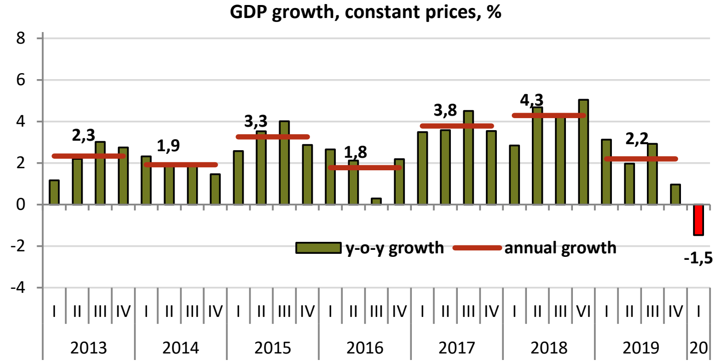
MACROECONOMIC AND BUDGETARY REVIEW 2020

No. 5

Main macroeconomic indicators	2019	Forecasts* 2020	2021	2022	2023
Gross domestic product (GDP)					
current prices (mln euro and growth, %)	30476	-7,4	6,5	5,3	5,2
constant prices (mln euro and growth, %)	27497	-7,0	5,1	3,1	3,1
GDP deflator *(y-o-y), %*	2,6	-0,5	1,3	2,0	2,0
Consumer price index *(y-o-y), %*	2,8	0,2	1,2	2,0	2,0
Average monthly gross wage (*euro and growth at current prices, %)*	1076	-1,0	3,0	5,0	5,0
Employment *(thsds and growth rate, %)*	910	-4,4	0,6	1,0	-0,1
Jobseeker rate *(annual average), %*	6,3	10,5	9,8	8,1	7,3
Exports of goods and services					
current prices (mln euro and growth, %)	18257	-14,8	7,7	4,6	5,7
constant prices (mln euro and growth, %)	17381	-10,3	6,5	3,0	4,0
Imports of goods and services, mln euro					
current prices (mln euro and growth, %)	18240	-16,3	9,0	6,3	6,5
constant prices (mln euro and growth, %)	18434	-11,5	6,8	3,2	3,4

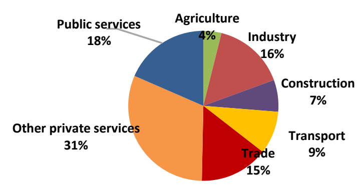
** Projections revised in June 2020 for the preparation of Latvia's medium term budget framework 2021-2023*

GDP growth, constant prices, %



GDP

Structure of value-added in 2019, %

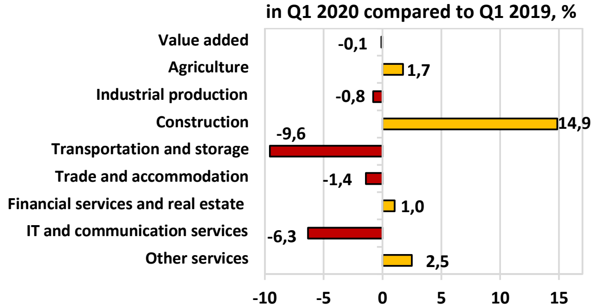


GDP growth of the Baltic states, % y-o-y

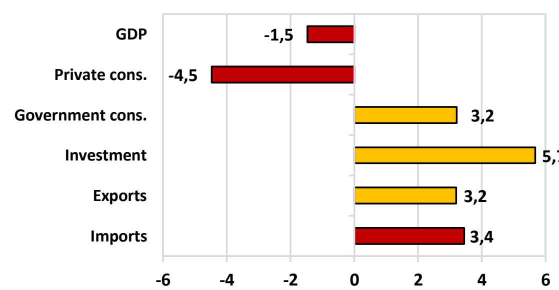
	19'II	III	VI	20'I
Latvia	2,0	2,9	1,0	-1,5
Lithuania	3,8	3,8	3,8	2,4
Estonia	3,9	4,8	3,9	-0,7

In the first quarter of 2020 compared to a corresponding period a year ago, Latvia's GDP contracted by 1.5%, while compared to the previous quarter GDP fell by 2.9%. It is the sharpest economic contraction since 2008-2009 crisis which was determined by both decline of transportation and financial services sectors 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. Due to measures that were introduced to contain spread of the virus, already in the first quarter strong contraction was registered in private consumption as well as in the service sectors directly affected by COVID crisis. First quarter data are just an indication of potential economic damage caused by COVID crisis, and in the following months several sectors and economy overall are going to demonstrate stronger declines. At the same time, some leading indicators suggest that the lowest point of this crisis has been in April and improvements are expected thereafter which is confirmed by economic sentiment indicators that have demonstrated positive changes in the EU and Latvia, however still remaining at the very low levels.

GDP growth by sectoral breakdown and from expenditure side in Q1 2020 compared to Q1 2019, %



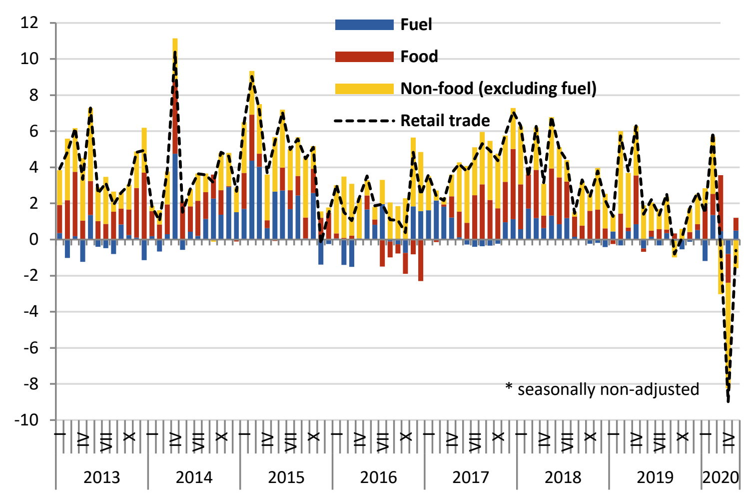
GDP breakdown



Economic contraction in the first quarter of 2020 was determined by falling private consumption caused by restrictions that have been introduced to limit spread of COVID-19 disease thus significantly reducing economic activity of consumers. At the same time, investments performed very well stimulated by construction growth that has helped to prevent even stronger GDP fall in the first quarter. Along with construction, positive contribution to economic growth in the first quarter was provided by professional services, real estate and public administration, education and healthcare sectors while the largest negative contribution came from transport sector which decreased by 9.6% y-o-y as well as unexpected fall in information and communication services sector - by 6.3% y-o-y. Arts, entertainment and recreation as well as accommodation and catering services also declined considerably - by 8.4% and 6.8% y-o-y respectively. However, negative developments in manufacturing that decreased by 1.2% y-o-y were determined by other factors while impact of COVID-19 will be more reflected in the second quarter data. At the same time, the value added generated by financial and insurance activities continued to decline - in the first quarter of 2020 by 4.6% y-o-y.

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

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



Retail trade

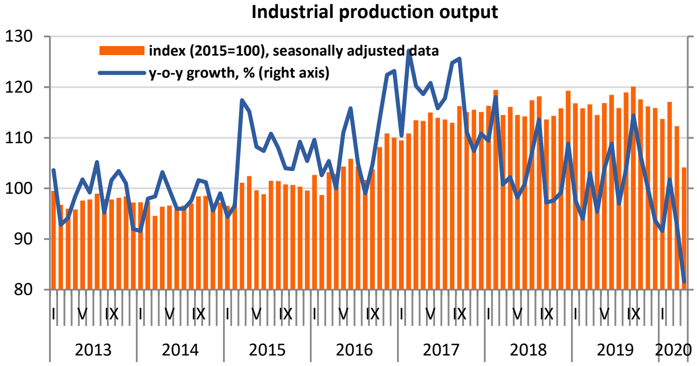
Structure of retail trade turnover in 2019, %

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

Total	**-0.7%**	Non-food (excl. fuel)	**-3.6%**
Food	**+2.4%**	Fuel	**+0.2%**

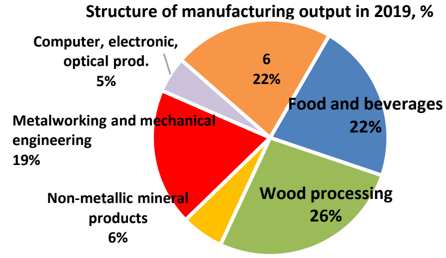
In May 2020 retail trade turnover in Latvia was slightly lower than a year ago - sales volumes declined by 0.6% y-o-y. This fall is considerably weaker than that in the previous month (-9%) which in April was directly affected by COVID-19 crisis. In May, retail volumes were positively affected by sales of food and fuel that increased by 1.6% and 3.3% respectively. Fuel trade was stimulated by falling fuel prices that were by 24.3% lower than a year ago. At the same time, trade volumes of other non-food products continued to decrease, however at a considerably slower rate than in March and April. In May, turnover of non-food products, excluding fuel, declined by 3.9% y-o-y that was mostly affected by strong contraction in retail sales of clothing and footwear.

Industrial production output



Industry

Structure of manufacturing output in 2019, %

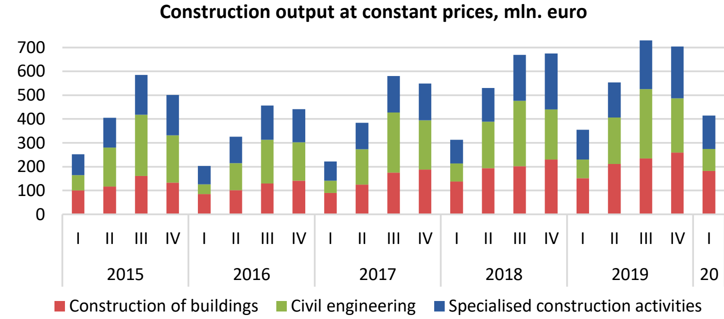


Industry, y-o-y growth, 2020 Jan.-April, c.a.

Industry total	**-4.1%**	Mining, quarrying	**+3.1%**
Manufacturing	**-4.4%**	Energy	**-4.5%**

In April 2020 compared to a corresponding month a year ago, industrial production output in Latvia declined by 9.2%, including manufacturing output contracted by 9% y-o-y which was sector's sharpest fall since 2009. In April, similar declines were registered in other industrial sectors - output in mining and quarrying decreased by 8.7% y-o-y, and electricity and gas supply fell by 10.8% y-o-y due to lower production and consumption volumes of electricity. It was expected that industrial production output in April would decline confirmed by the data published in March and determined by the crisis caused by COVID-19 disease in both Latvia and Latvia's trade partner countries as well as due to restrictions introduced to contain its spread. Manufacturing data suggest that in April output contraction was registered in majority of sub-sectors, however the strongest negative contributions were provided by fall in manufacture of vehicles and trailers (-57% y-o-y) as well as repair and installation of machinery and equipment (-39.4% y-o-y). Very strong output declines were demonstrated by manufacture of clothing and textiles as well as beverages. Output volumes decreased also in the largest manufacturing sub-sectors - wood processing and manufacture of food products. At the same time, in April output in several manufacturing sub-sectors reached record-levels, these sectors are printing and reproduction of recorded media, manufacture of electrical equipment and manufacture of chemical products.

Construction output at constant prices, mln. euro

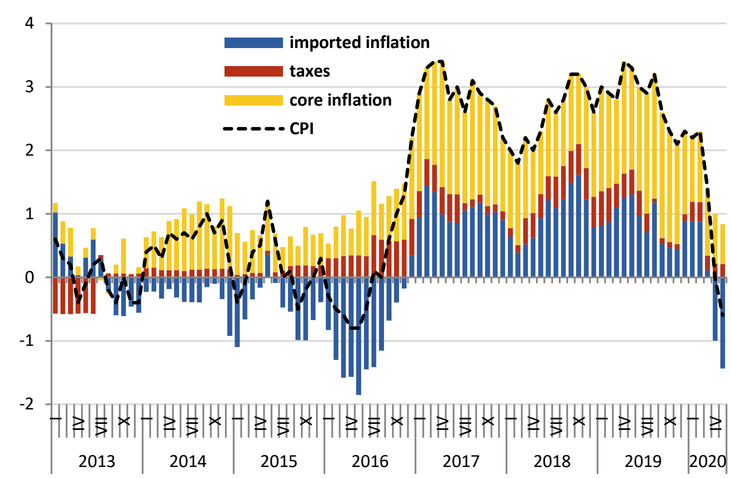


Construction

In the first quarter of 2020, construction sector demonstrated strong growth - sector's output measured in current prices increased by 16.9% compared to the output level a year ago. Sector's growth was mostly stimulated by construction of buildings that rose by 20.3%. Output of civil engineering structures and specialised construction activities was also high, increasing by 17.4% y-o-y and 12.4% y-o-y respectively. However, unlike in the previous quarters, the expected construction space as indicated in the granted building permits at the beginning of this year fell. In the first quarter of 2020 the expected construction space declined by 5.7% y-o-y suggesting that construction activity could contract in the following quarters. Moreover, construction sector's prospects are negatively affected by uncertainty caused by COVID-19 which is confirmed by declining construction sentiment indicator.

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

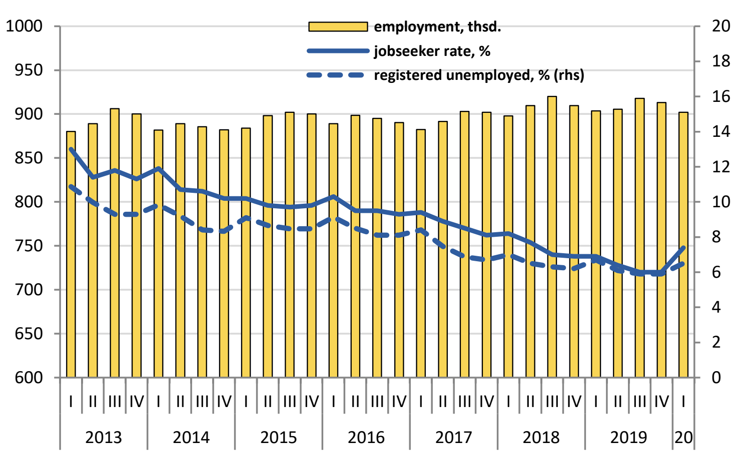
Inflation breakdown by origin, y-o-y, %



Inflation

In May 2020 compared to May of 2019, consumer prices decreased by 0.6%, hence in Latvia for the first time since June 2016 deflation was registered. Overall, prices for goods decreased by 1.6% y-o-y largely determined by price fall for energy, while prices for services increased by 1.8%. Weakening of inflation level was caused by both internal and external factors, however the strongest contribution was provided by sharp oil price fall in the global markets. Thus, in May average fuel price in Latvia compared to the price registered in May 2019 was lower by 24.3%. Falling oil prices also affected prices for gas which declined by 18.6% in May. While price fall for electricity by 3% y-o-y was determined by declining electricity prices in Nord Pool stock market due to warm weather as well as weaker economic activity during emergency situation associated with COVID-19. In the five months of 2020 average inflation in Latvia was still positive, constituting 1%.

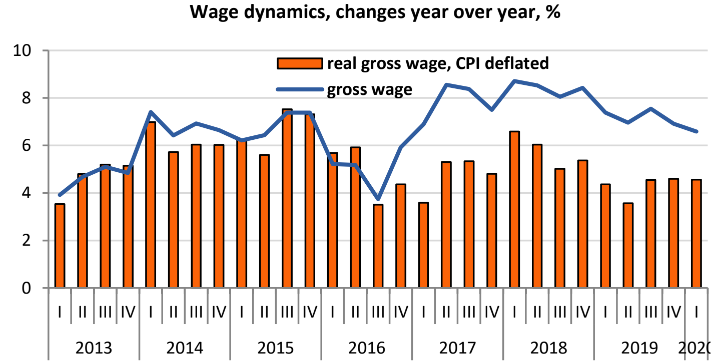
Unemployment rate, % of economically active population (15-74)



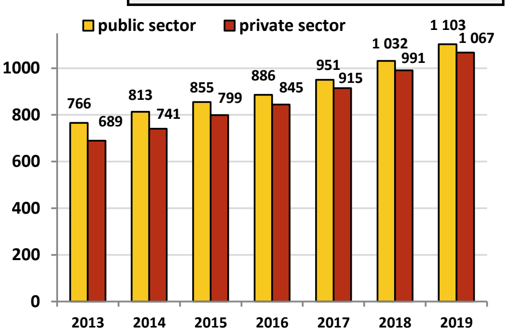
Employment

The impact of COVID-19 crisis has already been observed in the labour market data for the first quarter of 2020. The number of employed persons decreased by 0.2%, compared to the first quarter of 2019, while unemployment rate grew by 0.5 percentage points to 7.4% of economically active population, labour force survey data shows. An even faster increase in unemployment was recorded in the next two months, when the number of registered unemployed increased by 14.9 thousand or 24.2%, reaching 76.4 thousand at the end of May. Registered unemployment rate increased from 6.8% at the end of March to 8.4% at the end of May. In June, unemployment growth slowed down - up to 29 June the number of unemployed increased by 1.8 thsds and unemployment level constituted 8.6%. Number of job vacancies at the State Employment Agency fell to 17.1 thousand at the end of May 2020 and was by 48.7% lower than a year ago. In June, the number of vacancies started to increase - by 5% during the month reaching 17.9 thsds.

Wage dynamics, changes year over year, %

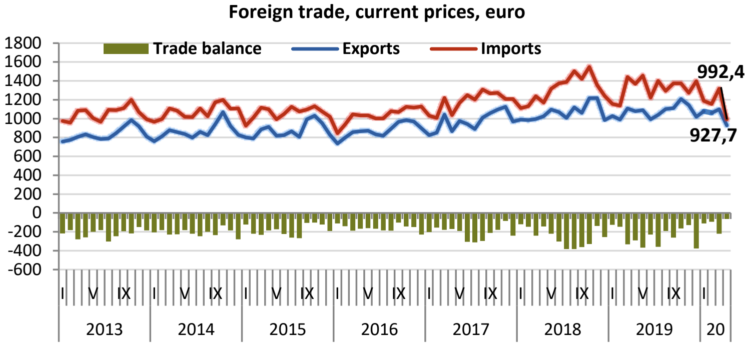


Wages, euro



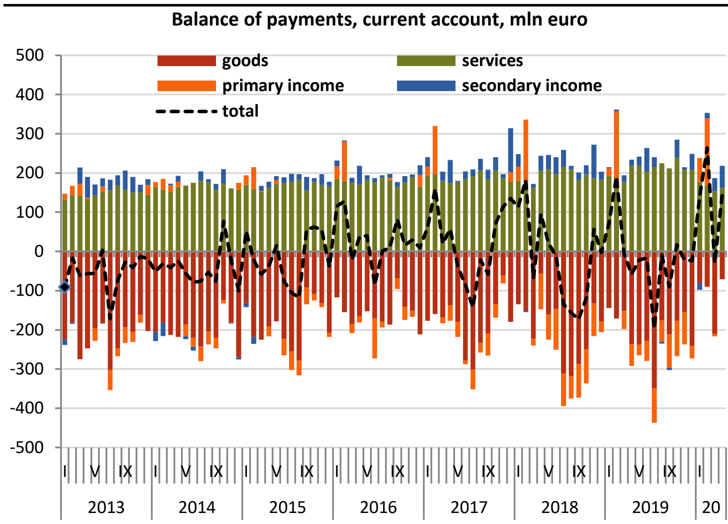
In the first quarter of 2020, average gross wage, compared to the corrresponding quarter of 2019, increased by 6.6% to 1100 euro. Despite the slowdown of economic growth, wages grew almost as fast as in 2019, when they increased by 7.2%. However, within the quarter wage growth rates gradually slowed down - to 5.0% in March. In the first quarter of 2020, wage growth rates in both private and public sector were very close - 6.5% and 6.7%, respectively. Higher salary still remained in the public sector, where the average wage was 1104 euro, while in the private sector it constituted 1100 euro. Real net wage increased by 4.3% in the first quarter of 2019, showing slightly higher growth than in 2019 overall, when real net wage increased by 3.9% y-o-y.

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



Foreign trade		
Exports, Jan-Apr 2020	Structure	Annual growth
Total	100%	-0,8%
Food	20.4%	12.3%
Mech/Electr appl	17.6%	10.1%
Wood	17.5%	-12.7%
Metals	9.2%	-0.3%
Chemical manuf.	8.1%	5.2%
Transport vehicles	4.9%	-28.6%
Mineral products	4.3%	-22.9%
Plastics	3.6%	5.2%
Others	14.5%	3.9%

In April 2020, the value of goods exports decreased by 13.9% y-o-y which was the sharpest export fall since October 2009. This contraction was largely determined by COVID-19 pandemic. Decline of external demand was already expected, as suggested by economic sentiment indicators in the EU, US and China, as well as by revised economic growth forecasts by major international organizations. Export contraction was observed in all commodity groups. The largest decline was recorded in exports of vehicles - by 59.8% y-o-y, due to decrease in re-exports of cars. Significant decline was also recorded in exports of wood and articles thereof, as well as in exports of agricultural and food products, by 15.9% and 8.2% y-o-y respectively. In the first 4 months of 2020 overall, the value of exported goods decreased by 0.8% compared to corresponding period of the last year. The largest contribution to this decline was provided by a 12.7% fall in the value of exports of wood and wooden products. Exports of mineral products also decreased significantly (-22.9%), which was determined by decrease in oil exports due to falling oil prices and decrease of electricity exports due to smaller electricity consumption. Exports of transport equipment decreased by 28.6%, largely due to decline in car re-exports. The impact of pandemic on imports was even more pronounced. In April, the value of imported goods decreased by 27.4% y-o-y, and in the four months by 8.7% compared to corresponding period of the last year.



Current account

In April 2020, Latvia’s balance of payments current account recorded a surplus of 147 mln euro, in contrast to 58 mln euro deficit in April of the last year. Improvements in the current account were mostly driven by changes in the goods account. Since the value of imported goods decreased faster than exports of goods, goods account deficit shrank by 165 mln euro to 71 mln euro. While exports of services declined faster than imports of services, thereby the surplus of services account dropped by 56 mln euro to 162 mln euro. Deterioration in the services account was driven by weak performance of transport services and lower foreign tourist spending compared to April of the last year. Nevertheless, the services account surplus fully offset the goods account deficit. Due to foreign residents' income decline from financial assets in Latvia, primary income account deficit dropped by 56 mln euro. While secondary income account surplus grew by 40 mln, largely because of the higher inflow of EU funds’ investments. Overall, in the first 4 months of 2020 current account surplus constituted 521 mln euro. This was stimulated by narrowing of the goods account deficit due to a sharp decline in imports of goods, as well as lower amount of dividends paid to foreign investors.

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

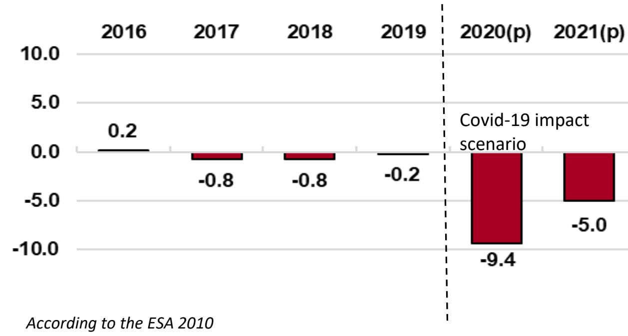
	17'IV	18'I	II	III	IV	19'I	II	III	IV	20'I
GDP, constant prices, %	3,5	2,8	4,7	4,4	5,0	3,1	2,0	2,9	1,0	-1,5
GDP, current prices, %	6,5	6,8	8,6	8,7	9,3	7,2	5,2	5,3	2,4	-0,2
Inflation, %	2,6	2,0	2,4	2,9	2,9	2,9	3,3	2,9	2,2	1,9
Nominal wages, %	7,5	8,7	8,5	8,0	8,4	7,4	7,0	7,5	6,9	6,6
Real wages, CPI deflated, %	4,8	6,6	6,0	5,0	5,4	4,4	3,6	4,6	4,6	4,6
Employed persons, %	1,3	1,8	2,0	1,9	0,8	0,6	-0,4	-0,2	0,4	-0,2
Unemployed, % of active pop.	8,1	8,2	7,7	7,0	6,9	6,9	6,4	6,0	6,0	7,4
Productivity, %	2,2	1,1	2,6	2,4	4,2	2,5	2,4	3,2	0,6	-1,3
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	5,2	-1,1	2,0	-1,5	3,7
Goods imports, %	9,5	6,8	11,7	14,2	12,3	7,3	4,9	-5,7	-2,5	-1,8
Trade balance, mln euro	-503,0	-507,5	-664,1	-1124,2	-723,7	-606,6	-886,6	-812,3	-669,8	-423,6
Current account, % of GDP	4,5	3,6	1,4	-6,1	-0,8	3,8	-1,3	-3,7	-0,3	5,5

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

According to the Eurostat, 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 revised by submitting a notification to Eurostat by the Central Statistical Bureau (CSB) in October this year. Taking into account the development of the situation related to the spread of Covid-19 and the restrictions approved by the government from March 13 this year, the Ministry of Finance (MoF) has developed macroeconomic forecasts, which are included in the Latvia's Stability Programme for 2020. - 2023, stipulating the drop of Latvia's GDP by 7% in 2020. Based on the forecast of macroeconomic indicators, as well as taking into account both the negative impact of Covid-19 on Latvia's economic growth and the support measures introduced by the Latvian government to mitigate the impact of the crisis, the general government budget deficit is projected at 9.4% of GDP this year, but in 2021, at a unchanged policy, deficit will reduce to 5.0% of the GDP. In June this year the Ministry of Finance updated the macroeconomic development scenario, maintaining the GDP decrease forecast of 7.0% in 2020, while in 2021 it envisages faster growth of 5.1%. The government has approved (19/06/2020) the planned amount of support measures in the amount of 3.4 billion euro or 12% of GDP, of which a direct negative impact on the general government budget balance is 1.3 billion euro or 4.5% of GDP.

General government budget balance

General government budget balance. % of GDP



According to the ESA 2010

Latvia's Stability Programme for 2020. - 2023.

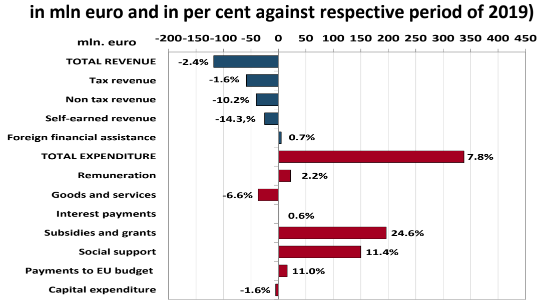
Consolidated General Budget

Budget Revenue and Expenditure

	2019 I-V execution mln euro	2020 I-V execution mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	4827.1	4709.2	-117.9	-2.4%
Expenditure	4312.7	4650.5	337.8	7.8%
Financial Balance	***514.4***	***58.7***	***-455.7***	
CONSOLIDATED STATE BUDGET*				
Revenue	4043.3	3961.9	-81.4	-2.0%
Expenditure	3673.0	4028.5	355.6	9.7%
Financial Balance	***370.3***	***-66.7***	***-437.0***	
State basic budget				
Revenue	2860.4	2774.0	-86.4	-3.0%
Expenditure	2614.2	2866.0	251.8	9.6%
Financial Balance	***246.2***	***-92.0***	***-338.2***	
State special budget				
Revenue	1207.1	1211.7	4.6	0.4%
Expenditure	1108.3	1218.5	110.2	9.9%
Financial Balance	***98.8***	***-6.9***	***-105.7***	
CONSOLIDATED LOCAL GOVERNMENT BUDGET**				
Revenue	1183.7	1165.3	-18.5	-1.6%
Expenditure	1039.6	1039.9	0.2	0.0%
Financial Balance	***144.1***	***125.4***	***-18.7***	

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

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



The constraints of the emergency and the overall slowdown in economic activity are reflected in the general budget. In the first five months of this year, the income of the general budget was 4709.2 mln euro, which was by 117.9 mln euro or 2.4% less than in the corresponding period last year. In the first five months of this year, non-tax revenues in the general budget have decreased by 40.2 mln euro or 10.2%, compared to January-May of the previous year, but self-earned revenues have decreased by 25.2 mln euro or 14.3%. However, the tax revenue decreased by 58.2 mln euros or 1.6% compared to January-May last year. The decrease in tax revenues compared to the corresponding period of the previous year has been observed since March, which was determined both by the decline in economic activity due to the set restrictions and the granted extensions of tax payment terms.

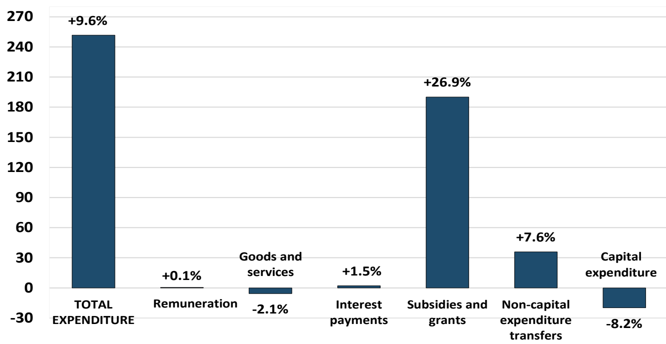
The total budget expenditures in the five months of this year amount to 4650.5 mln euros, which was by 337.8 mln euro or 7.8% more than in the corresponding period of 2019. The increase in general budget expenditures in five months is determined by their increase in social support, increasing funding for the health sector, as well as the support measures adopted by the government to overcome the consequences of the Covid-19 crisis. In 2020, the most significant increase in expenditure in the central government consolidated budget was observed for subsidies and grants, increasing by a total of 196.2 mln euro or 24.6% compared to 2019. It is related to the allocation of 100 mln euro to the financial institution ALTUM to provide support for companies. There has been a significant increase in subsidies and grants for medical institutions, including for the restriction of Covid-19. The financing of the health sector in the consolidated general budget in five months has reached 478.2 mln euro, which was by 47.7 mln euro more than in January-May last year. Expenditures on social support in the first five months of this year were 149.9 mln euros or 11.4% more than last year.

In the first five months of this year, there was a surplus of 58.7 mln euros in the general budget, which was by 455.7 mln euro lower compared to the corresponding period last year. In the first five months of the year, State budget has a 66.7 mln euro deficit, while in the corresponding period of the last year it had 370.3 mln euro surplus. In the five months of this year, compared to the corresponding period of 2019, the state basic budget core budget expenditure has increased by 251.8 mln euros or 9.6%, but revenue decreased by 86.4 mln euros or 3.0%, creating deficit of 338.2 mln euros. Faster increase in expenditure in the state basic budget is related to government-approved support measures to mitigate the effects of COVID-19.

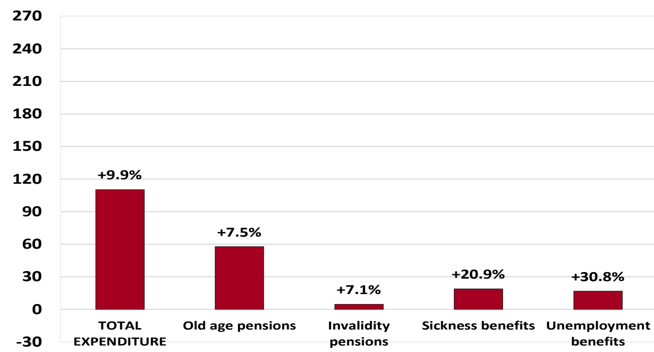
Source: The State Treasury, Eurostat, Latvia's Stability Programme for 2020. - 2023.

State Budget

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



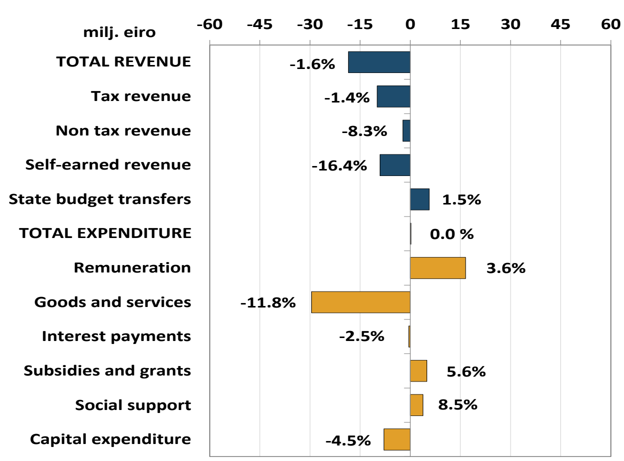
State Special Budget Expenditure in I-V 2020
(cash based changes in mln euro and in per cent against respective



According to the State Treasury published information, the State basic budget in the first five months of this year had a 92.0 mln euro deficit, while in the corresponding period of the last year there was a surplus of 246,2 mln euro. The State basic budget revenue in the first five months of this year reached 2774.0 mln euro and compared to January-May 2019, revenues decreased by 86.4 mln euros, or 3.0%. Separate tax revenues in five months of this year exceed revenues in the corresponding period last year. The corporate income tax (CIT) revenue has increased, reaching 70.3 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 growth of total CIT revenues. However, expenditures in the first five months of this year, compared to the corresponding period of 2019, have increased - by 251.8 mln euro or 9.6%. The largest increase in expenditure was observed for subsidies and grants, which increased by 190.1 mln euro compared to the corresponding period of the previous year, comprising 897,9 mln euro or 26,9%, due to a larger amount of subsidies and grants to health care institutions, as well as the allocation of funding to the ALTUM financial institution (100 mln euro) to support companies. Other groups of state basic budget expenditures show a moderate increase or decrease in expenditures compared to January-May 2019. Capital expenditures in the core budget were lower than in five months of the last year by 19.8 mln EUR or 8.2%, were but expenditures on goods and services were made by 5.7 mln euro or 2.1% less.

In the first five months of 2020, the state special budget deficit was 6.9 mln euro, as opposed to 98.8 mln euros surplus in the corresponding period last year. Special budget expenditures in the first five months of the year amounted to 1218.5 mln euro, which was by 110.2 mln euro or 9.9% more than in the corresponding period of 2019. Expenditure on pensions in the state special budget was by 62.7 mln euro or 7.3% higher than in the first five months of last year, which was largely influenced by the indexation of pensions carried out in October last year. Expenditure on pensions in the state special budget generally corresponds to the planned level of expenditure. Expenditure on other social support has increased by 46.5 mln euro or 19.3%. Expenditures on unemployment benefits in the five months of this year have significantly increased, compared to the corresponding period of the previous year, by 16.8 mln euros or 30.8%, reaching 71.5 mln euro. It should be noted that expenditure on unemployment benefits has been increasing since January, which can be explained by the increase in the number of newly granted recipients of unemployment benefits at the end of 2019, due to the changes of the duration and amount of the benefit from January the 1st this year. In May, expenditure on unemployment benefits was 63.4% higher than in May last year, which can be explained by the sharp increase in registered unemployment since the end of March. Expenditures on sickness benefits in the state special budget in five months of this year have been made by 18.9 mln euro or 20.9% more than last year, reaching 109.4 mln euros. Especially in April-May, expenditure on sickness benefits increased faster than in the corresponding period of 2019 (about 30%). According to the State Social Insurance agency (SSIA) data, the number of benefit recipients increased by 24% in April, while in May, as the number of benefit recipients even decreased (compared to May 2019), the average amount of benefit per case increased by 34%. According to the SSIA data, the number of paid days per case increased by 7 days in April. It should be noted that until 18/06/2020, sickness benefits paid in connection with Covid-19 amounted to only 1 mln euro.

Revenue and Expenditure in I-V 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 five months of 2020, the consolidated local government budget surplus was 125.4 mln euro, as opposed to 144.1 mln. euro surplus in the corresponding period last year. Local government budget revenue in five months of this year amounted to 1165.3 mln euros, which is by 18.5 mln euro or 1.6% less than in the corresponding period of the previous year. The decrease was observed in all revenue items, except for personal income tax (PIT) revenue, which, still exceeding the planned, increased by 13.8 mln euro or 2.5% and reached 563.1 mln euro in the first five months of this year compared to the previous year. The increase in PIT revenue was mainly due to the settlement of dividend payments at the end of 2019 for wcich taxes were paid in January 2020.

Consolidated local government budget expenditures in the first five months of this year were at the level of January-May 2019, increasing by only 0.2 mln euro and comprising 1039.9 mln euros. Maintenance expenses have increased by 8.1 mln euro or 0.9%, which was ensured by the increase of remuneration expenses by 16.5 mln euro or 3.6%, increase of subsidy and grant expenses by 5.0 mln euro or 5.6%, which consisted of a subsidies to companies that provide public transport services. On the other hand, expenditure on goods and services has decreased by 29.5 mln euro or 11.8%. It should be noted that the decision made by the government to increase additional borrowing by 150 mln euro for the investment projects important for the economy will ensure a high level of expenditure in the local government budget, promoting economic recovery.

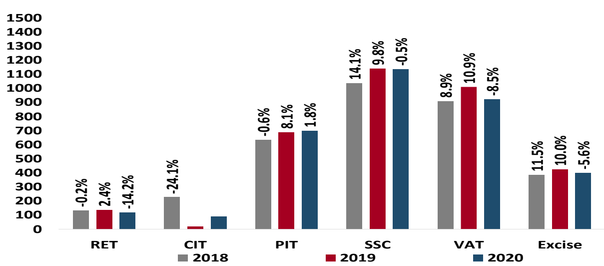
Source: The Treasury

Tax Revenue

Consolidated General budget Tax Revenue

	2019 I-V execution, mln euro	2020 I-V 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	**3538.7**	**3480.5**	**-58.2**	**-1.6%**	**91.8%**
Social security contributions	1140.1	1134.7	-5.4	-0.5%	*94.6%*
in State special budget	*1099.7*	*1096.0*	*-3.7*	*-0.3%*	*94.5%*
1% for the health financing	*39.8*	*38.7*	*-1.1*	*-2.9%*	*97.1%*
Value added tax	1009.7	924.4	-85.4	-8.5%	85.6%
Personal income tax	687.6	700.3	12.7	1.8%	*107.6%*
in State budget	*138.3*	*137.2*	*-1.1*	*-0.8%*	*105.4%*
in Local government budget	*549.4*	*563.1*	*13.8*	*2.5%*	*108.1%*
Excise tax	425.0	401.3	-23.6	-5.6%	86.0%
Corporate income tax	20.7	91.0	-	-	68.9%
Real estate tax	137.7	118.1	-19.5	-14.2%	*82.7%*
Informative:					
Social security contributions to the state funded pension scheme	243.2	247.4	4.2	*1.7%*	-

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



General budget tax revenue in the first five months of this year was 3480.5 mln euro, which is by 58.2 mln euro or 1.6% less than in the corresponding period of 2019. In total in five months the tax revenue plan was fulfilled by 91.8% or the revenue was by 311.4 mln euros lower than planned. For some taxes, the revenue in five months of this year exceeds the revenue in the corresponding period last year.

One of the few taxes in which an increase in revenue is observed in five months compared to the corresponding period of 2019 is the CIT. In five months of this year, CIT revenues increased by 70.3 mln euros compared to the corresponding period in 2019. 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 the total CIT revenue. Revenues from PIT were received in the largest amount, respectively by 12.7 mln euros or 1.8% compared to the corresponding period last year, which can be explained by a significant overrun of the PIT plan in January and February, when settling dividends at the end of 2019.

The decrease in tax revenues compared to the corresponding period of the previous year has been observed since March, which was determined both by the decline in economic activity due to the set restrictions and the granted extensions of tax payment terms. In five months, extensions of tax payment terms have already been granted for 170 mln euros, including about half of them on the basis of the provisions of the Law “On Measures for the Prevention and Management of State Threats and their Consequences Due to the Spread of Covid-19”. The largest decrease compared to the corresponding period of 2019 was in value added tax (VAT), excise tax and real estate tax (RET) revenues.

In the five months of 2020, VAT revenue was 924.4 mln euros, which is by 85.4 mln euros or 8.5% less than in the corresponding period of 2019. The largest reductions in contributions came from taxpayers involved in trade and repair of cars and motorcycles, the forest sector, as well as electricity, gas, steam and air conditioning supply, transport and storage.

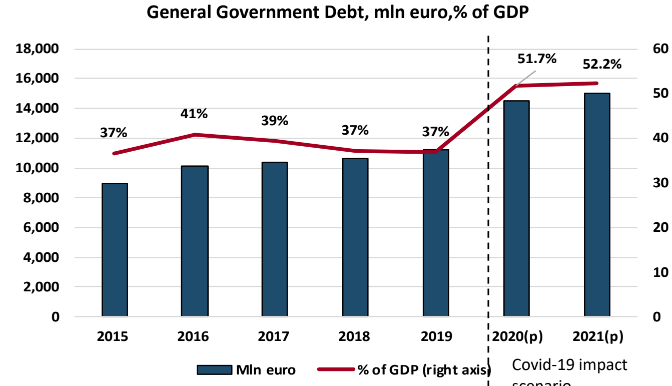
Excise tax revenue in five months of this year is 401.3 mln euros, which is by 23.6 mln euros or 5.6% less than in January-May last year. According to the information provided by the State Revenue Service (SRS), the decrease in excise tax revenues was determined by the lower consumption of excisable goods.

According to the data of the CSB, in March and April this year retail sales in Latvia decreased, which was reflected in lower tax revenues. Social insurance contributions to the general budget in January-May were made by 5.4 mln euros or 0.5% lower than last year. The sharpest decline in contributions has been in the accommodation and food service sector and in the arts, entertainment and leisure sector, where some companies have been using the opportunity to claim downtime benefits since mid-March. Social security contributions paid by the transport and storage sector also declined significantly, especially in May.

General Government Debt

In order to finance the adopted support measures, loans are made both in the domestic market by issuing domestic debt securities, as well as in the international financial market, incl. additional issue of Eurobonds to be redeemed in 2026 in the amount of 550 mln euro, issue of new Eurobonds with redemption in 2023 in the amount of 1 billion euro and 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 9, 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. On 13 May 2020, the Board of Governors of the Council of Europe Development Bank (EASO) approved a loan of 150 mln euro to Latvia to support the government's measures to limit and mitigate COVID-19. Given the significant increase in borrowing, according to the current forecast, the general government debt level is 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.

General Government Debt, mln euro,% of GDP



According to the ESA 2010

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