

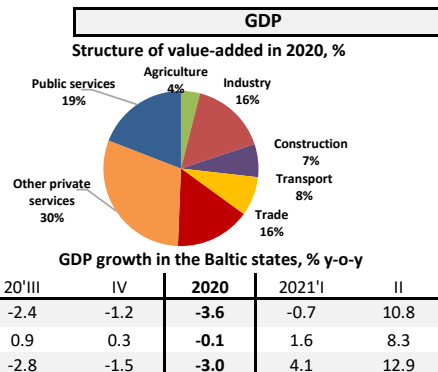
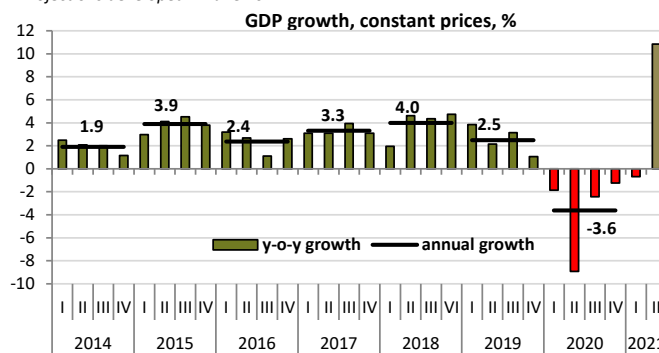
MACROECONOMIC AND BUDGETARY REVIEW 2021

No. 8

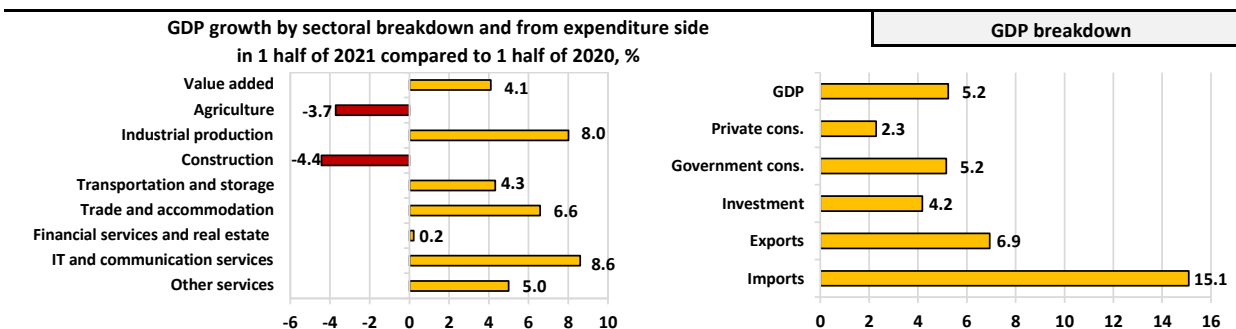
Main macroeconomic indicators	2020*	Forecasts**			
		2021	2022	2023	2024
Gross domestic product (GDP)					
current prices (mln euro and growth, %)	29511	6.9	8.5	6.2	5.3
constant prices (mln euro and growth, %)	26693	3.7	5.0	3.5	3.4
GDP deflator (y-o-y), %	-0.3	3.1	3.3	2.6	1.9
Consumer price index (y-o-y), %	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, %)	17803	9.7	9.0	7.2	7.3
constant prices (mln euro and growth, %)	17083	6.5	5.8	4.1	4.1
Imports of goods and services, mln euro					
current prices (mln euro and growth, %)	17457	10.3	12.8	7.1	7.3
constant prices (mln euro and growth, %)	18308	8.6	9.5	4.0	3.8

*GDP for 2020 according to CSB data published on 30/09/2021

**Projections developed in June 2021



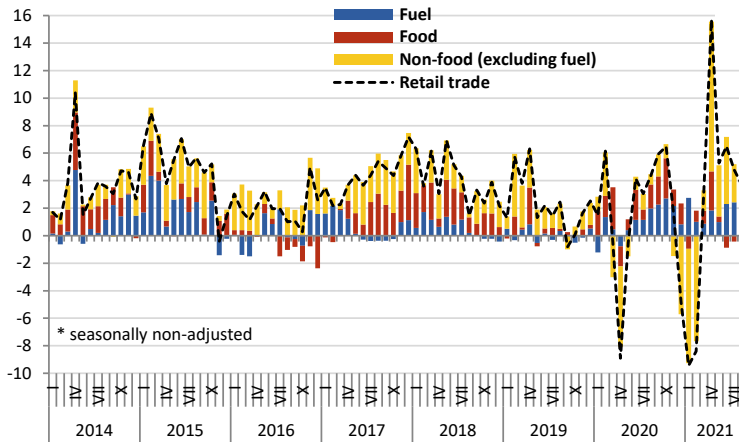
Latvia's economic recovery from the Covid-19 crisis has been significantly faster than previously expected, and gross domestic product (GDP) in the second quarter of 2021 increased by 10.8% year-on-year. Compared to the previous quarter, GDP went up by 2.6% according to seasonally and calendar adjusted data. In the second quarter of 2021, the fastest growth was recorded in the services sector, which was hit hardest by Covid restrictions last year, - by 11.0% compared to the second quarter of 2020. At the same time, producing sectors, which suffered less from the Covid crisis, also achieved relatively strong growth in the second quarter, increasing by 7.5% compared to the corresponding quarter of last year. 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. However, with base effects disappearing, GDP growth will be more moderate than in the second quarter. In September, the ESI index, reflecting business and consumer confidence, in the European Union remained close to the all-time high reached in the summer, but in Latvia it decreased for the third month in a row, falling below the long-term average of 100 points.



Along with the rapid economic growth in the second quarter, in the first half of 2021, the gross domestic product increased by 5.2% year-on-year. From the sectoral side, trade, health and social care sector as well manufacturing had the largest positive impact on Latvia's economic growth, increasing by 8.9%, 30.1% and 8.6%, respectively. In turn, declines in the first half of 2021 were recorded in the agricultural sector - by 3.7% and in the construction sector - by 4.4% y-o-y, mainly due to unfavorable weather conditions. Accommodation and food service activities sector, which was hit hardest by the restrictions imposed to reduce the spread of Covid-19, experienced a decline of 20.4% in the first half of the year. From the expenditure side, growth in private consumption, driven by the gradual easing and lifting of Covid-19 restrictions, as well as support measures for businesses and households affected by the crisis, played the key role in economic recovery. Public consumption also grew strongly, increasing by 5.2% in the first half of the year, while investment advanced by 4.2% and exports grew 6.9%, mainly due to growing exports of goods, driven by global economic recovery and strong demand in Latvia's main export markets.

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, %

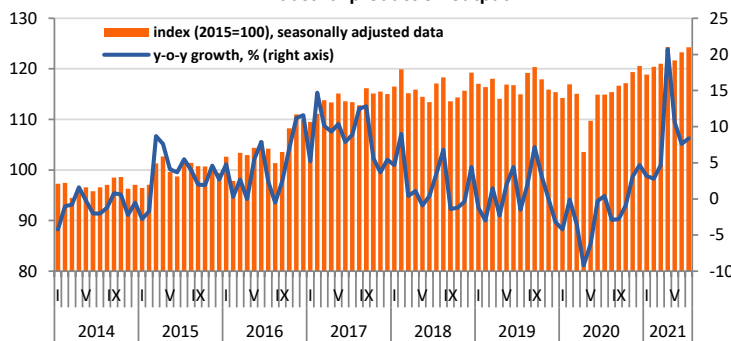


Y-o-y growth, c.a., 2020 I-VIII

Total	+2.8%	Non-food (excl. fuel)	+2.8%
Food	+0.2%	Fuel	+8.4%

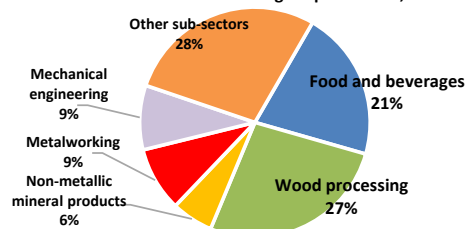
In August of this year, compared to August of the previous year, retail sales have increased by 3.7%, with retail sales of non-food products and fuels growing. Retail trade in non-food products (excluding fuel) increased by 9.8%. The largest increases were recorded in retail trade of clothing, footwear and leather goods, household electrical appliances, as well as construction materials and plumbing. Mail order or usage of online stores have also shown a significant increase. Retail trade in food products decreased by 3.8%, while sales of automotive fuel increased by 3.5% in August compared to the same period last year, while fuel prices continued to rise sharply.

Industrial production output



Industry

Structure of manufacturing output in 2020, %

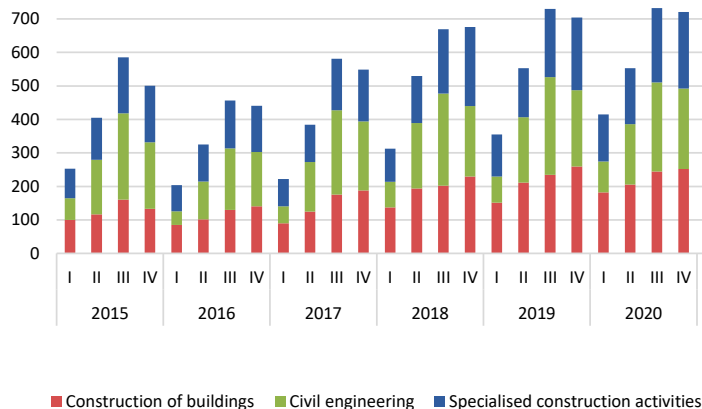


Industry, y-o-y growth, 2021 I-VII

Industry total	+8.3%	Mining, quarrying	+6.7%
Manufacturing	+8.9%	Energy	+6.6%

This year In July, compared to July 2020, the industrial sector in Latvia continues to show an increase in production volumes of 8.4%, mainly due to an increase in the volumes of finished metal products, except for machinery and equipment. In July of this year, growth also continued in the mining industry, with output growing by 11.8% over the year. The largest industrial sector - manufacturing - recorded growth of 7.9%. Also, the volumes of electricity and gas supply have increased by 13.2%. Among the groups of manufacturing industrial goods, the largest increase was recorded in the manufacture of fabricated metal products (+ 20.7%) and the manufacture of furniture (15.5%). The production of chemicals and chemical products (+ 31.7%), machinery, mechanical appliances (+ 19.9%), cars, trailers and semi-trailers (+ 34%) has also increased. At the same time, the volumes of food products produced have decreased by 1.4%. In July, the volume of electricity produced in hydropower plants decreased by 34.5% compared to July of the previous year, but the volume produced in cogeneration plants increased by 66.4%, creating a total increase in electricity production of 18%. Industrial sentiment deteriorated slightly in August this year, driven by rising commodity prices in Europe and the world, as well as a deteriorating pandemic situation.

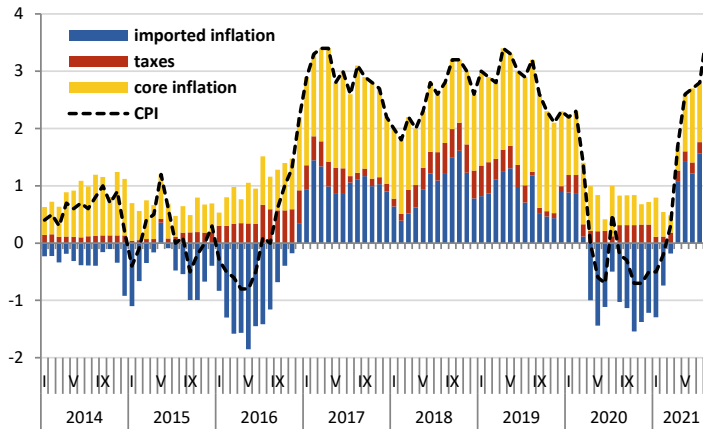
Construction output at constant prices, mln. euro



Construction

In the second quarter of 2021, compared to the corresponding quarter of the previous year, construction volumes at current prices increased by 5.4%, which was influenced by the easing of restrictions on trade in construction materials in result finalizing delayed construction work of the first quarter. The largest positive impact on construction results was caused by an increase in specialized construction works by 11.8%, with a sharp increase in work on finalizing construction objects. Meanwhile, civil engineering construction grew by 4.5% in the first quarter, with bridges and tunnels building growing the most. The construction of buildings, on the other hand, has grown by 1%, with a decrease in the construction of non-residential buildings and an increase in the construction of residential buildings. The estimated area of building permits issued in the second quarter of 2021 has increased by 28.1%, with the planned construction area of one-apartment houses and industrial production buildings and warehouses and commercial buildings growing particularly rapidly.

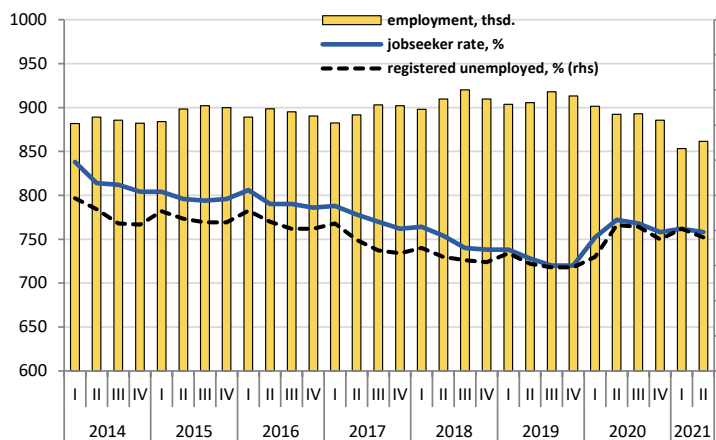
Inflation breakdown by origin, y-o-y, %



Inflation

The consumer price index (CPI) in August 2021 was 0.4% higher than in July. Prices have been rising since the beginning of this year. On an annual basis, price increases were even more pronounced, rising by 3.7%, which is the fastest price increase in a decade. It must be concluded that price growth is accelerating and inflationary pressures are becoming increasingly apparent in day-to-day spending. In previous months, annual inflation has been below 3%. Compared with previous months, the acceleration in consumer prices was driven by faster price growth in food, heat, electricity, and clothing and footwear. The harmonised CPI in the euro area in August this year has increased by 3.0% y-o-y, which, like in Latvia, was the fastest price increase since 2012. In the euro area countries, a significant contribution to inflation was also provided by the increase in energy prices (fuel, gas, heat, electricity).

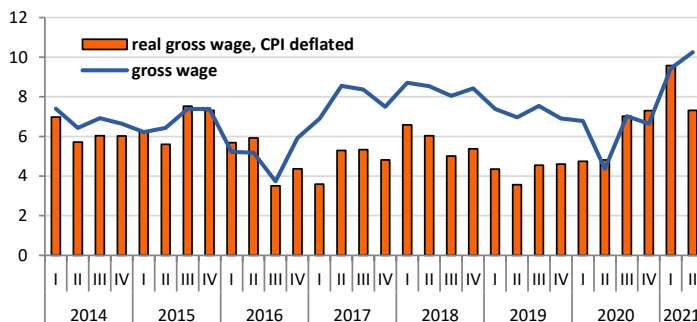
Unemployment rate, % of economically active population (15-74)



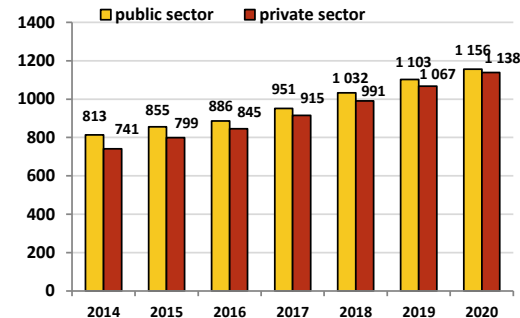
Employment

With the repeated outbreak of Covid-19 in the first quarter of this year, the unemployment rate in Latvia rose to 8.1%, but in the second quarter, as the pandemic subsided, unemployment level declined to 7.9% of the economically active population, the labour force survey (LFS) data show. In the second quarter, compared to the second quarter of 2020, the unemployment rate decreased by 0.7 percentage points, while the number of unemployed fell by 10.1 thousand or 12.1%. The negative impact of the second wave of Covid-19 in the labor market has been significantly limited this year by state support measures, including downtime benefits, as well as wage subsidies. According to the LFS data, number of employed persons in the second quarter was by 3.4% or 30.5 thousand lower than a year ago, but with the Covid-19 restrictions easing from July, people who have become temporarily inactive are returning to the labor market. Data on the registered unemployment show that unemployment rate continued to decline further in July, August and September, falling to 6.0% in the last week of September, and was 1.7 percentage points lower than a year ago. While the number of registered unemployed declined by 21.7% to 55.0 thousand.

Wage dynamics, changes year over year, %



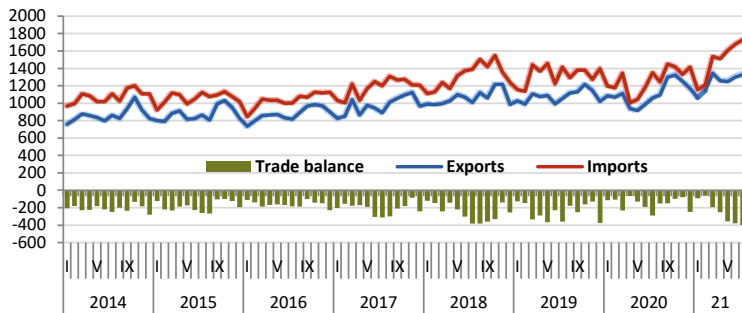
Wages, euro



The average gross monthly wage, which grew by a strong 6.2% in 2020, despite the Covid-19 crisis, increased even faster in 2021, when a large number of low-wage earners went idle and the minimum wage increased to 500 euro. In the first quarter of 2021, the average gross monthly wage increased by 9.5% compared to the corresponding quarter of the previous year, while in the second quarter it grew by 10.2%, reaching 1237 euro. Wages are growing faster in the public sector, where the average monthly gross wage climbed 13.4% to 1291 euro in the second quarter, while in the private sector it increased by 9.0% to 1215 euro. Average wages and salaries increased faster during the year in health and social care sector – by 35.1% and education – by 12.4%, in the sectors engaged mainly in the public sector activities. This year, changes in average wages and salaries are 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 increased by 28.6 thousand or 4.1% in the second quarter, while the total wage bill grew by 14.7% or 349.7 million euro.

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

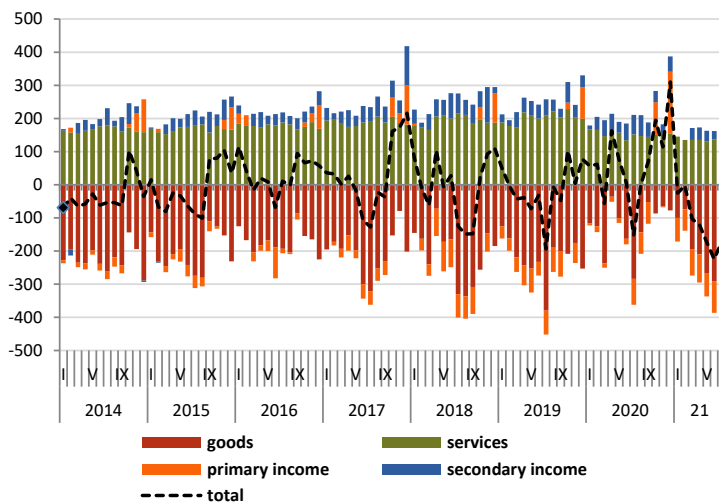
Foreign trade, current prices, euro



Foreign trade		
Exports, Jan -Jul 2021	Structure	Annual growth
Total	100%	21.2%
Wood	20.3%	40.2%
Food	16.8%	5.8%
Mech/Electr appl	17.0%	10.8%
Metals	10.0%	34.2%
Chemical manuf.	8.3%	23.1%
Mineral products	5.4%	49.1%
Transport vehicles	5.1%	17.7%
Plastics	3.7%	21.6%
Others	13.6%	15.7%

Due to the favorable external environment, Latvia's exports of goods continue to show rapid growth. Export value of goods this year in July increased by 25.5% compared to July 2020, thus reaching 1328 mln euro. On the one hand, it can be argued that strong exports of goods were driven by a low base last year, when global trade declined due to the pandemic. However, if the value of exports of goods is compared with July 2019, then in this case, too, a sharp increase has been recorded - 26.2%. An equivalent increase will be observed when compared to the average exports value in 2019. This means that the Covid-19 crisis did not cause structural problems in exporting sectors and, as world demand recovered, Latvian exporters were able to successfully integrate into world trade flows. Growth in exports of goods this year July was slightly lower than in previous months, when export growth exceeded 30%. However, compared to June, the value of exports increased by another 2.3%, which indicates the development of exports. As in previous months, the largest contribution to export growth in July was made by the largest group of export goods - wood and wood products, which provided almost half of the total export growth, increasing by 63.2% y-o-y. Overall, it can be concluded that rapid export growth will continue for the sixth month in a row, and in the first 7 months of this year, the value of exports of goods was 21.2% higher than in the corresponding period of the previous year. The largest contribution to the growth of exports of goods was ensured by the growth of exports of wood and wood products by 40.2% compared to 7 months last year. Exports of mineral products, metals and metal products, as well as mechanical equipment and electrical appliances increased significantly too, by 49.1%, 34.2% and 10.8%, respectively. The total increase in imports in July this year was even higher than the increase in exports, with the value of imports increasing by 28.1% y-o-y. While in the first seven months of 2021, imports of goods were 25.6% higher than in the corresponding period of 2020. The rapid growth of imports in recent months indicates the recovery of the Latvian economy, with increasing domestic consumption and intensification of construction.

Balance of payments, current account, mln euro



Current account

The current account of Latvia's balance of payments has been experiencing a relatively high deficit in recent months, which is largely influenced by the rapid growth of imports of goods and services. In July 2021, the current account recorded a deficit of 175 mln euro in the amount of 23 mln euro more than in July last year. Taking into account that the growth of imports of goods was higher than exports of goods, the deficit of the goods account has increased by 96 mln euro y-o-y, to 380 mln euro. The surplus of the services account has decreased by 28 mln euro, which was affected by a faster increase in imports of services compared to exports. Service account surplus this year in July amounted to 124 mln euro. The increase in the foreign trade deficit was partially offset by an improvement in the primary income account by 104 mln euro, which was determined by the lower amount of dividends paid to foreign investors. While the surplus of the secondary income account decreased by 6 mln euro. In the first seven months of 2021, the current account deficit increased to 826 mln euro, largely due to the widening foreign trade deficit.

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, %	3.9	2.1	3.1	1.1	-1.9	-8.9	-2.4	-1.2	-0.7	10.8
GDP, current prices, %	8.0	5.2	5.3	2.6	-0.4	-9.6	-3.2	-1.4	0.9	16.7
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	7.1	7.6	6.9	6.8	4.4	7.0	6.7	9.5	10.2
Real wages, CPI deflated, %	4.5	3.8	4.7	4.7	4.9	4.8	7.0	7.3	9.6	7.9
Employed persons, %	0.6	-0.4	-0.2	0.4	-0.2	-1.5	-2.7	-3.0	-5.4	-3.4
Unemployed, % of active pop.	6.9	6.4	6.0	6.0	7.6	8.6	8.4	7.9	8.1	7.9
Productivity, %	3.2	2.6	3.4	0.7	-1.6	-7.5	-0.3	1.8	4.9	14.8
Retail trade, %	3.6	3.2	1.0	1.5	2.2	-1.6	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	12.6
Goods exports, %	5.2	-1.1	3.4	-1.0	4.6	-10.0	4.7	10.6	8.8	33.9
Goods imports, %	7.3	4.9	-5.2	-2.2	-0.2	-20.2	-1.1	2.9	4.8	48.5
Trade balance, mln euro	-606.6	-886.6	-789.0	-665.8	-454.4	-385.6	-590.9	-423.9	-345.8	-986.4
Current account, % of GDP	0.0	-1.9	-3.1	2.3	0.9	3.5	-1.0	7.8	-1.9	-6.5

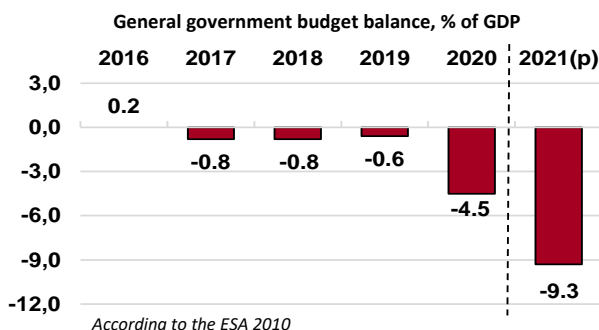
Source: CSP, Eurostat, Ministry of Finance of the Republic of Latvia, Bank of Latvia

General government budget balance

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 12.8 billion euro.

Until August 21st the amount of support measures approved by the government for mitigating the effects of Covid-19 by 2021 was amounted to 3.3 billion euro or 10.5% of GDP, but the actual support cost (incl. tax extensions, guarantees, etc.) in January-August was 1.7 billion euro or 5.3% of GDP.

Starting the preparation of the budget for 2022, the Ministry of Finance updated the general government budget deficit assessment for 2021 in August and it is forecasted at 9.3% of GDP. The high deficit level in 2021 is determined by additional expenditures for financing support measures, the impact of which on the deficit is estimated at 2.1 billion euro or 6.8% of GDP.



Consolidated General Budget

Budget Revenue and Expenditure (according to cash flow methodology)

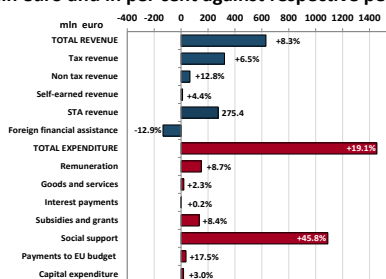
	2020 I-VIII execution mln euro	2021 I-VIII execution mln euro	Execution changes 2021/2020, mln euro	Execution changes 2021/2020, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	7569.6	8200.2	630.6	8.3%
Expenditure	7609.8	9064.9	1455.1	19.1%
<i>Financial Balance</i>	-40.2	-864.7	-824.5	
CONSOLIDATED STATE BUDGET*				
Revenue	6364.0	7025.2	661.2	10.4%
Expenditure	6513.8	7923.5	1409.7	21.6%
<i>Financial Balance</i>	-149.8	-898.3	-748.4	
State basic budget				
Revenue**	4418.0	5002.9	584.9	13.2%
Expenditure	4634.3	5953.3	1319.0	28.5%
<i>Financial Balance</i>	-216.3	-950.4	-734.1	
State special budget				
Revenue	1979.0	2116.6	137.5	6.9%
Expenditure	1951.1	2115.1	164.0	8.4%
<i>Financial Balance</i>	27.9	1.4	-26.5	
CONSOLIDATED LOCAL GOVERNMENT BUDGET***				
Revenue	1856.1	1842.9	-13.2	-0.7%
Expenditure	1746.4	1809.3	62.9	3.6%
<i>Financial Balance</i>	109.7	33.6	-76.1	

*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-VIII 2021 (cash based changes in mln euro and in per cent against respective period of 2020)



*Excluding unallocated income in the single tax account

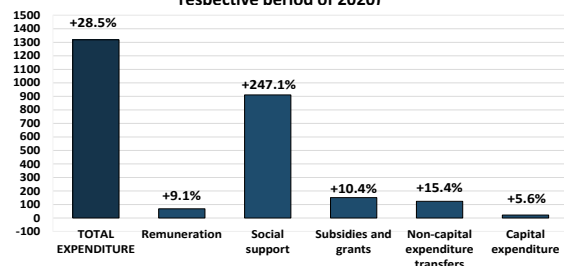
According to the Treasury data, the consolidated general budget was in deficit of 0.86 billion euro in January-August 2021. Revenue amounted to € 8.20 billion and expenditure to € 9.06 billion euro. This year, the level of the consolidated general budget deficit is significantly higher than in the first eight months of the last year, which was determined by the significant increase in expenditures, mainly by paying support to mitigate the effects of Covid-19 on the economy. Total consolidated general budget expenditure in the first eight months of this year was 1.46 billion euro or 19.1% higher than in the corresponding period of the last year, while revenues increased by 0.63 billion euro or 8.3% as the economy recovered from the effects of the pandemic.

Source: Eurostat, The State Treasury, Ministry of Finance of the Republic of Latvia

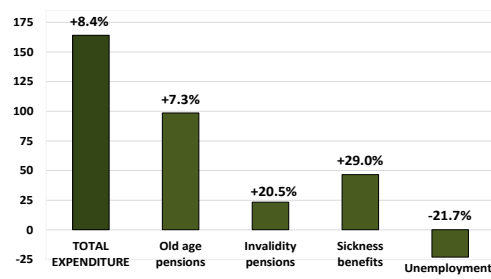
The increase in consolidated general budget revenue this year was facilitated by the increase in economic activity, easing the restrictions introduced to reduce the spread of Covid-19. In the consolidated general budget, total tax revenue in the reporting period amounted to 6 187.6 mln euro, which was by 415.8 mln. euro or 7.2% more than in the corresponding period of the last year. At the end of August, the balance of the single tax account (STA), which consists mainly of advance payments for which no commitments have yet been made, has accumulated in the undistributed revenues in the amount of 275.4 mln euro. It should be noted that this unallocated revenues in the consolidated general budget increased sharply at the beginning of the year, but the situation has stabilized since June and is no longer growing fast. It should be reminded that tax payments procedure for STA has been in force since 1st January 2021 and has been introduced in Latvia to reduce the administrative burden on taxpayers. In January-August, the consolidated general budget expenditure amounted to 9064.9 mln euro, which was by 1455.1 mln euro or 19.1% y-o-y. The most significant spending, 3471, 9 mln. euro, observed in social payments, which, compared to 8 months of the previous year, increased by 1090.8 mln euro or 45.8%. The increase in expenditure in the consolidated general budget is still driven by the disbursement of Covid-19 mitigation support approved by the government. According to the information compiled by the Ministry of Finance, until September 21st, the amount of approved support for this year is 3.3 billion euro or 10.5% of GDP, with an estimated impact on the general government budget deficit of 2.1 billion euro or 6.8% of GDP. According to the Treasury, by the end of August, support expenditure in the consolidated general budget was above 1.4 billion euro, which is by 1.1 billion euro more than in the last year. The largest costs are related to support for residents and companies. In the first half of this year, 500.9 mln euro have been paid to companies in the form of grants to finance working capital, 135.9 mln for downtime benefits and 21 mln euro for wage subsidies. Also 187.8 mln was paid in benefits to families with children (500 eur per child) and 109.9 mln euro to seniors and persons with disabilities in the form of benefit 200 euro). The intensity of Covid-19 support costs has slowed significantly in recent weeks, as a number of direct support programs were discontinued in the end of June this year, while other costs continue to be spent on Covid-19 health needs, road repairs, agriculture, culture and other activities.

State Budget

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



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

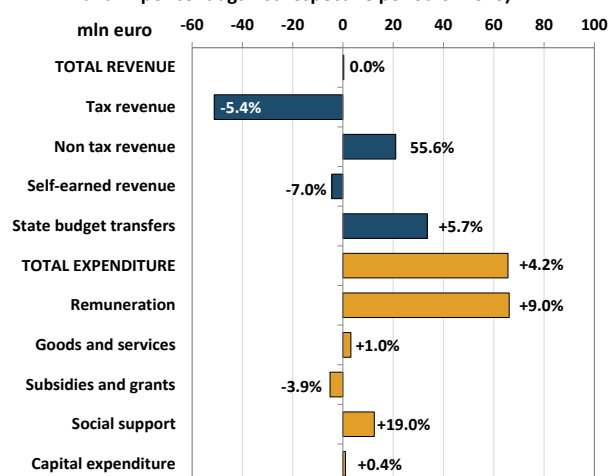


According to the Treasury data, in the first eight months of this year, the state basic budget balance was closed with 950.4 mln euro deficit, which is four times higher than the eight-month deficit of 2020. Basic budget expenditures in January-August were 5953.3 mln euro, which was 1319.0 mln euro or 28.5% 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 to reduce the consequences of Covid-19, increasing social expenditure to 1279.2 mln euro, which was by 910.6 mln euro or 247.1% than in the corresponding period last year. The significant increase was related to the cost of support to residents and businesses, 500.9 mln euro paying companies in the form of grants to finance working capital, 135.9 mln euro for downtime benefits and 21 mln euro wage subsidies. Also 187.8 mln euro were paid to families with children in the form of 500 euro in benefits and 109.9 mln euro for pensioners and persons with disabilities in the form of benefits of 200 euro. Non-capital expenditure transfers in the first eight months of this year were 929.7 mln euro, which was by 123.9 mln euro or 15.4% more, compared to the eight-month period of last year. More than half of the transfers were made to municipalities. Subsidies and grants in the state basic budget in January-August were 1599.6 mln euro, which was by 151.2 mln euro or 10.4% more than in the corresponding period last year, which was affected by higher funding for the health sector. Basic budget expenditures for remuneration in the first eight months of this year, compared to the corresponding period of 2020, have increased by 68.5 mln euro or 9.1%, amounting to 823.4 mln euro. The increase was driven by higher spending on health and internal affairs staff, including bonuses for extra work in Covid-19 pandemic work conditions. Capital expenditures in January-August of this year amounted to 411.9 mln euro, which was by 21.8 mln euro or 5.6% more than in the corresponding period of the previous year. The increase in capital expenditures this year was promoted by an increase in expenditures in the transport sector for the maintenance and construction of state roads.

Expenditures in the state special budget in eight months were 164 million euros or 8.4% higher than in eight months last year, while revenues increased by 137.5 million euros or 6.9%, thus the amount of surplus in the state special budget was 1.4 million EUR, which is 26.5 million euros lower than in the corresponding period last year. In August, the central government special budget revenue increased by 15.2% compared to the corresponding period of 2020, ensuring a high growth rate for the fifth month in a row. At the same time, expenditure growth remains high, with expenditure on sickness benefits rising particularly sharply. In the current situation, when Covid-19 infection is spreading in the country, the expenditure on sickness benefits has been made by 46.6 mln euro or 29% more than in January-August in the last year. According to the State Social Insurance Agency (SSIA), the increase in expenses is explained by the growing number of benefit recipients, increasing from 36.6 thousand on average per month in the eight-month period last year to 47.7 thousand this year, thus increasing by 30.2%. In contrast, the number of unemployed in the country is declining faster than initially planned. As a result, expenditure on unemployment benefits in January-August was by 23.1 mln euro or 21.7% lower than in the last year. With increasing economic activity and state support in the Covid-19 crisis, the number of recipients of unemployment benefits is declining, as well as average amount of benefits. SSIA data show 23% decrease in the number of benefit recipients, from 43.2 thousand on average per month in January-August in the last year to 33.3 thousand on average per month this year. The average amount of benefit has decreased from 355 euro per month to 309 euro, or by 12.8%. The decrease in the average amount of the benefit can be explained by changes in the legislation, when the duration of the payment of unemployment benefits was shortened from nine to eight months. Expenditure on pensions in the first eight months of this year increased by 125.3 mln euro or 8.4%, amounting to 1618.4 mln euro. In January-August 1441, 1 mln euro were paid in old-age pensions. An increase of 98.5 mln euro or 7.3%, compared to the eight months of 2020, was determined by the indexation of pensions carried out in October last year.

Consolidated Local Government Budget

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



In the consolidated local government budget, unlike other budget levels, revenues exceeded expenses, thus maintaining 33.6 mln euro surplus at the end of August. Revenues amounted to 1842.9 mln euro, but expenditure were 1,809.3 mln euro, which is by 62.9 mln euro or 3.6% more than in the first eight months in the last year.

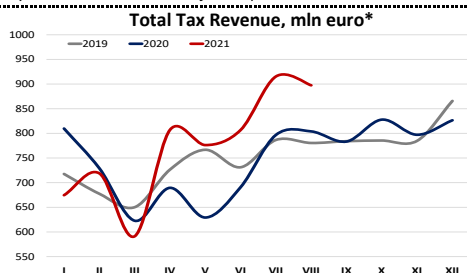
Along with the decrease in PIT revenues, in January-August the total amount of tax revenues in the consolidated local government decreased by 55.1 mln euro or 5%, compared to the respective period of 2020. It was influenced by the increase of the PIT-free income base in this year for both employees and pensioners. At the same time, in eight months non-tax revenues increased by 21.8 mln euro or 50.5%, which can be explained by an increase in revenue from the sale of real estate and land by 13.1 mln euro more as well as income from dividends received by 6.1 mln more.

The increase in the consolidated local government budget expenditure is mainly due to the increase in expenditure on remuneration by 71.8 million euro or 8.9% compared to the previous year, which is mainly due to an increase in the level of remuneration for local government teachers and other municipal employees, including additional work in Covid19 pandemic conditions which increased by 8.4 mln euro or 59.1%.

In the first eight months of this year, the amount of social payments has increased to 89.5 million euro, which is by 15.6 mln euro or 21% more, compared to the corresponding period of the last year. It can be explained by the increase in social services expenditure to the population such as payments for home care and services provided by social care and rehabilitation institutions, as well as the increase in expenditure on guaranteed minimum income (GMI). From January 1st the amount of GMI that has been raised on the basis of the decision of the Constitutional Court in June 25, 2020. In turn, expenditures on goods and services, as well as capital expenditures in the first eight months of this year have remained almost at the level of the previous year - 346.6 million euro and 320.8 million euro, respectively. Expenditure on subsidies and grants in January-August has decreased by 13 million euro or 8.4% y-o-y, which can be mainly explained by low expenditures on subsidies for the provision of public transport services in Riga municipality.

Consolidated General budget Tax Revenue			Tax Revenue	
	2020 I-VIII execution, mln euro	2021 I-VIII execution, mln euro	Execution changes 2021/2020, mln euro	Execution changes 2021/2020, %
Consolidated general budget tax revenue (without unallocated revenue)	5771.8	6187.6	322.2	6.5%
Mandatory state social insurance contributions	1858.8	1930.5	71.7	3.9%
<i>in State special budget</i>	1796.2	1865.8	69.6	3.9%
<i>in State budget (1% for the health)</i>	62.7	64.7	2.1	3.3%
Value added tax	1586.0	1860.2	274.2	17.3%
Personal income tax	1154.0	1100.6	-53.5	-4.6%
<i>in State budget</i>	228.0	235.9	7.9	3.5%
<i>in Local government budget</i>	926.1	864.7	-61.4	-6.6%
Excise tax	690.2	724.2	34.0	4.9%
Corporate income tax	145.7	223.3	77.6	53.3%
Real estate tax	168.5	177.2	8.7	5.2%
Informative:				
Social security contributions to the state funded pension scheme	383.0	382.4	-0.7	-0.2%

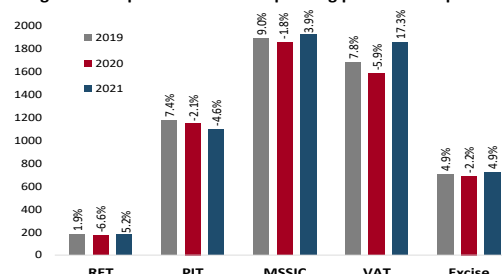
In 2021, excluding revenues in STA, which have not yet been broken down by type at consolidated general budget levels (STA balance in the end of August 275.4 mln euro)



*In 2021, excluding revenues in STA, which have not yet been broken down by type at consolidated general budget levels (STA balance in the end of August 275.4 mln euro)

In general, in this year there are very positive trends in the dynamics of tax revenues. If in the first quarter of the year tax revenues lagged behind the revenues received in the first quarter of 2020, then in the following months they have already significantly exceeded the level of the respective period of 2020. Data on distributed tax revenues show that in the second quarter of this year they were 18.9% higher than in the second quarter of the last year, but in July-August, although the growth rate has slowed down, they are still 13.3% higher than in the corresponding period of 2020. These data indicate that after a sharp increase in GDP in the second quarter of this year (+ 11.1%), significant GDP growth is expected in the third quarter of this year as well. The amount of tax revenue is affected not only by economic activity, but also by changes in legislation and other factors. Last year, in the early stages of the Covid-19 deployment, companies were provided with support in the form of tax extensions and deferrals, so that part of the calculated payments were not made immediately but were split into future liabilities. Revenues from value added tax (VAT) have significantly increased this year, by 274.2 mln euro or 17.3% higher than in eight months of last year. In 2020, under the influence of Covid-19, there was a decline in private consumption in Latvia, with the population postponing consumption, but this year, taking into account the support provided, the population's income spending has grown rapidly. Significant increase in VAT revenue has been observed in retail and wholesale sectors. On the other hand, the accommodation and catering sector continue to overcome the difficulties caused by the pandemic and VAT revenues have been below the 2020 level, further lagging behind the eight-month level of 2019. However, the total collected VAT revenue in January-August not only exceeded the level of 2020, and by 10.4% higher than in 2019.

General consolidated budget tax revenue * in January-August mln. euro and change in % compared to the corresponding period of the previous year

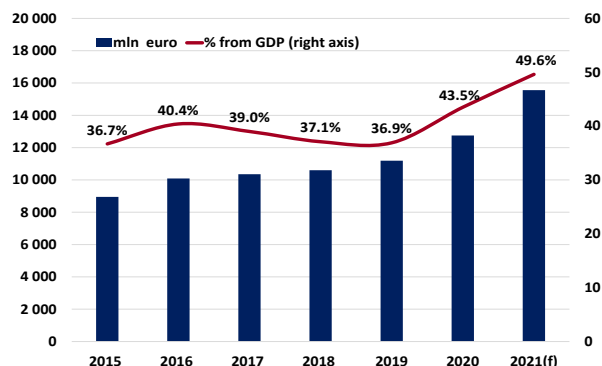


The increase in tax revenues in the consolidated general budget is also ensured by higher revenues from corporate income tax (CIT), mandatory social security insurance contributions (MSSIC) and excise tax. CIT revenues were by 77.6 mln euro or 53.3% higher than in January-August last year, which was largely determined by low revenue base last year after CIT reform. SRS data show that the largest increase in CIT revenue was in the manufacture of computers, electronic and optical equipment sector. MSSIC increased by 71.7 mln euro or 3.9%, despite the reduction of MSSIC rate by one percentage point. According to the Central Statistical Bureau, in this year there has been a sharp increase in the average wage, it rose by 10.2% in the second quarter of this year compared to the corresponding period of 2020. The largest increase in MSSIC this year has been observed in the health care sector, as well as in the information and communication services sector, manufacturing. Revenues from excise tax in the reporting period increased by 34 mln euro or 4.9%, which is related to higher revenues from oil products and tobacco products. The increase in revenues from tobacco products was also ensured by the increase in excise duty rates for all types of tobacco products, while the consumption of petroleum products mainly increased. Personal income tax (PIT) revenue was lower than last year. They have shrunk by 53.5 mln or 4.6%. PIT repayments in January-August this year were made by 39.3 mln more than in the last year. Citizens very actively submit annual declarations and demand a refund of overpaid taxes. Also this year, the increase of the non-taxable minimum for pensioners has continued, as well as the maximum threshold has been raised, up to which the non-taxable minimum can be applied to employees, which reduces the amount of income subject to PIT.

According to the operative data of the State Treasury, at the end of August 2021, the government debt in nominal value amounted to 14.1 bln euro. In comparison to the end of 2020, the debt has increased by 1.6 bln euro or 13.1%. The increase in government debt was determined by the borrowing measures, providing resources to cover the total financing needs - financing the state budget deficit, securing government loans, meeting government liabilities, as well as financing measures to mitigate the impact of the Covid -19 outbreak and supporting the economy. In the first eight months of 2021, the issue of 10-year eurobonds on the international financial markets, amounted to 1.750 billion euro in total. As well additional issues of eurobonds were made in the domestic financial market this year – total of 295.2 mln euro. 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. According to the Treasury's forecast, general government debt in 2021 could increase to 49.6% of GDP.

On Friday, September 3, 2021, the international credit rating agency *Fitch Ratings* affirmed Latvia's credit rating at "A-" level with a stable outlook.

General Government Debt, mln euro, % of GDP



According to the ESA 2010