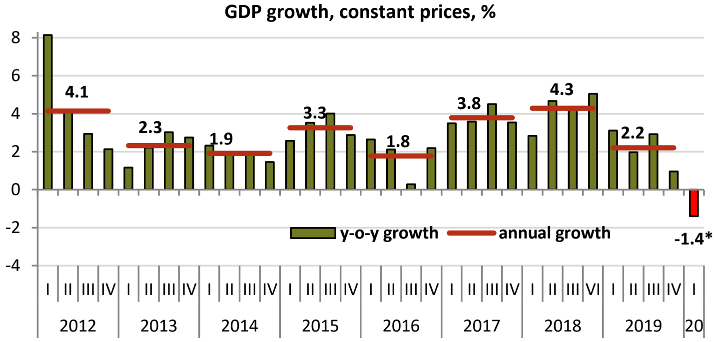
MACROECONOMIC AND BUDGETARY REVIEW 2020

No. 3

Main macroeconomic indicators	2019	Forecasts* 2020	2021	2022	2023
Gross domestic product (GDP)					
current prices (mln euro and growth, %)	30476	-7.9	2.4	5.6	4.4
constant prices (mln euro and growth, %)	27497	-7.0	1.0	3.5	2.4
GDP deflator *(y-o-y), %*	2.6	-1.0	1.3	2.0	1.9
Consumer price index *(y-o-y), %*	2.8	0.4	1.7	2.0	2.0
Average monthly gross wage *(euro and growth at current prices, %)*	1076	-3.0	3.0	5.0	5.0
Employment *(thsds and growth rate, %)*	910	-5.0	1.2	1.0	-0.1
Jobseeker rate *(annual average), %*	6.3	11.2	10.1	9.0	8.6
Exports of goods and services					
current prices (mln euro and growth, %)	18257	-13.6	2.0	6.6	5.8
constant prices (mln euro and growth, %)	17387	-9.0	1.0	4.0	3.3
Imports of goods and services, mln euro					
current prices (mln euro and growth, %)	18232	-15.0	3.4	7.6	6.8
constant prices (mln euro and growth, %)	18426	-10.0	1.9	4.5	3.7

** Projections developed in April 2020 for the preparation of Latvia's Stability Programme 2020-2023 and include economic effects caused by Covid-19*

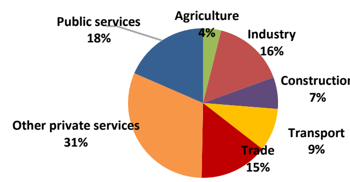
GDP growth, constant prices, %



** GDP flash estimate*

GDP

Structure of value-added in 2019, %



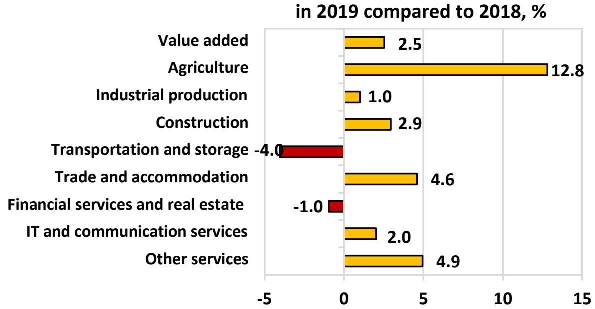
GDP growth of the Baltic states, % y-o-y

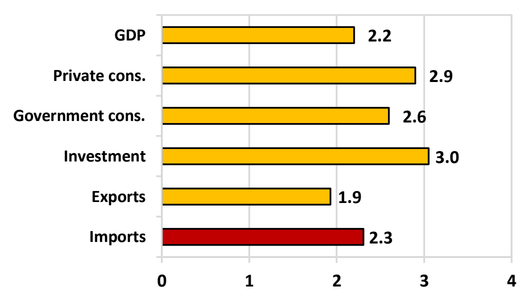
	19'II	III	VI	20'I*
Latvia	2.0	2.9	1.0	-1.4
Lithuania	3.8	3.8	3.8	2.6
Estonia	3.9	4.8	3.9	n.d.a

In the first quarter of 2020 compared to a corresponding period a year ago, Latvia's GDP contracted by 1.4%, while compared to the previous quarter GDP fell by 2.9%, according to the flash estimate data. It is the sharpest economic contraction since 2008-2009 crisis which was determined by both decline of transportation and financial services sector that was observed already last year as well as spread of Covid-19 pandemic which started to affect Latvia's economy directly as of mid-March. GDP estimate suggests that production related industries increased by 3% y-o-y in the first quarter while service sectors fell by 2.6%. The volume of collected taxes on products also declined. In April, business and consumer sentiment indicator (ESI) demonstrated historically sharpest drop - in the EU as well as in Latvia the value of index approached the lowest levels of 2009 financial crisis.

GDP growth by sectoral breakdown and from expenditure side in 2019 compared to 2018, %

GDP breakdown



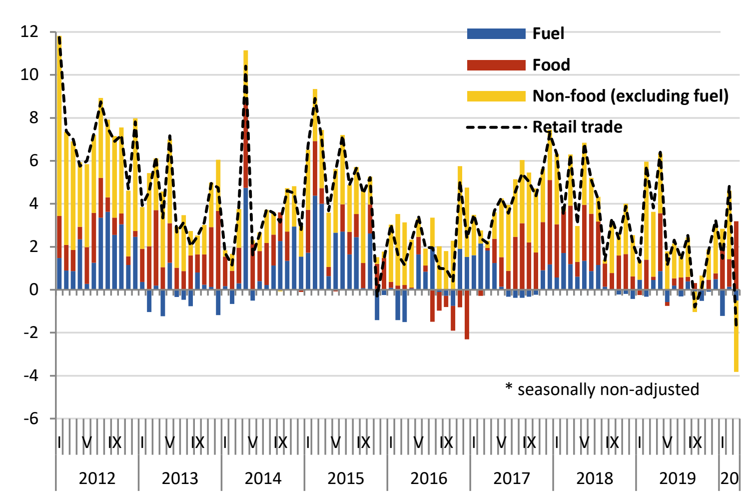


In 2019, the fastest growing sectors in the economy of Latvia were agriculture as well as several service sectors. Value added of trade increased by 4.1% determined by rising income and falling unemployment. Thus, private consumption expanded by 2.9% indicating that in 2019 Latvia's economic growth was stimulated by domestic demand. At the same time exports of goods and services increased slower - by 2.0%, determined by global growth slowdown and weakening of external demand. Thus, growth rates of export-oriented sectors last year were lower - manufacturing growth constituted 2.1%, while contraction of transport sector was determined by significantly lower freight volumes in Latvia's ports. Transit flows were negatively affected by Russia's policy to re-direct freight flows to its Baltic Sea ports and falling global demand for coal from Russia. In 2019, shrinking of non-resident serving bank business and financial services exports determined fall of financial and insurance services' value added (-8.8%). In 2019, imports of goods and services increased stronger than exports - by 2.3%.

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

Retail trade

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



Structure of retail trade turnover in 2019, %

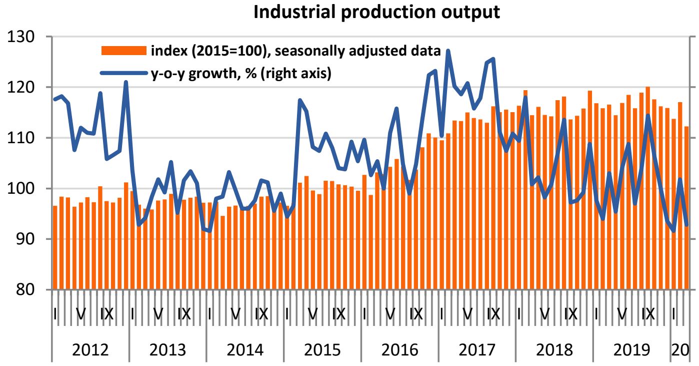
Y-o-y growth, c.a., 2020 Jan.-March

Total	+1.4%	Non-food (excl. fuel)	+0.2%
Food	+4.9%	Fuel	-3.3%

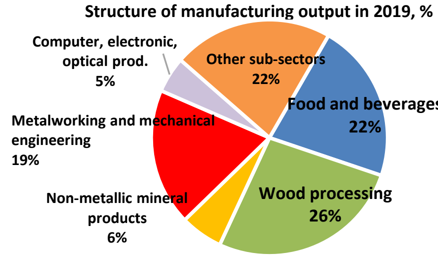
In March 2020 compared to a corresponding month in 2019, retail trade turnover in constant prices in Latvia decreased by 1.8%. Trade is among the sectors directly affected by Covid-19 and is hit hard by the emergency situation and restrictions that were introduced to contain spread of the virus. However, there are significant differences in trade patterns for different product groups. For instance, trade volumes of food increased by 7.1% y-o-y and sales of pharmaceutical and medical products expanded by 26.8% y-o-y. Meanwhile, trade volumes in other product groups declined, and total non-food trade decreased by 7% y-o-y in March, including drop of fuel trade by 3.3% y-o-y.

Industry

Industrial production output



Structure of manufacturing output in 2019, %



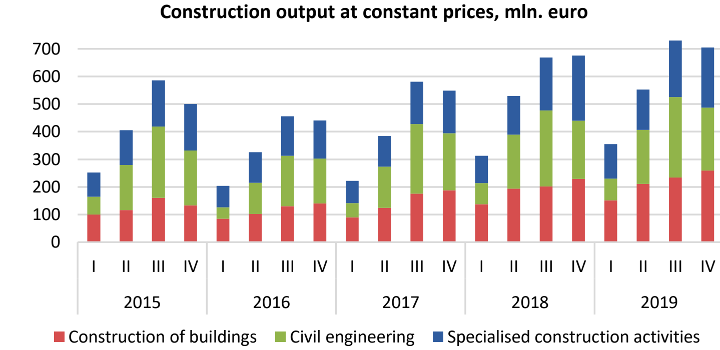
Industry, y-o-y growth, 2020 Jan.-March, c.a.

Industry total	-2.3%	Mining, quarrying	+8.6%
Manufacturing	-2.6%	Energy	-3.2%

In March 2020 compared to a corresponding month a year ago, industrial production output in Latvia declined by 3.6%, and also in the first quarter overall sector contracted - by 2.3%. Production volumes in manufacturing in March decreased by 3.6% y-o-y, and considering that sector demonstrated weak performance also in January and February, in the first quarter overall manufacturing output was by 2,6% lower than a year ago. In March, manufacture of fabricated metal products decreased by 9.6% y-o-y. Since the end of 2018, metalworking continuously expanded thus providing significant contribution to total manufacturing performance, however in March it was hit by spread of Covid-19. Meanwhile, negative developments in mechanical engineering industries were observed since the middle of the last year, and in addition to that currently these sub-sectors are negatively affected by challenges caused by Covid-19 such as supply disruptions of manufacturing components, problems organising logistics, restrictions in the export markets etc. Thus, in March manufacture of machinery and equipment fell by 10.8% y-o-y and manufacture of motor vehicles and trailers declined by 10,6% y-o-y. Production output decreased also in manufacture of beverages, computer and electronic products as well as in repair and installation of machinery and equipment. At the same time, output in the largest manufacturing sub-sectors, i.e., wood processing and manufacture of food products, slightly increased. However, in the forthcoming months the negative impact of Covid-19 on manufacturing will become more pronounced which will be reflected in the data about second quarter.

Construction

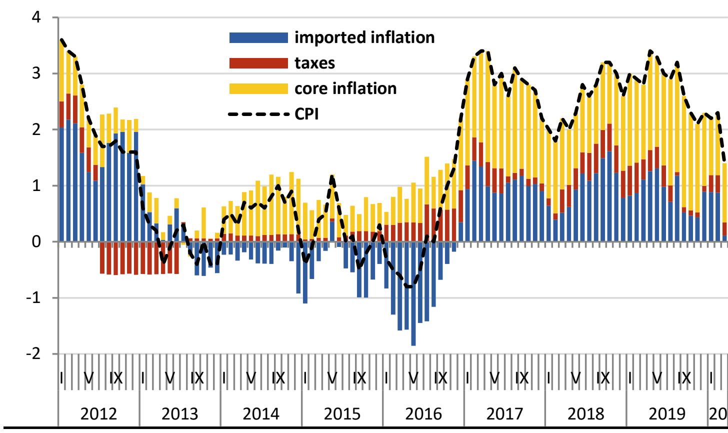
Construction output at constant prices, mln. euro



In 2019, construction output measured in current prices increased by 7.1% compared to the output level a year ago. Sector's growth was stimulated by construction of buildings that rose by 12.2%, at the same time civil engineering and output of specialised construction activities increased slower - by 4.7% and 4.0% respectively. Construction growth last year was weaker than in 2018, and it was associated with stabilisation of EU funds investment. In 2019, the expected construction space as indicated in the granted building permits continued to increase - compared to 2018 it rose by 37.1% y-o-y suggesting that construction volumes could potentially increase in the next periods. However, taking into account the latest developments and uncertainties regarding the spread of Covid-19, future prospects also in construction sector are unclear which is confirmed by falling construction sentiment indicator.

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

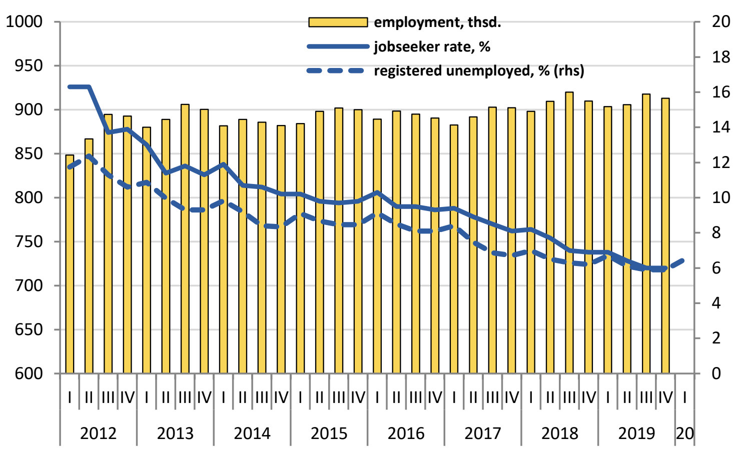
Inflation breakdown by origin, y-o-y, %



Inflation

In March 2020 compared to March of 2019, consumer prices in Latvia increased by 1.4% which was the lowest inflation level since the end of 2016. Such a consumer price increase is approximately 1 percentage point lower than it was in the first two months of 2020 and is half of the average inflation that was registered in 2019. In March, the slowdown of consumer price growth was determined by falling prices for fuel - by 4.7% y-o-y that was caused by sharp oil price contraction in the global markets. Furthermore, weaker inflation was stimulated by price drop for alcoholic beverages by 1.7% y-o-y largely determined by lower excise tax. At the same time, for several goods price growth was similar to the increase registered in January and February, for example, prices for pork and fruits expanded strongly also in March. Thus, prices for food overall increased by 3.5% y-o-y in March.

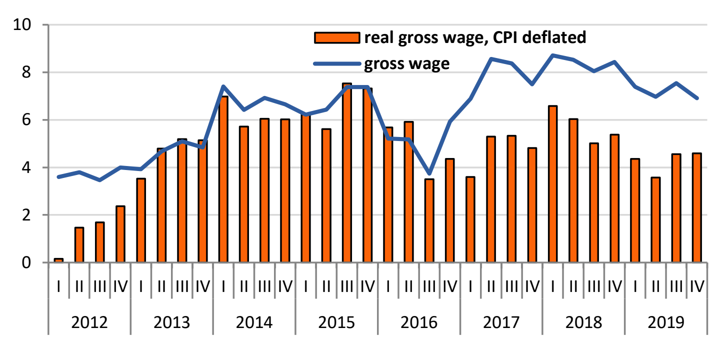
Unemployment rate, % of economically active population (15-74)



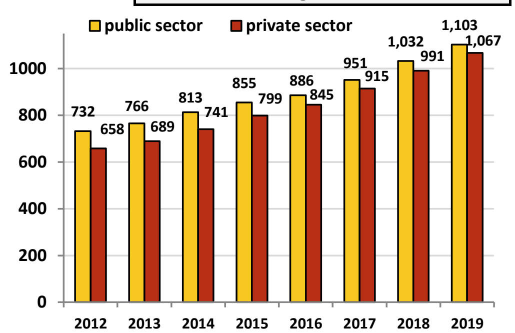
Employment

The number of employed persons remained almost unchanged at 910 thsd in 2019, increasing only by 0.1%, compared to the previous year. Unemployment rate decreased by 1.1 percentage point to 6.3% of economically active population in 2019, labour force survey data shows. Registered unemployment rate, having fallen in the first two months of 2020, started to rise sharply since the middle of March due to crisis related to Covid-19. In the last two months, number of registered unemployed grew by 14.7 thsd - to 72.9 thsd at the end of April and was by 25.3% higher than a year ago. Registered unemployment rate increased to 8.1% of the economically active population - by 1.8 percentage points, if compared to the end of April 2019. Since the beginning of the crisis, downtime benefits were granted to 26.4 thsd employees, which corresponds to 2.9% of the economically active population. Number of job vacancies at the State Employment Agency fell by 15.8 thsd during the crisis and was by 56.5% lower than at the end of April a year ago.

Wage dynamics, changes year over year, %



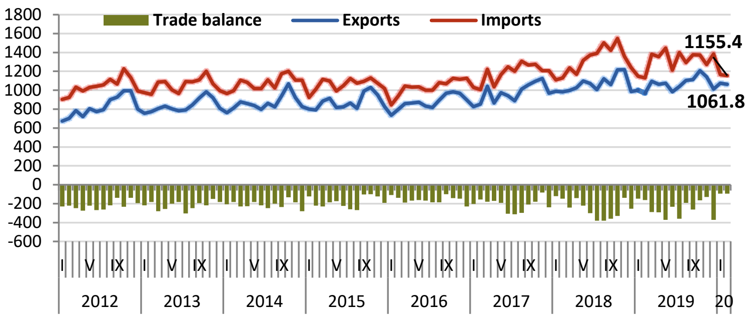
Wages, euro



In 2019, average gross wage increased by 7.2% to 1076 euro, showing a slightly lower growth than in the previous two years, when average gross wage increased by 7.9% in 2017 and by 8.4% in 2018 respectively. In 2019, wage growth rates declined gradually - to 6.9% in the fourth quarter of the year. Last year, wages grew faster in the private sector - by 7.6%, while in the public sector wage growth constituted 6.8%. Higher salary still remained in the public sector, where the average wage was 1103 euro, while in the private sector it constituted 1067 euro. Real net wage increased by 3.9% in 2019, showing weaker growth than in the previous year (+7.2%), when real net wage growth was stimulated by income tax cuts that took place in January 1, 2018.

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

Foreign trade, current prices, euro

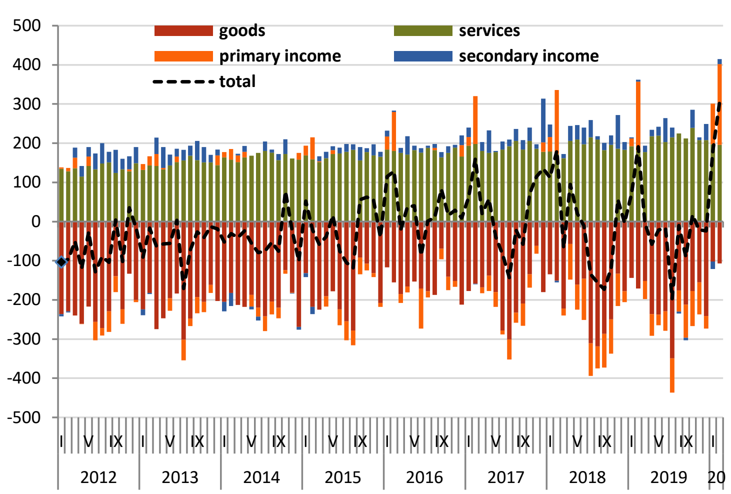


Foreign trade

Exports, Jan-Febr 2020	Structure	Annual growth
Total	100%	8.4%
Food	20.1%	19.3%
Mech/Electr appl	18.1%	24.5%
Wood	17.5%	-6.6%
Metals	8.5%	4.0%
Chemical manuf.	7.5%	3.7%
Transport vehicles	5.5%	-8.8%
Mineral products	4.6%	-13.3%
Plastics	3.4%	24.2%
Others	14.8%	16.4%

In February 2020, goods exports continued to expand - already in January the value of goods exported from Latvia grew by 7.2% y-o-y and in February this growth accelerated to 9.5% y-o-y. Such a sharp rise of goods exports was unexpected, given that global economic growth and external demand was slowing down since the middle of the last year. The latest data on goods exports does not reflect the negative impact of Covid-19 on Latvia's external trade yet but in the coming months the consequences of the pandemic will have a negative impact on export development. In the first two months of this year, total goods export value increased by 8.4% y-o-y. Export growth was driven by two largest goods export categories - exports of machinery and mechanical appliances as well as electrical equipment that expanded by 24.5% y-o-y and was determined by strong re-export growth of mobile phones, monitors, projectors, data storage devices. While exports of agricultural and food products rose by 19.3% y-o-y that was largely determined by strong export growth of cereals, vegetables and dairy products. Meanwhile, import value of goods grew only by 1.5% y-o-y in February of this year. While in the first two months of this year goods import value increased by 1.8% y-o-y.

Balance of payments, current account, mln euro



Current account

In February 2020, Latvia's balance of payments current account recorded a surplus of 307 mln euro. In annual terms surplus expanded by 126 mln euro. It should be noted that improvements were observed in all current account components. The value of exported goods increased faster than imports of goods, thereby goods account deficit decreased by 44 mln euro. A similar situation was observed in the services account. Due to faster growth in services exports compared to imports, services account surplus increased by 24 mln euro to 196 mln euro. Thereby services account surplus fully covered the goods account deficit of 107 mln euro. Primary income account surplus growth by 42 mln euro was determined by foreign resident's income decline from financial assets in Latvia. While the improvement by 17 mln euro in the secondary income account was stimulated by lower payments to the EU budget. In the first two months of 2020, current account balance ran a surplus of 487 mln euro, which was by 193 mln more than in the corresponding period of the previous year.

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

	17'IV	18'I	II	III	IV	19'I	II	III	IV	20'I
GDP, constant prices, %	3.5	2.8	4.7	4.4	5.0	3.1	2.0	2.9	1.0	-1,4*
GDP, current prices, %	6.5	6.8	8.6	8.7	9.3	7.2	5.2	5.3	2.4	n.d.a.
Inflation, %	2.6	2.0	2.4	2.9	2.9	2.9	3.3	2.9	2.2	1.9
Nominal wages, %	7.5	8.7	8.4	8.1	8.3	7.4	7.1	7.6	6.9	n.d.a.
Real wages, CPI deflated, %	4.9	6.7	6.0	5.2	5.4	4.5	3.8	4.7	4.7	n.d.a.
Employed persons, %	1.3	1.8	2.0	1.9	0.8	0.6	-0.4	-0.2	0.4	n.d.a.
Unemployed, % of active pop.	8.1	8.2	7.7	7.0	6.9	6.9	6.4	6.0	6.0	n.d.a.
Productivity, %	2.2	1.1	2.6	2.4	4.2	2.5	2.4	3.2	0.6	n.d.a.
Retail trade, %	5.8	5.4	5.0	3.0	2.8	3.5	3.2	1.1	1.5	1.4
Industrial production, %	4.9	4.5	0.2	2.9	0.9	-0.8	1.4	2.6	0.0	-2.3
Goods exports, %	11.8	9.2	14.7	7.9	7.3	3.2	-2.3	2.0	-1.7	n.d.a.
Goods imports, %	9.5	6.8	11.7	14.2	12.3	5.3	4.1	-5.7	-2.8	n.d.a.
Trade balance, mln euro	-503.0	-507.5	-664.1	-1124.2	-723.7	-596.7	-894.4	-812.3	-665.2	n.d.a.
Current account, % of GDP	4.5	3.6	1.4	-6.1	-0.8	3.8	-1.3	-3.7	-0.3	n.d.a.

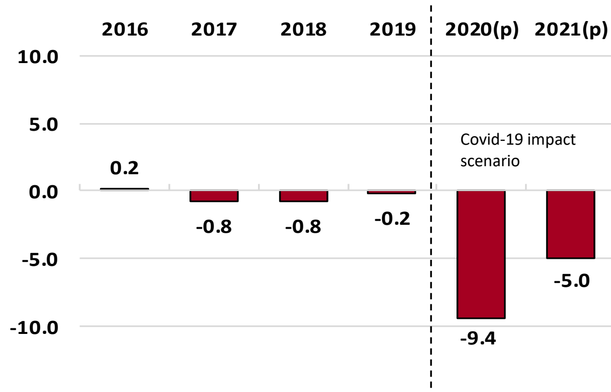
** GDP flash estimate*

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

General government budget balance, % of GDP

General government budget balance

According to the Eurostat Government finance statistics, in 2019 general government budget deficit was 0.2% of GDP, which is lower than 0.6 percentage points compared to 2018, with a significant improvement in the local government budget balance. It should be noted that the amount of the 2019 deficit can be specified by submitting a notification to Eurostat to the CSB in October this year. In April this year, the Ministry of Finance (MoF) has developed new medium-term macroeconomic development scenario, considering both the adverse effect of Covid-19 on Latvia's economic growth and the support measures introduced by the government of Latvia for minimizing the effects of the crisis, stipulating the drop of Latvia's GDP by 7% in 2020. Based on the renewed growth forecast, as well as taking into account support measures adopted until April 17 to address the consequences of the crisis, general government budget deficit this year is being forecasted by MoF in the amount of 9.4% of the GDP, whereas, in 2021, at a constant policy, deficit will reduce to 5.0% of the GDP. The high deficit level in 2020 will also be affected by the support measures, approved by the government, in the total amount of 1.7 billion euro or 6.1% of GDP with a direct negative impact on the general government budget balance of 851.4 mln euro or 3.0% of GDP.



According to the system of national accounts methodology

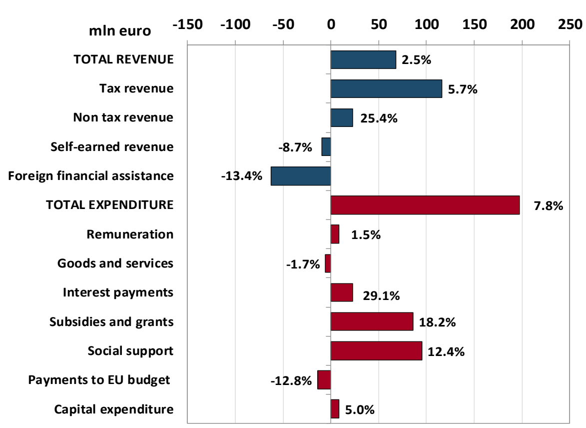
Consolidated General Budget

Budget Revenue and Expenditure

	2019 I-III execution mln euro	2020 I-III execution mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	2717.3	2785.2	68.0	2.5%
Expenditure	2516.6	3410.2	893.6	7.8%
Financial Balance	***200.7***	***113.3***	***-87.3***	
CONSOLIDATED STATE BUDGET*				
Revenue	2249.5	2430.6	181.1	8.1%
Expenditure	2191.0	2313.8	122.8	5.6%
Financial Balance	***58.5***	***116.8***	***58.3***	
State basic budget				
Revenue	1566.6	1555.9	-10.7	-0.7%
Expenditure	1574.3	1657.6	83.3	5.3%
Financial Balance	***-7.7***	***-101.7***	***-94.0***	
State special budget				
Revenue	692.0	739.7	47.7	6.9%
Expenditure	643.5	733.4	89.9	14.0%
Financial Balance	***48.6***	***6.3***	***-42.3***	
CONSOLIDATED LOCAL GOVERNMENT BUDGET**				
Revenue	719.5	756.4	36.9	5.1%
Expenditure	577.4	612.8	35.4	6.1%
Financial Balance	***142.2***	***143.6***	***1.5***	

According to cash flow methodology
**Including grants, donations and derived public persons*
***Including grants and donations*

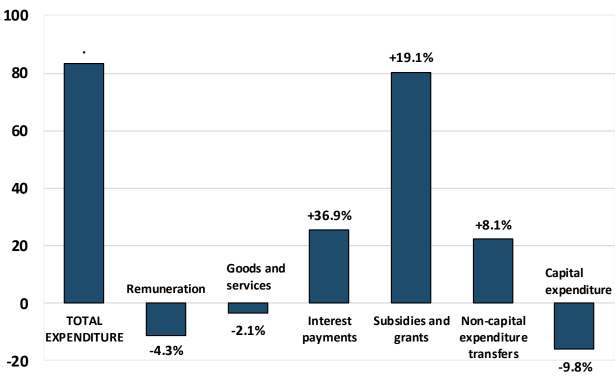
Revenue and Expenditure in I-III 2020 (cash based changes in mln euro and in per cent against respective period of 2019)



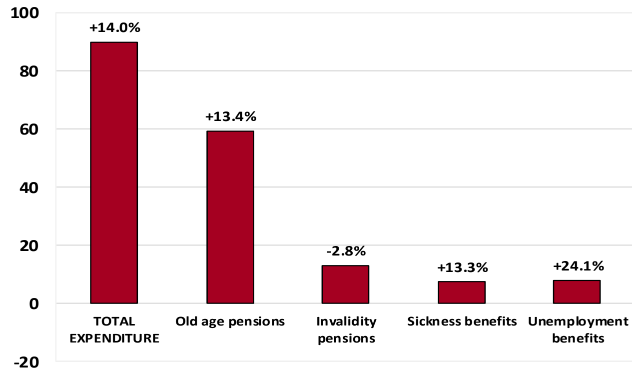
According to the State Treasury, in the first quarter of this year the general budget surplus was 71.3 mln euro, which was by 129.3 mln euro less than in the first quarter of 2019. In the first quarter of 2020 general budget revenue was 2785.2 mln euro, which was by 68 mln euro or 2.5% more than in the corresponding period of 2019. The moderate increase in general budget revenue in the first quarter was due to 13.4% decrease in foreign financial assistance (FFA) revenue, which were higher than planned at the end of 2019, thereby affecting FFA revenue this year. FFA revenue was 404.7 mln euro or by 62.8 mln euro less than in the first quarter of 2019. Total budget expenditures in the first quarter of the year amount to 2713.9 mln euro, which was by 197.3 mln euro or 7.8% more than in the corresponding period of 2019. Subsidies and grants in the first quarter were 559.7 mln euro, compared to the first quarter of 2019, increasing by 86.2 mln euro or 18.2%. The increase can be explained by the rise in the salaries of persons working in the health sector in medical institutions, as well higher expenditures for the implementation of EU fund projects. Expenses for remuneration increased by 8.4 mln euro or 1.5%, amounting to 569.4 mln euro. Capital expenditures have also increased moderately in the general budget. Capital expenditures in the first quarter amounted to 183 mln euro, which was by 8.8 mln euro or 5% higher than in the corresponding period last year. Capital expenditure are increasing in local governments, especially those related to the implementation of EU funds projects. There is also a decrease in expenditure on certain expenditure items in the general budget. Expenditure on contributions to the EU budget in the first quarter was 14.1 mln euro or 12.8% lower than in the corresponding period last year, amounting to 95.6 mln euro. Expenditures on goods and services amounted to 326.3 mln euro in the amount of 5.6 mln euro or 1.7% lower than in the first quarter of last year.

Source: The Treasury, Eurostat, Latvia's Stability Programme for 2020. - 2023.

State Basic Budget Expenditure in I-III 2020 (cash based changes in mln euro and in per cent against respective



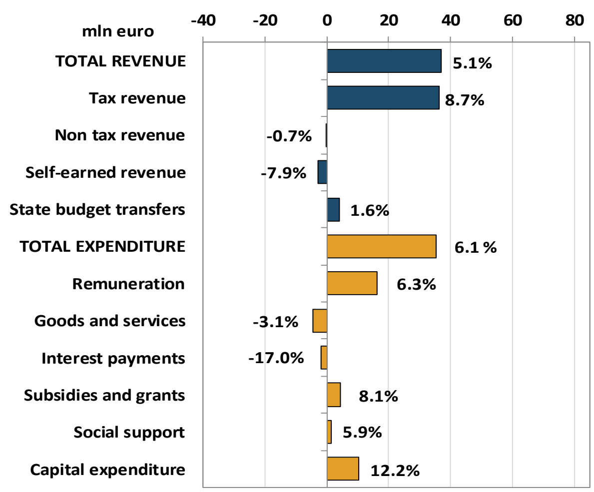
State Special Budget Expenditure in I-III 2020 (cash based changes in mln euro and in per cent against



According to the State Treasury in the first quarter of this year was 101.7 mln euro deficit, while last year in the corresponding period was 89.2 mln euro surplus. In the first quarter of 2020, the state basic budget revenue reached 1555.9 mln euro and compared to the first quarter of 2019, revenues decreased by 10.7 mln euro or 0.7%. In turn, expenditures in the first quarter of the year, compared to the corresponding period of 2019, have increased by 83.3 mln euro or 5.3%. An increase in expenditure was observed for subsidies and grants, which increased by 80.4 mln euro or 19.1% compared to the corresponding period of the previous year, amounting 500.5 mln euro. Interest expenses in this period were 94.5 mln euro, increasing by 25.5 mln euro or 36.9%, but these expenses depend on the payment schedule and this year are generally expected to be at last year's level. Expenses for compensation in the first quarter amounted to 249 mln euro, which was by 11.3 mln euro or 4.3% lower than in the first quarter of 2019. There was also a decrease in expenditure on capital expenditure, which was by 16.0 mln euro or 9.8% lower than in the first quarter of last year.

In the first quarter of 2020 the state special budget surplus was 6.3 mln euro, which was by 42.3 mln euro less than in the first quarter of 2019. Special budget expenditures in the first quarter of the year amounted 733.4 mln euro, which was by 89.9 mln euro or 14.0% more than in the corresponding period of 2019. It should be noted that expenditure on unemployment and sickness benefits significantly increased by 8 mln euro or 24.1% and 7.4 mln euro or 13.3%, compared to the previous year. At the end of the previous year, before the changes in the duration and amount of unemployment benefit payments, there was an increase in the number of newly granted unemployment benefits, which affects the amount of expenditures in the first quarter of this year. The average amount of benefit granted also continues to increase. Sickness benefits increased more sharply in January, when there was a sharp increase in the number of beneficiaries, but in March expenditures increased by 11%, mainly due to an increase in average insurance contribution salaries. In the coming months, the state special budget balance will continue to deteriorate, as according to the data of the State Employment Agency, the number of unemployed is increasing, and correspondingly, expenditures on unemployment benefits are expected to rise.

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



Consolidated Local Government Budget

According to the State Treasury data in the first quarter of 2020 the consolidated local government budget revenue increased by 5.1% but expenditure by 6.1% year-on-year, creating a surplus of 143.6 mln euro. In the first quarter of 2020 local government budget revenue amounted 756.4 mln euro, which was by 36.9 mln euro or 5.1% more than in the corresponding period of the previous year. Personal income tax (PIT) revenues have increased by 38.7 mln euro or 12.0%, that can be explained by the growing level of labor income at the beginning of the year and dividend payments. Although in the first quarter the execution of PIT is generally good, already in March the revenues were lower than planned and it is expected that in the coming months the tax execution will be affected by the deteriorating economic situation and decisions taken to limit the spread of Covid-19. On the other hand, real estate tax (RET) revenues, taking into account that no revision of cadastral values was performed, were at the level of the previous year. Expenditures of the local government budget in the first quarter of 2020 grew slightly faster than revenues, amounting to 612.8 mln euro, which was by 35.4 mln euro or by 6.1% more than in the corresponding period last year. Maintenance expenses have increased by 24.9 mln euro or 5.1%, which was ensured by the increase of remuneration expenses by 16.1 mln euro or 6.3%, increase of subsidy and grant expenses by 4.6 mln euro or 34.5%, which consisted of a grant to merchants, as well as an increase in the transfer to the state budget by 9.3 mln euro, which can be explained by the statutory compensation of the Riga municipality for the negative impact of "Rīgas Satiksme" on the general government budget balance. On the other hand, expenditure on goods and services decreased by 4.4 mln euro or 3.1%.

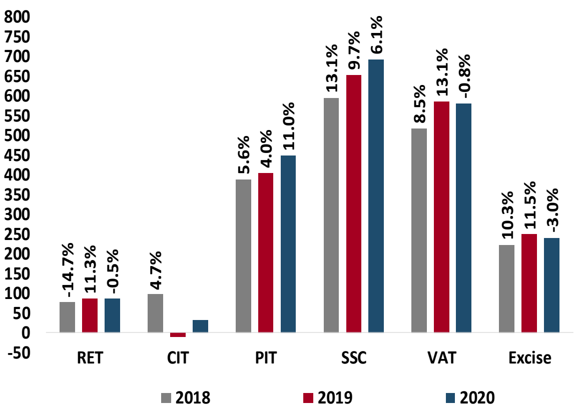
Source: The Treasury

Tax Revenue

Consolidated General budget Tax Revenue

	2019 I-III execution, mln	2020 I-III execution, mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %	January execution of the same period plan
Consolidated general budget tax revenue	**2045.4**	**2161.7**	**116.2**	**5.7%**	**99.7%**
Social security contributions	653.5	693.2	39.7	6.1%	*101.9%*
in State special budget	*630.0*	*669.6*	*39.6*	*6.3%*	*101.8%*
1% for the health financing	*23.2*	*23.7*	*0.5*	*2.1%*	*102.8%*
Value added tax	586.4	581.7	-4.7	-0.8%	94.4%
Personal income tax	405.0	449.6	44.6	11.0%	*115.3%*
in State budget	*81.7*	*87.6*	*5.9*	*7.2%*	*112.3%*
in Local government budget	*323.3*	*362.0*	*38.7*	*12.0%*	*116.0%*
Excise tax	249.2	241.6	-7.6	-3.0%	88.2%
Corporate income tax	-11.1	32.8	x	x	82.1%
Real estate tax	87.0	86.6	-0.4	-0.5%	*89.5%*
Informative:					
Social security contributions to the state funded pension scheme	143.5	149.3	5.8	*4.1%*	*x*

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

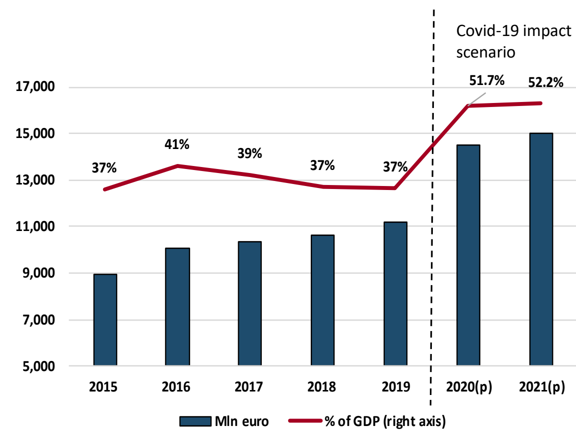


In the first quarter of the 2020 general budget tax revenue was 2161.7 mln euro, which was by 116.2 mln euro or 5.7% more than in the corresponding period of 2019. In the general budget, the increase in tax revenue compared to the corresponding period of the previous year was from such taxes as personal income tax (PIT), corporate income tax (CIT) and social security contributions, by 44.6 mln euro, 43.9 mln euro and 39.7 mln euro. It should be noted that at the beginning of last year, during the transition period of the CIT system reform, CIT repayments exceeded contributions, but this year the amounts paid have already increased significantly, which ensures the increase of total CIT revenues. In the first quarter, revenues from excise tax and VAT were by 7.6 mln euro or 3% and 4.7 mln eur or 0.8% lower than in the corresponding period of 2019. The decrease in revenue was influenced by extensions of payment periods, but in the case of excise tax also the decrease in consumption of excisable goods, which in the three months of the reporting period compared to the corresponding period before was observed for alcoholic beverages, oil products, natural gas that used as a fuel, and cigarettes, cigars, cigarillos. The fulfillment of the tax revenue plan in the first quarter of this year was ensured by the income from PIT and social security contributions collecting above the quarterly plan, by 59.6 mln euro or 15.3% and 13.2 mln euro or 1.9%. Although, the overall implementation of the plan was good in the first quarter, there was a non-implementation of the PIT plan in March due to the containment of the Covid-19 pandemic, which affected companies and they actively took advantage of tax deferral and payment extensions. In the first quarter, non-compliance with the plan was due to value added tax (VAT) and excise tax. The VAT plan was not fulfilled in the first quarter by 34.7 mln euro or 5.6%, but the excise tax plan for 32.2 mln euro or 11.8%.

General Government Debt

General Government Debt, mln euro,% of GDP

In order to finance the support measures adopted by the government, loans are made both in the domestic market by issuing domestic debt securities and in the international financial market, incl. additional issue of Eurobonds 550 mln euro to be redeemed in 2026, a new Eurobond of 1 billion euro issue with redemption in 2023 and the issue of domestic debt bonds with redemption in 2022 in the amount of 304.5 mln euro. At the same time, additional borrowing opportunities from international financial institutions are provided. On April 2020, a loan agreement was concluded with the Nordic Investment Bank, within the framework of which it is possible to attract long-term financing in the amount of 500 mln euro, Covid-19 mitigation and management measures, negotiations on borrowing measures with the Council of Europe Development Bank and the European Investment Bank will continue. Given the significant increase in borrowing, according to the current forecast, the general government debt level was expected to increase to 51.7% of GDP in 2020 and reach 52.2% of GDP in 2021. On April 2020, the international credit rating agency Fitch affirmed Latvia's long-term foreign currency sovereign credit ratings at the 'A-' level, but the outlook was revised to negative (previously - Stable). Although Fitch forecasts that the Covid-19 pandemic will have a large and disruptive impact on the Latvia's economy, however, the agency expects that the Latvian economy will recover already in 2021.



According to cash flow methodology

Source: The Treasury, Ministry of Finance of the Republic of Latvia, Eurostat, Latvia's Stability Programme for 2020. - 2023.