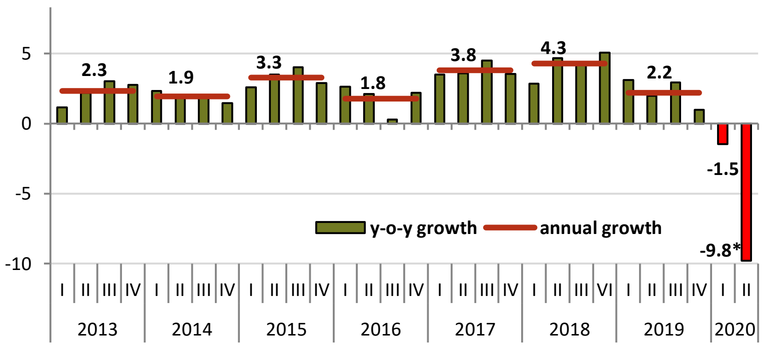
MACROECONOMIC AND BUDGETARY REVIEW 2020

No. 6

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*

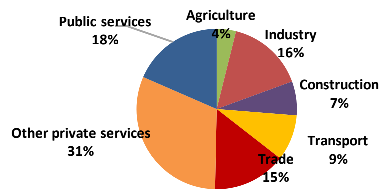
GDP growth, constant prices, %



** GDP flash estimate*

GDP

Structure of value-added in 2019, %



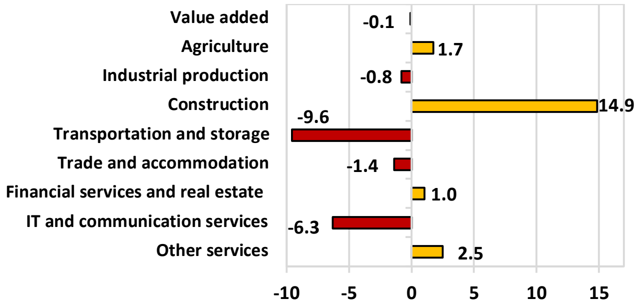
GDP growth of the Baltic states, % y-o-y

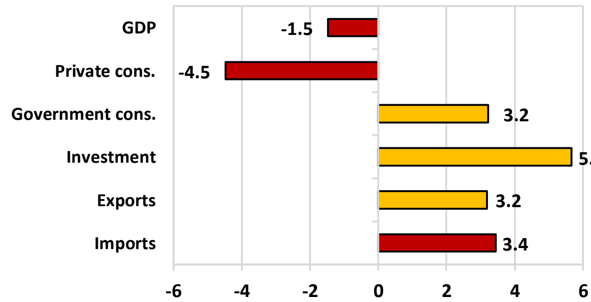
	19'III	IV	20'I	II*
Latvia	2.9	1.0	-1.5	-9.8
Lithuania	3.8	3.8	2.4	-3.8
Estonia	4.8	3.9	-0.7	n.d.a.

In the first quarter of 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 9.8% 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 performance in the second quarter was determined by fall in production sectors by 3.8% y-o-y and in service sectors by 11.0% y-o-y, including decline in the retail trade by 1.6% y-o-y. The volume of collected taxes on products also decreased. The leading indicators suggest that the lowest point of this crisis has been overcame and in the following quarters economic activity is going to resume gradually. Economic sentiment indicator has been improving since May in both 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 Q1 2020 compared to Q1 2019, %

GDP breakdown

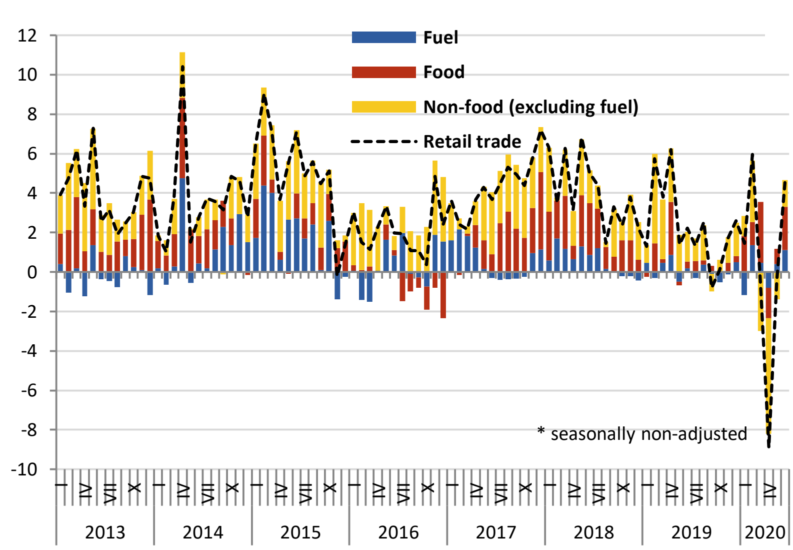




Economic contraction in the first quarter of 2020 was determined by falling private consumption caused by restrictions that have been introduced to limit spread of COVID-19 disease thus significantly reducing economic activity of consumers. At the same time, investments performed well stimulated by construction 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

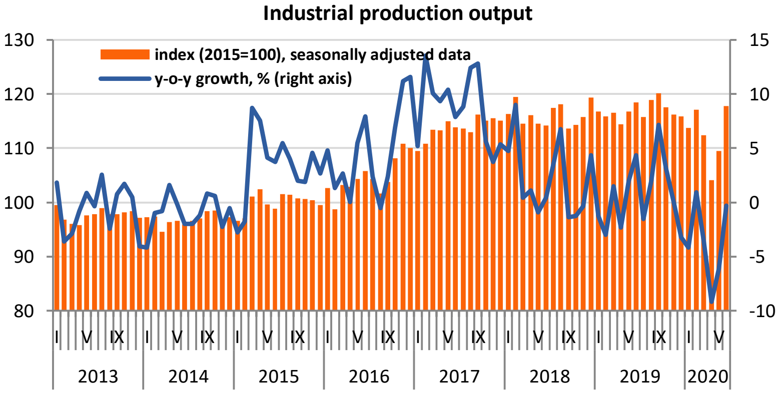
Structure of retail trade turnover in 2019, %

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

Total	**+0.3%**	Non-food (excl. fuel)	**-2.3%**
Food	**+2.9%**	Fuel	**+1.3%**

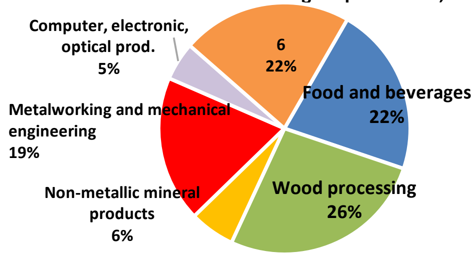
Following the retail trade contraction in March, April and May that was determined by COVID-19 crisis, in June sector demonstrated relatively strong growth, constituting 4.6% y-o-y. Hence, in the first half of 2020 retail trade volumes increased by 0.3% remaining nearly at the same level as in the first half of 2019. In June, retail trade was stimulated by rising sales in food as well as non-food stores. Retail sales of food increased by 5% y-o-y, while stronger growth was registered for sale volumes of fuel – by 7.2% y-o-y. Retail trade of other non-food products, except for fuel, in June rose by 3.3% compared to the sale volumes a year ago. Strongest growth rates were registered in retail sales of sporting equipment and games, electrical household appliances as well as cultural and recreation goods.

Industrial production output



Industry

Structure of manufacturing output in 2019, %

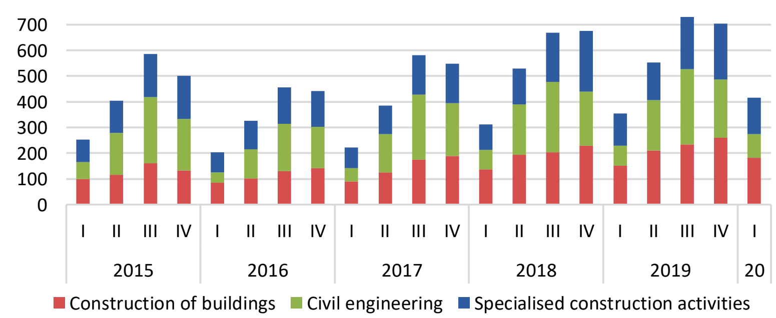


Industry, y-o-y growth, 2020 Jan.-June, c.a.

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

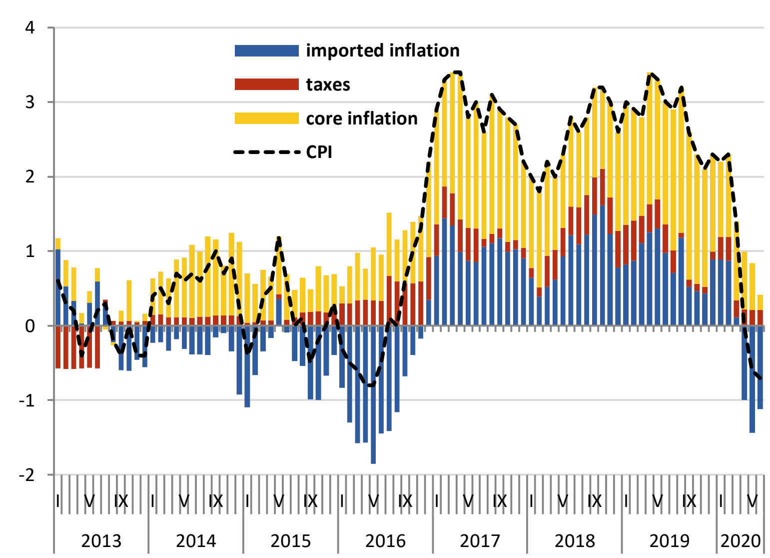


Construction

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

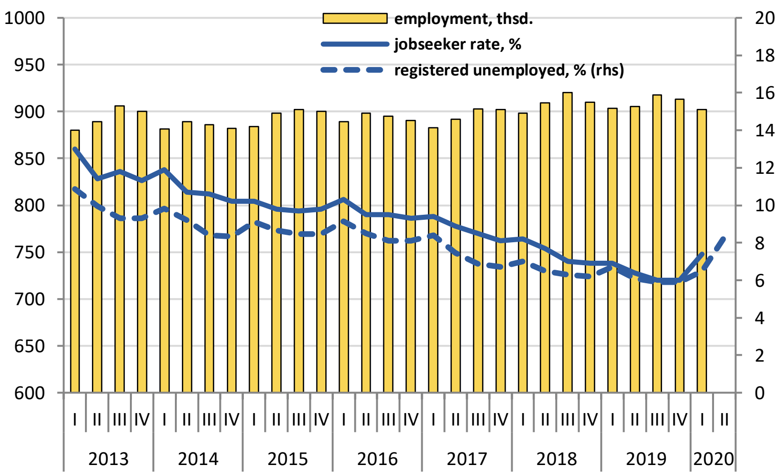
Inflation breakdown by origin, y-o-y, %



Inflation

In June 2020, consumer prices declined by 0.7% y-o-y hence deflation in Latvia was registered for the second consecutive month. Price decline was associated with COVID-19 pandemic and its implications characterised by falling oil prices in the global markets as well as sharp demand contraction for tourism. Overall, prices for goods in June decreased by 1.6% y-o-y while prices for services were still growing and increased by 1.3% y-o-y. Nevertheless, pandemic has affected also the services sector because price growth for services has slowed down since the beginning of the year and in June it halved. In June, the largest contribution to consumer price drop was provided by price changes for fuel that demonstrated a fall by 16.0% y-o-y. Prices declined also for services associated with housing maintenance, for example, gas was by 18.5% cheaper than a year ago and prices for electricity fell by 2.7%. Moreover, significant contraction in the number of foreign tourists determined price fall for rentals of housing and accommodation services by 5.6% and 13.2% respectively.

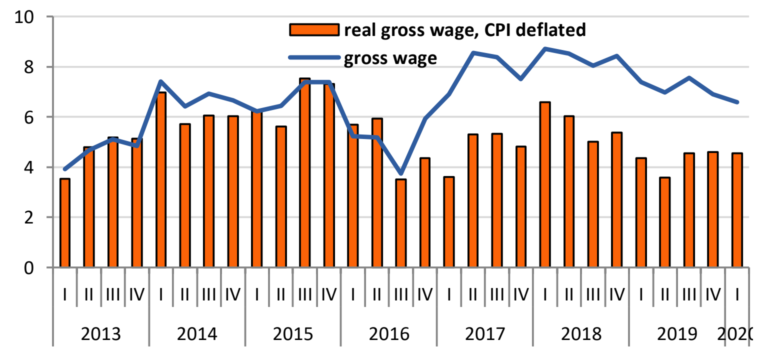
Unemployment rate, % of economically active population (15-74)



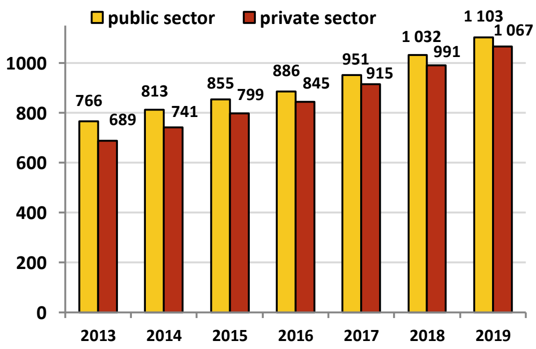
Employment

The impact of Covid-19 crisis was felt in the labour market already in the first quarter of 2020, when the number of employed persons decreased by 0.2% and unemployment rate grew by 0.5 percentage points to 7.4% of economically active population, labour force survey data showed. Even faster increase of unemployment was recorded in the next two months, when the number of registered unemployed increased by 14.9 thousands or 24.2%, reaching 76.4 thousands 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 and unemployment rate increased to 8.6%, while in July the rise of unemployment had already stopped and the number of registered unemployed decreased by 268 persons during the month. The 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 thousands and remained at that level also in the first half of July.

Wage dynamics, changes year over year, %



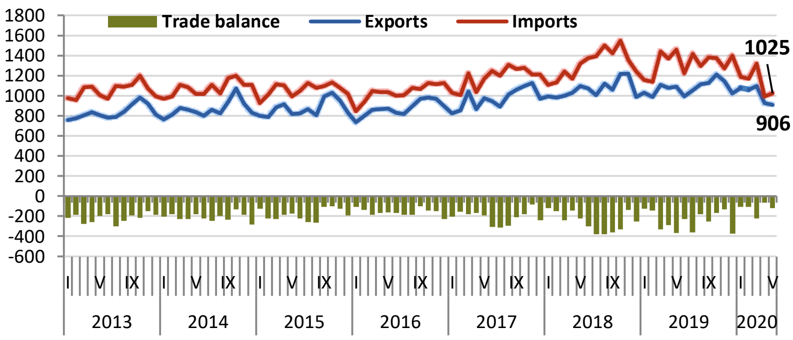
Wages, euro



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

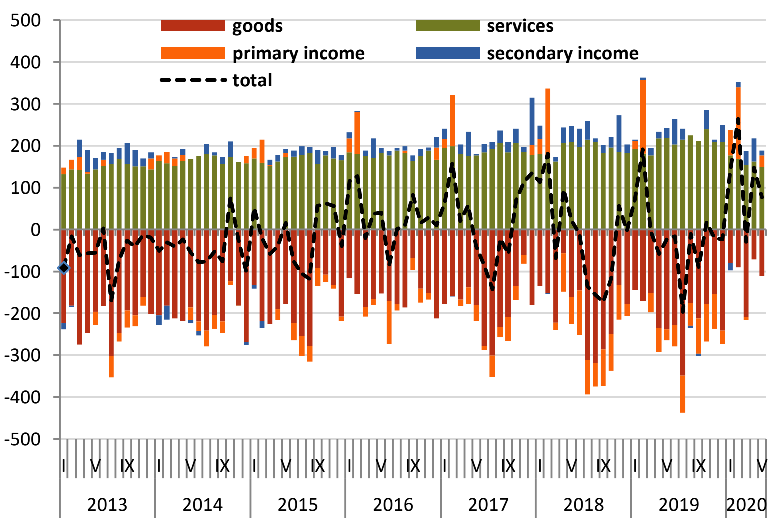
Foreign trade, current prices, euro



Foreign trade		
Exports, Jan-May 2020	Structure	Annual growth
Total	100%	-4.1%
Food	20.0%	5,4%
Mech/Electr appl	17.9%	7,7%
Wood	17.8%	-11,9%
Metals	9.1%	-4,5%
Chemical manuf.	8.0%	0,2%
Transport vehicles	4.8%	-32,0%
Mineral products	4.4%	-24,0%
Plastics	3.6%	0,4%
Others	14.4%	-1,0%

In May of 2020, the value of exported goods declined by 2.3% compared to the value exported in April and by 16.8% compared to the export value registered a year ago. The fall of exports was registered in all product groups. The sharpest decline was demonstrated by exports of transport vehicles (-51.2% y-o-y), food and agricultural products (-19.3% y-o-y), mineral products (-29.7% y-o-y). In the five months of 2020 compared to the same period a year ago, exports of goods declined by 4.1%. The largest contribution to export contraction was provided by export fall of wood and wooden products by 11.9% y-o-y. Exports of mineral products also decreased significantly - by 24% y-o-y that was determined by export fall of refined products due to declining oil prices as well as export decrease of energy due to weaker consumption of electricity. At the same time, exports of transport vehicles declined by 32% y-o-y determined by falling re-exports. While the value of imported goods contracted by 29.6% y-o-y in May and in the five months overall - by 13.1%. The latest economic forecasts prepared by the European Commission suggest that this year GDP and imports are going to decline in all EU member states and the strongest contraction is projected for the second quarter. At the same time, consumer and business sentiment indicator demonstrates positive changes regarding further economic development. Indicator suggests that the lowest point of COVID-19 crisis was reached in April and currently economic activity is gradually recovering.

Balance of payments, current account, mln euro



Current account

In May 2020, Latvia's balance of payments current account recorded a surplus of 77 mln euro, in contrast to 22 mln euro deficit in May of the last year. Improvements in the current account were driven mostly by changes in the goods account. Since the value of imported goods decreased faster than exports of goods, goods account deficit shrank by 127 mln euro. While exports of services declined faster than imports of services, thereby the surplus of services account dropped by 70 mln euro. Nevertheless, the services account surplus of 149 mln euro fully offset the goods account deficit of 111 mln euro. Due to lower dividend payments to foreign investors, primary income account surplus increased by 54 mln euro. While secondary income account surplus deteriorated by 11 mln euro, largely because of the higher payments into the EU budget. Overall, in the first 5 months of 2020 current account surplus constituted 598 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. The COVID-19 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)

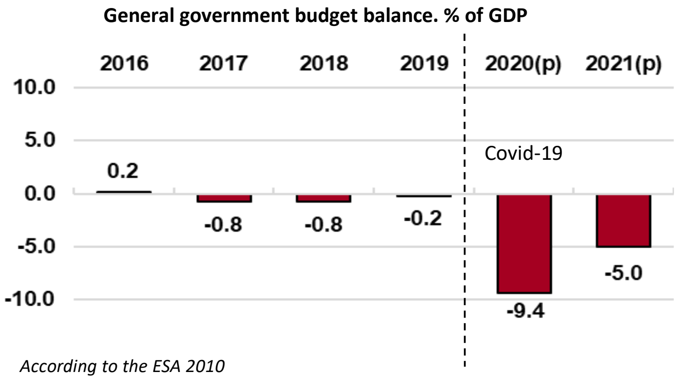
	18'I	II	III	IV	19'I	II	III	IV	20'I	II*
GDP, constant prices, %	2.8	4.7	4.4	5.0	3.1	2.0	2.9	1.0	-1,5	-9.8
GDP, current prices, %	6.8	8.6	8.7	9.3	7.2	5.2	5.3	2.4	-0.2	n.d.a.
Inflation, %	2.0	2.4	2.9	2.9	2.9	3.3	2.9	2.2	1.9	-0.4
Nominal wages, %	8.7	8.5	8.0	8.4	7.4	7.0	7.5	6.9	6.6	n.d.a.
Real wages, CPI deflated, %	6.6	6.0	5.0	5.4	4.4	3.6	4.6	4.6	4.6	n.d.a.
Employed persons, %	1.8	2.0	1.9	0.8	0.6	-0.4	-0.2	0.4	-0.2	n.d.a.
Unemployed, % of active pop.	8.2	7.7	7.0	6.9	6.9	6.4	6.0	6.0	7.4	n.d.a.
Productivity, %	1.1	2.6	2.4	4.2	2.5	2.4	3.2	0.6	-1.3	n.d.a.
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	-1.5	3.7	n.d.a.
Goods imports, %	6.8	11.7	14.2	12.3	7.3	4.9	-5.2	-2.5	-1.5	n.d.a.
Trade balance, mln euro	-507.5	-664.1	-1124.2	-723.7	-606.6	-886.6	-789.0	-669.8	-435.7	n.d.a.
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.

** GDP flash estimate*

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 (17/07/2020) 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 1.6 billion euro or 5.6% of GDP. General government budget forecasts will be updated in the August 2020.

General government budget balance



According to the ESA 2010

Latvia's Stability Programme for 2020. - 2023.

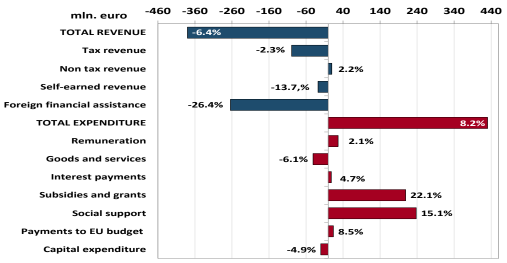
Consolidated General Budget

Budget Revenue and Expenditure

	2019 I-VI execution mln euro	2020 I-VI execution mln euro	Execution 2020/2019, mln euro	Execution changes 2020/2019, %
CONSOLIDATED GENERAL BUDGET**				
Revenue	5907.0	5526.7	-380.2	-6.4%
Expenditure	5227.7	5658.1	430.4	8.2%
Financial Balance	***679.2***	***-131.4***	***-810.6***	
CONSOLIDATED STATE BUDGET*				
Revenue	4975.7	4649.9	-325.8	-6.5%
Expenditure	4412.6	4882.6	470.0	10.7%
Financial Balance	***563.0***	***-232.8***	***-795.8***	
State basic budget				
Revenue	3553.6	3235.4	-318.2	-9.0%
Expenditure	3141.7	3444.1	302.4	9.6%
Financial Balance	***411.9***	***-208.7***	***-620.6***	
State special budget				
Revenue	1454.3	1442.1	-12.1	-0.8%
Expenditure	1316.2	1486.7	170.5	13.0%
Financial Balance	***138.0***	***-44.6***	***-182.6***	
CONSOLIDATED LOCAL GOVERNMENT BUDGET**				
Revenue	1452.3	1412.5	-39.7	-2.7%
Expenditure	1336.1	1311.2	-24.9	-1.9%
Financial Balance	***116.2***	***101.4***	***-14.8***	

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

Revenue and Expenditure in I-VI 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 half of this year, the general budget revenue was by 380.2 mln euro or 6.4% less than in the corresponding period last year, in turn, the general budget expenditures were made by 430.4 mln euro or 8.2% more than in the first half of 2019. Thus, in the first half of the year, the general budget balance deteriorated and amounted to 131.4 mln euro deficit, as opposed to 679.2 mln euro surplus in the corresponding period last year.

In the first half of this year, 5526.7 mln euro, which was by 380.2 mln euro or 6.4% lower than in the first half of last year. The lower level than last year was determined by the restrictions introduced due to Covid-19 and their impact on the economy, as a result of which the general budget tax revenue was received by 98.8 mln euro or 2.3% lower than in the first half of last year.

In the first half of this year revenues from foreign financial assistance (FFA) have significantly decreased by 264.1 mln euro or 26.4% than in the corresponding period last year, amounting to 735.5 mln euro. Due to the amount of FFA revenue, deviations will be reimbursed from the European Commission for the implementation of European Union funds projects.

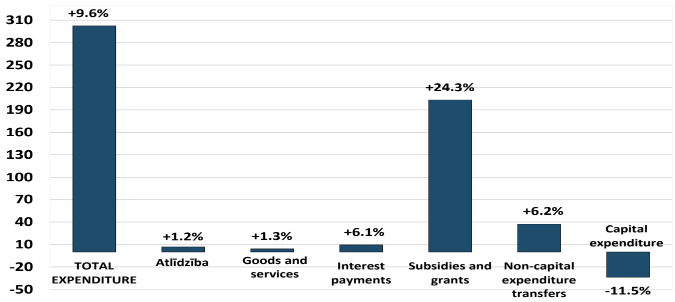
In the first half of this year, non-tax revenues in the general budget have increased by 9.7 mln euro or 2.2% compared to January-June of the previous year, amounting to 443.7 mln euro. The increase in non-tax revenues was driven by higher non-tax revenues in the general government budget, including from confiscation of proceeds of crime.

The general budget expenditures in the first half of this year amount to 5658.1 mln euro, which is by 430.4 mln euro or 8.2% more than in the corresponding period of 2019. The increase in general budget expenditures in the first half of the year is determined by their increase in subsidies and grants, social benefits, as well as the support measures adopted by the government to overcome the consequences of the Covid-19 crisis. From 430.4 mln euro almost half of the increase in general budget expenditure (209.2 million euros) was due to an increase in subsidies and grants, which increased by 22.1%. It is related 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 for the restriction of Covid-19. The amount of subsidies and grants for the implementation of European Union funds projects has significantly increased. Expenditures on social benefits in the first half of this year were 237.7 mln euro or 15.1% more than last year.

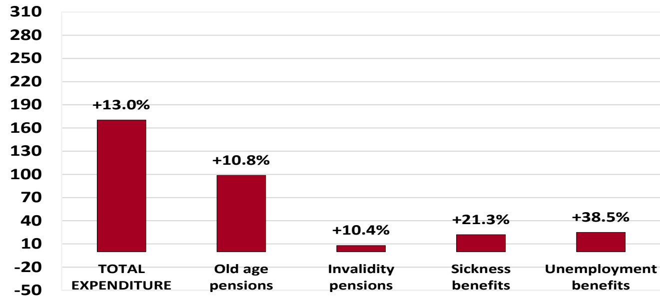
Meanwhile, lower than last year in six months in the general budget by 41 mln euro or 6.1% were expenditures on goods and services, but capital expenditures were made by 20.1 mln euro or 4.9% less. The lower level of expenditure on goods and services than last year, especially in April-June, is most likely due to the reorientation of institutions towards remote work.

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

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



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

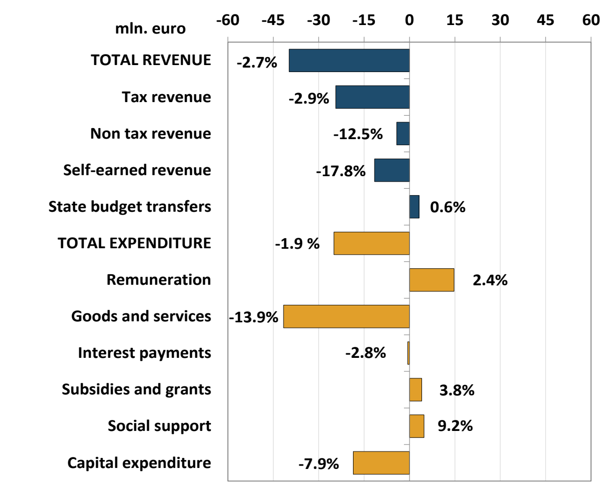


According to the State Treasury published information, the State basic budget in the first half of the this year had a 208.7 mln euro deficit, while in the corresponding period of the last year there was a surplus of 411.9 mln euro. The State basic budget revenue in the first half of the this year reached 3235.4 mln euro and compared to January-June 2019, revenues decreased by 318.2 mln euros, or 9.0%. In the first half of the year, among the major taxes, revenues have increased only from corporate income tax (CIT), by 101 mln. euro, which can be explained by the low amount of CIT income last year as a result of the CIT reform, which was facilitated by both the high amount of repayments and the significant amounts of profits made before the reform, for the distribution of which the tax is not applied. However, expenditures in the first half of this year, compared to the corresponding period of 2019, have increased by 302.4 mln euro or 24.3%, reaching 1040.5 mln euro, related to higher subsidies and grants to health care institutions, as well as 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. Interest expenses in the first half of this year were 165.4 mln euro, which in comparison with the corresponding period of 2019 have increased by 9.5 mln euro or 6.1%, but these expenses depend on the payment schedule and this year are generally expected to be at last year's level.

Other groups of state basic budget expenditures show a moderate increase or decrease in expenditures compared to January-June 2019. Capital expenditures in the core budget were lower than in six months of the last year by 33.7 mln euro or 11.5%.

In the first half of 2020, the state special budget deficit was 44.6 mln euro, as opposed to 138.0 mln euro surplus in the corresponding period last year. Special budget expenditures in the first half of the year amounted to 1486.7 mln euro, which was by 170.5 mln euro or 13.0% more than in the corresponding period of 2019. Expenditure on pensions in the state special budget was by 108.1 mln euro or 10.6% higher than in the first half 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 60.5 mln euro or 21.3%. Expenditures on unemployment benefits in the six months of this year have significantly increased, compared to the corresponding period of the previous year, by 25.0 mln euro or 38.5%, reaching 89.9 mln euro. The increase in expenditure on unemployment benefits can be explained both by the increase in the number of unemployed due to the economic situation and by the support measures decided by the government, reviewing the criteria and expanding the range of beneficiaries. According to the State Employment Agency (SEA) data, there were 78 266 unemployed persons at the end of June 2020, compared to 55 750 at the same time last year. According to the SEA, the registered unemployment rate in the country at the end of June 2020 was 8.6%, which is 0.2 percentage points more than a month earlier. Expenditures on sickness benefits in the state special budget in six months of this year have been made by 22.1 mln euro or 21.3% more than last year, reaching 125.9 mln euro. Their increase influenced by both the increase in the number of beneficiaries and the increase in the average amount of benefit granted per case. According to the State Social Insurance Agency (SSIA), the average amount of the granted benefit per case has increased by 40.5% in June. It should be noted that until 25/06/2020, sickness benefits paid in connection with Covid-19 amounted to only 1 mln euro.

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



Consolidated Local Government Budget

According to the Treasury data, in the first half of 2020, the consolidated local government budget had a surplus of 101.4 mln euro which is by 14.8 mln euro less than in the corresponding period a year earlier. Local government budget revenue in the first half of 2020 amounted to 1412.5 mln euro, which is by 39.7 mln euro or 2.7% less than in the corresponding period of the previous year. PIT revenues have decreased by 1.6 mln euro or 0.2%. PIT revenues are affected by both the increase in the unemployment rate caused by Covid-19 and the implemented tax reform measures, which envisage raising the differentiated non-taxable minimum from 230 to 300 euro, the non-taxable minimum for pensioners from 270 to 300 euro as of 1 January 2020, as well as dependents from 230 to 250 euro. The largest decrease in local government consolidated budget revenues is observed for real estate tax (RET), decreasing by 17.7 mln euro or 12.3%. The decrease in RET revenue can be explained by the support measures introduced to mitigate the effects of Covid-19, ie the possibility to defer payments to a later date, but within the framework of 2020. The level of consolidated local government budget expenditures in the first half of this year has decreased by 24.9 mln euro or 1.9%, compared to the corresponding period last year, amounting to 1311.2 mln. euro. Current expenditure have decreased by 26.8 mln euros or 2.9%. The decrease can be explained by a decrease in expenditure on goods and services by 41.6 mln euro or 13.9%, which in turn was affected by a decrease in expenditures on state and local government care, supply and maintenance of persons in service, fuel and energy materials, as well as utility payments. On the other hand, expenses for compensation have increased by 14.7 mln euro or 2.4%. Transfers to the state budget have also increased by 12.8 mln euro in connection with the statutory compensation of the Riga Municipality for the negative impact of SIA "Rīgas Satiksme" on the general government budget balance. Expenditure on social support in the reporting period has increased by 4.8 mln euro or 9.2%.

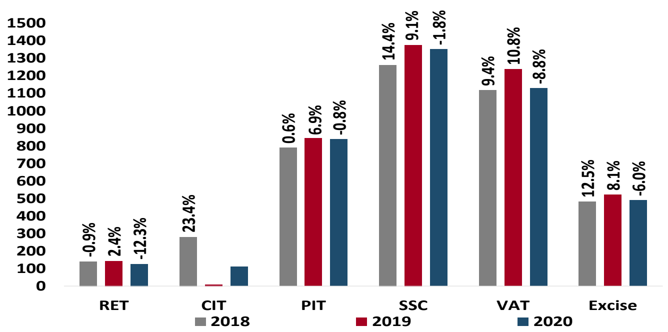
Source: The Treasury

Tax Revenue

Consolidated General budget Tax Revenue

	2019 I-VI execution, mln euro	2020 I-VI execution, mln euro	Execution changes 2020/2019, mln	Execution changes 2020/2019, %	January execution of the same period plan
Consolidated general budget tax revenue	**4269.9**	**4171.1**	**-98.8**	**-2.3%**	**90.7%**
Social security contributions	1376.8	1352.5	-24.2	-1.8%	*99.5%*
in State special budget	*1328.2*	*1306.5*	*-21.7*	*-1.6%*	*92.8%*
1% for the health financing	*47.9*	*46.0*	*-1.9*	*-3.9%*	*95.0%*
Value added tax	1238.2	1128.6	-109.6	-8.8%	85.2%
Personal income tax	844.2	837.3	-7.0	-0.8%	*104.4%*
in State budget	*170.1*	*164.7*	*-5.3*	*-3.1%*	*102.7%*
in Local government budget	*674.2*	*672.5*	*-1.6*	*-0.2%*	*104.8%*
Excise tax	520.7	489.2	-31.5	-6.0%	85.3%
Corporate income tax	9.4	110.3	-	-	72.1%
Real estate tax	143.6	126.0	-17.7	-12.3%	*84.6%*
Informative:					
Social security contributions to the state funded pension scheme	289.7	293.2	3.4	*1.2%*	-

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



Consolidated general budget tax revenue in the first half of this year amounted to 4171.1 mln euro, which is by 98.8 mln euro or 2.3% less than in the corresponding period of 2019, which was significantly affected by the measures introduced to limit the spread of COVID-19, starting from 13 March 2020, forcing certain groups of taxpayers to significantly restrict or suspend their economic activity. General budget tax revenues in the first half of the year fell short of the planned by 426.6 mln. euro or 9.3%.

One of the few taxes that has an increase in revenue compared to the corresponding period in 2019 is the corporate income tax (CIT). In the first half of this year, CIT revenues increased by 101 mln euro, compared to the corresponding period in 2019. It should be noted that in the first half of last year, during the transition period of the CIT system reform, CIT repayments almost exceeded the contributions, but this year the amounts paid have already increased significantly, which ensures the increase of the total CIT revenue.

The largest decrease in the general budget revenue in the first half of this year, compared to the corresponding period of 2019, was from value added tax (VAT) and excise tax.

VAT in the first half of this year amounted to 1128.6 mln euro, which is by 109.6 mln euro or 8.8% less than in the corresponding period of 2019. The decrease in revenue can be explained by the decrease in tax contributions. The largest decrease in revenue comes from taxpayers whose main activity is related to trade, repair of motor vehicles and motorcycles. There is also a significant decrease in revenue from taxpayers, whose main activity is related to electricity, gas, steam and air conditioning supply, accommodation and food service activities.

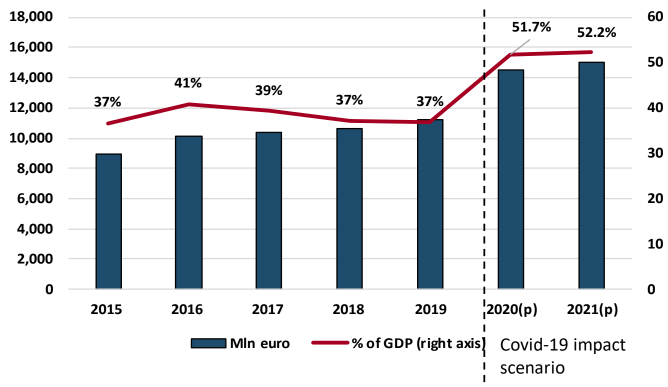
There are also rapid changes in labor tax revenues, which after a long period of growth, after the introduction of the state of emergency, no longer reach the amount of revenues for the corresponding period of the previous year. In labor taxes, the largest decrease in revenue in the first half of this year, compared to the corresponding period of 2019, is from taxpayers, whose main activity is related to transport and storage, as well as accommodation and catering services. Mandatory state social insurance contributions in the first half of this year are 1352.5 mln euro, which is by 24.2 mln euro or 1.8% less than in the corresponding period of 2019. In turn, personal income tax revenue is 837.3 mln euro, which is by 7.0 mln euro or 0.8% less than in the corresponding period of 2019. In March-June, 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 reducing social insurance contributions in the first half of the year.

Excise tax revenue in the first half of this year is 489.2 mln euro, which is by 31.5 mln euro or 6.0% less than in January-June last year. Compared to the first half of last year, revenues have decreased in all product groups, except for other excise goods (coffee, soft drinks, electronic cigarette refills).

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.