

# MACROECONOMIC AND BUDGETARY REVIEW

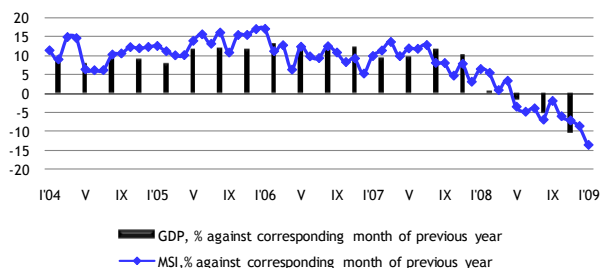


MINISTRY OF FINANCE  
REPUBLIC OF LATVIA

January, 2009

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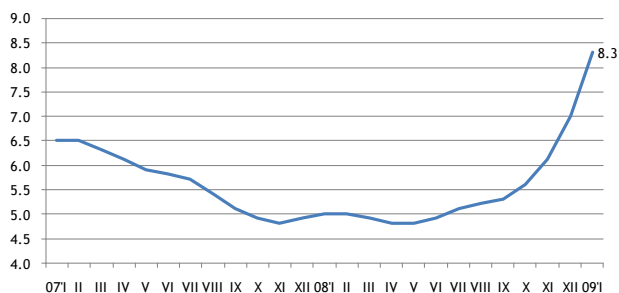
According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in January 2009 shrank by 13.6% at constant prices. The decrease of index was caused by a rapid slowdown in retail trade turnover, the industrial output, as well as slowdown of cash in circulation.



Composite Index of Macroeconomic Indicators (MSI)

The volume of **cargo transhipped in Latvian ports** in January amounted to 5.6 mln t, down by 0.9% from the corresponding month of 2008. However the volume of cargo transhipped in ports in 2008 totalled 63.6 mln t, which was 1.9% more than in the same period of the previous year. In January of 2009 **freight carried by rail** were 4.9 mln tons, a decrease of 0.3% compared to the same period of the previous year. Freight carried by rail in 2008 totalled 56.1 mln t, which was 7.5% more than in 2007.

Officially registered **unemployment rate** in January increased by 1.3 percentage points and amounted to 8.3% of the economically active population at the end of the month. The number of the registered unemployed increased by 14.0 thsd people from the previous month and amounted to 90.4 thsd people. As compared with January 2008, the unemployment rate increased by 3.3 percentage points, but the number of the registered unemployed by 37.1 thsd people. The highest unemployment rate in January was registered in the region of Latgale, 12.2% (9.6% in January of 2008); in the region of Vidzeme, 9.8% (5.2%); and in the region of Zemgale, 9.2% (5.0%); and in the region of Kurzeme, 9.1% (5.3%). The lowest unemployment rate was registered in the region of Rīga, 6.6% (3.5%).

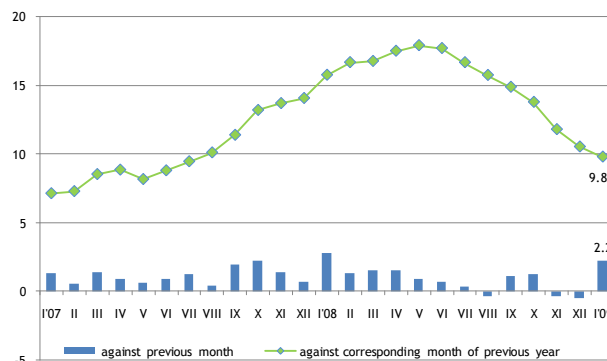


Officially registered unemployment rate, %

Consumer Price Index (CPI) in January, compared with December, increased by 2.2%. Average price levels for goods went up by 2.1%, but for services grew by 2.3%. Comparing with the corresponding month of previous year, consumer prices marked up by 9.8%, inter alia for goods – by 8.9% and for services – by 12.2%.

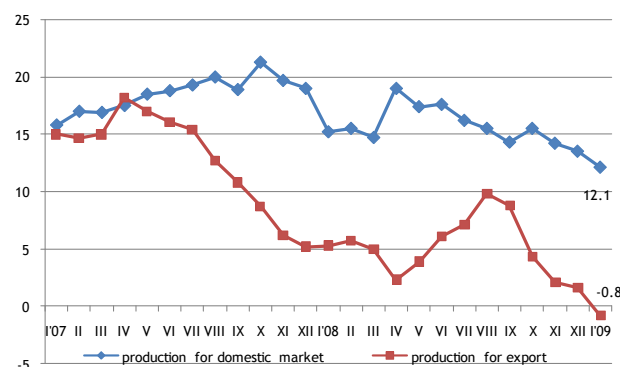
In January prices grew in all main consumer sectors, excluding clothing and footwear as well as fuel. Price increase was mainly affected by change in consumption taxes (general increase of VAT rate). The price increase for

dwelling, tobacco and vegetables had the greatest impact on consumer price changes in January.



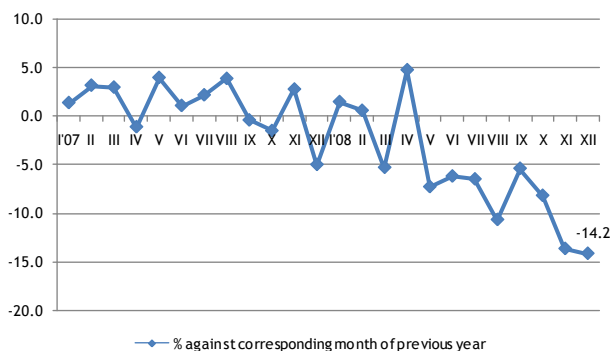
Consumer price index, %

Producer prices in January, compared with December decreased by 0.6%, but comparing to corresponding month of previous year price level increased by 7.2%. Producer price level was mainly affected by decrease in prices for manufacturing of wood and wood products (excluding furniture) – by 0.7 percentage points, manufacturing of basic metals, electricity, gas, steam and air conditioning supply – by 0.3 pp in each sector. The largest raising effect for producer price level came from price increase in manufacturing of beverages and of other non-metallic mineral products – by 0.2 pp in each sector.

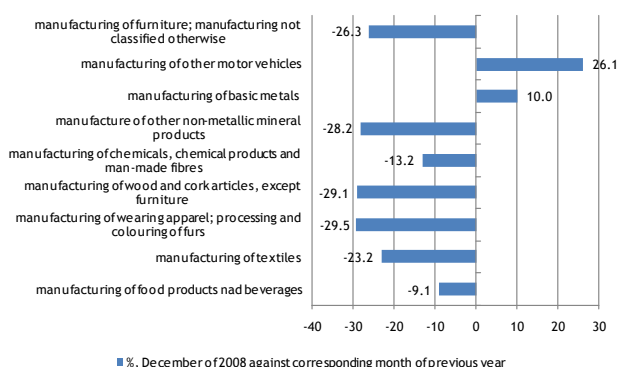


Producer price index, %

Compared to December of previous year in December 2008 **industrial production output** decreased by 14.2%, of which manufacturing – by 18.2%, mining and quarrying – by 10.6%, but electricity and gas supply – by 6.4%. Compared to 2007 industrial production output in 2008 (at constant prices) decreased by 6.7%.



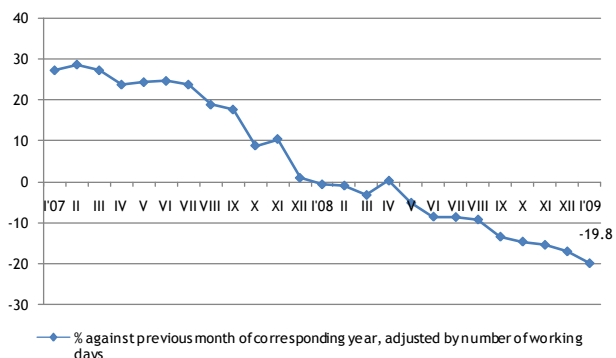
Industrial production index (seasonally adjusted data)



Biggest changes in volume indices of industrial production (seasonally adjusted data)

Compared January 2009 to January 2008, according to working (trade) day adjusted data, calculating at constant prices, **retail trade turnover** has reduced by 19.8%. Most notable decrease was recorded in non-food product group – by 23.2%. Slightly less it has reduced in companies selling mainly food products – by 12.6%.

Total retail trade turnover in 2008 constituted 4018 mln lats, of which in December –369 mln lats. Compared to 2007 it has decreased in volume by 8.2%. More significant decrease was recorded in retail trade of non-food products – 8.4%, slightly less reduced in retail trade of food products – by 7.8%.



Turnover indices of retail trade (at constant prices)

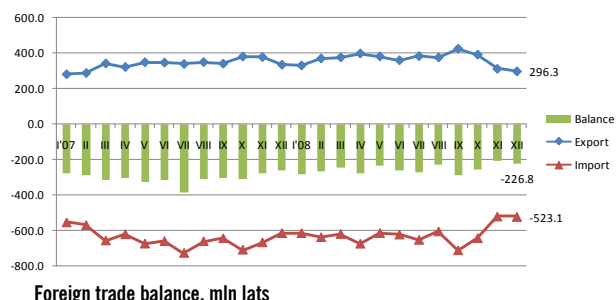
In December 2008, **exports and imports of goods** amounted to 819.4 mln lats down by 13.8% from the same period last year.

As compared with December last year, export of goods decreased by 11.1% and amounted to 296.3 mln lats, while import decreased by 15.2%, reaching the value of 523.1 mln lats.

In December 2008, as compared to the December 2007, the trade balance deficit decreased by 56.5 mln lats and amounted to 226.8 mln lats.

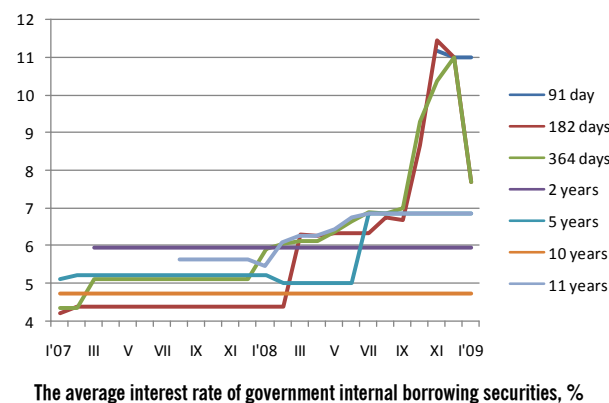
Latvia's main export partners in December of 2008 were Lithuania, accounting for 16.2% of total exports (17.4% in December of 2007); Estonia, 15.1% (15.2%); Russia, 9.8% (9.5%). Latvia's main export products were agricultural and food products accounting for 25.2% of total amount (17.1% in December of 2007); machinery and mechanical appliances accounting for 15.5% of total amount (10.4% in December of 2007); wood and wood products accounting for 13.1% of total amount (18.8% in December of 2007);

Main import partners were Lithuania, 15.1% (16.1%); Russia, 13.8% (10.0%); Germany, 12.3% (14.0%). Latvia's main import products were machinery and mechanical appliances accounting for 18.0% of total amount (19.1% in December of 2007); agricultural and food products accounting for 17.2% of total amount (13.9% in December of 2007); mineral products accounting for 16.8% of total amount (16.3% in December of 2007).



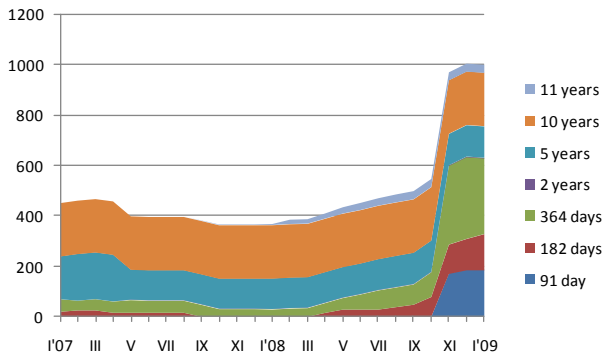
Foreign trade balance, mln lats

In January 2009 government internal borrowing securities competing multi-price securities auctions were held. Auctions were offered short-term government debt securities in the total amount of 32.0 mln lats at nominal value. Overall sales were 17.15 mln lats after nominal value with the weighted average profit rate of 7.70%. In January the government internal borrowing short-term fixed-rate securities auctions took a place. Securities were sold at auction for a total sum of 5.62 mln lats, with the weighted average profit rate of 7.70%.

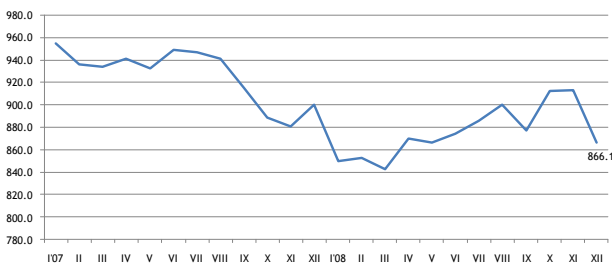


The average interest rate of government internal borrowing securities, %

In January 2009 government medium and long term bond weight in the domestic debt portfolio amounted to 37.0% (92.2% in January 2008), but short-term government bond proportion reached 63.0% (7.8%).



Structure of government internal borrowing securities turnover in January 2009, mln lats

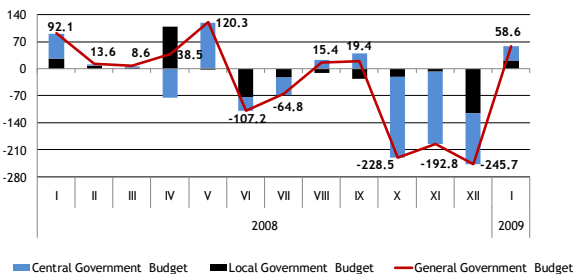


Cash in circulation, mln lats

	VII	IX	X	XI	XII	09'1
RIGIBOR (3month)	6.28	6.39	11.57	13.5	13.54	10.66
EURIBOR (3month)	4.97	5.12	4.91	3.94	2.97	2.15

Money Market Indexes RIGIBID and EURIBOR for last 6 month on 25th date of each month

In accordance with the State Treasury's official monthly report's (January 2009) data, in January 2009 the **General Government Budget** revenue (including grants and donations) was 412.9 mln lats which is 27.4 mln lats or 6.2% less than in January 2008, mainly due to decrease of revenue in the central government basic budget by 20.4 mln lats. In January 2009, the general government budget expenditure (including grants and donations) was 354.3 mln lats, which is 6.1 mln lats or 1.7% more than in January 2008. In January 2009, the general government budget financial surplus was 58.6 mln lats, int. al., the central government budget financial surplus was 35.8 mln lats and the local government budget financial surplus was 22.7 mln lats.



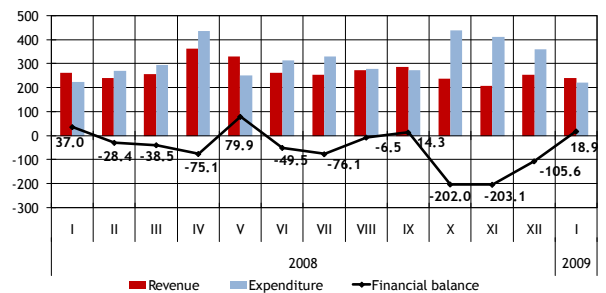
General government budget balance, mln lats

In January 2009 the **central government consolidated budget** revenue (including grants and donations and derived public persons) was 354.1 mln lats, which is 17.4 mln lats or 4.7% less than in January, mainly due to decrease of central government basic tax revenue by 35.9 mln lats. The most significant decrease in comparison with January 2008 was in the revenue from value added tax.

In January 2009, the central government budget expenditure (including grants and donations and derived public persons) was 318.3 mln lats, which is 10.8 mln lats or 3.5% more than in January 2008. In January 2009, the deficit of central consolidated budget was planned in amount of 10.6 mln lats, but actually there was a financial surplus of 35.8 mln lats.

**Central government basic budget** revenue in January 2009 was 242.2 mln lats, which in comparison with January 2008 is 20.4 mln lats or 7.8% less. Central government basic budget revenue in January 2009 formed 93.7% of January plan.

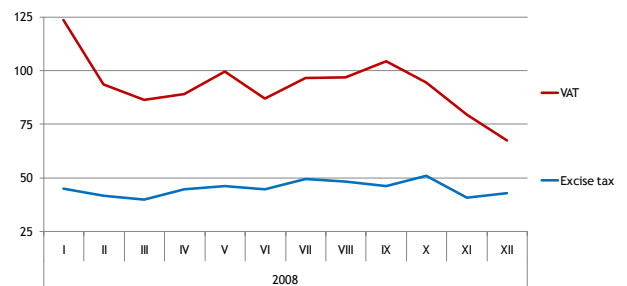
In comparison with January 2008, tax revenue was 185.4 mln lats, which is 35.9 mln lats or 16.2% less, mainly due to decrease of value added tax revenue by 31.5 mln lats. In January 2009 the non-tax revenue was 16.7 mln lats, which is 1.6 mln lats more than in January 2008. In January 2009, revenue from the paid services and self-earned revenue was 6.8 mln lats, which is 3.5 mln lats or 34.2% less, but revenue from the foreign financial assistance was 33.3 mln lats, which is 17.4 mln lats more than in January 2008. Foreign financial assistance revenue in January consisted of an interim payment of the European Agricultural Guarantee Fund 18.5 mln lats and 14.6 mln lats the European Social Fund (2004-2006) within the framework.



Central government basic budget, mln lats

In January 2009, the central government basic budget expenditure was 223.3 mln lats, which is 2.3 mln lats or 1.0% less than in January 2008. Central government basic budget expenditure in January 2008 formed 85.3% of January plan.

In January 2009, the central government basic budget non-capital expenditure was 211.5 mln lats or 94.7% of total basic budget expenditure and in comparison with January 2008 is 0.3 mln lats less. Wages and salaries in January 2009 were 33.1 mln lats and in comparison with January 2008 is 0.2 mln lats or 0.7% less. In comparison with January 2008 payments in EU budget decreased by 3.3 mln lats and interest payment increased by 9.7 mln lats. The central government basic budget capital expenditure in January 2009 was 11.8 mln lats and in comparison with January 2008 is 2.0 mln lats or 14.4% less. In January 2009, the financial surplus in the central government basic budget was 18.9 mln lats.



Indirect tax revenue, mln lats

In January 2009, tax revenue continued to decrease, the most significant decrease was in revenue of value added tax.

Value added tax revenue in January 2009 was 92.0 mln lats and in comparison with January 2008 is 31.5 mln lats or 25.5% less. Since January 2009 the VAT

standard rate has increased from 18% to 21%, but the January revenue was not impacted by this, because in January the tax was paid on transactions and operations done in December 2008, applying 18% tax rate.

Changes in retail trade turnover have a significant impact on value added tax. According to the Central Statistical Bureau retail trade turnover decreased by 4.0% in December 2008 in comparison with November and in comparison with December 2007 decreased by about 16.9% (at constant prices).

In January 2009, domestically net collected value added tax revenue was 75.5 mln lats or 82.0% of total value added tax revenue and in comparison with January 2008 it is 28.2 mln lats or 27.2% less. The value added tax revenue collected on border was 3.3 mln lats or 16.6% less than in January 2008. In January 2008, domestic value added tax refunds were 42.0 mln lats, which is 7.6 mln lats less than in January 2008. Value added tax payments made by the biggest taxpayers formed 33.3% of total value added tax revenue in January 2009.

The execution of January 2009 plan of value added tax revenue was 83.6%.

Total **excise tax revenue** in January 2009 was 42.9 mln lats and in comparison with January 2008 is 2.1 mln lats or 4.6% less. Excise tax revenue formed 86.1% of January 2009 plan.

In January 2009, excise tax revenue from oil products was 21.3 mln lats or 49.5% of total excise tax revenue and in comparison with January 2008 is 2.1 mln lats or 8.9% less. According to the State Revenue Service information, the total consumption of oil products continues to decrease. In 2008 in comparison with 2007 the consumption of oil products decreased by 1.5%.

In January 2009, excise tax revenue from tobacco products was 12.8 mln lats or 29.8% of total excise tax revenue and in comparison with January 2008 is 2.3 mln lats or 21.7% more. Since January 2009 the tax rates for cigarettes has increased, but the January revenue was not impacted by this, because in January the tax was paid on transactions and operations done in December 2008.

In January 2009, the excise tax revenue from alcoholic beverages was 7.8 mln lats or 18.1% of total excise tax revenue and in comparison with January 2008 is 2.1 mln lats or 21.6% less. According to the State Revenue Service information, the total consumption of alcoholic beverages continues to decrease. In 2008 in comparison with 2007 the consumption of alcoholic beverages decreased by 6.5%.

The excise tax revenue from non-alcoholic beverages and coffee in January 2008 was 0.5 mln lats, which is 2.4 thsd lats less than in January 2008.

**Social security budget** revenue in January 2009 was 106.5 mln lats, which is 5.1 mln lats or 4.5% less than in January 2008. Social security budget revenue formed 121.9% of January 2009 plan.

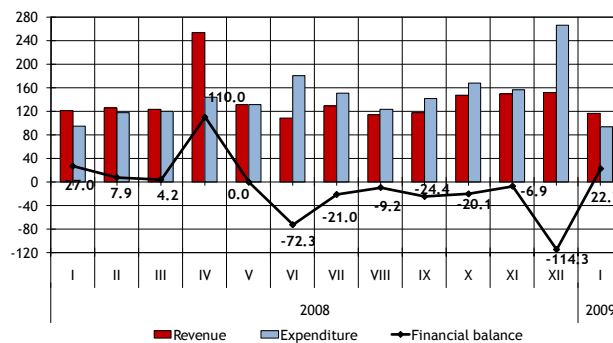
The social security budget expenditure in January 2009 was 91.9 mln lats, which in comparison with January 2008 is 8.2 mln lats or 9.8% more. Pensions were 62.7 mln lats or 68.3% of the social security budget expenditure, social security benefits was 20.0 mln lats or 21.7% and employment benefits was 7.7 mln lats or 8.4% of the social security budget expenditure. Social security budget expenditure formed 97.1% of January 2009 plan.

In January 2009, the social security budget financial surplus was 91.9 mln lats.

**Social security contributions** (including contributions into the State Funded Pension Scheme) in January 2009 was 121.3 mln lats and in comparison with January 2008 is 1.2 mln lats or 1.0% more. According to the State Revenue Service information, the number of employees continues to decrease. In December 2008 in comparison with the same period of 2007 it decreased by 4.8% but in comparison with November 2008 by 2.0%.

**Local government consolidated budget** revenue (including grants and donations) in January 2009 was 116.8 mln lats and in comparison with January 2008 was 4.8 mln lats or 3.9% less.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in January 2009 in comparison with January 2008 was 3.1 mln lats or 2.4% less. In comparison with January 2008, the tax revenue was 0.8 mln lats or 1.3% less, that was mainly driven by decrease of personal income tax revenue. The local government basic budget non-tax revenue in January 2009 in comparison with January 2008 was 0.4 mln lats or 22.1% more, but the local government basic budget received payments was 3.3 mln lats or 5.7% less. Local government basic budget revenue from the paid services and other self-earned revenue in January 2009 was 0.7 mln lats or 8.9% more than in January 2008.



Local government consolidated budget, mln lats

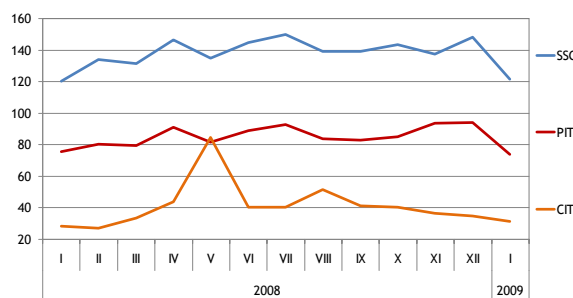
Local government basic budget expenditure for remuneration in January 2009 was 47.4 mln lats and in comparison with January 2008 is 3.4 mln lats or 7.7% more, int. al. wages and salaries increased by 8.7%.

In January 2008 the local government consolidated budget expenditure was 94.1 mln lats, which is 0.5 mln lats or 0.5% less than January 2008, mainly due to decrease of capital expenditure by 6.0 mln lats. In January 2008, the financial surplus of 22.7 mln lats was in the local government consolidated budget.

**Personal income tax revenue.** As from January 2009, the breakdown of personal income tax revenue between central government and local government budget has changed. 83% (instead of previous 80%) of total personal income tax revenue is transferred to the local government budgets, but in the central government budget – 17% (instead of previous 20%). Personal income tax revenue in January 2009 was 73.8 mln lats and in comparison with January 2008 is 3.9 mln lats or 5.1% less. Personal income tax revenue in January 2009 formed 120.1% of January plan. Personal income tax revenues are impacted mainly by the changes of number of employees and according to the State Revenue Service information the number of employees continues to decrease.

**Corporate income tax** revenue in January 2009 was 31.5 mln lats and in comparison with January 2008 is 2.8 mln lats or 9.9% more. The execution of January 2009 plan of corporate income tax revenue was 163.2%. In January corporate income tax advance payments were paid, which were calculated on the basis of taxpayers profits in 2007.

In January 2009 the corporate income tax payments made by tax the biggest payers were 15.4 mln lats and these payments formed 48.7% of total corporate income tax revenue.



Direct tax revenue, mln lats