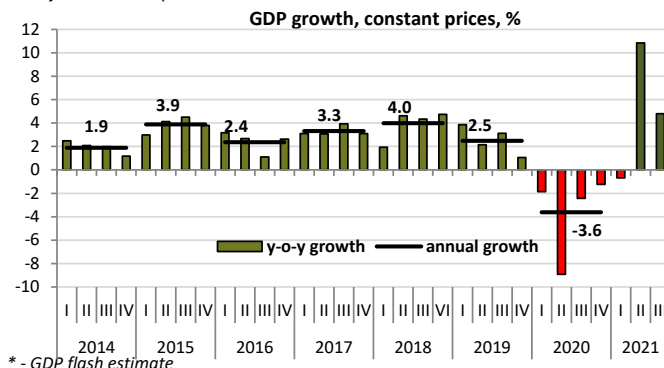


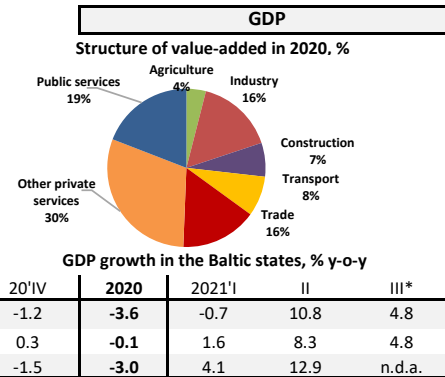
Main macroeconomic indicators	2020*	Forecasts**			
		2021	2022	2023	2024
<b>Gross domestic product (GDP)</b>					
current prices (mln euro and growth, %)	29511	6.9	8.5	6.2	5.3
constant prices (mln euro and growth, %)	26693	3.7	5.0	3.5	3.4
<b>GDP deflator (y-o-y), %</b>	-0.3	3.1	3.3	2.6	1.9
<b>Consumer price index (y-o-y), %</b>	0.2	2.0	2.4	2.2	2.0
<b>Average monthly gross wage (euro and growth at current prices, %)</b>	1143	8.0	6.0	5.5	5.3
<b>Employment (thsd and growth rate, %)</b>	893	-1.1	1.8	0.3	0.0
<b>Jobseeker rate (annual average), %</b>	8.1	7.9	7.0	6.3	5.9
<b>Exports of goods and services</b>					
current prices (mln euro and growth, %)	17803	9.7	9.0	7.2	7.3
constant prices (mln euro and growth, %)	17083	6.5	5.8	4.1	4.1
<b>Imports of goods and services, mln euro</b>					
current prices (mln euro and growth, %)	17457	10.3	12.8	7.1	7.3
constant prices (mln euro and growth, %)	18308	8.6	9.5	4.0	3.8

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

\*\*Projections developed in June 2021

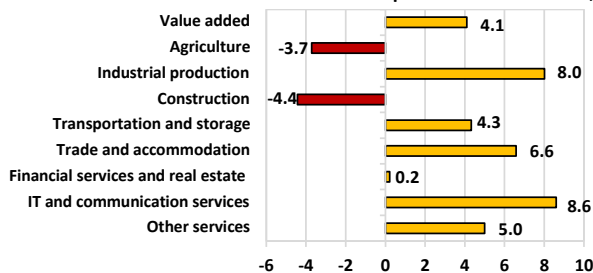


\* - GDP flash estimate

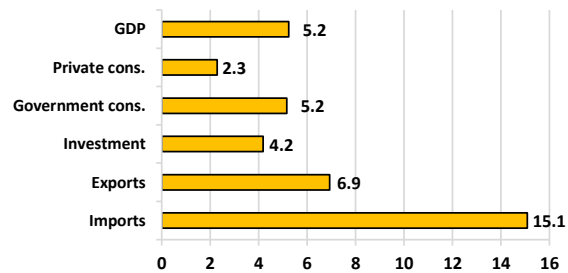


After a very rapid growth in the second quarter of 2021, in the third quarter, Latvia's economic growth has been much more moderate, with the gross domestic product (GDP) increasing by 4.8% compared to the third quarter of last year, Central Statistical Bureau's GDP flash estimate data shows. Despite of further easing of Covid-19 restrictions, seasonally and calendar adjusted GDP grew by only 0.3% q-o-q in the third quarter, which is a relatively modest pace of economic growth. As in the previous quarter, in the third quarter of 2021, the fastest growth was recorded in the services sector, which was hardest hit by Covid restrictions last year, - by 6.1% compared to the third quarter of 2020, while producing sectors increased by 1.3% y-o-y. In the first three quarters of 2021, GDP grew by more than 5.0%, if compared to the corresponding period of 2020. However, in the fourth quarter, with the rapid spread of Covid-19 and the new restrictions imposed in early October, growth will slow down significantly, still exceeding the 3.7% forecast of the Ministry of Finance, made in early June for the year 2021. Meanwhile, demand in Latvia's foreign markets remains high and the Europe's Economic Sentiment Indicator (ESI) in October remained close to the all-time high reached in July 2021.

**GDP growth by sectoral breakdown and from expenditure side in 1 half of 2021 compared to 1 half of 2020, %**

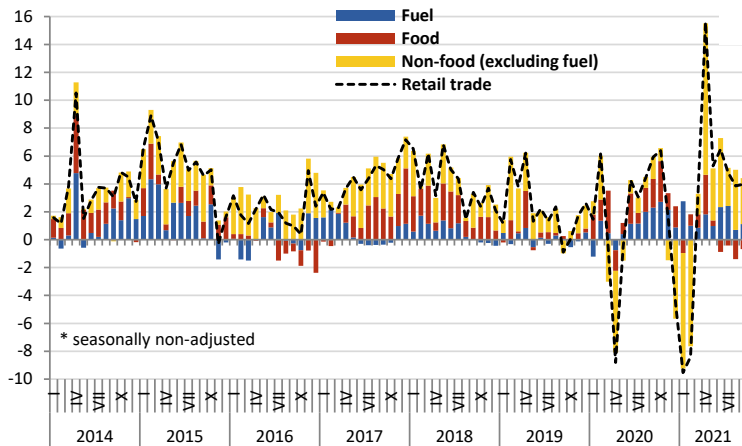


**GDP breakdown**



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

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



### Retail trade

Structure of retail trade turnover in 2020, %

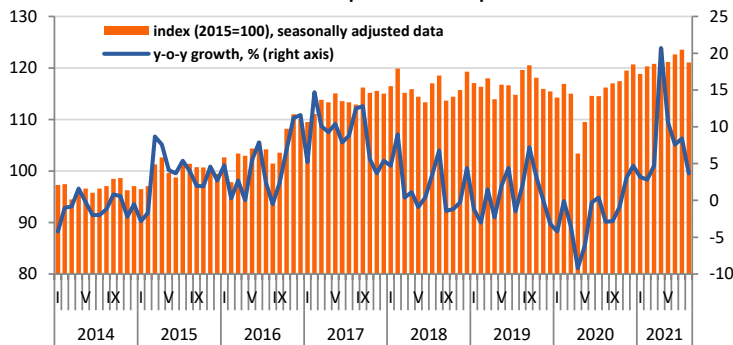


Y-o-y growth, c.a., 2020 I-IX

Total	+3%	Non-food (excl. fuel)	+3.4%
Food	+0.01%	Fuel	+8.1%

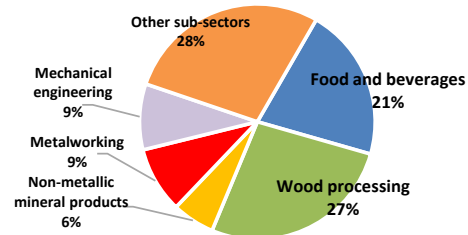
In September of this year, compared to September of the previous year, the retail trade volumes have increased by 3.9%, with the retail trade of non-food products and fuel growing. Retail trade in non-food products (excluding fuel) increased by 7.6%. The largest increases were recorded in retail trade of clothing, footwear and leather goods, as well as construction materials and plumbing. Mail order or usage of online stores have also shown a significant increase. Retail sales of food products decreased by 1.9%, while sales of motor fuels increased by 5.6% in September compared to the same period last year, while fuel prices continued to rise sharply.

### Industrial production output



### Industry

Structure of manufacturing output in 2020, %

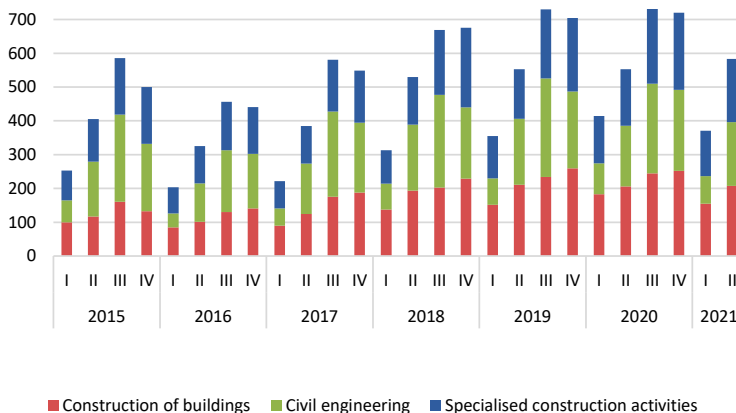


Industry, y-o-y growth, 2021 I-VIII

Industry total	+7.7%	Mining, quarrying	+7.7%
Manufacturing	+8.7%	Energy	+2.7%

This year In August, compared to August 2020, the industrial sector in Latvia increased by 3.7%, mainly due to an increase in the timber industry, chemicals and products, as well as cars, trailers and semi-trailers. In August of this year, growth also continued in the mining industry, with output growing by 13.7% over the year. At the same time, electricity and gas production have fallen sharply. The largest industrial sector - manufacturing - recorded growth of 7.9%. Among the groups of manufacturing goods, the largest increases were observed in wood (+ 6.7%) and furniture (+ 25.8%). There are also significant increases in the production of chemicals and chemical products (+ 40.4%), cars, trailers and semi-trailers (+ 42.7%). Food production has increased by 1.3%. In turn, electricity and gas supplies have decreased by 31.3%, which is the largest decrease in the history of observations. In August, the volume of electricity produced in hydropower plants decreased by 3.9% compared to August of the previous year, and the volume produced in cogeneration plants decreased by 74%, creating a total decrease in electricity production of 59%. Very high volumes of imported electricity were also recorded.

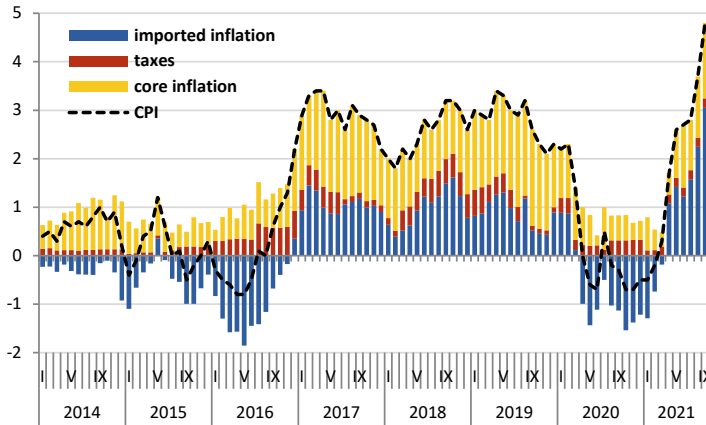
### Construction output at constant prices, mln. euro



### Construction

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

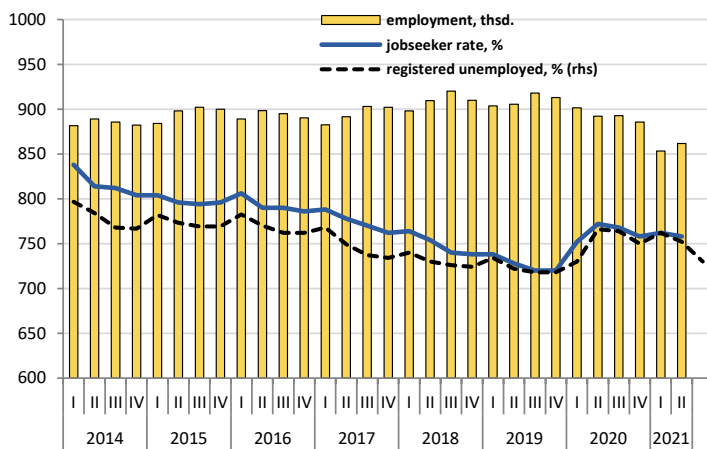
Inflation breakdown by origin, y-o-y, %



Inflation

The consumer price index (CPI) in September 2021 was 1.1% higher than in August. Thus, consumer prices have been rising steadily for ninth month in a row. On an annual basis, price increases were even more pronounced, rising by 4.8%, which is the fastest price increase since mid-2011. The price increase is high both in comparison with September last year, when deflation was fixed in Latvia in the amount of 0.3%, and also in September 2019 (+4.5%). This means that September inflation is not related to the base effect, but to other factors. The acceleration in consumer prices in Latvia compared to previous months was mainly due to a faster rise in prices for food, heat, electricity, as well as health care and accommodation services. It must be concluded that the rise in prices for basic necessities (food and utilities) is faster and is felt more by low-income people.

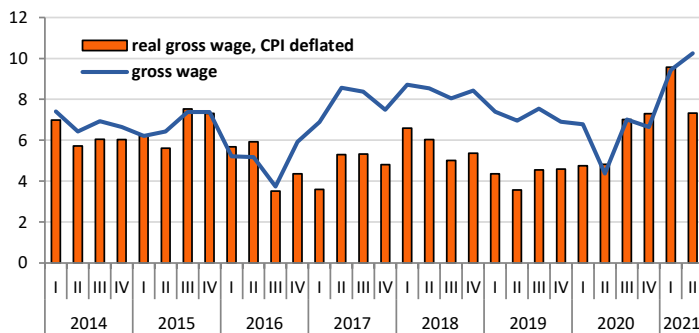
Unemployment rate, % of economically active population (15-74)



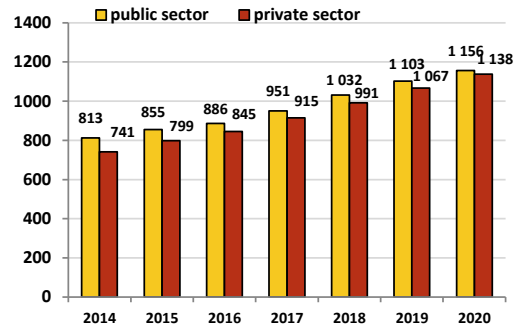
Employment

With the repeated outbreak of Covid-19 in the first quarter of this year, the unemployment rate in Latvia rose to 8.1%, but in the second quarter, as the pandemic subsided, unemployment level declined to 7.9% of the economically active population, the labour force survey (LFS) data show. In the second quarter, compared to the second quarter of 2020, the unemployment rate decreased by 0.7 percentage points, while the number of unemployed fell by 10.1 thousand or 12.1%. The negative impact of the second wave of Covid-19 in the labor market has been significantly limited this year by state support measures, including downtime benefits, as well as wage subsidies. According to the LFS data, number of employed persons in the second quarter was by 3.4% or 30.5 thousand lower than a year ago, but with the Covid-19 restrictions easing from July, people who have become temporarily inactive are returning to the labor market. Data on the registered unemployment show that unemployment rate continued to decline further in the following months, falling to 5.9% in the last week of October, and was 1.8 percentage points lower than a year ago. While the number of registered unemployed declined by 20% to 54 thousand.

Wage dynamics, changes year over year, %



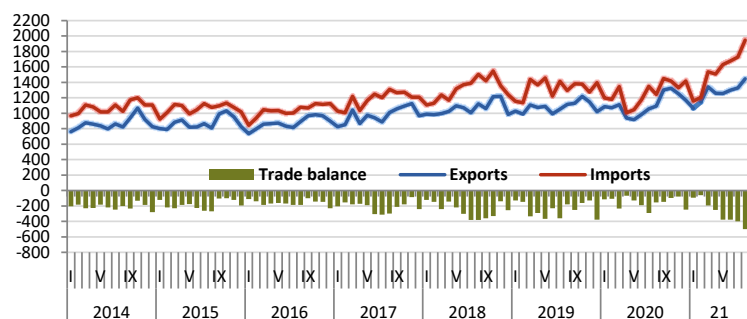
Wages, euro



The average gross monthly wage, which grew by a strong 6.2% in 2020, despite the Covid-19 crisis, increased even faster in 2021, when a large number of low-wage earners went idle and the minimum wage increased to 500 euro. In the first quarter of 2021, the average gross monthly wage increased by 9.5% compared to the corresponding quarter of the previous year, while in the second quarter it grew by 10.2%, reaching 1237 euro. Wages are growing faster in the public sector, where the average monthly gross wage climbed 13.4% to 1291 euro in the second quarter, while in the private sector it increased by 9.0% to 1215 euro. Average wages and salaries increased faster during the year in health and social care sector – by 35.1% and education – by 12.4%, in the sectors engaged mainly in the public sector activities. This year, changes in average wages and salaries are significantly affected not only by changes in employees' wages, but also by structural changes in the labor market- start-ups and closures and changes in the number and workload of employees. The number of full-time employees increased by 28.6 thousand or 4.1% in the second quarter, while the total wage bill grew by 14.7% or 349.7 million euro.

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

Foreign trade, current prices, euro

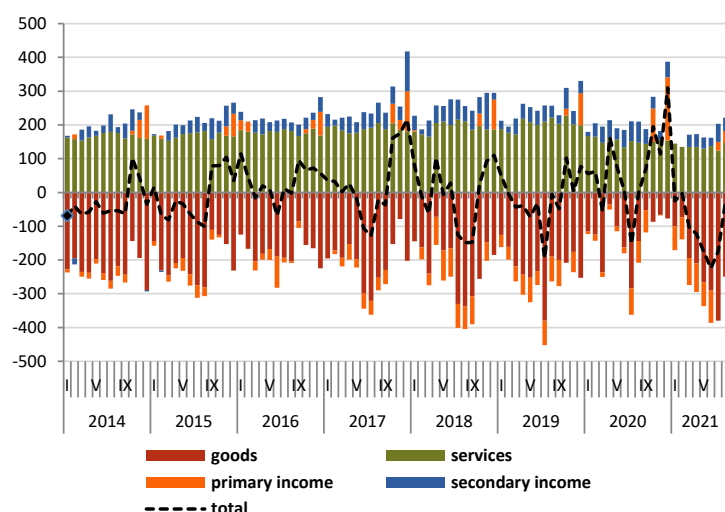


In August 2021, the rapid growth of exports of goods continued. Due to the favorable external environment and rising commodity prices, the value of Latvia's exports of goods increased by 32.3% or by 353 mln euro compared to August 2020, thus reaching 1446 mln euro. With the world's economies recovering from the restrictions of the pandemic and rising commodity prices on world markets, the value of Latvia's exports has been growing rapidly since February this year. Thus, in the first 8 months, the value of exports was 22.8% higher than in the corresponding period of 2020. The strong growth in goods exports was partly driven by the low base last year, when global trade had shrunk due to the pandemic. However, the value of goods exports has grown by 20% compared to the first 8 months of 2019, which means that the Covid-19 pandemic did not cause structural problems in commodity-exporting sectors and, as global demand recovered, Latvian exporters quickly and successfully integrated into world trade flows. The main driver of exports of goods both in August this year and in the 8 months as a whole is wood and wood products - one of the largest export groups of goods, which in August this year accounted for 20% of total exports of goods. Compared to August last year, it has increased by 72.6%, explaining one third of the total export growth. In turn, in 8 months the value of this export group of goods increased by 44.6% compared to the corresponding period last year. Rapid growth of exports both this year August, as well as since the beginning of the year was also recorded in exports of mineral products, as well as metals and metal products. Exports of mineral products this year was 80.7% higher y-o-y, but increased by 52.8% in eight months, driven by higher exports of oil, natural gas, peat and electricity. Exports of metals and metal products increased by 66.0% in August y-o-y, but by 37.5% since the beginning of the year, driven by exports of iron scrap, steel, and iron products. The value of imports of goods in August this year increased by 56.3% y-o-y. The growth rate of imports has exceeded the growth of exports since April of this year, thus in the first 8 months the value of imports was 29.8% higher than in the corresponding period last year. As in the export of goods, the increase in imports is recorded in all product groups.

Foreign trade

Exports, Jan -Aug 2021	Structure	Annual growth
Total	100%	22.8%
Wood	20.3%	44.6%
Food	17.4%	7.4%
Mech/Electr appl	16.7%	9.6%
Metals	9.8%	37.5%
Chemical manuf.	8.2%	24.5%
Mineral products	5.3%	52.8%
Transport vehicles	4.9%	19.0%
Plastics	3.6%	24.0%
Others	13.6%	17.2%

Balance of payments, current account, mln euro



Current account

In August 2021, Latvia's balance of payments current account recorded a deficit of 28 mln euro in contrast to 1 mln euro surplus in August last year. The increase in the foreign trade deficit in goods plays a key role in the deterioration of the current account balance. With imports of goods growing faster than exports of goods, the goods account has deteriorated by 105 mln euro y-o-y, with the deficit increasing to 249 mln euro. The increase in exports and imports of services was equal, so the account surplus declined only by 1 mln euro y-o-y. Thereby services account surplus amounted to 146 mln. euro. The increase in the goods account deficit was offset by an improvement of the primary income account balance by 100 mln euro, which was determined by the lower amount of dividends paid to foreign investors. The surplus of the secondary income account decreased by 24 mln euro, which was mainly influenced by higher contributions of Latvia to the EU budget. In the first eight months of 2021, the current account deficit increased to 854 mln euro, largely due to the widening foreign trade deficit.

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

	19'I	II	III	IV	20'I	II	III	IV	21'I	II	III
GDP, constant prices, %	3.9	2.1	3.1	1.1	-1.9	-8.9	-2.4	-1.2	-0.7	10.8	4.8
GDP, current prices, %	8.0	5.2	5.3	2.6	-0.4	-9.6	-3.2	-1.4	0.9	16.7	n.d.a.
Inflation, %	2.9	3.3	2.9	2.2	1.9	-0.4	0.0	-0.6	-0.1	2.3	3.8
Nominal wages, %	7.4	7.1	7.6	6.9	6.8	4.4	7.0	6.7	9.5	10.2	n.d.a.
Real wages, CPI deflated, %	4.5	3.8	4.7	4.7	4.9	4.8	7.0	7.3	9.6	7.9	n.d.a.
Employed persons, %	0.6	-0.4	-0.2	0.4	-0.2	-1.5	-2.7	-3.0	-5.4	-3.4	n.d.a.
Unemployed, % of active pop.	6.9	6.4	6.0	6.0	7.6	8.6	8.4	7.9	8.1	7.9	n.d.a.
Productivity, %	3.2	2.6	3.4	0.7	-1.6	-7.5	-0.3	1.8	4.9	14.8	n.d.a.
Retail trade, %	3.6	3.2	1.0	1.5	2.2	-1.6	4.4	0.8	-4.7	8.9	4.2
Industrial production, %	-0.8	1.4	2.5	0.0	-2.6	-5.1	-1.8	2.2	3.6	12.6	n.d.a.
Goods exports, %	5.2	-1.1	3.4	-1.0	4.6	-10.0	4.7	10.6	8.8	34.1	n.d.a.
Goods imports, %	7.3	4.9	-5.2	-2.2	-0.2	-20.2	-1.1	2.9	4.8	49.3	n.d.a.
Trade balance, mln euro	-606.6	-886.6	-789.0	-665.8	-454.4	-385.6	-590.9	-423.9	-345.8	-1005	n.d.a.
Current account, % of GDP	0.0	-1.9	-3.1	2.3	0.9	3.5	-1.0	7.8	-1.9	-6.5	n.d.a.

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

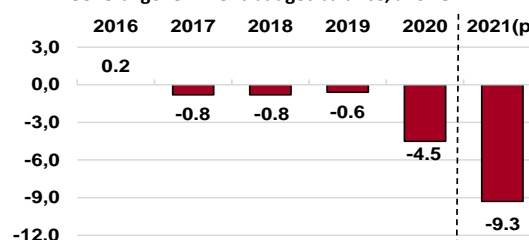
According to the Eurostat Government finance statistics, in 2020 general government budget deficit was 1.3 billion euro or 4.5% of GDP, of which 3.3% of GDP was affected by Covid-19 support measures. The Covid-19 pandemic will affect general government revenue in 2020, compared to 2019, decreased by 0.4% and was 11.5 billion euro, but expenditure increased by 9.5% and reached 12.8 billion euro.

Until October 24th the amount of support measures approved by the government for mitigating the effects of Covid-19 by 2021 was amounted to 3.3 billion euro or 10.5% of GDP, but the actual support cost (incl. tax extensions, guarantees, etc.) in January-October was 1.8 billion euro or 5.8% of GDP.

According to the MoF's estimate, the general government deficit in 2021 could reach 2.9 billion euro or 9.3% of GDP, which is twice as high as planned in the budget law. The higher deficit is due to a large package of Covid-19 support measures, the impact of which is estimated at 2.2 billion euro or 6.9% of GDP this year.

## General government budget balance

### General government budget balance, % of GDP



According to the ESA 2010

## Budget Revenue and Expenditure (according to cash flow methodology)

### Consolidated General Budget

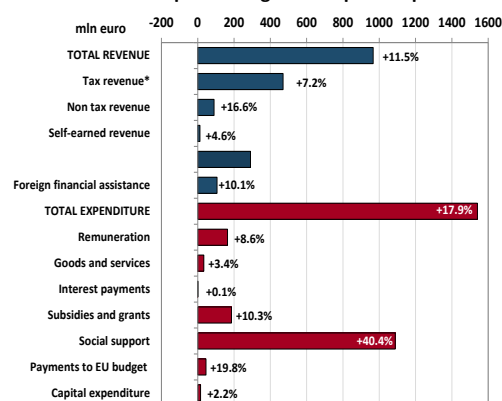
	2020 I-IX execution mln euro	2021 I-IX execution mln euro	Execution changes 2021/2020, mln euro	Execution changes 2021/2020, %
<b>CONSOLIDATED GENERAL BUDGET**</b>				
Revenue	8418.4	9385.0	966.6	11.5%
Expenditure	8588.6	10129.2	1540.7	17.9%
<b>Financial Balance</b>	<b>-170.1</b>	<b>-744.2</b>	<b>-574.1</b>	
<b>CONSOLIDATED STATE BUDGET*</b>				
Revenue	7065.4	8072.3	1006.8	14.2%
Expenditure	7346.6	8838.0	1491.3	20.3%
<b>Financial Balance</b>	<b>-281.2</b>	<b>-765.7</b>	<b>-484.5</b>	
<b>State basic budget</b>				
Revenue**	4864.7	5767.4	902.7	18.6%
Expenditure	5200.0	6606.3	1406.3	27.0%
<b>Financial Balance</b>	<b>-335.3</b>	<b>-838.9</b>	<b>-503.6</b>	
<b>State special budget</b>				
Revenue	2236.3	2408.6	172.4	7.7%
Expenditure	2218.0	2378.0	160.1	7.2%
<b>Financial Balance</b>	<b>18.3</b>	<b>30.6</b>	<b>12.3</b>	
<b>CONSOLIDATED LOCAL GOVERNMENT BUDGET***</b>				
Revenue	2079.1	2052.5	-26.5	-1.3%
Expenditure	1968.0	2031.0	63.1	3.2%
<b>Financial Balance</b>	<b>111.1</b>	<b>21.5</b>	<b>-89.6</b>	

\*Including grants, donations and derived public persons

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

\*\*\*Including grants and donations

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



\*Excluding unallocated income in the single tax account

In the first nine months of this year consolidated general budget expenditure significantly exceeded revenue, thus the deficit reached 744.2 mln euro, which was by 574.1 mln euro more than in the corresponding period last year. Consolidated general budget revenue increased by 966.6 mln euro or 11.5% and amounts to 9385.0 mln euro, but expenditures have increased by 1540.7 mln euros or 17.9% and reaches 10129.2 mln euro. The significant increase in spending is due to the cost of government-approved mitigation support for Covid-19. In the consolidated general budget tax revenue in the reporting period amounted to 7025.11 mln euro, which was by 470 mln euro or 7.2% more than in the corresponding period last year. The increase in tax revenues can be explained by the economic recovery following the easing of Covid-19 restrictions.

In the consolidated general budget 290.6 mln euro consists of payments to the single tax account (STA), which have not been allocated to the corresponding taxes by the end of the reporting period, as no payment obligations have been incurred. This part of the revenue, although received in the consolidated general budget revenue, is considered as advances and will not be recognized as general government budget revenue until the corresponding link with tax returns and distribution. In turn, revenues from foreign financial assistance (FFA) amounted to 1.16 billion euro, were by 106.4 mln euro or 10.1% more than last year in the consolidated general budget. The increase in FFA revenue is related to the advance payment received in September of 237.4 mln euro for the implementation of the European Recovery and Sustainability Mechanism, approved by the European Commission last year to combat Covid-19 mitigation in the Member States of the European Union. In the consolidated general budget, non-tax revenues in the first nine months of this year amounted to 634.9 mln euro, which was by 90.2 mln euro or 16.6% more than in the first nine months of last year. The higher level of revenue was determined by payments for the use of state capital, as well as revenue from the additional issue of Treasury Eurobonds, revenue from confiscated proceeds of crime, as well as higher revenue from the auctioning of emission allowances allocated to Latvia due to higher prices. In the first nine months of this year, the consolidated general budget expenditure was 10129.2 mln euro, which was by 1540.7 mln euro or 17.9% more than in the first nine months of last year. The high level of consolidated general budget expenditure this year is determined by the disbursement of additional approved support to mitigate the effects of Covid-19. It should be noted, however, that a significant amount of aid was paid until June, but since then their intensity has decreased and the growth rate of general budget expenditures has also slowed down.

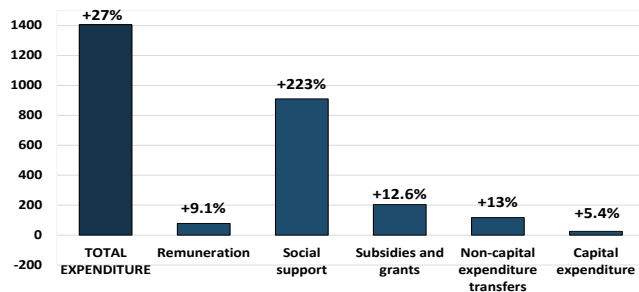
According to the Treasury data, by the end of September support expenditures in the consolidated general budget in this year have already exceeded 1.5 billion euro, which is about 1.1 billion euro more than in the corresponding period last year.

Subsidies and grants in the consolidated general budget in the first nine months amounted to 1.99 billion euro, which was by 185.7 mln euro or 10.3% more than in the corresponding period last year. Their increase is due to higher expenditures for the health sector, including raising the remuneration of physicians and other medical personnel. There was also a significant increase in the consolidated general budget in expenditures for remuneration, which amounted to 2.08 billion euro, which was by 164.3 mln euro or 8.6% higher than in the first nine months of last year. The growth can be explained by an increase in compensation expenditures in local governments, as well as an increase in remuneration expenditures in the health and internal affairs sectors.



## State Budget

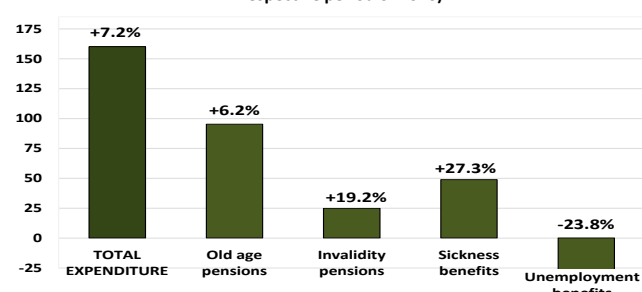
**State Basic Budget Expenditure in I-IX 2021**  
(cash based changes in mln euro and in per cent against  
respective period of 2020)



According to the Treasury data, in the first nine months of this year, the state basic budget balance was closed with 838.9 mln euro deficit, which is three times higher than the nine-month deficit of 2020. State basic budget expenditures in January-September were 6606.3 mln euro, which was 1406.3mln euro or 27% more compared to the corresponding period of the last year. The increase in the state basic budget expenditure has been influenced by the government's approved support to the national economy to reduce the consequences of Covid-19, increasing social expenditure to 1317.3 mln euro, which was by 909.5 mln euro or 3 times more than in the corresponding period last year. The significant increase was related to the cost of support to residents and businesses, 501 mln euro paying companies in the form of grants to finance working capital, 135.9 mln euro for downtime benefits and 21 mln euro wage subsidies. Also 187.6 mln euro were paid to families with children in the form of 500 euro in benefits and 109.9 mln euro for pensioners and persons with disabilities in the form of benefits of 200 euro. More than half of the transfers were made to municipalities. Non-capital expenditure transfers in the first nine months of this year were 1016.9 mln euro, which was by 117.3 mln euro or 13% more, compared to the nine-month period of last year.

Subsidies and grants in the state basic budget in January-September were 1825.0 mln euro, which was by 204.1 mln euro or 12.6% more than in the corresponding period last year, which was affected by higher funding for the health sector. Basic budget expenditures for remuneration in the first nine months of this year, compared to the corresponding period of 2020, have increased by 77.8 mln euro or 9.1%, amounting to 932.6 mln euro. The increase was driven by higher spending on health and internal affairs staff, including bonuses for extra work in Covid-19 pandemic work conditions. Capital expenditures in January-September of this year amounted to 486.9 mln euro, which was by 24.8 mln euro or 5.4% more than in the corresponding period of the previous year. The increase in capital expenditures this year was promoted by an increase in expenditures in the transport sector for the maintenance and construction of state roads.

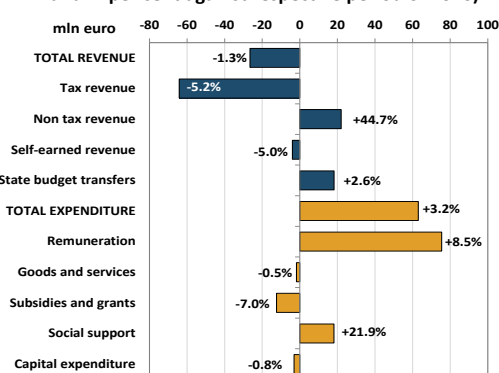
**State Special Budget Expenditure in I-IX 2021**  
(cash based changes in mln euro and in per cent against  
respective period of 2020)



Expenditures in the state special budget in nine months were 2378.0 mln euro, which is by 160.1 mln euro or 7.2% higher than in nine months last year, while revenues were 2408.6 mln euro, increasing by 172.4 mln euro or 7.7%, thus the amount of surplus in the state special budget was 30.6 mln euro, which is 12.3 mln euro lower than in the corresponding period last year. The balance has improved, despite the reduction of the state social insurance mandatory contribution rate by one percentage point from 1 January this year. This year, expenditures on unemployment benefits have decreased in the state special budget, while expenditures on sickness benefits have increased. Higher amounts of sickness benefits are also determined by the payment of sick leaves from the state budget in Covid-19 cases from the first day of illness. Overall, expenditure on sickness benefits was by 48.8 mln euro or 27.3% higher than in the first nine months of last year and amounts to 227.2 mln euro. According to the State Social Insurance Agency (SSIA), the increase in expenses is explained by the growing number of benefit recipients, increasing from 36 thousand on average per month in the eight-month period last year to 46.3 thousand this year, thus increasing by 28.8%. On the other hand, expenditure on unemployment benefits decreased by 28.9 mln euro or 23.8% and reaches 92.4 mln euro. With increasing economic activity and state support in the Covid-19 crisis, the number of recipients of unemployment benefits is declining, as has the average amount of benefits. SSIA data show 24.9% decrease in the number of benefit recipients, from 43.6 thousand on average per month in January-August in the last year to 32.7 thousand on average per month this year. The average amount of benefit has decreased from 350 euro per month to 311 euro, or by 11.3%. The decrease in the average amount of the benefit can be explained by the legislative changes made in the beginning of 2020 in the duration and amount of the unemployment benefit payment. Expenditure on pensions in the first nine months of this year increased by 124 mln euro or 7.3%, amounting to 1825.5 mln euro. In January-September 1629.2 mln euro were paid in old-age pensions. An increase of 95.2mln euro or 6.2%, compared to the eight months of 2020, was determined by the indexation of pensions carried out in October last year.

## Consolidated Local Government Budget

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



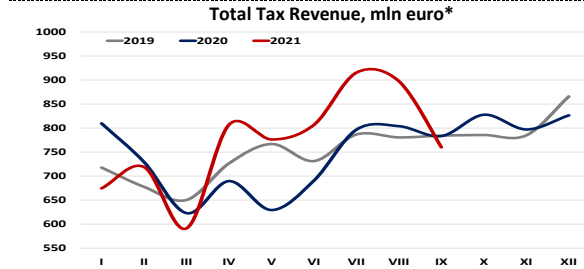
In the local government budget, although there were 21.5 mln euro surplus, its amount was by 89.6 mln euro lower than in the first nine months of last year. It should be noted that the highest expenditures in the local government budget are traditionally observed in December, when expenditures are growing rapidly and also this year in the local government budget is expected a deficit. Local government budget revenue in the amount of 2.1 billion euro was by 26.5 mln euro or 1.3% lower than in the first nine months of 2020. The amount of expenses has increased by 63.1 mln euro or 3.2%, amounting to 2 billion euro.

Along with the decrease in PIT revenues, in January-September the total amount of tax revenues in the consolidated local government decreased by 64.2 mln euro or 5.2%, compared to the respective period of 2020. PIT revenues have decreased by 67.8 mln euro or 6.5%, amounting to 980.7 mln euro. In the first nine months of this year real estate tax revenue in local government budget were paid in the amount of 183.9 mln euro, what is by 6.2 mln euro or 3.5% more than last year. Taking into account higher revenues from the sale of land and real estate, non-tax revenues of local governments have increased by 22 mln euro or 44.7%. Transfers revenues to the local government budget increased by 18.1 mln euro or 2.7%, mainly from the state budget, compensating the local governments for the unreceived revenues due to the increase in PIT non-taxable income and increasing transfers for teachers' salaries.

The increase in local government budget expenditure was mainly due to the increase in remuneration expenditures by 75.5 mln euro or 8.5%, which is mainly related to raising the level of remuneration for teachers of municipal educational institutions. It should also be mentioned higher expenses for allowances, including payment for additional work increased by 8.5 mln euro or 54% and allowances for work in special conditions have increased by 1.2 mln euro or 36%.

In the nine months of this year, the amount of social payments has increased to 100.9 mln euro, which is by 18.1 mln euro or 21.9% more, compared to the corresponding period of the last year. It can be explained by the increase in social services expenditure to the population such as payments for home care and services provided by social care and rehabilitation institutions, as well as the increase in expenditure on guaranteed minimum income (GMI). From January 1<sup>st</sup> the amount of GMI that has been raised on the basis of the decision of the Constitutional Court in June 25, 2020. Expenditure on subsidies and grants in January-September has decreased by 12.4 mln euro or 7%, which can be mainly explained by lower expenditures on subsidies for the provision of public transport services in Riga municipality.

Consolidated General budget Tax Revenue			Tax Revenue	
	2020 I-IX execution, mln euro	2021 I-IX execution, mln euro	Execution changes 2021/2020, mln euro	Execution changes 2021/2020, %
<b>Consolidated general budget tax revenue (without unallocated revenue)</b>	<b>6555.2</b>	<b>7025.1</b>	<b>470.0</b>	<b>7.2%</b>
Mandatory state social insurance contributions	2103.4	2204.4	101.0	4.8%
<i>in State special budget</i>	2032.6	2130.6	97.9	4.8%
<i>in State budget (1% for the health)</i>	70.7	73.8	3.1	4.3%
Value added tax	1825.0	2115.7	290.7	15.9%
Personal income tax	1307.5	1269.2	-38.3	-2.9%
<i>in State budget</i>	258.9	288.5	29.5	11.4%
<i>in Local government budget</i>	1048.5	980.7	-67.8	-6.5%
Excise tax	791.6	822.3	30.7	3.9%
Corporate income tax	161.2	237.8	76.6	47.5%
Real estate tax	177.7	183.9	6.2	3.5%
Informative:				
Social security contributions to the state funded pension scheme	433.9	427.9	6.0	1.4%



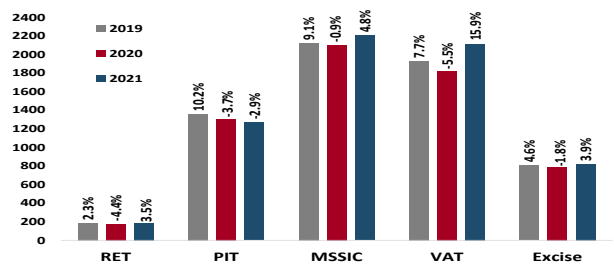
\*In 2021, excluding revenues in SIA, which have not yet been broken down by type at consolidated general budget levels (STA balance in the end of August 290.6 mln euro)

The consolidated general budget tax revenue in the first nine months of 2021 amounted to 7.03 billion euro, which was by 470 mln euro or 7.2% more than in the corresponding period of the last year. It should be noted that in the first quarter of this year, tax revenues did not reach the level of the first quarter of 2020 due to Covid-19 constraints, but in the second and third quarter it increased by 18.9% and 11.2% year-on-year, respectively. The increase in tax revenues can be explained by the economic recovery following the easing of Covid-19 restrictions. The most significant increase has been observed in value added tax (VAT) revenue, which in the first nine months of this year was by 290.7 mln euro or 15.9% higher than in the corresponding period in 2020, collecting a total of 2.12 billion euro. VAT revenue increased the most between April and July, due to the easing of Covid-19 restrictions, thanks to support paid to the citizens and also the increase in private consumption. In August and September, the growth rate of VAT revenue slowed down compared to 2020, although VAT revenue still exceeds the level of the respective month of 2020 by 11.8% and 6.9%, respectively. According to the State Revenue Service (SRS), most of the increase in VAT revenue has been provided by the trade sector. Mandatory state social insurance contributions increased by 101 million euro or 4.8% during January-September reporting period, collecting 2.2 billion euro in nine months. SRS data show that the largest increase is provided by the health care and defense sector, with a sharp increase in remuneration. The average wage in defense sector in 2Q 2021 was by 39.1% higher than in the corresponding period last year. The increase is influenced by the remuneration of the National Guard soldiers involved in the protection of the country's eastern border. Social security contributions also increased significantly in the information and communication services and manufacturing sectors.

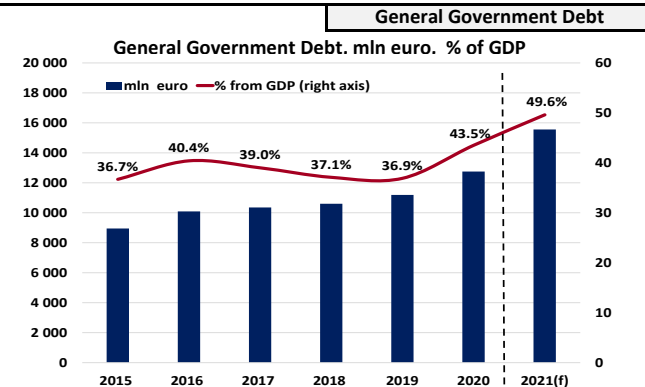
According to the operative data of the State Treasury, at the end of August 2021, the government debt in nominal value amounted to 14.2 bln euro. In comparison to the end of 2020, the debt has increased by 1.7 bln euro or 14.1%. The increase in government debt was determined by the borrowing measures, providing resources to cover the total financing needs - financing the state budget deficit, securing government loans, meeting government liabilities, as well as financing measures to mitigate the impact of the Covid -19 outbreak and supporting the economy. In the first eight months of 2021, the issue of 10-year eurobonds on the international financial markets, amounted to 1.75 billion euro in total. As well additional issues of eurobonds were made in the domestic financial market this year – total of 377,2 mln euro. It should be noted that on May 25th, the third tranche of the loan of the European Commission (EC) SURE (support instrument for reducing unemployment risks in an emergency situation after the Covid-19 outbreak) was received in the amount of 113 mln. The total amount of received EC SURE loan is 305 mln euro. According to the Treasury's forecast, general government debt in 2021 could increase to 49.6% of GDP. On Friday, September 3, 2021, the international credit rating agency *Fitch Ratings* affirmed Latvia's credit rating at "A-" level with a stable outlook.

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

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



Excise tax revenue were received by 30.7 mln euro or 3.9% more than in the first nine months of 2020. Of which, revenue from oil products was 18.3 mln euro or 4.4% higher than in the last year, but revenue from tobacco products increased by 12.2 mln euro or 7.2%. The increase in revenue from oil products was determined by higher fuel consumption (+ 3.5% in eight months according to SRS data), while excise duty rates on tobacco products has risen from 1 March, thus increasing budget revenues from the circulation of these products. After the economic downturn in 2020 and in the first quarter of this year, starting from the second quarter, economic activity grew rapidly, which also had a positive effect on the growth of tax revenues. If we compare tax revenues this year with the pre-pandemic period - 2019, when the economy operated without restrictions, then we see that changes in tax revenues by quarters this year show an upward trend. Thus, in the first quarter of this year, tax revenues decreased - by 3.0% compared to the corresponding period of 2019, but already in the second quarter they increased by 7.4% and by 12.7% in the third quarter, respectively. The tax revenue plan in the general budget in three quarters of this year has been fulfilled successfully and the surplus revenue has reached 193.9 mln euro or 2.8% above the plan. VAT revenue over-performed the plan by 121.4 mln euro or 6.1%, but MSSIC in the general consolidated budget were received by 72.1 mln euro or 3.4% above the plan. In turn, excise revenues were lower than planned (- 13.3 million euro or -1.6%), which is related to lower revenues from alcoholic beverages. Received payments in the single tax account amounted 290.6 mln euro. This part of the revenue, although received in the general consolidated budget, is treated as an advance and is not recognized as general government budget revenue until it is linked to tax returns and distributions.



According to the ESA 2010