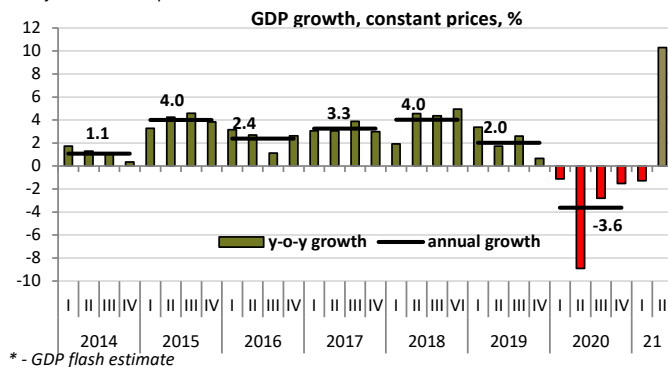


MACROECONOMIC AND BUDGETARY REVIEW 2021

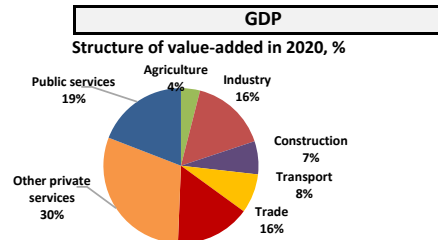
No. 6

Main macroeconomic indicators	2020	Forecasts*			
		2021	2022	2023	2024
Gross domestic product (GDP)					
current prices (mln euro and growth, %)	29334	6.9	8.5	6.2	5.3
constant prices (mln euro and growth, %)	26555	3.7	5.0	3.5	3.4
GDP deflator (y-o-y), %	0.1	3.1	3.3	2.6	1.9
Consumer price index (y-o-y), %	0.2	2.0	2.4	2.2	2.0
Average monthly gross wage (euro and growth at current prices, %)	1143	8.0	6.0	5.5	5.3
Employment (thsd and growth rate, %)	893	-1.1	1.8	0.3	0.0
Jobseeker rate (annual average), %	8.1	7.9	7.0	6.3	5.9
Exports of goods and services					
current prices (mln euro and growth, %)	17682	9.7	9.0	7.2	7.3
constant prices (mln euro and growth, %)	16963	6.5	5.8	4.1	4.1
Imports of goods and services, mln euro					
current prices (mln euro and growth, %)	17343	10.3	12.8	7.1	7.3
constant prices (mln euro and growth, %)	18151	8.6	9.5	4.0	3.8

* Projections developed in June 2021



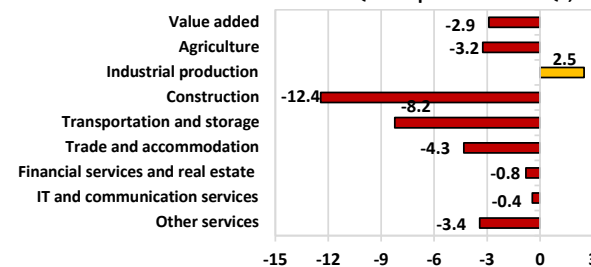
* - GDP flash estimate



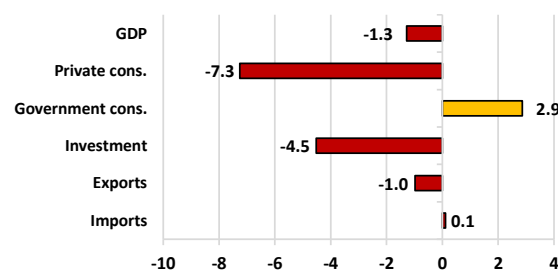
	20'III		2020	2021	
	IV			I	II*
Latvia	-2.8	-1.5	-3.6	-1.3	10.3
Lithuania	0.1	-1.2	-0.9	1.2	6.9
Estonia	-2.5	-1.2	-2.9	5.4	n.d.a

Along with recovery from the pandemic crisis and easing of Covid-19 restrictions Latvia's gross domestic product (GDP) increased by 10.3% in the second quarter of 2021, compared to the corresponding quarter a year ago, GDP flash estimate data shows. Compared to the first quarter of 2021, GDP increased by 3.7 % according to seasonally and calendar adjusted data, demonstrating a very strong recovery. The fastest growth was recorded in the services sector, where growth in the second quarter reached 11.3% compared to the second quarter of last year, however, volumes are still slightly below the pre-crisis level. In producing sectors, which suffered less in the pandemic, 6.7% growth was recorded in the second quarter and the volumes already exceed the level of 2019. In the coming quarters, there is a good basis for further economic growth, ensured by the lifting of Covid-19 restrictions, growing investment from EU funds and the favorable situation in the world and Latvia's main foreign trade partners. In the European Union, business and consumer sentiment is currently at the all-time high, and the EU economic sentiment indicator (ESI index), which was already close to its all-time high in June, increased even more in July. In contrast, the ESI index in Latvia decreased in July compared to the previous month, mainly due to a significant deterioration in consumer sentiment.

GDP growth by sectoral breakdown and from expenditure side in 2021 Q1 compared to 2020 Q1, %



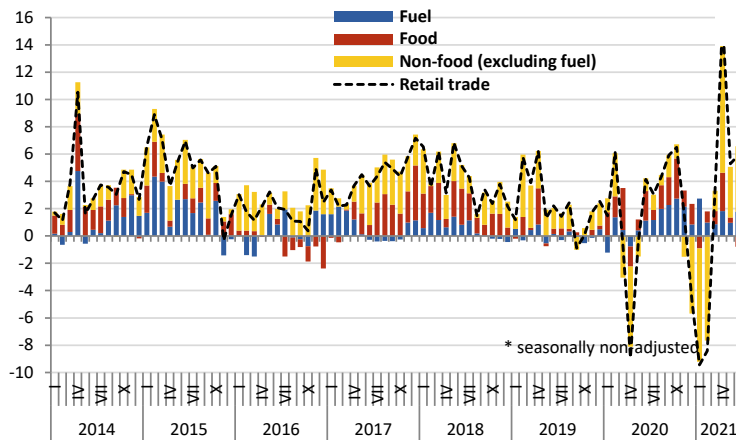
GDP breakdown



On the sectoral side, the largest positive impact on the development of the Latvian economy in the first quarter of this year was in the health and social care sector, where, thanks to increased public funding, an increase of 19.7% was achieved. The financial services sector grew by 15.2% and the overall indicators were also positively affected by growth in manufacturing by 1.6% and in energy and mining by 5.9%. Also, due to increased wholesale volumes, the trade sector recorded a total increase of 2.0%, while retail sales decreased by 5.1% due to Covid-19 restrictions. Overall, the largest negative impact on economic performance in the first quarter was left by the sectors directly affected by the Covid-19 restrictions, including commercial services by 11.7%, accommodation and food service by 53.3% and transport by 8.2%. However, unlike in the first quarter of last year, the transport sector was no longer significantly affected by the decline in Russian transit, where cargo volumes have already fallen to a very low level, and accordingly the decline in the sector was no longer as sharp as last year. Unlike last year, when the construction sector maintained stable growth, construction volumes have fallen by 12.4% in the first quarter of this year, due to the worst weather conditions for construction and a slight decrease in public investment expenditure earlier this year.

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, %

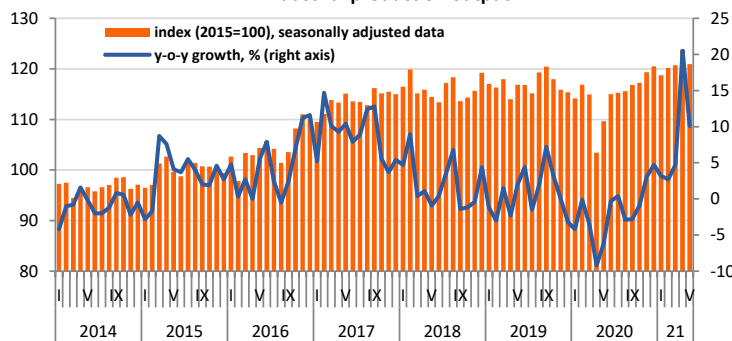


Y-o-y growth, c.a., 2020 Jan.-June

Total	+2.2%	Non-food (excl. fuel)	-0.6%
Food	+1.3%	Fuel	+8.3%

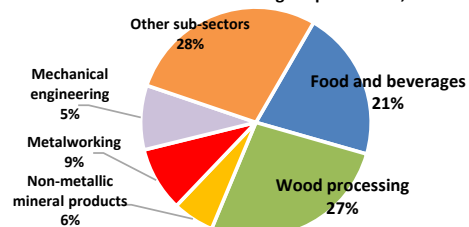
In June of this year, compared to June of the previous year, retail sales volumes have increased by 5.9%. It was positively affected by the opening of stores in shopping centres for visitors from June 2 this year. Retail trade in non-food products (excluding fuel) increased by 11.4%. The largest increases were recorded in retail trade of clothing, footwear and leather goods, information and communication technologies, as well as construction materials and plumbing. Retail trade in food products decreased by 2% due to the high base of last year, while sales of automotive fuel in June increased by 8.2% compared to the same period last year, while fuel prices rose sharply.

Industrial production output



Industry

Structure of manufacturing output in 2020, %

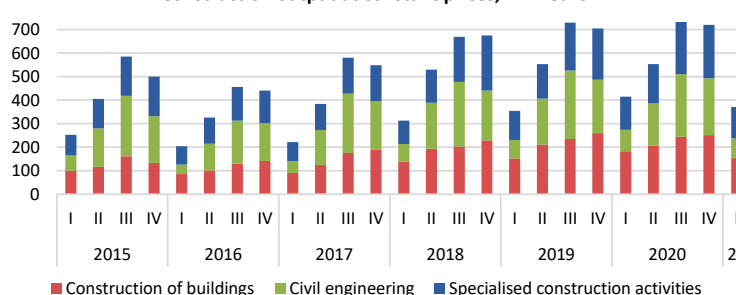


Industry, y-o-y growth, 2021 Jan.-May c.a.

Industry total	+8.3%	Mining, quarrying	+4.6%
Manufacturing	+8.3%	Energy	+9.4%

This year in May, compared to May 2020, the industrial sector in Latvia continues to show an increase in production volumes of 10.1%, which was determined not only by the recovery of the sector during the pandemic, but also by the low base in May last year, when the industrial sector showed the first signs of recovery after fall in April. In May of this year, growth continued in all industrial sectors - mining output increased by 2.4% over the year, electricity and gas supply volumes increased by 3.8% and the largest industrial sector - manufacturing - recorded growth of 11%. Among the groups of manufacturing goods, the largest increase was in wood production, except furniture (+ 11.1%), manufacture of furniture (+ 47.3%), manufacture of non-metallic mineral products (+ 6.1%) and manufacture of fabricated metal products (+5.1 %). The production of electrical equipment (+ 11.9%), machinery, mechanical appliances (+ 29%), cars, trailers and semi-trailers (+ 70.4%) has also increased. At the same time, food production volumes have decreased by 2.3%. In May, the volume of electricity produced in hydropower plants doubled compared to May of the previous year, but the volumes produced in cogeneration plants more than halved, creating a total increase in electricity production of 17.9%. Although industrial sentiment in June this year is unprecedentedly positive, concerns about the future are caused by rapidly rising prices of raw materials in Europe and the world, as well as uncertainty about the future development of cooperation with Belarus.

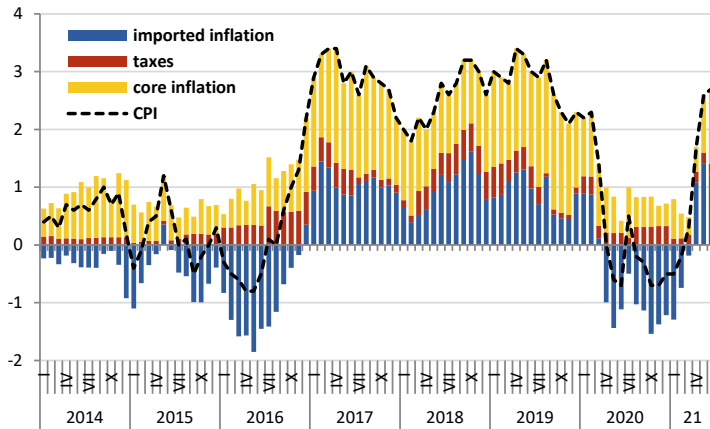
Construction output at constant prices, mln. euro



Construction

In the first quarter of 2021, compared to a corresponding quarter a year ago, construction output in current prices decreased by 10.7% due to last year's high base. The largest negative contribution on sector's results was provided by construction of buildings which contracted by 14.9% y-o-y – decline was registered for construction of both residential buildings and such non-residential buildings as hotels, industrial buildings and warehouses, farm-buildings. Meanwhile, civil engineering output decreased by 11.2% y-o-y and specialised construction activities were by 4.8% lower than a year ago. In Q1 2021, the expected construction space as indicated in the granted building permits declined by 17.8% y-o-y, stimulated by falling construction plans for residential buildings, industrial buildings and warehouses, trade buildings.

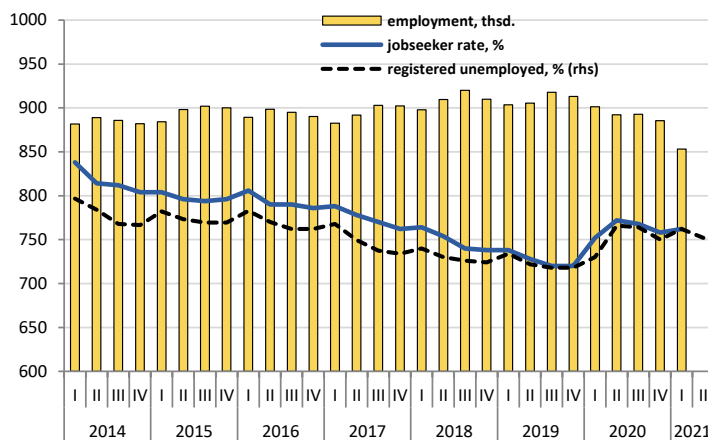
Inflation breakdown by origin, y-o-y, %



Inflation

The average consumer price level in June 2021 was 0.3% higher than in May, thus consumer prices increased for the sixth month in a row. In annual terms, the price increase was even more pronounced, increasing by 2.7%. The relatively rapid rise in prices was determined by several factors. One of the factors is the base effect, as in June last year Latvia had a deflation of 0.7% y-o-y. However, rising commodity prices, reflected in rising fuel and food prices had the decisive role in price increase this year in June. Overall, current consumer price developments are mainly driven by external factors, such as rising global oil and food prices, rising transportation costs affected by both higher fuel prices and supply disruptions due to restrictions on the spread of the Covid-19, as well as the recovery of the global economy from the pandemic and the consequent growing demand. Average inflation is expected to rise to 3.0% in the second half of this year.

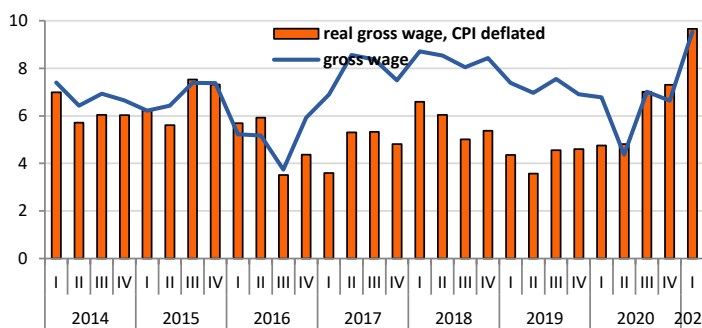
Unemployment rate, % of economically active population (15-74)



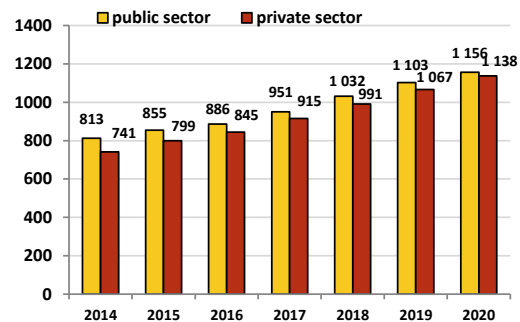
Employment

In the first quarter of this year, along with the repeated outbreak of Covid-19 and the restrictions imposed on its suspension, according to the CSB Labor Force Survey data the unemployment rate in Latvia increased to 8.1%. This unemployment rate is 0.5 percentage points higher than in the first quarter of 2020. Such an increase in unemployment can be assessed as very moderate and the increase in unemployment has been significantly limited both by state support in the form of downtime benefits and wage subsidies, and by the fact that the economy has already adapted better to Covid-19 constraints in the second wave of the crisis. The number of employed persons in the first quarter decreased by 5.4% or 48.3 thousand compared to the corresponding quarter a year ago. The registered unemployment rate, after rising in the winter months to 8.2%, has been declining again since March and has fallen to 7.3% of the economically active population in the last week of July. This unemployment rate is by 1.3 percentage points lower than a year ago, while the number of registered unemployed has decreased by 15.7% year on year.

Wage dynamics, changes year over year, %

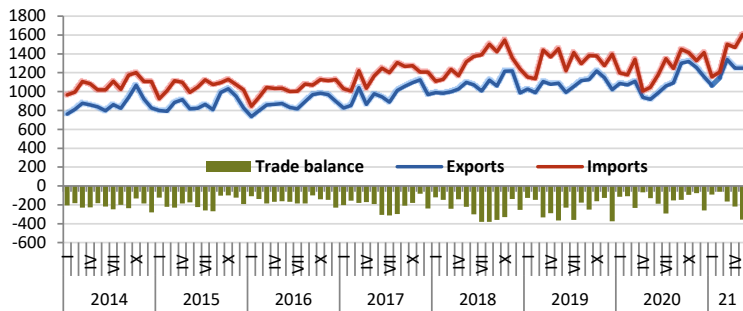


Wages, euro



Despite the Covid-19 crisis, the average monthly gross wage in 2020, compared to the previous year, increased by 6.2% to 1143 euro. In the first quarter of 2021, when a large number of low-wage earners went idle and the minimum wage increased to 500 euro, wage growth became even faster. The average salary increased by 9.5% compared to the corresponding quarter of the previous year, reaching 1207 euro. Slightly faster wage growth in the first quarter was in the public sector, where the average monthly gross wage increased by 9.7% to 1211 euro, while in the private sector it grew by 9.5% to 1208 euro. Changes in average wages and salaries were significantly affected not only by changes in employees' wages, but also by structural changes in the labor market- start-ups and closures and changes in the number and workload of employees. The number of full-time employees decreased by 61.3 thousand or 8.2% in the first quarter, which was affected by redundancies, reduction of workloads and a decrease in the number of employees due to paid downtime benefits. The total amount of the salaries paid in the country as a whole increased slightly – by 0.6% or 14.3 million euro.

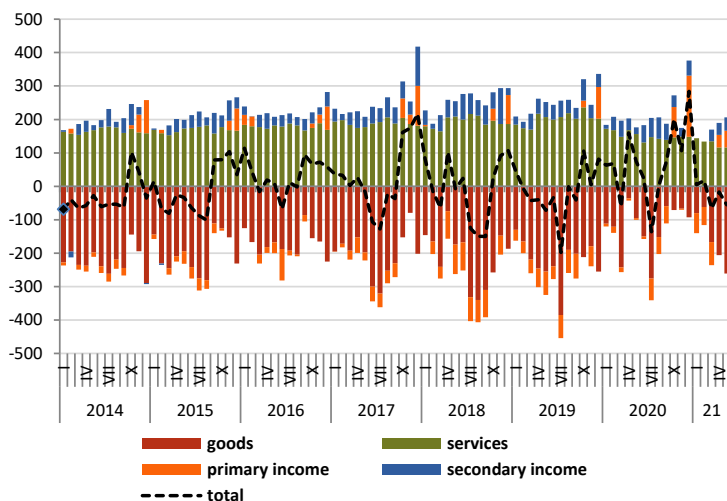
Foreign trade, current prices, euro



Foreign trade		
Exports, Jan-Mai 2021	Structure	Annual growth
Total	100%	18.1%
Wood	19.0%	26.4%
Food	17.9%	5.6%
Mech/Electr appl	17.4%	14.4%
Metals	9.6%	25.3%
Chemical manuf.	8.5%	26.7%
Mineral products	5.2%	41.0%
Transport vehicles	5.1%	18.6%
Plastics	3.6%	17.9%
Others	13.7%	13.3%

Due to the favorable external environment, Latvia's exports of goods in May 2021 showed a rapid increase. Strong export growth continues for the fourth month in a row, with growth accelerating from 7.0% in February to 36.2% in May compared to the same month last year. First, the strong growth was determined by last year's low base, especially in May 2020, when Latvia's exports of goods decreased by 15.8% as a result of the Covid-19 crisis. Secondly, the growth of exports since February this year was also facilitated by the recovery of the world economy after the consequences of the Covid-19 crisis, thus having a positive effect on external demand for Latvian goods. The value of exports of goods is expected to continue to increase in the coming months. However, as the base effects disappear, the annual growth rate will decrease compared to the fixed growth this year in May, but double-digit growth will remain. In the first 5 months of this year, the value of Latvia's exports of goods was 18.1% higher than in the corresponding period of the previous year. The increase in the value of exports of goods was recorded in all commodity groups. The largest contribution to the growth of exports of goods was provided by a 26.4% y-o-y increase in exports of wood and wood products. The growth of wood exports to the United Kingdom played a key role in the growth of this product group. Exports of mechanical equipment and electrical appliances, as well as mineral products also increased significantly, by 14.4% and 41.0%, respectively. However, it should be noted that the sharp increase in exports was also due to the increase in re-exports, as imports of above mentioned goods also increased sharply. The total increase in imports in May this year was even higher than the increase in exports, with the value of imports increasing by 53.7% y-o-y. While in the first 5 months, imports of goods were 20.2% higher than in the corresponding period of 2020. The rapid growth of imports in recent months indicates the recovery of the Latvian economy.

Balance of payments, current account, mln euro



Current account

In May 2021, Latvia's balance of payments current account recorded a deficit of 55 mln euro in contrast to 75 mln euro surplus in May last year. The deterioration in the current account balance was driven by a faster increase in imports of goods and services than in total exports. Taking into account that the growth of imports of goods was significantly higher than exports of goods, the deficit of the goods account has increased by 166 mln euro y-o-y, to 261 mln euro. A similar situation is observed in the services account. A faster increase in imports of services compared to exports of services led to a deterioration of the services account by 40 mln euro y-o-y. Thereby, the account surplus decreased to 116 mln euro. The deterioration in the foreign trade balance was slightly mitigated by income accounts. The balance of the primary income account has improved by 55 mln euro, which was mainly due to lower dividends paid to foreign investors than previously made investments. The surplus of the secondary income account increased by 20 mln euro affected by an increase in household capital transfers. In the 5 months of 2021, the current account deficit amounted to 116 mln euro.

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

	19'I	II	III	IV	20'I	II	III	IV	21'I	II*
GDP, constant prices, %	3.4	1.7	2.6	0.7	-1.1	-8.9	-2.8	-1.5	-1.3	10.3
GDP, current prices, %	6.9	4.5	4.7	2.0	-0.1	-9.8	-3.0	-1.2	-1	n.d.a.
Inflation, %	2.9	3.3	2.9	2.2	1.9	-0.4	0.0	-0.6	-0.1	2.3
Nominal wages, %	7.4	7.0	7.6	6.9	6.8	4.3	7.0	6.7	9.5	n.d.a.
Real wages, CPI deflated, %	4.5	3.7	4.7	4.7	4.9	4.7	7.0	7.3	9.6	n.d.a.
Employed persons, %	0.6	-0.4	-0.2	0.4	-0.2	-1.5	-2.7	-3.0	-5.4	n.d.a.
Unemployed, % of active pop.	6.9	6.4	6.0	6.0	7.6	8.6	8.4	7.9	8.1	n.d.a.
Productivity, %	2.7	2.2	2.9	0.3	-0.9	-7.5	-0.1	1.6	4.3	n.d.a.
Retail trade, %	3.6	3.2	1.0	1.5	2.2	-1.7	4.4	0.8	-4.7	8.6
Industrial production, %	-0.8	1.4	2.5	0.0	-2.6	-5.1	-1.8	2.2	3.6	n.d.a.
Goods exports, %	5.2	-1.1	3.4	-1.0	4.6	-10.0	4.7	10.2	8.7	n.d.a.
Goods imports, %	7.3	4.9	-5.2	-2.2	-0.2	-20.2	-1.1	2.7	3.9	n.d.a.
Trade balance, mln euro	-606.6	-886.6	-789.0	-665.8	-454.4	-385.6	-590.9	-428.6	-317.3	n.d.a.
Current account, % of GDP	0.0	-1.9	-3.0	2.4	1.0	3.8	-0.7	7.5	-0.7	n.d.a.

* GDP flash estimate

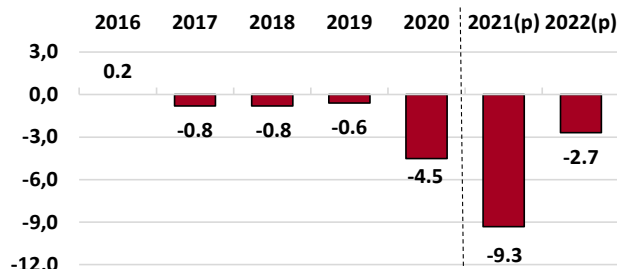
Source: CSP, Eurostat, Ministry of Finance of the Republic of Latvia, Bank of Latvia

According to the Eurostat Government finance statistics, in 2020 general government budget deficit was 1.3 billion euro or 4.5% of GDP, of which 3.3% of GDP was affected by Covid-19 support measures. The Covid-19 pandemic will affect general government revenue in 2020, compared to 2019, decreased by 0.4% and was 11.5 billion euro, but expenditure increased by 9.5% and reached 12.7 billion euro. It should be noted that the amount of the 2020 deficit can be specified by submitting a notification to Eurostat to the CSB in October this year.

Until July 25th amount of support measures approved by the government for mitigating the effects of Covid-19 by 2021 was amounted to 3.5 billion euro or 11.1% of GDP, but the actual support cost in the first half of 2021 was 1.4 billion euro (incl. tax extensions, guarantees, etc.) or 4.4% of GDP. The forecasts included in the Latvian Stability Program for 2021-2024 envisage, that the general government budget deficit in 2021 will reach 9.3% of GDP. In turn, in 2022, with economic development accelerating and tax revenue increasing, it is forecasted that the general government budget deficit at constant policy will reduce, and will comprise 2.7% of GDP.

General government budget balance

General government budget balance, % of GDP



According to the ESA 2010

Consolidated General Budget

Budget Revenue and Expenditure (according to cash flow methodology)

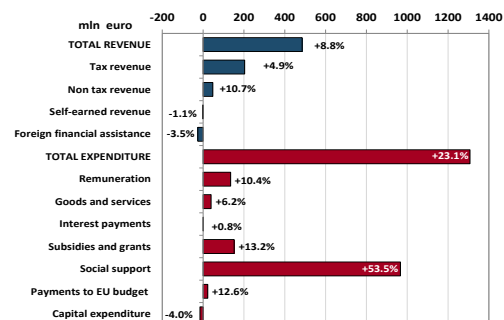
	2020 I-VI execution mln euro	2021 I-VI execution mln euro	Execution changes 2021/2020, mln euro	Execution changes 2021/2020, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	5526.7	6011.8	485.1	8.8%
Expenditure	5658.1	6965.4	1307.2	23.1%
<i>Financial Balance</i>	-131.4	-953.5	-822.2	
CONSOLIDATED STATE BUDGET*				
Revenue	4649.9	5151.4	501.5	10.8%
Expenditure	4882.6	6148.9	1266.2	25.9%
<i>Financial Balance</i>	-232.8	-997.5	-764.7	
State basic budget				
Revenue**	3235.4	3728.3	492.9	15.2%
Expenditure	3444.1	4667.7	1223.6	35.5%
<i>Financial Balance</i>	-208.7	-939.4	-730.7	
State special budget				
Revenue	1442.1	1514.7	72.6	5.0%
Expenditure	1486.7	1600.6	113.9	7.7%
<i>Financial Balance</i>	-44.6	-85.9	-41.3	
CONSOLIDATED LOCAL GOVERNMENT BUDGET***				
Revenue	1412.5	1432.0	19.5	1.4%
Expenditure	1311.2	1388.1	77.0	5.9%
<i>Financial Balance</i>	101.4	43.9	-57.5	

*Including grants, donations and derived public persons

**Starting from January 2021 the revenue of the state basic budget includes revenue, which have been paid into the single tax account and not broken down by type of tax and general

***Including grants and donations

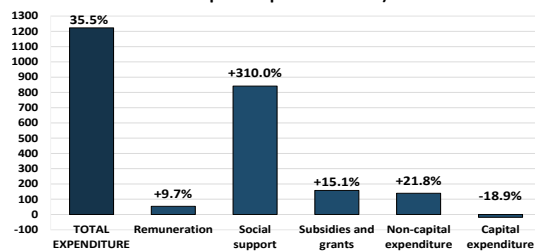
Revenue and Expenditure in I-VI 2021 (cash based changes in mln euro and in per cent against respective period of 2020)



The total budget revenue in the first half of this year was 6 011.8 mln euro but expenditure was 6 965.4 euro. Due to the approximately 1.2 bln euro budget support (total budget expenditures) disbursed in the first half of the year with the aim to reduce the impact of Covid-19 on the economy, the expenditures increased by 1307.2 mln or 23.1%, compared to the first six months of 2020. Due to the rapid increase in expenditures, the general budget has 953.5 mln euro deficit, which is by 822.2 mln euro more than in the first half of 2020. The economic recovery contributed to the growth of tax revenues, thus the total budget revenue in the first six months of this year was by 485.1 mln euro or 8.8% higher, compared to the corresponding period of the last year. In the 2Q of 2021, revenue amount has significantly exceeded the level of revenue in the respective period of the last year.

In order to reduce the administrative burden on taxpayers, the single tax account came into force on 1st January 2021, but the State Revenue Service (SRS) applies payments by type of tax only after linking them to relevant declarations, which may be submitted later, even in the following months. At the end of the reporting period, the unallocated part of the payments made this year in the single tax account amounted 264.4 mln euro, affecting the comparison of tax revenue data with the previous year. In the first half of 2021, distributed tax revenue to the general consolidated budget amounted to 4374.7 euro, which was by 203.5 mln euros or 4.9% more than in the corresponding period in 2020. A significant increase was also observed in non-tax revenues, which grew by 47.4 mln euro or 10.7% than in the first half of the previous year, amounting to 491.1 mln euro, which was determined by the previously unplanned proceeds from the additional issue premium of the Treasury Eurobonds. Expenditures of the consolidated general budget in the first half of this year were 6965.4 mln euros, which was by 1307.2 mln euro or 23.1% more than in the first six months of 2020, which was affected by the disbursed support measures to mitigate the effects of the Covid-19 pandemic. According to the information gathered by the Ministry of Finance, which is based on the Treasury data, the paid support from the budget in the first half of this year to mitigate the consequences of Covid-19 already exceeded 1.2 billion euro in the consolidated general budget expenditures. Budget expenditures in support of Covid-19 are mainly paid in benefits, so they are included in social payments position. In the first half of 2021, social support expenditures in the consolidated general budget increased by 966.5 mln euro or 53.5%, compared to the corresponding period of 2020. The significant increase in benefits is due to payments made by SRS and the State Social Insurance Agency (SSIA) for residents and companies in accordance with government decisions on support in the Covid-19 crisis. Subsidies and grants amounted to 1306.6 mln euro in the first half of this year and by 152.2 mln euro or 13.2% exceeded the level of the corresponding period of 2020. It was determined by higher expenditures for financing the health sector. Higher expenditures in the health sector also contributed to the increase in remuneration expenditures, which increased by a total of 135 mln euros or 10.4%, amounting to 1,431.5 mln euro.

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



According to the Treasury data, in the first half of 2021 the state basic budget expenditure was 4667.7 mln euro, which was by 1223.6 mln euro or 35.5% more, compared to the corresponding period of the last year. The increase in the state basic budget expenditure has been influenced by the government's approved support to the national economy for mitigating the consequences of Covid-19, thus increasing social support expenditure to 1112.4 mln euro, which is by 841.1 mln euro or 310% more compared to the first half of the last year. Respectively, in the first half of 2021, the SRS paid 422 million euro to companies in the form of grants for financing current assets, 128.2 million euro for downtime benefits and 19.8 million euro for salary subsidies. In its turn, in March-April, the SSIA paid out 187.7 million euro in benefits for families with children and 109.8 million euro for pensioners and persons with disabilities.

Non-capital expenditure transfers in the first half of this year were 776.8 mln euro, which is by 139 mln euro or 21.8% more, compared to the six-month period of last year. More than half of the transfers were made to municipalities.

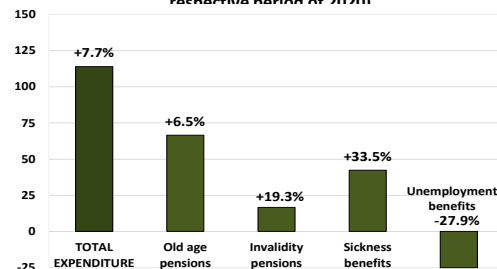
The state basic budget remuneration expenditures in the first half of this year were made by 53.2 mln euro or 9.7% more than in the corresponding period of the last year, and amounted to 604.7 mln euro in total. The increase was driven by higher spending on health and interior sector staff, including remuneration premiums for working in Covid-19 pandemic extra conditions.

Capital expenditure in the state basic budget in the first half of this year, compared to the corresponding period of 2020, has decreased by 18.9 million euro or 7.3%, and amounted to 239.7 mln euro in total. The decrease in capital expenditure was influenced by lower capital expenditure on the infrastructure of the National Armed Forces.

In the first half of 2021, the state special budget expenditure was 1600.6 mln euros, which was by 113.9 mln euro or 7.7% more than in the corresponding period of the last year.

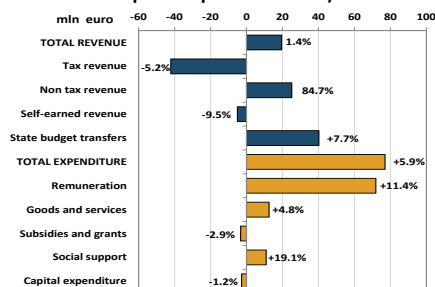
State Budget

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



From 1st January 2021, the minimum state pensions (in case of old age, invalidity and survivors), as well as the amount of the state social security benefit were increased. For the period from 1st January 2021 to 30th April 2021, the SSIA paid the indemnity in the previous amount, which was until 31st December 2020, without taking into account the recalculation of the minimum amount, but the unpaid difference in remuneration in the form of a supplement for January-April, resulting from the revision of the minimum amount, was paid in May 2021. In June, pension payments were made in full recalculated amount. Consequently, expenditure on invalidity pensions in the state special budget in January-June amounted to 102.7 mln euro in total, which is by 19.3 mln euro or 19.6% more than in the first six months of the last year. Expenditure on old age pensions in the first half of this year increased by 66.5 mln euro or 6.5%, y-o-y, and amounted to 1083 mln euro in total. The increase in pension expenditure was also determined by the indexation of pensions, carried out in October 2020. Expenditure on sickness benefits in the first half of this year amounted to 168.1 mln euro, which is by 42.2 mln euro or 33.5% more than in corresponding period of the last year. The increase was influenced by changes in legislation, stipulating that sick leaves are paid from the state special budget from the first day in case of suspicion of Covid-19 disease. According to the SSIA data, in the first half of this year, the number of recipients of sickness benefits increased by 33.8% compared to y-o-y. If in six months of 2020 an average of 39.8 thousand sickness benefits were paid per month, then this year this indicator has increased to 53.2 thousand, of which, approximately 40% of benefits were related to incapacity for work caused by Covid-19. Expenditure on unemployment benefits in the first six months of this year has been 64.8 mln euro, which is by 25.1 mln euro or 27.9% lower than in the first half of the last year. This was affected by the decrease in the average amount of paid benefits from 360 to 306 euro or by 15.1%, which is related to legislative changes in the duration and amount of unemployment benefits.

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

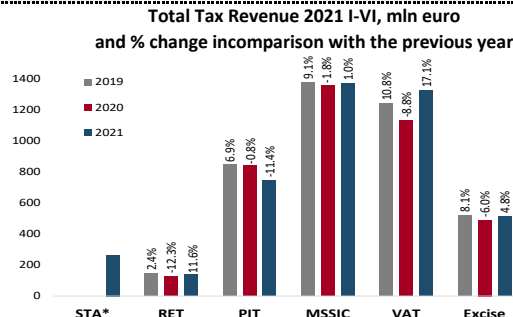
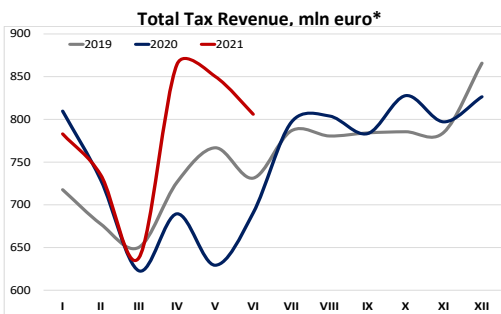


In the first half of 2021, the local government budget revenues have increased by 19.5 mln euro or 1.4%, amounting to 1432 mln euro in total. Revenues from PIT in the first half of the year, while the share still remains undistributed in the single tax account, decreased by 53.7 mln euro or 8%. It was also influenced by the increase of non-taxable income base this year for both employees and pensioners. Taking into account the decrease in the amount of PIT revenue in the first half of the year, local governments did not receive the amount of PIT revenue guaranteed to local governments by the law on the State Budget for 2021, but a shortfall of 15.3 mln euro from the state basic budget was transferred to local governments in July. In contrast, non-tax revenue in the first half of the year was 54.8 mln euro, which was by 25.1 mln euro or 84.7% y-o-y.

Consolidated Local Government Budget

The amount of expenses has increased by 77 mln euro or 5.9%, amounting to 1388.1 mln in total. Thus the level of surplus has remained at 43.9 mln euro in the first half. Higher expenditures has been observed in expenses for compensation, which have increased by 71.9 mln euro or 11.4%, amounting to 703.1 mln euro. It includes payments for additional work which increased by 8.2 mln euro or 71.6%. It should be noted that the expenses for remuneration in June are higher annually than in other months, which is mainly related to additional costs for teachers, but in June 2021, expenses for remuneration were by 27.8 mln euro or 23.6% higher than in June 2020, which can be explained by faster payments of remuneration before the introduction of the administrative-territorial reform. In the first half of this year, the amount of social payments has increased to 67.8 mln euro, which is by 10.9 mln euro or 19.1% y-o-y. This can be explained by the increase in social services expenditure to the inhabitants as payment for home care and services provided by social care and rehabilitation institutions, as well as increase in expenditure for guaranteed minimum income. Expenditures on goods and services in the local government budget have increased by 12.5 mln euro or 4.8% and amounted to 271.2 mln euro in total. In the first half of 2021, higher expenditures were observed for the maintenance of roads, as well as expenditures for catering in Q2 2021 were higher y-o-y. Capital expenditures have decreased by 2.7 mln euro or 1.2%, compared to the first six months of 2020, and amounted to 215 mln euro. The lower level than last year is observed in the expenditures directly related to the implementation of EU funds projects, which can be explained by the end of 2014-2020 fund cycle, but the new EU funds cycle for 2021-2027 programming period has not yet begun. At the same time, capital expenditures for the provision of basic functions have increased by 14.5 mln or 15% in the first half of the year.

			Tax Revenue	
Consolidated General budget Tax Revenue				
	2020 I-VI execution, mln euro	2021 I-VI execution, mln euro	Execution changes 2021/2020, mln	Execution changes 2021/2020, %
Consolidated general budget tax revenue (without unallocated revenue)	4171.1	4374.7	203.5	4.9%
Mandatory state social insurance contributions	1352.5	1366.5	14.0	1.0%
<i>in State special budget</i>	1306.5	1320.4	13.9	1.1%
<i>in State budget (1% for the health)</i>	46.0	46.1	0.1	0.2%
Value added tax	1128.6	1321.1	192.5	17.1%
Personal income tax	837.3	741.8	-95.5	-11.4%
<i>in State budget</i>	164.7	122.9	-41.8	-25.4%
<i>in Local government budget</i>	672.5	618.9	53.7	-8.0%
Excise tax	489.2	512.8	23.5	4.8%
Corporate income tax	110.3	170.5	60.2	54.6%
Real estate tax	126.0	140.6	14.6	11.6%
Unallocated funds in the single tax account		264.4		
Informative:				
<i>Social security contributions to the state funded pension scheme</i>	293.2	280.7	-12.5	-4.3%



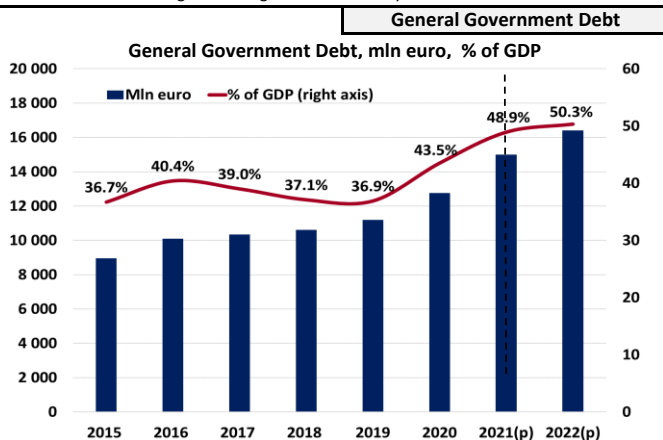
*Unallocated funds in the single tax account

*The share of payments allocated into respective types of taxes

Tax revenue, having recovered from the downturn last spring, in the first half of has increased by 203.5 mln euro or 4.9%, y-o-y. The amount of allocated tax revenues in the consolidated general budget amounted to 4374.7 mln euro. However, it should be noted that this amount does not include revenues paid into the single tax account, but have not been allocated to the corresponding taxes until the end of the reporting period, remaining undistributed. Until the last year, all revenue were accounted in accordance with the Treasury account statements for payments received in the respective tax account, but starting from this year not all settlements are immediately attributable to the appropriate type of tax in the consolidated general budget level. At the end of June 2021, the unallocated part of the payments made this year in the single tax account amounted 264.4 mln euro, affecting the comparison of tax revenue data with the previous year. Most of the unallocated earnings will be redistributed to social insurance contributions in the next month or later, as well as to PIT, VAT and CIT. Consequently, the amount of distributed income from social insurance contributions in the first half of the year was only by 14 mln euro or 1% higher than in the corresponding period in 2020, although in general the remuneration fund in the country has grown faster. VAT revenue in the first six months of this year shows a good performance in the amount of 1321.1 mln euro, which is by 42.3 mln euro or 3.3% higher than planned in the respective period.

Compared to the first half of 2020, in this year VAT revenue rose by 192.5 mln euro or 17.1%. About 2/3 of the increase in VAT revenue is due to an increase in received taxes paid by the trade sector, as the sector recovers following the easing of Covid-19 restrictions. VAT revenue also jumped by 6.7% compared with pre-covid crisis time - the first half of 2019, indicating a recovery from the most significant decline in revenue in the first half of 2020 and at the previous level. CIT revenues in the first half of 2021 have increased by 60.2 mln euro or 54.5%. The main source of growth ensured the highest CIT payments in the manufacture of computer, electronic and optical equipment, as well as in the forestry, woodworking sector, information & communication services and financial sectors. Revenue from excise duty increased by 23.5 mln euro or 4.8% in the first half of the year, taking into account the highest revenue from oil and tobacco products. Revenues from PIT in the first half of the year, while part of it remained undistributed in the single tax account, decreased by 95.5 mln euro or 11.4%. This was influenced by the rapid increase in repayments in the first half of the year, as well as the increase in the PIT-free income base for both employees and pensioners this year. Considering the reduction of PIT revenues in the first half of the year, local governments did not receive PIT revenues guaranteed by the law on the State Budget for 2021, but it should be noted that a shortfall of 15.3 mln euro was transferred from the state basic budget to local governments in July 2021.

According to the operative data of the State Treasury, at the end of May 2021, the government debt in nominal value amounted to 13.4 bln euro, which is 41.7% of GDP. In comparison to the end of 2020, in the first half of 2021, the state debt increased by 632 mln euro or 5%. The increase in debt was mainly determined by the issue of 10-year eurobonds on the international financial markets on March 10, 2021, in total of 1.250 bln euro, as well as additional issues of eurobonds made in the domestic financial market this year – a total of 227 250 mln euro. The borrowing was implemented to provide resources to cover the government deficit, including support measures to mitigate the effects of Covid-19, as well as to meet government debt obligations. It should be noted that on May 25th, the third tranche of the loan of the European Commission (EC) SURE (support instrument for reducing unemployment risks in an emergency situation after the Covid-19 outbreak) was received in the amount of 113 mln. The total amount of received EC SURE loan is 305 mln euro. On 14th May 2021, the international credit rating agency Moody's affirmed Latvia's credit rating at A3, maintaining a stable credit rating outlook.



According to the ESA 2010

Source: The State Treasury, Eurostat, Ministry of Finance of the Republic of Latvia, Latvia's Stability Programme 2021-2024