

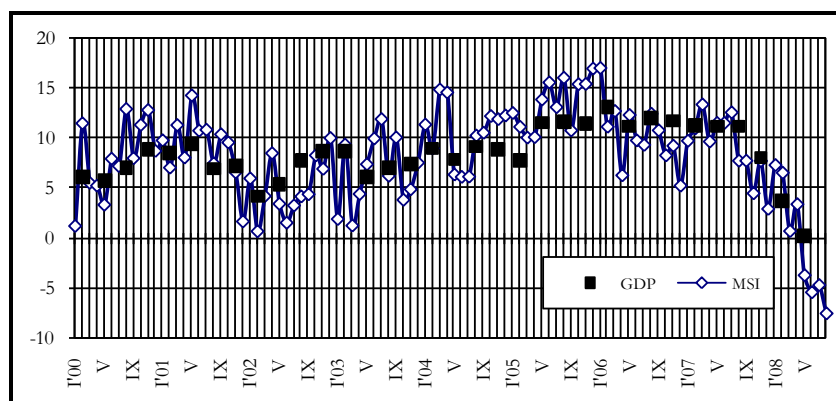
STATE BUDGET

August '08

According to the estimation of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in August 2008 decreased by 7.6% at constant prices. Decrease in turnover of retail trade and industrial production output growth rates were the main determinants, which impacted the index on the negative side. The cargo turnover in ports and by rail also negatively influenced the value of the composite index. On the other side, the positive growth rate of the wage bill was the most positive factor, which influenced the index upwards.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2007 2Q	2008 2Q	2008		
				July	August	August ²
Industrial output index ³	% ¹	-0.4	-2.0	-0.7	*	*
Consumer price index	% ¹	2.7	3.9	0.3	-0.4	15.7
Producer price index	% ¹	4.4	5.7	0.3	0.9	13.1
Cash in circulation (net of vault balances)	mln Ls	948.6	874.4	885.6	899.6	-4.4
Bank of Latvia net foreign assets (end-of-period)	mln Ls	2582.3	2946.3	2891.0	2887.7	5.9
Average short-term interest rates for credits (in lats)	%	11.3	9.2	11.1	10.5	-
Unemployment rate (end of the period)	%	5.8	4.9	5.1	5.2	-
Exports	mln Ls	1015.3	1124.0	369.9	*	*
Imports	mln Ls	1961.3	1879.3	642.5	*	*

Source of data: CSB and BOL.

¹ increase over the previous period, %

² increase over the same period of the previous year, %

³ seasonally adjusted data

The volume of **cargo transhipped in Latvian ports** in August amounted to 4.7 mln t. down by 12.1% from the corresponding month of 2007. The volume of cargo transhipped in ports in the first eight months of 2008 totalled 42.4 mln t. which was 0.2% more than in the same period of the previous year.

The officially registered **unemployment rate** in August increased by 0.1 percentage point month-on-month and amounted to 5.2% of the economically active population at the end of the month. The number of the registered unemployed increased by 0.9 thsd people from the previous month and amounted to 56.3 thsd people. As compared with August 2007, the unemployment rate decreased by 0.2 percentage points, but the number of the registered unemployed decreased by 1.6 thsd people. The highest unemployment rate in August was registered in the district of Rēzekne – 16.7% (18.7% in August of 2007); in the district of Ludza –

14.9% (16.8%); and in the district of Preiļi – 11.4% (11.7%). The lowest unemployment rate was registered in Rīga – 3.6% (3.4%); in the district of Tukums – 3.2% (3.9%); and in the district of Valmiera – 3.6% (4.5%).

Consumer Price Index (CPI) in August, compared with July, decreased by 0.4%. Prices for goods fell by 0.9%, but for services rose by 0.7%.

Price decrease of vegetables and automotive fuel, as well as price increase for clothing, catering and local government dwelling rent, had the major impact on the consumer price changes in August.

In August 2.2% price decrease was indicated for food, particularly influenced by seasonal price deceleration of vegetables by 27.6%, potatoes – by 27.7% and fruits – by 3.6%. Because of auctions, prices fell for bread by 0.7% and for dairy products – by 0.4%.

Average price level of automotive fuel fell by 4.3%. In particular, prices decreased for diesel – by 6.7%. Car purchasing becomes more cheaper in August by 1.6%.

As a result of closing of seasonal sales and arrival of new collection in market, prices increased for clothing by 2.2%. Local government dwelling rent becomes more expensive by 5.9%.

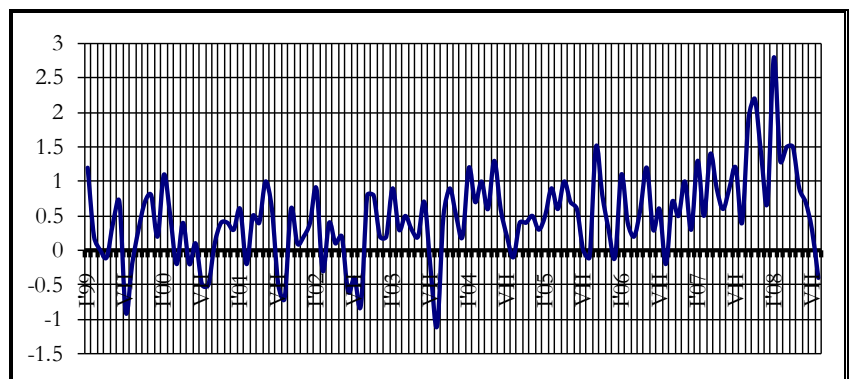
Compared to August of previous year, the consumer prices have increased by 15.7%, of which prices for goods increased by 15.3%, but for services – by 16.8%.

The CPI in **Estonia** in August compared with July increased by 0.1%. Price decrease for fuel and seasonal price deceleration for vegetables as well as price increase for tobacco, clothing and footwear, had the greatest impact on inflation. The year-on-year growth of the CPI in Estonia amounted to 11.0%.

CPI in **Lithuania** in August compared with July increased by 0.2%. Consumer price level was mainly influenced by price rose of dwelling, hotels, restaurants and cafes as well as price decrease for transportation goods and services. As compared with August of 2007 consumer prices increased by 12.0%.

Consumer price index

% over the previous period



In July 2008, **exports and imports of goods** amounted to 1012.4 mln lats down by 5.2% from the same period last year.

As compared with July last year, export of goods grew by 9.3% and amounted to 369.9 mln lats, while import decreased by 12.0%, reaching the value of 642.5 mln lats.

In July 2008, as compared to the July 2007, the trade balance deficit decreased by 119.0 mln lats and amounted to 272.6 mln lats.

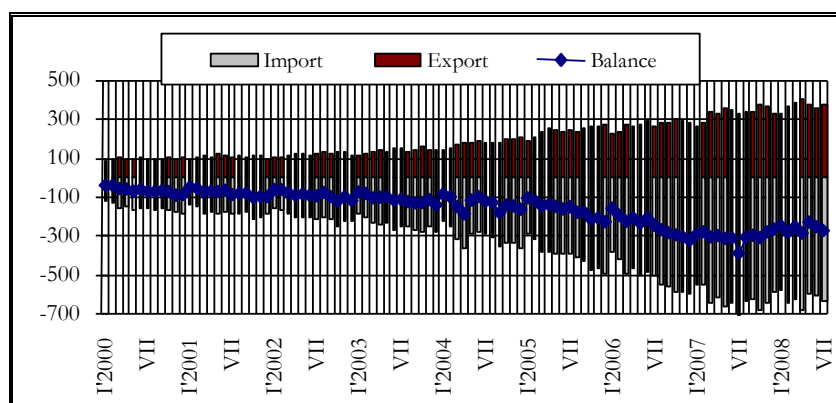
In July 2008 exports to the EU increased by 19.5 mln lats as compared with July of the previous year and amounted to 276.6 mln lats. The share of the EU in total value of exports was 74.8%. Exports to the CIS grew by 5.1 mln lats as compared with July of the previous year and amounted to 55.3 mln lats, and the share of exports to the CIS was 15.0%.

The value of imports from the EU in July 2008 decreased by 115.8 mln lats year-on-year and reached 480.6 mln lats, but the share of EU imports amounted to 74.8%. The value of imports from the CIS in July 2008 increased by 31.9 mln lats year-on-year and reached 108.6 mln lats, but the share of CIS imports amounted to 16.9%.

Latvia's main export partners in July of 2008 were Lithuania, accounting for 18.2% of total exports; Estonia, 14.0%; Russia, 10.2%; Germany, 8.3%; Sweden, 6.1%. Main import partners were Lithuania, 17.4%; Germany, 13.4%; Russia, 10.8%; Estonia, 7.4%; and Poland, 6.9%.

Foreign trade balance

mln lats



According to the provisional data of the Bank of Latvia, the current account deficit of the **balance of payments** in July decreased by 170.2 mln lats year-on-year and amounted to 208.6 mln lats. As compared with July 2007, the goods deficit decreased by 123.1 mln lats and stood at 266.8 mln lats. The negative income balance decreased – in July 2008, down by 8.6 mln lats from the corresponding period last year and was 31.3 mln lats. Surplus of the services balance in July 2008 amounted to 49.3 mln lats, which was 3.8 mln lats more than in the July of 2007. The surplus of the capital and financial account in July of 2008 was 254.8 mln lats. Net inflow of direct investment in July totalled 31.2 mln lats, which was 32.2 mln lats less than in the July last year. The portfolio investment account in July was negative and amounted to 31.4 mln lats. The Bank of Latvia's reserve assets in the July increased by 50.2 mln lats.

Central Government Consolidated Budget*, mln lats

	July of 2008	August of 2008	Jan-August of 2008	Jan – August of 2007	% changes (Jan – August) 2008/2007	% of annual plan
Revenue	384.0	397.2	3205.2	2773.4	15.6	60.9
Basic budget tax revenue	211.4	217.6	1664.0	1501.9	10.8	63.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-53.1	-
Basic budget non-tax revenue	18.3	16.8	185.8	174.0	6.8	62.8
Self-earned revenue	9.6	13.1	80.2	76.6	4.8	55.6
Social security budget revenue	131.1	124.8	960.2	822.8	16.7	65.5
– transfers from central government basic budget	-1.4	-1.4	-11.1	-11.0	0.7	66.1
Gifts and donations	0.4	0.4	6.1	2.6	137.4	-
Foreign financial assistance	14.7	25.9	320.1	206.6	54.9	42.5
Expenditure	430.1	374.0	3147.2	2511.2	25.3	59.9
Basic budget	330.1	280.0	2407.2	1932.9	24.5	59.4
– transfers to social security budget	-1.4	-1.4	-11.1	-11.0	0.7	66.1
Social security budget	100.5	95.2	740.4	586.8	26.2	60.7
Gifts and donations	0.9	0.2	10.7	2.6	319.9	-
Financial balance	-46.0	23.2	58.0	262.1	-	-

* including transfers to local government budgets

36.8

24.6

408.2

276.8

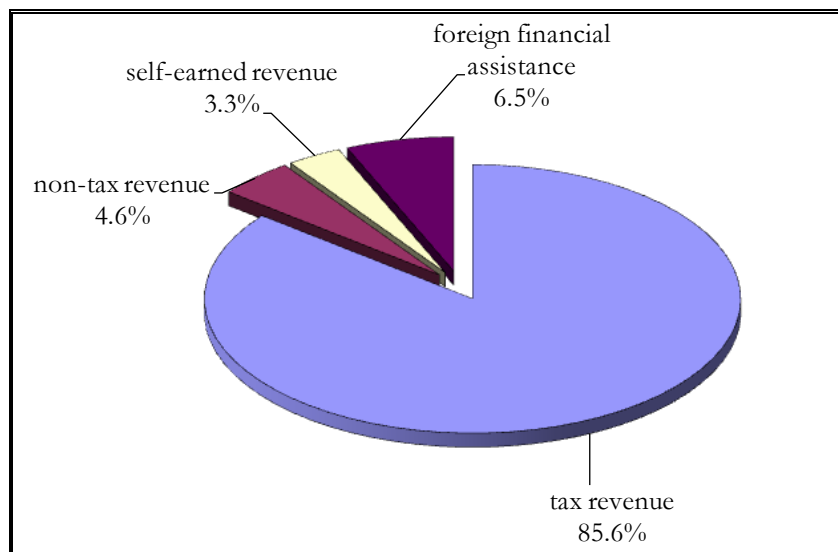
In accordance with the State Treasury's official monthly report's (January - August 2008) data, in August 2008 the **central government consolidated budget** revenue (including gifts and donations) was 397.2 mln lats, which is 13.2 mln lats or 3.4% more than in July, mainly due to increase of central government basic budget revenue from the foreign financial assistance by 11.2 mln lats and basic budget tax revenue by 6.2 mln lats. The central government consolidated budget revenue in eight months of 2008 was 3205.2 mln lats, which is 431.8 mln lats or 15.6% more than in the same period of 2007. Tax revenue formed the significant part of the central government consolidated budget revenue. The most significant increase in comparison with eight months of 2007 was in the revenue from social security contributions, excise tax and corporate income tax. In August 2008, the central government budget expenditure (including gifts and donations) was 374.0 mln lats, which is 56.1 mln lats or 13.0% less than in July 2008. The government budget total expenditure in the

eight months of 2008 was 3147.2 mln lats, which is 636.0 mln lats or 25.3% more than in the same period of 2007. In August 2008, the central government consolidated budget financial surplus was 23.2 mln lats.

Central government basic budget revenue in August 2008 was 273.4 mln lats, which in comparison with July 2008 is 19.4 mln lats or 7.7% more. In August 2008 tax revenue was 217.6 mln lats, which is 6.2 mln lats or 2.9% more than in July 2008, mainly due to increase of corporate income tax by 11.2 mln lats. In August 2008 the non-tax revenue was 16.8 mln lats, which is 1.4 mln lats or 7.9% less than in July 2008, mainly due to decrease of the percent revenues by 3.8 mln lats. In August 2008, revenue from the paid services and self-earned revenue was 13.1 mln lats, which is 3.5 mln lats or 36.1% more and revenue from the foreign financial assistance was 25.9 mln lats, which is 11.2 mln lats or 76.8% more than in July. Central government basic budget revenues in the eight months were 2250.1 mln lats, which is 291.0 mln lats or 14.9% more than in the same period of 2007.

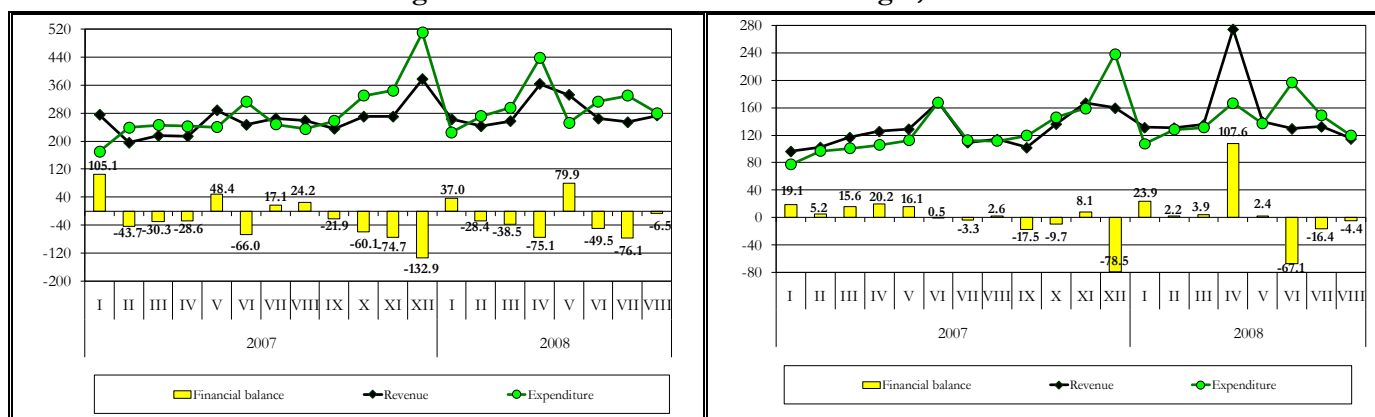
Structure of Central Government Basic Budget and Special Budget Revenue in August 2008

Percentage



In August 2008, the central government basic budget expenditure was 280.0 mln lats, which is 50.1 mln lats or 15.2% less than in July 2008. In August 2008, the central government basic budget non-capital expenditure was 240.2 mln lats or 85.8% of total basic budget expenditure and in comparison with July 2008 is 40.2 mln lats or 14.3% less, mainly due to decrease of wages by 16.4 mln lats and decrease of percentage expenditure by 9.5 mln lats. The central government basic budget capital expenditure in August 2008 was 39.7 mln lats and in comparison with July 2008 is 9.9 mln lats or 20.0% less. In the eight months 2008 the central government basic budget expenditure was 2407.2 mln lats which in comparison with the same period of 2007 is by 474.3 mln lats or 24.5% more. In August 2008, the financial deficit in amount of 6.5 mln lats was in the central government basic budget.

Central Government Basic Budget and Local Government Basic Budget, mln lats



Social security budget revenue in August 2008 was 124.8 mln lats, which is 6.3 mln lats or 4.8% less than in July 2008. Social security budget revenue in the eight months 2008 was 960.2 mln lats, which is 137.4 mln lats

or 16.7% more than in the same period of 2007. The social security budget expenditure in August 2008 was 95.2 mln lats, which in comparison with July 2008 is 5.3 mln lats or 5.3% less, mainly due to decrease of social benefits by 4.8 mln lats or 4.9%. The social security budget expenditure in the eight months 2008 was 740.4 mln lats, which is 153.6 mln lats or 26.2% more than in the same period of 2007. In August 2008, the social security budget financial surplus was 29.6 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in August 2008 was 114.6 mln lats and in comparison with July 2008 was 17.6 mln lats less. The tax revenue in comparison with July 2008 was 1.6 mln lats or 2.1% more, that was mainly driven by increase of real estate tax revenue by 9.1 mln lats. The local government basic budget non-tax revenue in August 2008 in comparison with July 2008 was 1.1 mln lats or 27.5% less and the local government basic budget received payments was 13.7 mln lats less. Local government basic budget revenue from the paid services and other self-earned revenue in August 2008 were 4.4 mln lats less than in July 2008.

In August 2008 the local government basic budget expenditure was 118.9 mln lats, which is 29.6 mln lats or 19.9% less than July 2008, mainly due to decrease of expenditure for wages by 13.5 mln lats. In August 2008, the financial deficit of 9.2 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	July of 2008	August of 2008	Jan - August of 2008	Jan - August of 2007	% changes (Jan - August) 2008/2007
Revenue	129.4	114.3	1108.9	900.1	23.2
Basic budget tax revenue	76.9	78.5	597.6	505.1	18.3
Basic budget non-tax revenue	3.9	2.8	20.4	26.8	-23.6
Basic budget received payments	40.3	26.7	498.2	368.3	35.3
-mutual payments*	-13.0	-10.6	-155.8	-126.6	23.0
Basic budget self-earned revenue	10.7	6.3	67.4	58.8	14.7
Special budget revenue**	10.2	10.3	79.2	66.6	18.9
Foreign financial assistance	0.3	0.3	1.8	1.2	42.9
Expenditure	150.4	123.5	1062.4	816.6	30.1
Basic budget expenditure	148.5	118.9	1133.2	884.2	28.2
-mutual payments*	-13.0	-10.6	-155.8	-126.6	23.0
Special budget expenditure**	14.9	15.2	85.0	59.0	44.0
Financial balance	-21.0	-9.2	46.5	83.6	-

* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

** including gifts and donations; excluding revenue from privatisation.

Value added tax revenue in August 2008 was 96.9 mln lats and in comparison with July 2008 is 0.5 mln lats or 0.5% more. In August 2008, domestically net collected value added tax revenue was 79.9 mln lats or 82.5% of total value added tax revenue and in comparison with July 2008 is 7.2 mln lats or 9.9% more. The value added tax revenue collected on border was 6.7 mln lats or 28.3% less than in July 2008. In August 2008, value added tax repayments were 53.3 mln lats, which is 2.4 mln lats less than in July 2008.

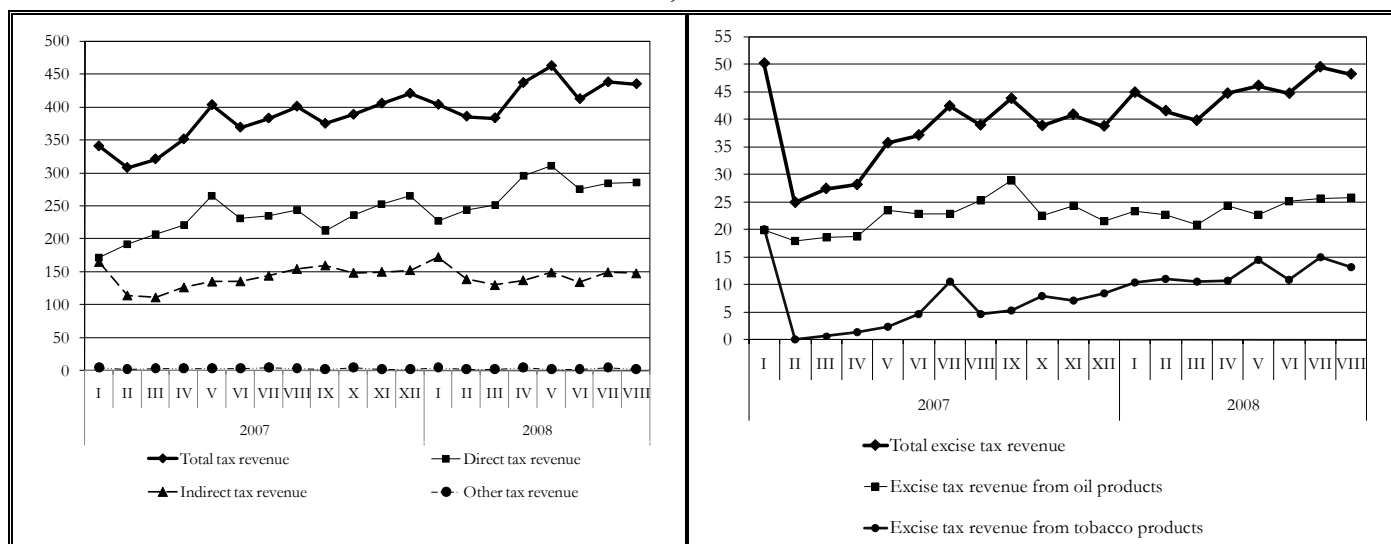
In total in the eight months 2008 value added tax revenue was 771.8 mln lats and comparison with the same period of 2007, value added tax revenue is 2.1 mln lats or 0.3% more.

Total **excise tax** revenue in August 2008 was 48.3 mln lats and in comparison with July 2008 is 1.3 mln lats or 2.6% less. Excise tax revenue from tobacco products in August 2008 was 13.2 mln lats, which is 1.8 mln lats less than in July 2008. Excise tax revenue from alcoholic beverages was 7.7 mln lats and in comparison with July 2008 is 0.6 mln lats or 7.8% more. The excise tax revenue from beer in August 2008 was 0.9 mln lats, which is 0.3 mln lats or 25.4% less than in July 2008. In August 2008, the excise tax revenue from oil products amounted to 25.9 mln lats, which is 0.2 mln lats or 0.6% more than in July 2008. The excise tax revenue from non-alcoholic beverages and coffee in August 2008 was 0.6 mln lats, which is 61.4 mln lats or 12.5% more than in July 2008.

In total in the eight months 2008 excise tax revenue was 360.2 mln lats and comparison with the same period of 2007, excise tax revenue is 74.8 mln lats or 26.2% more.

Corporate income tax revenue in August 2008 was 51.5 mln lats and in comparison with July 2008 is 11.2 mln lats or 27.7% more. Corporate income tax revenue in the eight months 2008 was 349.9 mln lats and comparison with the same period of 2007 is 72.8 mln lats or 26.3% more. From all corporate income tax payers in the seven months 2008 corporate income tax payments of the biggest payers were 146.3 mln lats and these payments made 41.8% of total corporate income tax revenue in the eight months 2008.

Structure of total tax revenue and excise tax revenue, mln lats



Tax Revenue, mln lats

	July of 2008	August of 2008	Jan - August of 2008	Jan - August of 2007	% changes (Jan - August) 2008/2007	% of annual plan
Corporate income tax	40.4	51.5	349.9	277.1	26.3	66.1
Value added tax	96.3	96.9	771.8	769.7	0.3	61.1
Excise tax	49.6	48.3	360.2	285.5	26.2	66.6
Cars and motorcycles tax	0.9	0.7	7.5	11.8	-36.7	52.6
Social security contributions*	149.8	139.2	1099.6	874.0	25.8	64.6
Custom duties	2.4	1.6	18.1	18.4	-1.2	58.5
Personal income tax	92.5	83.6	674.5	562.9	19.8	63.8
Real estate tax	2.3	11.4	54.2	56.1	-3.4	73.2

* including the State Funded Pension Scheme financial aid and excluding the accumulated funded pension capital payments in social security budget

The structure of government T-bills and bonds (end of period)

	End of August 2008	End of July 2008	End of August 2008	End of August 2008
	Average annual selling rate, %	Shares of bonds, %	Shares of bonds, %	Amount in circulation, thsd. LVL
6 month T-bills	6.525	6.11	7.91	38,376.593
1 year T-bills	6.495	16.11	16.02	77,730.839
3 year bonds	5.959	0.47	0.46	2,216.915
5 year bonds	5.850	26.09	25.56	124,003.909
10 year bonds	4.728	45.03	43.64	211,746.079
11 year bonds	6.850	6.20	6.42	31,152.185

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