
Consumer price index (y-o-y), %	0,2	1,4	2,0	2,0	2,0
Average monthly gross wage (euro and growth at current prices, %)	1143	4,0	5,0	5,0	5,0
Employment (thsd and growth rate, %)	893	-0,4	1,0	0,3	0,0
Jobseeker rate (annual average), %	8,1	8,3	7,1	6,3	5,9
Exports of goods and services					
current prices (mln euro and growth, %)	17682	5,9	7,2	7,1	7,2
constant prices (mln euro and growth, %)	16967	4,3	4,7	4,0	4,0
Imports of goods and services, mln euro					
current prices (mln euro and growth, %)	17342	6,5	8,6	8,1	7,5
constant prices (mln euro and growth, %)	18149	4,9	5,4	4,0	3,3

*GDP for 2020 according to CSB data published on 26/02/2021

** Projections developed in February 2021 for the preparation of Latvia's Stability Programme 2021-2024



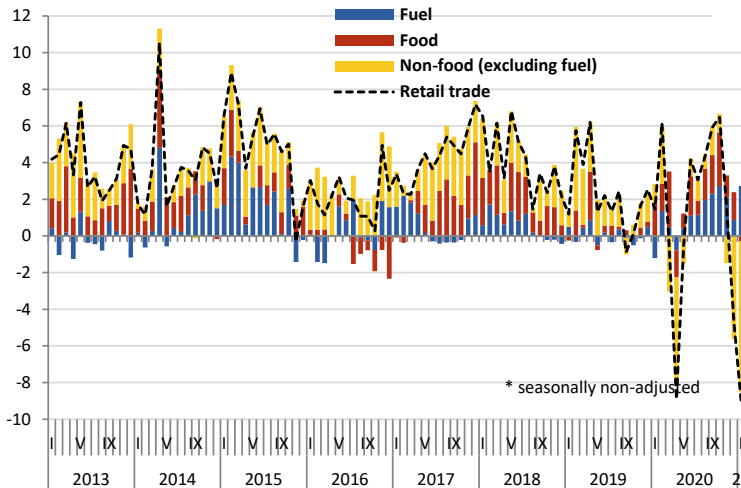
In the fourth quarter of 2020 compared to a corresponding quarter a year ago, Latvia's gross domestic product (GDP) declined by 1.5%, thus in 2020 overall Latvia's economy contracted by 3.6%. Last year, economic fall turned out to be less severe than it was expected at the beginning of the COVID crisis as Latvia overcame the first outbreak of COVID-19 rather successfully determined by government support measures and Latvia's economic structure since producing sectors basically did not demonstrate output contraction. Similarly to the previous year, also this year the main factor determining economic performance is going to be development of the COVID-19 and its containment, including vaccination progress. In February, the Ministry of Finance projected that economic growth in Latvia this year will reach 3.0%, assuming that up until the middle of 2021 economic performance will be negatively affected by the spread COVID-19, however thereafter economic activity will resume rapidly as majority of restrictions are going to be lifted.



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 affected domestic demand. At the same time, exports fell by 2.7%, however as imports declined even stronger the impact of external trade on total economic performance was positive. While public consumption increased by 2.6% last year and investments demonstrated slight growth. From the sectoral side, the economic contraction was most significantly affected by the service sectors directly affected by the crisis - transport and storage sector declined by 14.9%, accommodation and catering sector - by 38.1%, and arts, entertainment and culture - by 26.6%. In 2020, total service sectors' contraction constituted 4.8%, while producing sectors demonstrated increase of 0.4%.

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

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



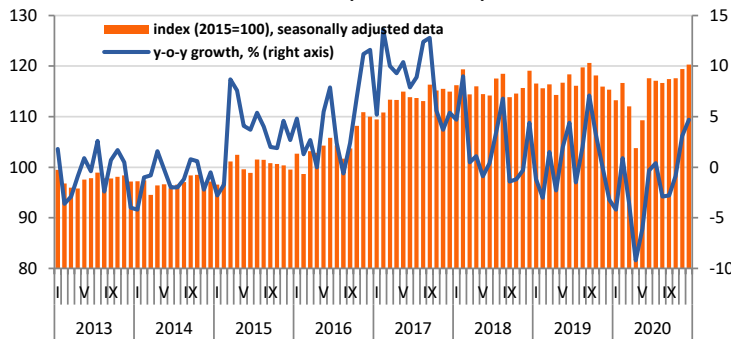
Retail trade

Structure of retail trade turnover in 2020, %

16	42	42
Y-o-y growth, c.a., 2020 Jan.		
Total	-8.9%	Non-food (excl. fuel) -23.4%
Food	-0.6%	Fuel +14.8%

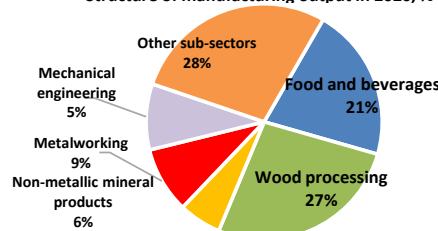
In January 2021 compared to a corresponding month last year, total retail trade volumes decreased by 8.9%. Contraction in the retail trade in January was already expected as the sector, especially trade of non-food products, faced strong restrictions during entire month. Hence, stronger fall was demonstrated by retail trade in the non-food stores, except for fuel trade, which contracted by 23.4% y-o-y in January. Sale volumes decreased exceptionally strong in the retail trade of clothing and footwear, construction materials as well as retail of cultural and recreation goods. In January, sales volumes fell slightly also in the retail trade of food products since non-specialised food stores were not allowed to trade with a large part of non-food products due to COVID-19 restrictions.

Industrial production output



Industry

Structure of manufacturing output in 2020, %

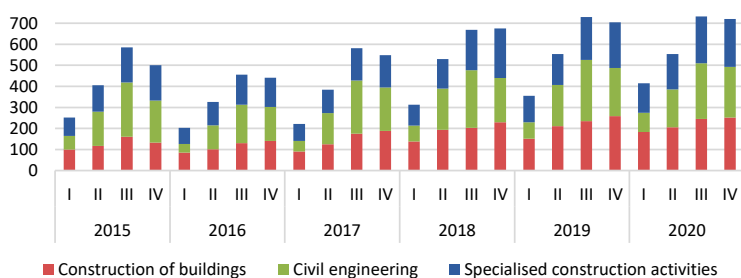


Industry, y-o-y growth, 2020 Jan.-Dec. c.a.

Industry total	-1.7%	Mining, quarrying	+8.7%
Manufacturing	-1.2%	Energy	-7.2%

In December 2020, industrial production output demonstrated strong growth, compared to a corresponding month a year ago increasing by 4.7%. It was stimulated by manufacturing where in December was registered strongest growth during the last year (+5.1% y-o-y) and mining industry (+15.2% y-o-y) where sharp output expansion was observed since mid-2020. Moreover, in December energy sector's negative contribution became smaller as electricity and gas supply declined by only 0.6% y-o-y. However, taking into account less successful developments in industry sector in the previous months, especially in spring, in 2020 overall industrial production output has decreased by 1.7%, including manufacturing output was by 1.2% lower than in 2019. The largest positive contribution to manufacturing last year was provided by wood processing where strong output growth was registered since the middle of the last year, while in December sub-sector's monthly output reached record-high volume. In 2020 overall, manufacture of wood and wooden products increased by 4.1%. In 2020, output has increased also in printing and reproduction of recorded media (+6.8%), manufacture of electrical equipment (+5.7%), manufacture of rubber and plastic products (+3.5%) as well as chemical industry (+3.0%) while other sub-sectors demonstrated output contraction. Last year, the sharpest fall was registered in repair and installation of machinery and equipment which declined by 29.5%. Production volumes decreased also in such important sub-sectors as manufacture of food products, metalworking and several mechanical engineering industries.

Construction output at constant prices, mln. euro

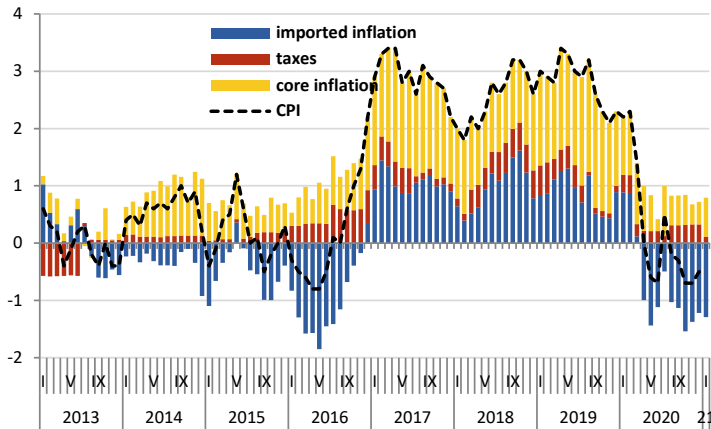


Construction

Following the strong expansion of construction output in the Q1 2020 (+16.9% current prices), sector's growth slowed down in the following quarters and construction output was close to 2019 levels. Thus, in 2020 overall construction output growth was moderate constituting 3.3%. Among the construction segments, the strongest growth was demonstrated by specialised construction activities which increased by 9.3% in 2020. Construction of buildings rose by 3.4%, while civil engineering contracted by 1.9%. In 2020, the expected construction space as indicated in the granted building permits fell by 16.9%. This data suggest that construction of buildings could contract in the following quarters while sector's development overall will be stimulated by implementation of infrastructure projects.

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

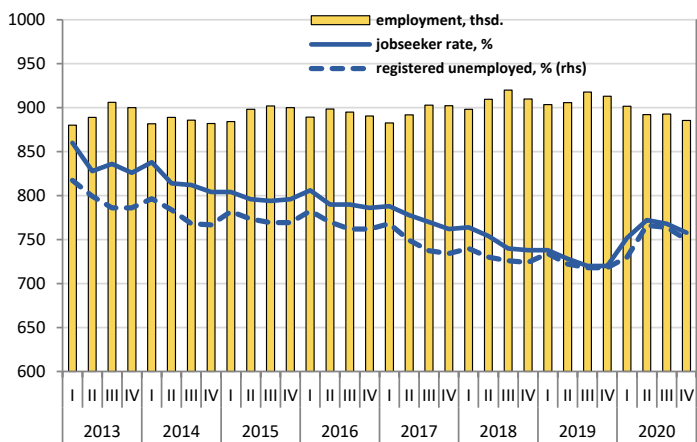
Inflation breakdown by origin, y-o-y, %



Inflation

In January 2021 compared to the corresponding month a year ago, average consumer price level decreased by 0.5%. Thus, the deflationary trend which was observed at the end of 2020 was maintained also at the beginning of this year. Factors underlying changes of consumer prices also remained the same – deflation in January was associated with falling prices for energy resources and services that were most severely affected by the pandemic, namely, air transport and accommodation services. Overall, prices for goods declined by 1.4% y-o-y in January, while prices for services increased by 1.5% y-o-y on average. Contrary to the last year when prices for food and beverages demonstrated steady increase, they decreased in January of this year – by 0.1% y-o-y. While, similarly to 2019, the largest contribution to consumer price fall in January 2021 was determined by price contraction for fuel by 12.6% y-o-y. Moreover, in January price for gas declined by 2.7% y-o-y while price for heating decreased by 8.9% y-o-y.

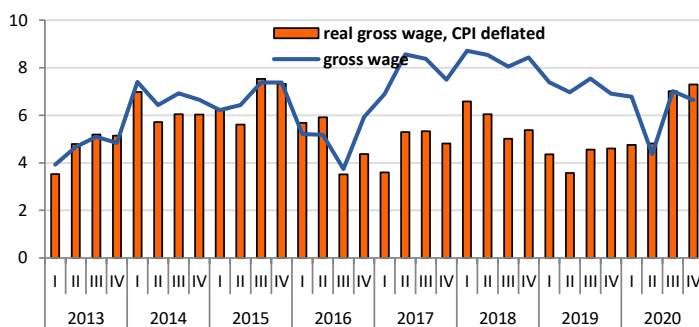
Unemployment rate, % of economically active population (15-74)



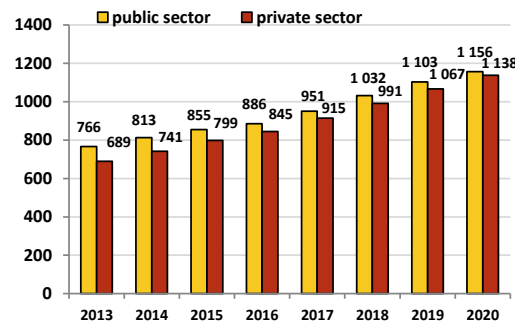
Employment

Due to the COVID-19 crisis, the number of employed persons decreased by 1.9% in 2020, according to the labour force survey data. The unemployment rate in 2020 increased by 1.8 percentage points to 8.1% of economically active population. Such an increase in unemployment is quite moderate if compared to historically highest unemployment rates and to unemployment rates in the neighboring countries. Moderate unemployment growth is attributed both to the successful overcoming of the first wave of COVID-19 in spring 2020 as well as employment support measures implemented by the government. In 2020, according to the State Employment Agency data, the registered unemployment rate grew from 6.3% to 8.6% between the end of February and the end of June. Since July, the unemployment rate had fallen again - to 7.4% at the end of October. In the following months, due to seasonal factors and faster spread of COVID-19, unemployment rate started to rise again, reaching 8.2% at the end of February 2021. This is by 0.2 percentage points higher than at the end of January and by 1.9 percentage points higher than a year ago.

Wage dynamics, changes year over year, %

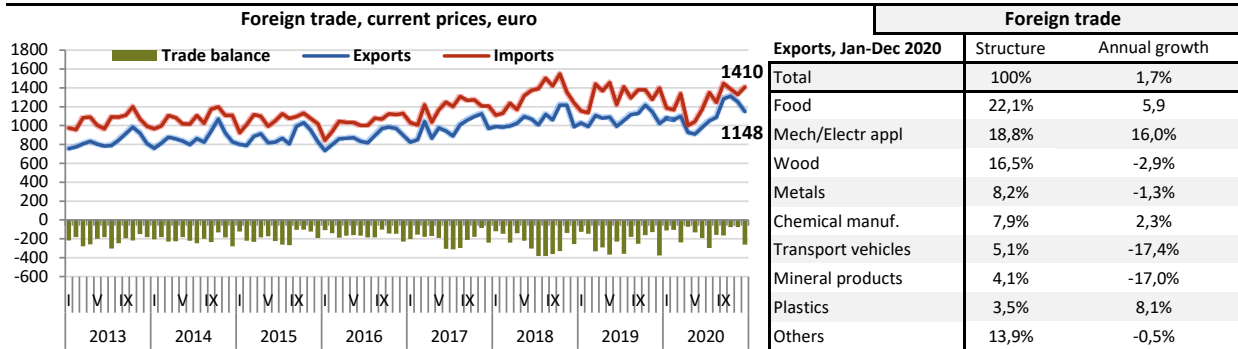


Wages, euro

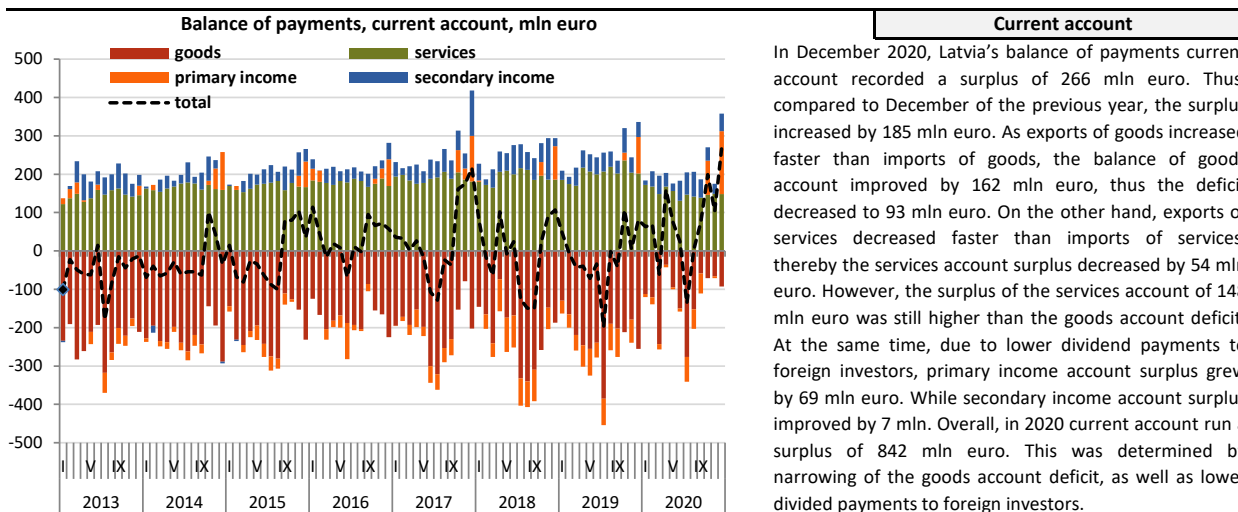


Despite the COVID-19 crisis, the average monthly gross wage in 2020, compared to the previous year, increased by 6.2% to 1143 euro. This was only slightly slower increase than in 2019, when wages had risen by 7.2%. Slightly faster wage growth in 2020 was in the private sector, where the average monthly gross wage increased by 6.7%, while in the public sector it grew by 4.9%. However, higher salary still remained in the public sector, where the average wage was 1156 euro, while in the private sector it constituted 1138 euro. In 2020, average wages and salaries were affected not only by increases or decreases in wages and salaries of employees, but also by structural changes in the labour market - companies that started and closed down during the year, as well as changes in the number of employees and workloads. The number of employees, recalculated as full-time, decreased by 3.9% in 2020. It was affected by redundancies, reductions in workloads and decrease in the number of full-time employees due to downtime benefits. At the same time, the wage bill increased by 2.0% last year.

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



Regardless of the COVID-19 pandemic and other external challenges, the value of exported goods from Latvia in 2020 was higher than in 2019, increasing by 1.7% and thus reaching 13.2 billion euro. The negative impact stemming from COVID-19 was most pronounced at the beginning of the pandemic, when goods export contraction in annual terms reached 15% in April and May, followed by stabilisation of external demand in summer. Moreover, as of September exports demonstrated strong growth and in December goods exports increased by 12.5% y-o-y stimulated by record-high cereal harvest, exports of wood and wooden products as well as rising re-exports of electrical appliances. The largest contribution to export growth in December was provided by electrical appliances and equipment which exports expanded by 34.6% y-o-y. Also in 2020 overall, this product group demonstrated the strongest export growth (+20.0%) which was largely driven by re-exports of telephones, monitors and projectors. Significant contribution to total export growth both in December and 2020 overall was provided by exports of food and agricultural products that increased by 6.4% compared to December 2019 while annual average growth rate constituted 5.9% stimulated by exports of cereals and oilseeds (rapeseed). In December, significant contribution to export growth was also provided by exports of wood and wooden products which demonstrated 22.5% y-o-y growth mostly driven by export expansion to the United Kingdom. However, in 2020 overall exports of wood and wooden products declined by 2.9%. In December 2020, goods exports was also positively affected by export growth of metals and metal products as well as mineral products by 19.7% and 1.4% respectively, while in 2020 overall export value of these products was lower than in 2019.

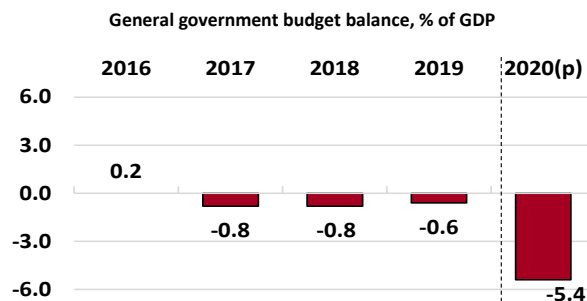


Main macroeconomic indicators, annual growth rates (unless stated otherwise)										
	III	IV	19'I	II	III	IV	20'I	II	III	IV
GDP, constant prices, %	4,4	4,9	3,4	1,7	2,6	0,7	-1,1	-8,9	-2,8	-1,5
GDP, current prices, %	8,6	9,2	6,9	4,5	4,7	2,0	-0,1	-9,8	-3,0	-1,2
Inflation, %	2,9	2,9	2,9	3,3	2,9	2,2	1,9	-0,4	0,0	-0,6
Nominal wages, %	8,1	8,3	7,4	7,0	7,6	6,9	6,8	4,3	7,0	6,7
Real wages, CPI deflated, %	5,2	5,4	4,5	3,7	4,7	4,7	4,9	4,7	7,0	7,3
Employed persons, %	1,9	0,8	0,6	-0,4	-0,2	0,4	-0,2	-1,5	-2,7	-3,0
Unemployed, % of active pop.	7,0	6,9	6,9	6,4	6,0	6,0	7,6	8,6	8,4	7,9
Productivity, %	2,4	4,1	2,7	2,2	2,9	0,3	-0,9	-7,5	-0,1	1,6
Retail trade, %	3,0	2,7	3,6	3,2	1,0	1,5	2,2	-1,7	4,4	0,9
Industrial production, %	2,9	0,9	-0,8	1,4	2,5	0,0	-2,3	-5,1	-1,8	2,2
Goods exports, %	7,9	7,3	5,2	-1,1	3,4	-1,0	3,7	-10,8	3,7	9,6
Goods imports, %	14,2	12,3	7,3	4,9	-5,2	-2,2	-1,0	-20,5	-1,1	1,8
Trade balance, mln euro	-1124,2	-723,7	-606,6	-886,6	-789,0	-665,8	-453,6	-399,4	-620,3	-414,0
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.

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

According to the assessment by 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 system amounted to 1.57 billion euro in 2020, or 5.4% of GDP, taking into account the GDP data published by the Central Statistical Bureau of Latvia on 26 February this year. The increase in the deficit in 2020 was affected by the government support measures to mitigate the consequences of Covid-19. Overall, the amount of support for the economy in 2020, according to the MoF, was estimated at 1.3 billion euro or 4.5% of GDP. 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. Whereas, the support measures approved by the government for 2021 in order to support the economy are planned in amount of 2.6 billion euro, or 8.5% of GDP. The forecasts for the general government budget balance will be updated in April, when preparing the Latvia's Stability Programme for 2021-2024, taking into account the updated forecasts of macroeconomic indicators and the current amount of support to mitigate the consequences of Covid-19.

General government budget balance



According to the ESA 2010

Budget Revenue and Expenditure

Consolidated General Budget

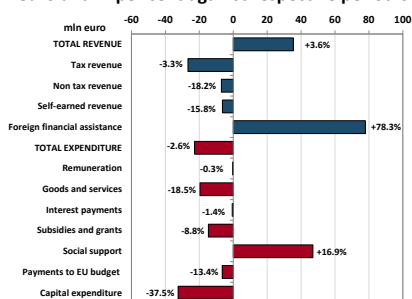
	January 2020 execution mln euro	January 2021 execution mln euro
CONSOLIDATED GENERAL BUDGET**		
Revenue	990,3	1025,7
Expenditure	878,4	855,6
Financial Balance	111,9	170,2
CONSOLIDATED STATE BUDGET*		
Revenue	800,1	892,2
Expenditure	797,0	773,9
Financial Balance	3,1	118,3
State basic budget		
Revenue	537,7	713,0
Expenditure	564,7	567,5
Financial Balance	-27,0	145,5
State special budget		
Revenue	258,3	182,2
Expenditure	235,8	245,0
Financial Balance	22,5	-62,8
CONSOLIDATED LOCAL GOVERNMENT BUDGET**		
Revenue	290,1	204,5
Expenditure	181,2	152,7
Financial Balance	108,8	51,8

According to cash flow methodology

*Including grants, donations and derived public persons

**Including grants and donations

Revenue and Expenditure in January 2021 (cash based changes in mln euro and in per cent against respective period of 2020)

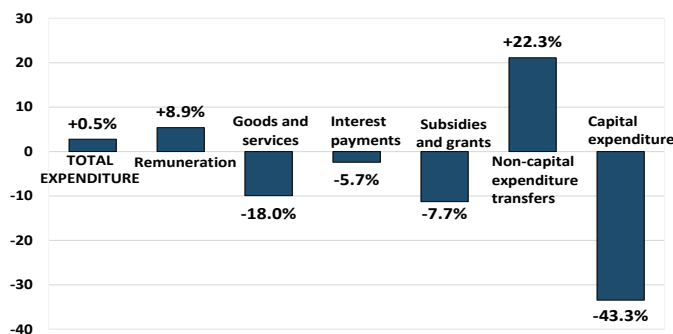


According to the information published by the State Treasury in January this year, the revenues of the consolidated general budget amounted to 1025.7 mln euro and expenditure was incurred at a smaller amount of 855.6 mln euro. Thus, a surplus of 170.2 mln euro was made in the consolidated general government budget. The revenue of the consolidated general budget in January 2021 was higher by 35.5 mln euro or 3.6% compared to January 2020. The increase in revenue from the consolidated general budget was driven by higher revenues from Foreign Financial Assistance (FFA). The revenue from FFA in the consolidated general budget received in January amounted to 177.3 mln euro, which was 77.9 mln euro or by 78.3% more than at the beginning of 2020. This year in January, reimbursements were received by the European Commission for the implementation of EU Structural Fund projects, while there were no such payments in January last year.

Consolidated general budget tax revenue received in January was 783 mln euro, which due to Covid-19 crisis was by 26.7 mln euro or 3.3% less than in January 2020 when the spread of infection in Latvia had not affected the situation yet. Total non-tax revenues in the consolidated general budget were received less by 7.0 mln euro or 18.2% than last year, amounting to 31.4 mln euro, while revenues from paid services and other own revenue decreased by 6.4 mln euro or 15.8%, amounting to 33.9 mln euro. Expenditure of the consolidated general budget in January this year was 855.6 mln euro, which is by 22.8 mln euro or 2.6% less than in January last year. The largest decrease in expenditure of the consolidated general budget compared to January 2020 was observed in capital expenditure, which decreased by 32.5 mln euro or 37.5% in January this year, amounting to 54.1 mln euro. The decline in the capital expenditure is seen in both the state and local government budgets. In January 2021, expenditure for goods and services amounted to 86.6 mln euro, which was less by 19.6 mln euro or 18.5% than in January 2020. Similarly to the capital expenditure, costs for goods and services have also decreased in both the state and the local government budgets, partly related to remote work and training and lower spending for the National Armed Forces. In the reporting period, subsidies and grants amounted to 151 mln euro, decreased by 14.6 mln euro or 8.8% compared to January 2020. This was due to less spending on the implementation of EU funds projects in agriculture. It should also be noted that expenditure for reimbursement in the general budget has been incurred slightly below the level of January 2020 (-0.3%), amounting to 140.4 mln euro. Whereas, the increase in expenditure in the consolidated general budget in January 2021 was observed in social payments, which increased by 47 mln euro or 16.9%, reaching 325.8 mln euro. The increase in spending was, to a large extent, driven by measures approved by the government to support citizens and businesses in Covid-19 crisis. Social payments include the costs incurred in January for salary subsidies, idle time benefits and grants for business assets, amounting to 3.7 mln euro, 14.7 mln euro and 16.1 mln euro respectively.

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

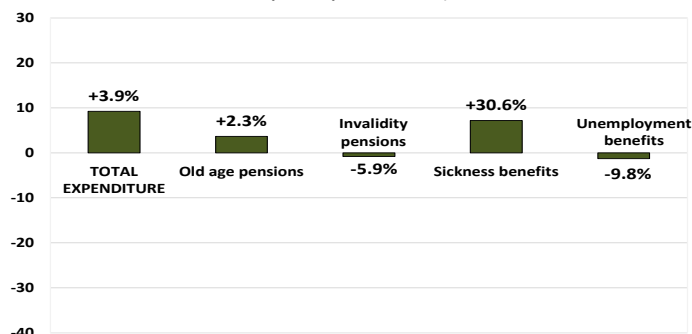
State Basic Budget Expenditure in January 2021 (cash based changes in mln euro and in per cent against respective period of 2020)



According to data published by the State Treasury, in January this year the state basic budget expenditure was 567.5 mln euro, which is by 2.8 mln euro or 0.5% more compared to the corresponding period in the last year. The transfers of maintenance expenditure amounted to 115.8 mln euro in January, increasing by 21.1 mln euro or 22.3% compared to the corresponding period in 2020. More than half of the transfers have been made to municipalities. A significant reduction in comparison with January 2020 has been in the state basic budget expenditure for capital expenditure, goods and services, subsidies and grants. The capital expenditure in the state basic budget in January this year, compared to the corresponding period in 2020, decreased by 33.4 mln euro or 43.3%, amounting to 43.7 mln euro. The decline in the capital spending was affected by lower capital spending by the National Armed Forces. Expenditure for goods and services amounted to 45.5 mln euro, which was 9.9 mln euro or 18.0% less than in January 2020, partly related to remote work and training. In January 2021, subsidies and grants in the state basic budget amounted to 134.8 mln euro and decreased by 11.3 mln euro or 7.7% compared to January 2020, driven by lower expenditure on the implementation of EU funds projects in agriculture and public transport.

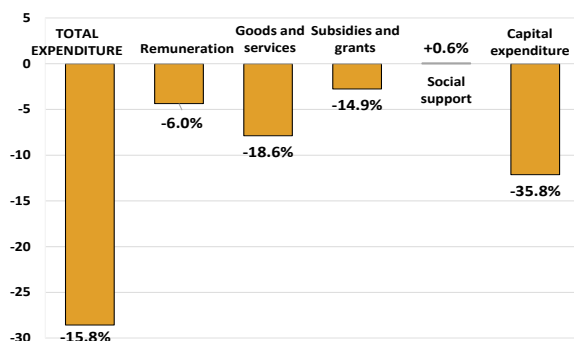
State Budget

State Special Budget Expenditure in January 2021 (cash based changes in mln euro and in per cent against respective period of 2020)



In January this year, the state special budget expenditure was 245.0 mln euro, which was by 9.2 mln euro or 3.9% more than last year in the corresponding period. Expenditure on the old-age pensions in the state special budget in January this year amounted to 160.7 mln euro, and compared to January 2020, the increase was moderate, only by 3.7 mln euro or 2.3%, due to deviations in the dates of payments related to holidays and official holidays. Expenditure on other benefits in January this year was 6.7 mln euro, or 11.3% higher than in January last year, driven mainly by an increase in sickness benefits. Expenditure on sickness benefits in the state special budget in January this year amounted to 30.6 mln euro, which is by 7.2 mln euro or 30.6% more than in January last year. According to the data from the State Social Insurance Agency (SSIA), in January this year the number of recipients of sickness benefits increased by 22% compared to the corresponding period in the previous year. Whereas, expenditure on the unemployment benefits in January this year was by 1.3 mln euro or 9.8% lower than in January year before. According to the data from the SSIA, in January this year 37 261 people received unemployment benefits, which is by 3.8% more comparing to January 2020.

Expenditure in January 2021 (changes in mln euro and in per cent against respective period of 2020)



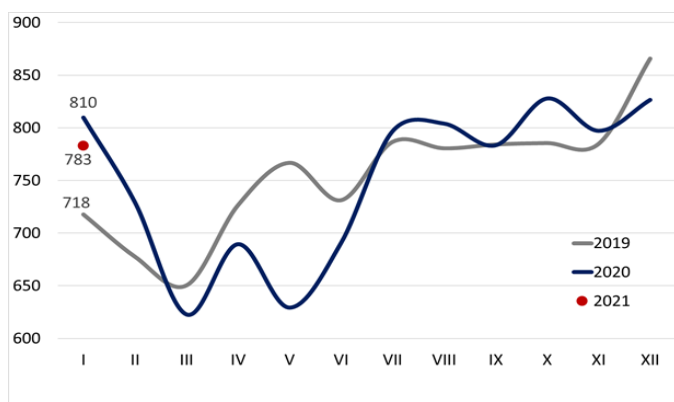
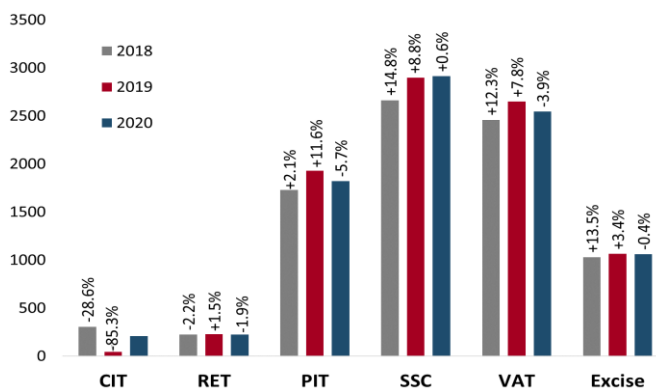
Consolidated Local Government Budget

The level of consolidated local government budget expenditures in January this year has decreased by 28.6 mln euro or 15.8% comparing to January 2020, amounting to 152.7 mln euro. Capital expenditures in the consolidated local government budget have decreased by 12.1 mln euro or 35.8% compared to January 2020, amounting to 21.8 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, but for the new programming period 2021-2027 financial resources are not yet.

Expenditures on goods and services in the consolidated local government budget amounted to 34.5 mln euro and, compared to January 2020, they have decreased by 7.9 mln euro or 18.6%. 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 transport services for institutional needs, expenses for heat energy, including heating, fuel stocks, materials and energy resources.

Expenditures on subsidies and grants have also decreased by 2.8 mln euro or 14.9% mainly for private merchants and public transport service providers.

Expenditure on remuneration in the consolidated local government budget in January 2021 was 67.7 mln euro, and compared to January 2020, it has decreased by 4.4 mln euro or 6.0%.

Total Tax Revenue mln euro

Total Tax Revenue by tax type (mln euro and % change in comparison with the previous year)


Consolidated general budget tax revenue in January 2021 received in amount of 783 mln euro, which, as a result of the COVID-19 crisis, was by 26.7 mln euro or 3.3% less than in January 2020, when the spread of infection had not affected the situation in Latvia yet. It should be noted that in January last year the level of tax revenue was very high (tax revenue was by 59.3 mln euro or 7.9% more than planned) related to the settlement of dividend payments at the end of 2019 when the transitional period of the corporate income tax reform ended. The reduction in tax revenue was also affected by the extensions granted by almost 20 mln euro for up to 3 years.

Tax revenue in January this year were forecasted lower than last year, but despite restrictions on trade and other services, tax revenue is by 31.7 mln euro or 4.2% more than planned in January 2021.

To reduce the administrative burden, payments administered by the State Revenue Service (SRS) can be made into a single tax account as of 1 January 2021. Previously, payments were made to over 40 accounts. Now, all inland taxes administered by the SRS are paid in one account. Moreover, this can be done by filling in one payment order. This significantly reduces the possibility of depositing taxes to the wrong account and associated transfer costs. When paying taxes into the single tax account, the amount is automatically divided according to types of taxes and directed to their payment. Use of the FIFO principle guarantees that both regular payments and debts are covered, covering outstanding liabilities first, so the taxpayer can no longer have a tax debt and a tax overpayment simultaneously.

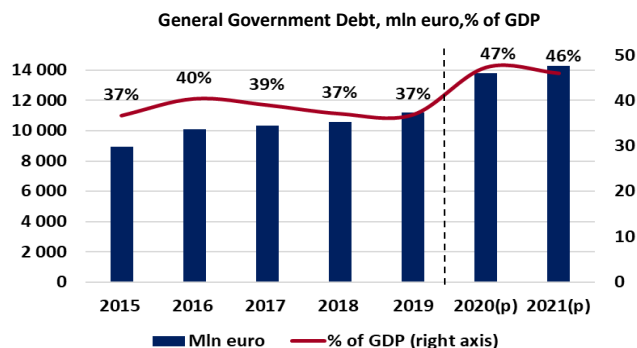
In January a situation has arisen that at the end of the month the undisallocated tax revenue of 108.4 mln euro remained in the state basic budget revenue, which will be allocated to the specific types of taxes and the corresponding budget levels only in the following months, resulting in corresponding tax liabilities. Thus, a full analysis by type of taxes and budget levels cannot be carried out in January.

General Government Debt

According to the State Treasury data at the end of 2019 general government debt level reached 11.2 billion euro or 37% of GDP. Taking into account 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 the level of general government debt grew up to 47% in 2020.

On Friday, February 12, international credit rating agency S&P Global Ratings affirmed Latvia's credit rating at the high "A+" level with the stable outlook. Agency points out, that strong credit fundamentals and fiscal policy, along with monetary policy support from the EU, will allow Latvia to withstand the ongoing wave of Covid-19 and put net general government debt on a declining path starting in 2022. Another element that will support Latvia's medium- and long-term economic development is the new EU budget.

The actual data on general government debt in 2020 will be published by Eurostat in April of this year. Forecasts on general government debt will be updated within the preparation of the Stability Programme 2021-2024. taking into account the updated forecasts of macroeconomic indicators and the current amount of support for the mitigation of COVID-19.



According to the ESA 2010