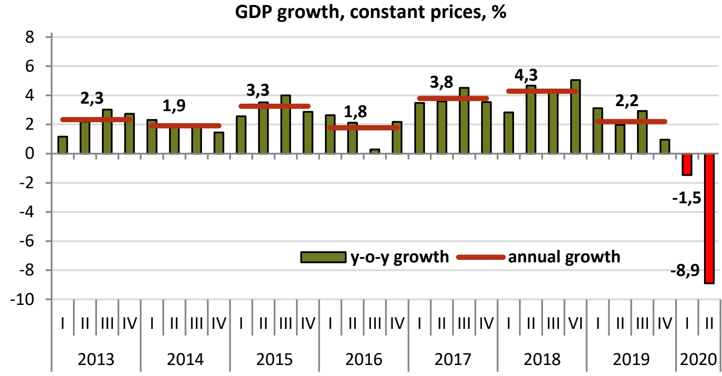
MACROECONOMIC AND BUDGETARY REVIEW 2020

No. 7

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

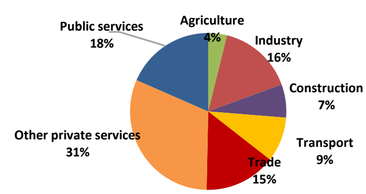
** Projections revised in June 2020 for the preparation of Latvia's medium term budget framework 2021-2023*

GDP growth, constant prices, %



GDP

Structure of value-added in 2019, %

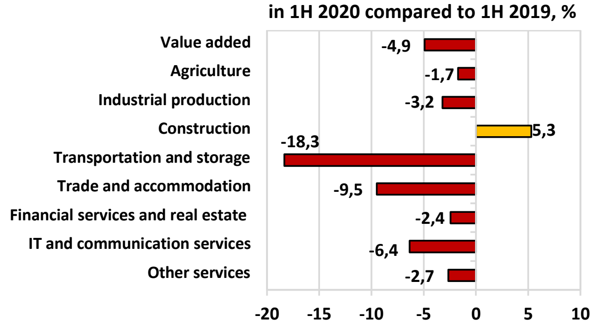


GDP growth of the Baltic states, % y-o-y

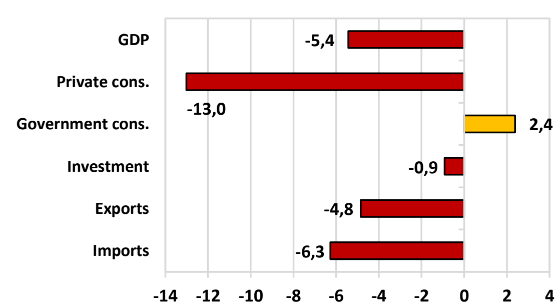
	19'III	IV	20'I	II
Latvia	2,9	1,0	-1,5	-8,9
Lithuania	3,8	3,8	2,4	-4,2
Estonia	6,3	5,3	-0,7	-6,9

In the Q1 2020 compared to a corresponding period a year ago, Latvia's GDP declined by 1.5%, while in the second quarter economic contraction became stronger reaching 8.9% as the negative impact stemming from the COVID-19 crisis increased. This is the sharpest GDP fall since 2010, nevertheless economic contraction was not as strong as previously projected because production sectors were more resilient to the crisis and service sectors managed to recover faster than expected. Also, the depth of economic contraction was not as strong as during the previous crisis of 2009-2010 when GDP fall exceeded 10% for five consecutive quarters. Economic downturn in the second quarter was determined declining private consumption, driven by a sharp decline in accommodation and food service activities, arts, entertainment and recreation, commercial services and transportation sector. The leading indicators suggest that the lowest point of this crisis has been overcame in the second quarter and in the following quarters economic activity is going to resume gradually. Economic sentiment indicator has been improving for the fourth consecutive month in August, both in the EU and Latvia, however it has not yet returned to the long-term average level.

GDP growth by sectoral breakdown and from expenditure side in 1H 2020 compared to 1H 2019, %



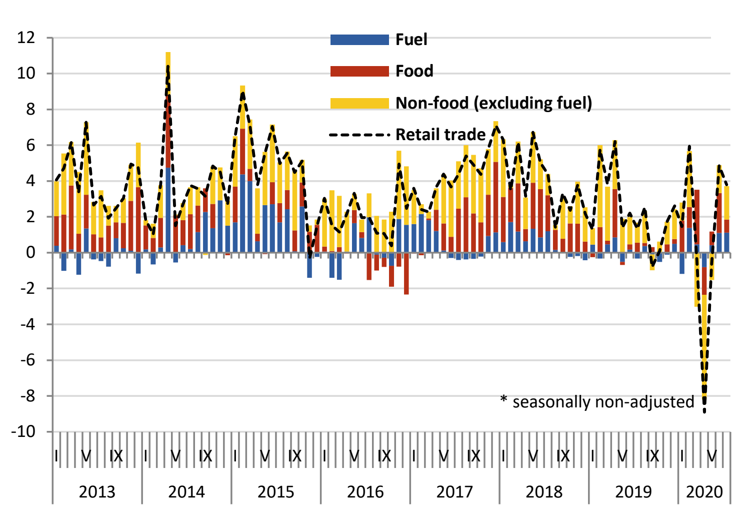
GDP breakdown



Economic contraction in the first half 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 consumers activity. At the same time, investments performed rather well, decreasing by only 0.9%, stimulated by a 5.3% increase in the construction sector. With exports declining more slowly than imports, net exports made a positive contribution and the economic downturn was also limited by a 2.4% increase in public consumption expenditures. From the sectoral side, the economic contraction was most significantly affected by a decline of 18.3% in the transport sector. Accommodation and food service activities fell by 39.5%, arts, entertainment and recreation - by 27.1% and information and communication services sector - by 6.4% in the first half of 2020. The first half of the year also saw declines in other service sectors, as well as in agriculture and manufacturing. A slight increase in the first half of 2020 was recorded only in the industry, except manufacturing, - by 0.4% and in public administration and defense - by 1.4%, compared to the first half of 2019.

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

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



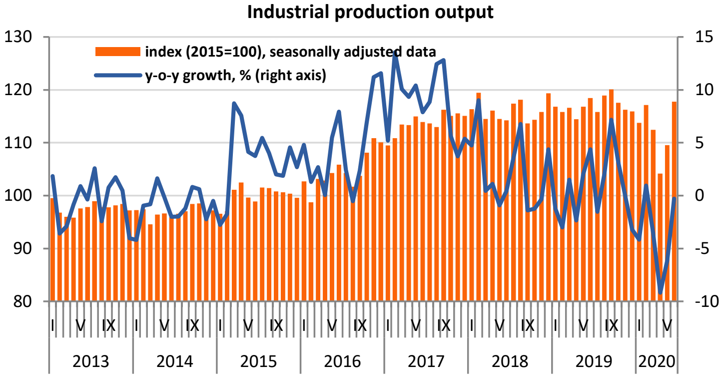
Retail trade

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

Total	**+0.7%**	Non-food (excl. fuel)	**-1.3%**
Food	**+2.7%**	Fuel	**+1.9%**

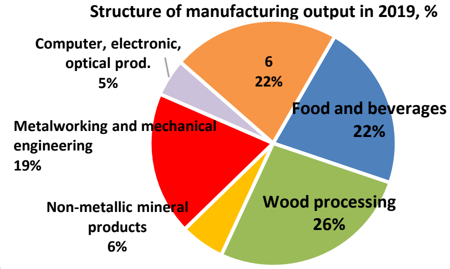
In July, retail trade compared to a corresponding month a year ago grew by 3.8%. Growth was stimulated by increasing sales of non-food products as well as rise of trade in food stores. Total retail trade of non-food products increased by 5.1% y-o-y largely determined by growth in the sales of fuel by 6.8% y-o-y. Among non-food products, turnover increased also for retail sales of electrical household appliances, medical and orthopedic goods, information and communication equipment as well as sales via mail and internet. Meanwhile, retail trade of food rose by 1.7% y-o-y in July. Considering the fluctuating developments that were observed in the trade sector this year, in the seven months overall retail trade turnover increased by only 0.7%.

Industrial production output



Industry

Structure of manufacturing output in 2019, %

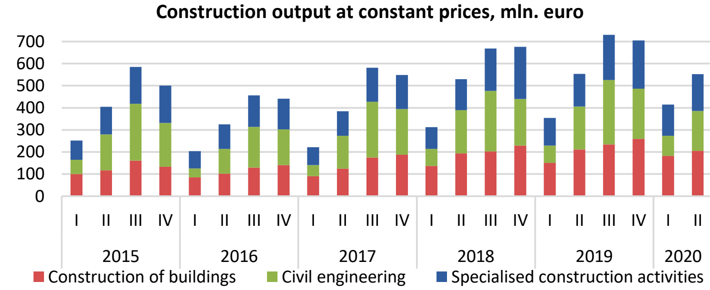


Industry, y-o-y growth, 2020 Jan.-June, c.a.

Industry total	**-3.8%**	Mining, quarrying	**+3.6%**
Manufacturing	**-4.5%**	Energy	**-2.4%**

In June of 2020, situation in industrial production sector continued to improve and sector's output was close to last year's level declining by only 0.3% y-o-y. However, overall in the first half of 2020 industrial production output demonstrated rather strong contraction - by 3.8% y-o-y. Output volumes in manufacturing declined by 2.3% y-o-y in June which is significantly lower fall than in the previous two months when sector's contraction in April and May reached 8.9% y-o-y and 7.0% y-o-y respectively. Hence, in the first half of this year manufacturing output has been lower than in the corresponding period of the last year by 4.5% determined not only by COVID-19 crisis but also weak performance in the wood processing sub-sector at the beginning of 2020 due to last year's base effects as well as collapse of output in several mechanical engineering sub-sectors due to weaker external demand. Following the output growth in May, wood processing again demonstrated fall in June - by 1.9% y-o-y. Manufacture of food products maintained the last year's output level. However, output of fabricated metal products collapsed to the levels registered in 2018 and contracted for the fourth consecutive month - in June by 8.9% y-o-y. Output in other manufacturing sub-sectors also decreased however the rates of decline were weaker than in the previous months. While chemical production as well as output of printing and reproduction of recorded media continued to increase and compared to June of the previous year expanded by 21.8% and 3.0% respectively.

Construction output at constant prices, mln. euro

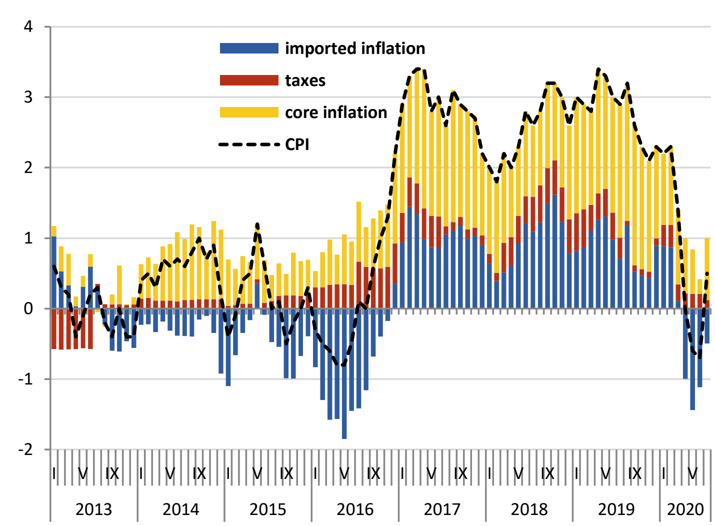


Construction

Following the strong expansion of construction output in the Q1 2020 (+16.9% current prices), sector's growth slowed down in the Q2 2020 when construction output was at the same level as a year ago. In the second quarter, fall was registered in construction of buildings - by 2.5% y-o-y, driven by lower construction volumes of residential buildings, hotels, industrial buildings and warehouses, as well as in construction of civil engineering that contracted by 7.9% y-o-y. While specialised construction activities continued to increase in the second quarter - by 13.9% y-o-y. In the Q2 2020, the expected construction space as indicated in the granted building permits fell by 20.9% y-o-y which was considerably stronger decline than that of the first quarter (-5.7%). This data suggest that construction activity could contract in the following quarters. Moreover, construction sector's prospects are 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

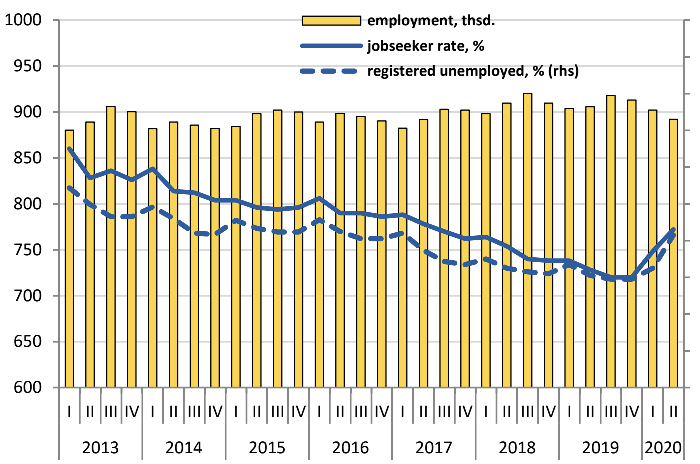
Inflation breakdown by origin, y-o-y, %



Inflation

Following the two months of deflation, in July price growth resumed and compared to a corresponding month a year ago consumer prices increased by 0.5%. This data confirm that the end of the state of emergency when the number of restrictions had been lifted has stimulated swift recovery of demand which reflected in the monthly price growth - by 0.2%. Unlike projected few months ago, oil price fall did not continue, thus in July prices for fuel declined at a considerably lower rate than during the previous three months - by 11.2% y-o-y, and compared to June fuel prices increased by 3.4%. Global food prices also demonstrated growing dynamics for the second consecutive month, and in Latvia food prices increased by 2.8% y-o-y. Compared to previous month, food prices rose by 0.6%, while normally in July food becomes cheaper. In addition, monthly price growth in July was determined by rising prices for goods and services associated with recreation and culture, restaurant and hotel services, passenger transport by air, goods and services for healthcare as well as rentals for housing.

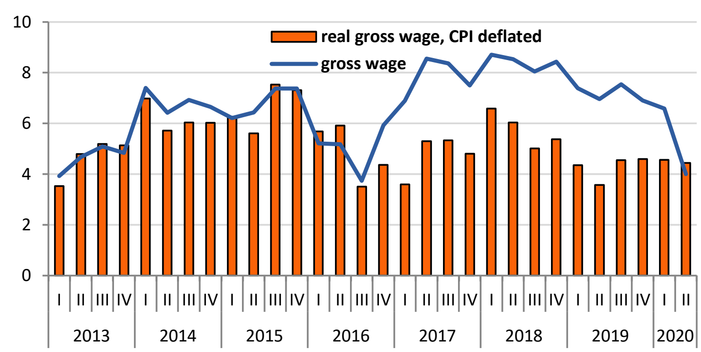
Unemployment rate, % of economically active population (15-74)



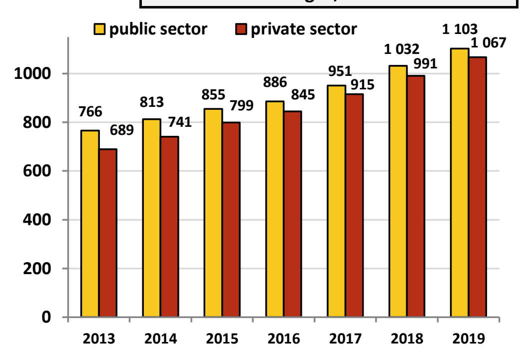
Employment

The impact of COVID-19 crisis in the labour market was felt already in the first quarter of 2020, when the number of employed persons decreased by 0.2%, compared to the corresponding quarter of 2019. In the second quarter the number of employed persons decreased by 1.5% y-o-y and unemployment rate grew by 2.2 percentage points to 8.6% of economically active population, labour force survey data showed. However, such an increase in unemployment can be assessed as quite moderate, with the unemployment rate returning only to the level of 2017 and lagging behind the heights reached during the 2009-2010 crisis. In July, the number of registered unemployed started to decline again and in August the decrease in the registered unemployment was already rather significant - by 2785 unemployed persons during the month, State Employment Agency data showed. Similarly, the number of job vacancies, which had fallen sharply since March, has started to increase again in recent months, reaching 19 thousand at the end of August, up 25% from the 2020 lows reached in May.

Wage dynamics, changes year over year, %



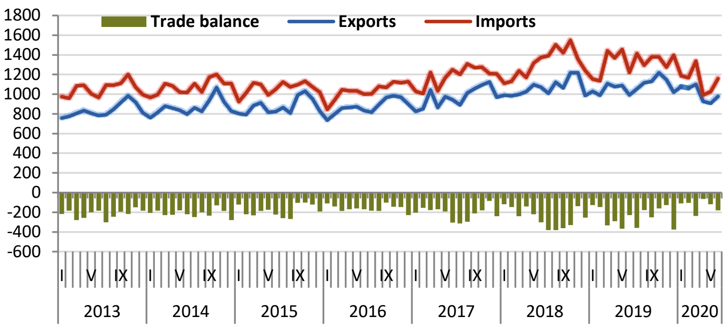
Wages, euro



In the first quarter of 2020, average gross wage, compared to the corrresponding quarter of 2019, had increased by 6.6%, but in the second quarter wage growth slowed down to 3.9% due to the COVID-19 crisis. In April 2020, compared to April 2019, average gross monthly wage increased by 3.6%, in May the annual growth rate was the lowest - 2.5%, but in June it increased again to 5.6%. In the second quarter of 2020, wage growth rates were the same in the private and in the public sector - 3.8%, compared to the corresponding quarter of 2019. Higher salary remained in the public sector, where the average wage was 1138 euro, while in the private sector it constituted 1108 euro. Average gross wage In the total economy constituted 1118 euro. Compared to the second quarter of 2019, wages increased the most in other service activities - by 14.3% and in professional service activities - by 8.0%, while in in accommodation and food service activities average wage declined by 16.5% and in transportation sector - by 5.1% y-o-y.

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

Foreign trade, current prices, euro

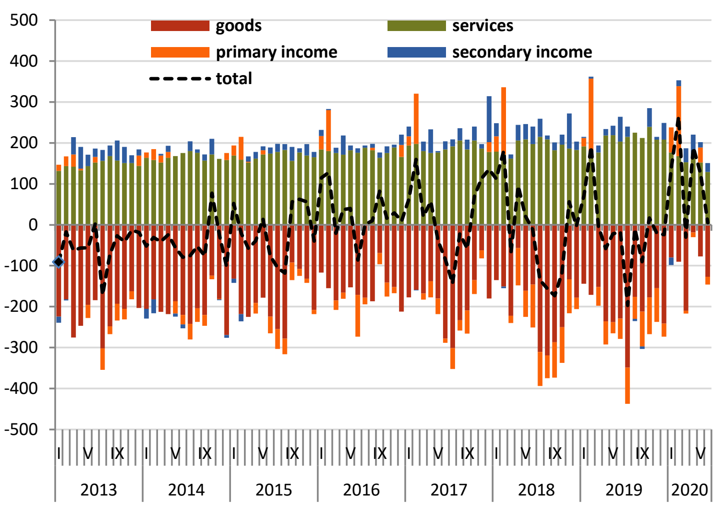


Foreign trade

Exports, Jan-June 2020	Structure	Annual growth
Total	100%	-3,7%
Food	19,8%	3.2
Mech/Electr appl	18,2%	9.1
Wood	17,6%	-11.2
Metals	9,1%	-3.2
Chemical manuf.	8,2%	2.9
Transport vehicles	4,9%	-29.8
Mineral products	4,4%	-23.4
Plastics	3.6%	0.3
Others	14,3%	-1.5

In June, the negative effect of COVID-19 on Latvia's external trade became considerably weaker, nevertheless both exports and imports of goods demonstrated contraction. The value of exported goods in current prices in June declined by 1.4% y-o-y. To compare, in April and May on average this decline constituted 15%. Thus, in the first half of 2020 the value of exported goods was by 3.7% lower than a year ago. The largest positive effect on the export results in June was provided by export performance of machinery and mechanical appliances, stimulated by export growth of electrical machinery and equipment by 30.0% y-o-y. Strong growth was also demonstrated by exports of chemical products – by 18.7% y-o-y. At the same time, exports of mineral products and transport vehicles continued to decrease – by 20.7% and 21.1% y-o-y respectively. In June, exports of agricultural and food products was by 7.3% lower than a year ago which was nearly three times weaker fall than in the previous month. Exports of wood and wooden products also declined by 7.3% y-o-y – smallest export fall in this product group this year. In June, imports of goods declined faster than exports, by 5.2% y-o-y, thus Latvia's external trade balance slightly improved. Overall, in the first half of 2020 imports of goods decreased by 11.7% y-o-y.

Balance of payments, current account, mln euro



Current account

In June 2020, Latvia's balance of payments current account recorded a surplus of 5 mln euro, in contrast to 17 mln euro deficit in June of the last year. As in previous months, current account fluctuations mainly driven by an improvement in the goods account balance. As the value of imports of goods decreased and the value of exports of goods slightly increased at the same time, the deficit of the goods account decreased by 102 mln. euro. While exports of services declined faster than imports of services. Nevertheless, the services account surplus of 129 mln euro fully offset the goods account deficit of 127 mln euro. Due to the lower dividend payments to foreign investors, primary income account deficit decreased by 31 mln euro. While secondary income account surplus deteriorated by 39 mln euro, largely because of lower EU funds investment inflow. In the first half of 2020 current account balance runs a surplus of 693 mln euro. This was stimulated by narrowing of the goods account deficit driven by sharp decline in imports of goods, as well as lower amount of dividends paid to foreign investors. COVID-10 pandemic has had a significant impact on foreign trade, but the decline in imports was faster than the decline in exports, thus contributing positively to the trade balance.

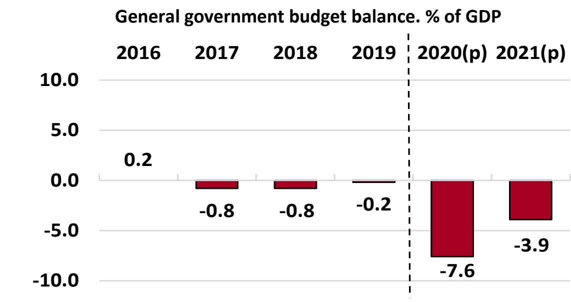
Main macroeconomic indicators, annual growth rates (unless stated otherwise)

	18'I	II	III	IV	19'I	II	III	IV	20'I	II
GDP, constant prices, %	2,8	4,7	4,4	5,0	3,1	2,0	2,9	1,0	-1,5	-8,9
GDP, current prices, %	6,8	8,6	8,7	9,3	7,2	5,2	5,3	2,4	-0,2	-9,7
Inflation, %	2,0	2,4	2,9	2,9	2,9	3,3	2,9	2,2	1,9	-0,4
Nominal wages, %	8,7	8,5	8,0	8,4	7,4	7,0	7,5	6,9	6,6	3,9
Real wages, CPI deflated, %	6,7	6,1	5,1	5,5	4,5	3,7	4,6	4,7	4,7	4,3
Employed persons, %	1,8	2,0	1,9	0,8	0,6	-0,4	-0,2	0,4	-0,2	-1,5
Unemployed, % of active pop.	8,2	7,7	7,0	6,9	6,9	6,4	6,0	6,0	7,4	8,6
Productivity, %	1,1	2,6	2,4	4,2	2,5	2,4	3,2	0,6	-1,3	-7,5
Retail trade, %	5,4	5,0	3,0	2,8	3,5	3,2	1,1	1,5	2,2	-1,5
Industrial production, %	4,5	0,2	2,9	0,9	-0,8	1,4	2,5	0,0	-2,3	-5,1
Goods exports, %	9,2	14,7	7,9	7,3	5,2	-1,1	3,4	-1,0	3,7	-10,9
Goods imports, %	6,8	11,7	14,2	12,3	7,3	4,9	-5,2	-2,2	-1,0	-21,5
Trade balance, mln euro	-507,5	-664,1	-1124,2	-723,7	-606,6	-886,6	-789,0	-665,8	-435,7	-364,1
Current account, % of GDP	3,6	1,4	-6,1	-0,8	3,8	-1,3	-3,7	-0,3	5,5	n.d.a.

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. The Ministry of Finance has updated the general government budget balance forecast for the medium term, taking into account the Treasury data on the execution of the consolidated general budget in the first half of this year, updated tax and non-tax revenue forecasts, medium-term basic expenditure of the central government basic budget according to the data as of 31 July 2020, additional budget expenditure, having regard to the fiscal impact of the support measures for mitigating the effects of Covid-19 approved by the Cabinet of Ministers and the Saeima by 26 July this year, as well as the most current state special budget expenditure forecasts. The general government budget deficit for 2020 is projected at 7.6% of GDP, which is significantly higher than planned in the Law "On the Medium-Term Budget Framework for 2020, 2021 and 2022" (deficit 0.3% of GDP), but lower than in the spring (deficit 9.4% of GDP), when the Stability Program 2020.-2023. year, the decline in GDP under the influence of Covid-19 has already been taken into account.

General government budget balance



According to the ESA 2010

Informative Report "On the forecasts of macroeconomic indicators, revenues and general government budget balances in 2021-2023"

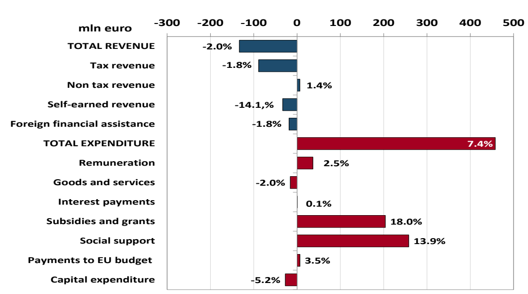
Consolidated General Budget

Budget Revenue and Expenditure

	2019 I-VII execution mln euro	2020 I-VII execution mln euro	Execution changes 2020/2019, mln euro	Execution changes 2020/2019, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	6797,2	6664,0	-133,2	-2,0%
Expenditure	6200,1	6657,9	457,8	7,4%
Financial Balance	***597,2***	***6,2***	***-591,0***	
CONSOLIDATED STATE BUDGET*				
Revenue	5704,6	5627,4	-77,2	-1,4%
Expenditure	5203,5	5716,2	512,7	9,9%
Financial Balance	***501,1***	***-88,8***	***-589,9***	
State basic budget				
Revenue	4004,3	3945,3	-59,0	-1,5%
Expenditure	3713,9	4060,4	346,5	9,3%
Financial Balance	***290,4***	***-115,1***	***-405,5***	
State special budget				
Revenue	1737,8	1718,9	-18,9	-1,1%
Expenditure	1555,4	1719,1	163,8	10,5%
Financial Balance	***182,4***	***-0,2***	***-182,6***	
CONSOLIDATED LOCAL GOVERNMENT BUDGET**				
Revenue	1679,7	1640,8	-38,9	-2,3%
Expenditure	1583,6	1545,8	-37,8	-2,4%
Financial Balance	***96,1***	***95,0***	***-1,1***	

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

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



According to the information published by the Treasury, the revenue of the consolidated general budget in the first seven months of 2020 was 6664 mln euro, but expenses were made in 6657.9 mln euro in the amount of 6.2 mln euro surplus. Due to the Covid-19 pandemic, significantly lower-than-expected tax revenues during the reporting period, in turn, the support measures approved by the government to mitigate the effects of Covid-19 and the increase in social benefits expenditures contributed to a faster increase in general budget expenditures, as a result, the general budget surplus this year is 591 mln euro lower than in the first seven months of last year.

Revenues of the consolidated general budget in the first seven months of this year were received by 133.2 mln euro or 2% lower than in the corresponding period last year, which was mainly affected by a decrease in tax revenue (4967.8 mln euro) by 88.7 mln euro or 1.8%. The decline in tax revenues is due not only to the contraction in economic activity, with GDP declining by 5.4% in the first half of the year, but also to tax extensions approved by the government as one of the support measures.

In the first seven months of this year, non-tax revenues in the general budget have increased by 6.6 mln euro or 1.4% compared to January-July of the previous year, amounting to 479.3 mln euro. The increase in non-tax revenues was driven by higher non-tax revenues in the general government budget, including from confiscation of criminal assets.

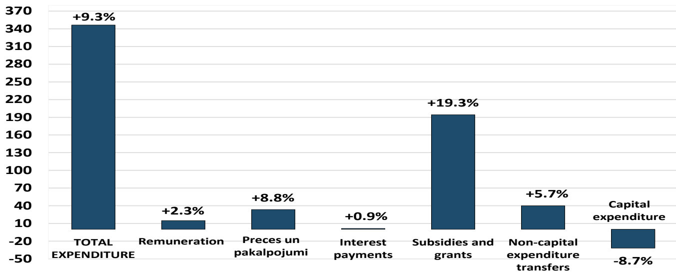
Expenditures of the consolidated general budget in the reporting period were made by 457.8 mln euro or 7.4% more than last year. The increase in expenditure was influenced by 257.9 mln euro or 13.9% higher expenditure on social benefits (2,108.3 mln euro), as well as an increase of 203.9 mln euro or 18% in subsidies and grants (1,337.6 mln euro). Higher subsidies and grants amounted to 100 mln euro allocation to the financial institution ALTUM to provide loans and provide financing with guarantees to the economic operators affected by the Covid-19 crisis, as well as the amount of subsidies and grants to medical institutions, including the restriction of Covid-19.

Expenditures on goods and services decreased by 15.5 mln euro or 2% and capital expenditures decreased by 27.2 mln euro or 5.2%, accordingly, reached 772.6 mln euro and 497.1 mln euro. The decrease in these expenditures is mainly observed in the local government budget. Lower levels of capital expenditures as well as expenditures on goods and services were forecasted in local governments this year, however, the significant decrease in expenditures on goods and services, especially in April-June, is most likely related to the reorientation of institutions to remote work.

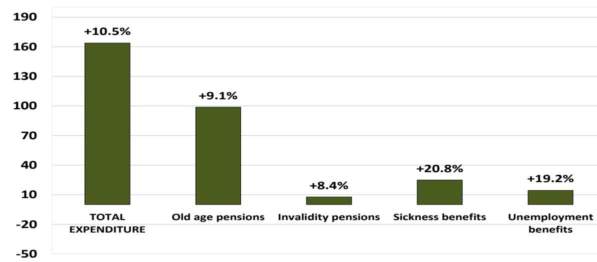
Source: The State Treasury, Eurostat, Informative Report "On the forecasts of macroeconomic indicators, revenues and general government budget balances in 2021-2023"

State Budget

State Basic Budget Expenditure in I-VII 2020
(cash based changes in mln euro and in per cent against respective period of 2019)



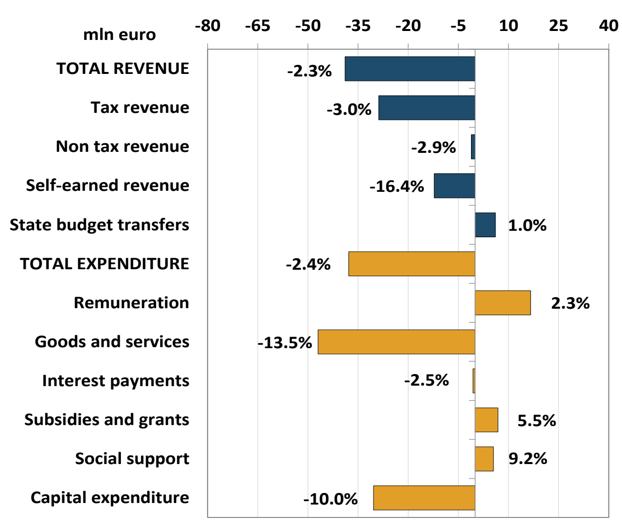
State Special Budget Expenditure in I-VII 2020
(cash based changes in mln euro and in per cent against respective period of 2019)



According to the information published by the Treasury, the State basic budget in the first seven months had a 115.1 mln euro deficit, while in the corresponding period of the last year there was a surplus of 290.4 mln euro. In the state basic budget, along with the decrease in tax revenues, the total revenues were also below the level of revenues for the first seven months of 2019. The state basic budget revenue in the first seven months of this year reached 3945.3 mln. euros and compared to January-July 2019, revenues decreased by 59 mln euro or 1.5%. Meanwhile, a significant increase is observed in the basic budget expenditures, by 346.5 mln euro or 9.3%. The increase in the state basic budget expenditure was determined by the funding directed to mitigate the effects of Covid-19, as well as higher expenditures for financing the health sector. Also in July, 17 mln euro unemployment benefits were paid from the stae basic budget, although as a rule, these expenditures are always financed from the central government special budget. The largest increase in expenditure was observed for subsidies and grants, which increased by 194.4 mln euro or 19.3% compared to the corresponding period of the previous year, related to higher subsidies and grants to health care institutions, the provision of financing to the financial institution ALTUM (100 mln euro) to provide loans and provide financing with guarantees to economic operators affected by the Covid-19 crisis. Other groups of basic budget expenditures show a much more moderate increase or decrease in expenditures compared to the corresponding period of 2019. Increase in expenses by 33.5 mln euro or 8.8% for goods and services should be noted, mainly due to growing expenditures in the Ministry of Defense. Meanwhile, lower than in the first seven months of last year in the basic budget by 31.7 mln euro or 8.7% were capital expenditures.

In the first seven months of this year, the state special budget deficit was 0.2 mln euro, as opposed to 182.4 mln euro surplus in the corresponding period last year. In the first seven months of this year, the state special budget revenue was received by 18.9 mln euro or 1.1% lower than in the corresponding period last year. In its turn, in the state special budget there is a significant increase in expenditures, respectively by 163.8 mln euro or 10.5%. It should be noted that expenditure on pensions in the first seven months of this year, taking into account the indexation made in October last year, has increased by 107.4 mln euro or 8.9% and is broadly in line with expectations. Expenditure on unemployment benefits in general (basic budget and special budget) was 41.8% higher this year than in January-July last year, which is mainly due to the rapid increase in the number of registered unemployed. According to the data of the State Employment Agency (SEA), the number of recipients of unemployment benefits increased by 29.5% in January-July compared to the corresponding period of 2019. The increase in the state special budget expenditure was also determined by 24.9 mln euro or 20.8% higher expenditure on sickness benefits. According to the State Social Insurance Agency (SSIA), the number of benefit recipients increased by 13% in July. According to the SSIA data, the average insurance contribution salary for benefit recipients has been on average more than 10% higher this year than last year, and the average number of paid days has significantly increased in recent months, thus affecting the total number of paid days.

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



Consolidated Local Government Budget

According to the data of the Treasury, revenues and expenditures in the local government budget have decreased by an equivalent amount, at the same time forming 95 mln euro for a surplus, which is by 1.1 mln euro less than in the corresponding period a year earlier. Local government consolidated budget revenue in the first seven months of this year amounted to 1640.8 mln euro, which is by 38.9 mln euro or 2.3% less than in the corresponding period of the previous year. Tax revenues in the local government budget, although received by 28.8 mln euro or 3% lower than in January-July 2019, is generally in line with the plan.

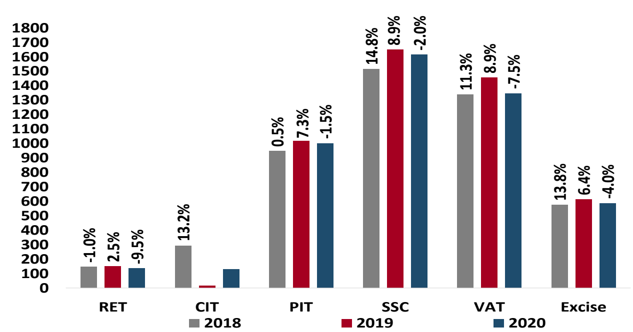
The level of consolidated local government budget expenditures in the first seven months of this year has decreased by 37.8 mln euro or 2.4% compared to the corresponding period last year, amounting to 1545.8 mln euro. Current expenses decreased by 30.4 mln euros or 2.8%. The decrease can be explained by a decrease in expenditure on goods and services by 47 mln euro or 13.5%, especially in April-June, could be related to the reorientation of institutions towards remote work. Capital expenditures were also lower (by 30.4 mln euro or 10%), especially for financing basic functions. On the other hand, expenses for compensation have increased by 16.6 mln euro or 2.3%. Subsidies and grants also increased by 6.8 mln euro or 5.5%. The increase was provided by subsidies and grants to businesses for the provision of public transport services.

Source: The Treasury

Tax Revenue

Consolidated General budget Tax Revenue	2019 I-VII execution, mln euro	2020 I-VII execution, mln euro	Execution changes 2020/2019, mln	Execution changes 2020/2019, %	January execution of the same period plan
Consolidated general budget tax revenue	**5056,5**	**4967,8**	**-88,7**	**-1,8%**	**90,8%**
Social security contributions	1649,0	1616,2	-32,7	-2,0%	*92,3%*
in State special budget	*1591,3*	*1561,6*	*-29,7*	*-1,9%*	*92,3%*
1% for the health financing	*57,1*	*54,7*	*-2,4*	*-4,3%*	*94,7%*
Value added tax	1456,6	1347,5	-109,1	-7,5%	85,2%
Personal income tax	1016,8	1001,9	-14,9	-1,5%	*104,1%*
in State budget	*204,1*	*197,8*	*-6,3*	*-3,1%*	*102,8%*
in Local government budget	*812,8*	*804,1*	*-8,7*	*-1,1%*	*104,5%*
Excise tax	612,3	587,6	-24,7	-4,0%	86,4%
Corporate income tax	15,3	129,8	-	-	74,6%
Real estate tax	151,3	137,0	-14,3	-9,5%	*87,4%*
Informative:					
Social security contributions to the state funded pension scheme	339,0	339,1	0,1	*0,0%*	-

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



Consolidated General budget Tax Revenue In the first seven months of this year received 4967.8 mln euro, which is by 88.7 mln euro or 1.8% less than in the corresponding period of 2019. The decline in tax revenues is due not only to the contraction in economic activity, with GDP declining by 5.4% in the first half of the year, but also to tax extensions approved by the government as one of the support measures. It should be noted that in July the situation stabilized and the received tax revenues in the general budget were 1.3% higher than in July 2019.

In the reporting period, virtually all major tax revenues decreased. Value added tax (VAT) revenue this year in seven months was by 109.1 mln euro or 7.5% lower compared to the corresponding period last year.

Tax revenues decreased most significantly in the accommodation and food service sectors, the transport and storage sector, and the construction sector. The decrease in the total tax revenue of the construction sector is related to the abolition of the reverse VAT payment procedure for construction materials this year, which affected the increase in VAT refunds.

Revenues from labor taxes have also decreased as a result of the measures taken to curb the spread of COVID-19. In March-July, some employees received downtime benefits instead of wages, which, like the increase in the number of unemployed, affected the total wage bill in the country, thus, the revenue from social insurance contributions in the first seven months has decreased by 32.7 mln euro or 2% compared to the corresponding period of 2019. The largest decrease in revenue comes from taxpayers whose core business is transport, storage, accommodation and food services. In turn, personal income tax revenues have decreased by 14.9 mln euro or 1.5% compared to the corresponding period of 2019.

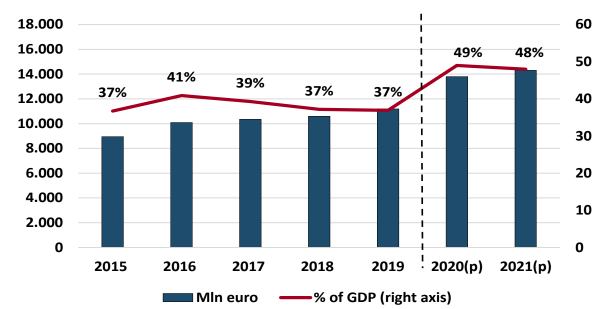
Excise tax revenue in the first seven months of this year is 587.6 mln euro, which is by 24.7 mln euro or 4% less than in January-July last year, due to a decrease in the consumption of excisable goods, including at the border.

In the first seven months of this year, among the major taxes, revenues from corporate income tax (CIT) have increased by 114.4 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 the total CIT revenue.

General Government Debt

The Treasury has prepared a general government debt forecast, taking into account the updated forecasts of the state budget financial balance at the same government policy, as well as the updated GDP forecasts at current prices. In view of the significant increase in borrowing to finance the measures to be taken and planned to mitigate the effects of the Covid-19 outbreak and to support the economy, as well as the negative impact of restrictions on the spread of the virus on macroeconomic indicators, current general government debt forecast for 2020-2023 in the baseline scenario, will reach 49% of GDP in 2020, stabilizing at 48% of GDP in 2021. On August 2020, the credit rating agency S&P Global Ratings (S&P, the Agency) affirmed Latvia's rating at the high "A+" level with the stable outlook. The Agency remarks the effective policy response by the Latvian authorities' to limit the spread of Covid-19 in Latvia and implemention of significant measures to support the economy. Thanks to the strong track of the fiscal discipline prior to the COVID-19 outbreak and the level of public debt, which is one of the lowest in the euro area, the government has a sufficient fiscal flexibility to manage country`s economy in the current situation.

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, Informative Report "On the forecasts of macroeconomic indicators, revenues and general government budget balances in 2021-2023"