

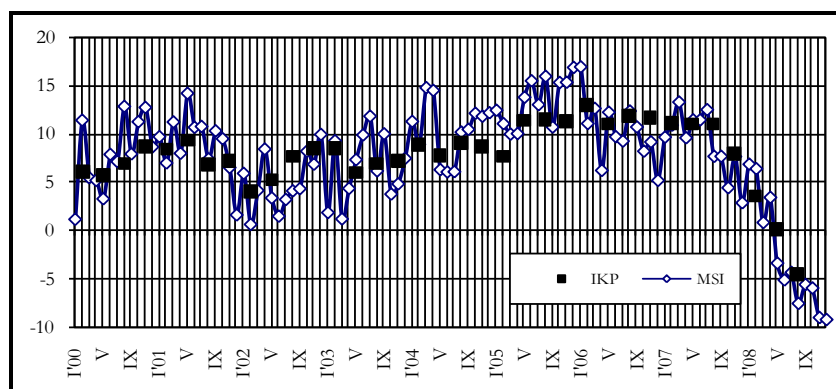
STATE BUDGET

December '08

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in December 2008 shrank by 9.3% at constant prices. The decrease of index was restricted by a slowdown of cash in circulation, the industrial output, as well as relatively slow retail trade turnover growth.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2007 4Q	2008 4Q	2008		
				November	December	December ²
Industrial output index ³	% ¹	-1.9	*	-3.1	*	*
Consumer price index	% ¹	4.7	1.4	-0.4	-0.5	10.5
Producer price index	% ¹	1.8	-0.1	-1.5	-0.6	9.5
Cash in circulation (net of vault balances)	mln. Ls	900.0	866.1	913.2	866.1	-3.8
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	2 776.0	2 332.3	2 367.1	2 332.3	-15.9
Average short-term interest rates for credits (in lats)	%	12.6	16.8	13.5	16.8	-
Unemployment rate (end of the period)	%	4.9	7.0	6.1	7.0	-
Exports	mln. Ls	1 090.6	*	310.6	*	*
Imports	mln. Ls	1 997.2	*	521.1	*	*

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 December amounted to 5.8 mln t, up by 2.3% from the corresponding month of 2007. However the volume of cargo transhipped in ports in the first twelve months of 2008 totalled 63.6 mln t, which was 1.9% more than in the same period of the previous year.

Officially registered **unemployment rate** in December increased by 0.9 percentage points and amounted to 7.0% of the economically active population at the end of the month. The number of the registered unemployed increased by 9.4 thsd people from the previous month and amounted to 76.4 thsd people. As compared with December 2007, the unemployment rate increased by 2.1 percentage point, but the number of the registered unemployed grew by 24.1 thsd people. Because of economical crisis, unemployment rate in December increased in all regions and cities. The highest unemployment rate in December was registered in the district of Rēzekne, 17.9% (16.6% in December of 2007); in the district of Ludza, 14.4% (14.4%); and in the district of Preiļi, 13.2% (10.8%). The lowest unemployment rate was registered in the district of Tukums, 4.3% (3.6%); in the district of Valmiera, 5.9% (3.8%); from cities in Riga, 5.2% (3.1%) and in Jelgava, 5.5% (3.8%).

Consumer Price Index (CPI) in December, compared with November, decreased by 0.5%. Prices for goods reduced by 0.8%, but for services grew by 0.3%.

The price decrease of fuel, clothing and footwear had the greatest impact on consumer price changes in December.

Price decrease for automotive fuel continued to decrease in December and on average reduced by 8.8%. Due to seasonal discounts prices kept falling for clothing – by 3.1% and footwear – by 4.9%. Price reducing was spotted for tariffs of heating energy – by 1.4%.

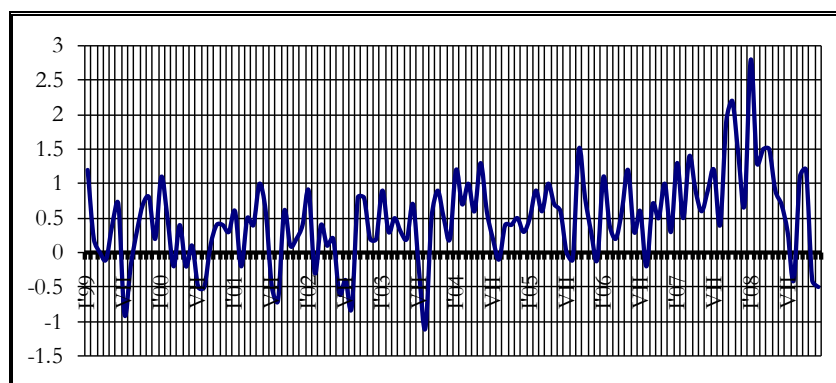
Prices of consumer goods and services had increased on average by 10.5% in 2008. Since May of 2008, when annual average inflation peaked to 17.9%, inflation level gradually decreased, due to changes in market mechanisms and reducing of domestic demand. High inflation in 2008 was determined basically by increase of administratively regulated prices. Heating energy became more expensive by 51.9%. Prices for natural gas increased by 57.2%. Particularly sharp prices rose for Tobacco – by 52.8%, what was affected by increase of excise tax in January 2008. Tariffs for electricity went up by 39.2%. More expensive became water supply and other dwelling services – by 26.3%. Significant increase was noticed for food prices in 2008 – by 10.0%. Prices for automotive fuel rose by 14.9% in 2008. Accordingly to requirements of EU, in the beginning of 2008 excise tax for fuel was increased, which marked up fuel on average by 0.02 Ls/ per liter. For the present, market prices for oil has become stable to 40 – 50 USD per barrel, which may point to less significant fluctuations in recent period of time. Services in 2008 marked up by 13.3% while prices of goods grew by 9.5% in the same period. Annual inflation in 2008 rose by 10.5%, inter alia goods – by 9.5% but services – by 13.3%. Annual average inflation reached 15.4% in 2008.

The CPI in **Estonia** in December compared with previous month decreased by 0.2%. Mostly inflation was driven by price reduction for fuel. The year-on-year growth of the CPI in Estonia amounted to 7.0% but annual average inflation reached 10.4%.

CPI in **Lithuania** in December compared with November fell by 0.1%. Consumer price level was mainly influenced by price decrease, automotive fuel, footwear and clothing. Comparing with November of 2007 consumer prices increased by 8.5% but annual average inflation grew up to 10.9%.

Consumer price index

% over the previous period



In November 2008, **exports and imports of goods** amounted to 831.7 mln lats down by 20.5% from the same period last year.

As compared with November last year, export of goods decreased by 17.6% and amounted to 310.6 mln lats, while import decreased by 22.1%, reaching the value of 521.1 mln lats.

In the first eleven months of 2008 the turnover of the Latvian **foreign trade** totalled 1 1015.9 mln lats at current prices, an increase of 1.3% as compared to November 2007, export amount increased by 10.5%, but import amount decreased by 3.4%.

In November 2008, as compared to the November 2007, the trade balance deficit decreased by 81.5 mln lats and amounted to 210.5 mln lats.

In November 2008 exports to the EU decreased by 64.9 mln lats as compared with November of the previous year and amounted to 223.1 mln lats. The share of the EU in total value of exports was 71.8%, decrease by 4.6 percentage points as compared with November 2007. Exports to the CIS grew by 1.9 mln lats as compared with November of the previous year and amounted to 54.1 mln lats, and the share of exports to the CIS was 17.4%, an increase by 3.6 percentage points as compared with November 2007. Exports to the Baltic states decreased by 23.1 mln lats as compared with November of the previous year and amounted to 96.5 mln lats, and the share of exports to the Baltic states was 31.0%, an increase by 0.6 percentage points as compared with November 2007.

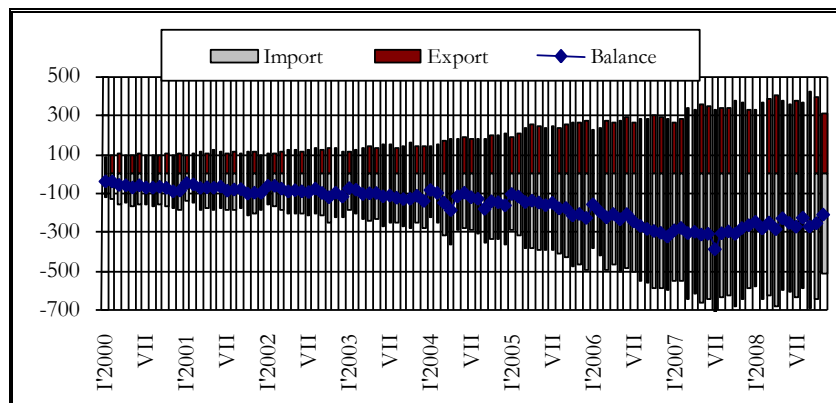
The value of imports from the EU in November 2008 decreased by 130.1 mln lats year-on-year and reached 382.0 mln lats, but the share of EU imports amounted to 73.3%, decrease by 3.2 percentage points as compared with November 2007. The value of imports from the CIS in November 2008 decreased by 9.9 mln lats year-on-year and reached

88.6 mln lats, but the share of CIS imports amounted to 17.0%, an increase by 2.3 percentage points as compared with November 2007. Import from the Baltic states decreased by 20.5 mln lats as compared with November of the previous year and amounted to 123.6 mln lats, and the share of import from the Baltic states was 23.7%, an increase by 2.2 percentage points as compared with November 2007.

Latvia's main export partners in November of 2008 were Estonia, accounting for 15.9% of total exports (14.4% in November of 2007); Lithuania, 15.1% (17.3%); Russia, 11.4% (9.1%); Germany, 7.6% (8.9%); Sweden, 5.8% (7.8%). Main import partners were Lithuania, 16.8% (13.4%); Russia, 12.9% (9.8%); Germany, 10.9% (14.5%); Poland, 6.9% (7.0%); and Estonia, 6.9% (8.1%).

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 November decreased by 116.5 mln lats year-on-year and amounted to 135.7 mln lats. As compared with the November of 2007, the goods deficit decreased by 89.1 mln lats and stood at 195.6 mln lats. The negative income balance decreased – in the November of 2008, down by 0.9 mln lats from the corresponding period last year and was 18.6 mln lats. Surplus of the services balance in the November of 2008 amounted to 59.6 mln lats, which was 15.8 mln lats more than in the November of 2007. The surplus of current transfers increased and in November of 2008 was positive and amounted to 18.9 mln lats. The surplus of the capital and financial account in November of 2008 was 199.4 mln lats. Net inflow of direct investment in the November totalled 40.5 mln lats, which was 16.5 mln lats more than in the November last year. The portfolio investment account in the November was negative 64.9 mln lats. The Bank of Latvia's reserve assets in the November decreased by 614.9 mln lats.

Central Government Consolidated Budget*, mln lats

	November of 2008	December of 2008	January-December of 2008	January – November of 2007	% changes (January – December) 2008/2007	% of annual plan
Revenue	318.0	375.9	4676.9	4395.9	6.4	88.8
Basic budget tax revenue	177.8	168.1	2430.5	2312.3	5.1	92.7
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-158.3	-
Basic budget non-tax revenue	12.3	19.6	261.8	224.4	16.7	88.5
Self-earned revenue	8.5	9.6	124.5	116.5	6.9	86.4
Social security budget revenue	107.9	120.8	1441.1	1292.1	11.5	98.3
– transfers from central government basic budget	-1.4	-1.4	-16.8	-16.8	-0.2	100.0
Gifts and donations	1.9	0.3	8.8	8.7	1.6	-
Foreign financial assistance	11.1	58.9	427.0	458.8	-6.9	56.7
Expenditure	504.8	507.8	5106.4	4278.7	19.3	97.2
Basic budget	412.8	361.8	3897.3	3375.4	15.5	96.2
– transfers to social security budget	-1.4	-1.4	-16.8	-16.8	-0.2	100.0
Social security budget	93.1	147.1	1213.8	912.4	33.0	99.4
Gifts and donations	0.4	0.3	12.1	7.7	57.5	-
Financial balance	-186.7	-131.9	-429.5	117.2	-466.5	-

* including transfers to local government budgets

51.1

65.1

613.9

447.1

37.3

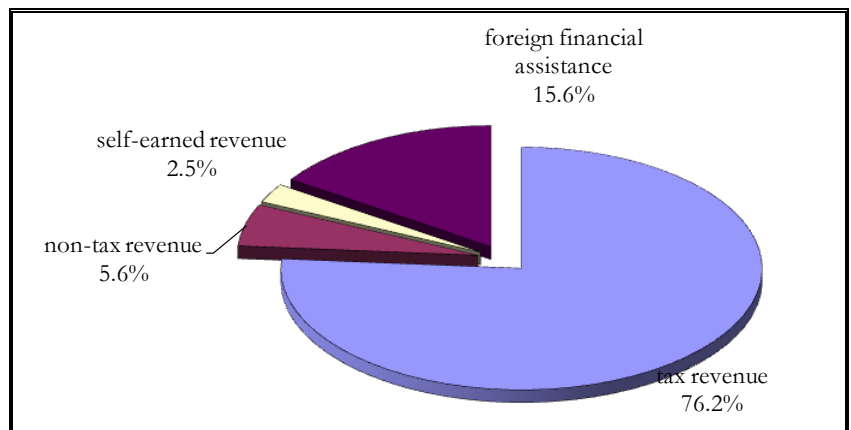
In accordance with the State Treasury's official monthly report's (January - December 2008) data, in December 2008 the **central government consolidated budget** revenue (including gifts and donations) was 375.9 mln lats, which is 57.8 mln lats or 18.2% more than in November, mainly due to increase of central government basic budget foreign financial assistance revenue by 47.8 mln lats. The central government consolidated budget revenue in 2008 was 4676.9 mln lats, which is 281.0 mln lats or 6.4% more than in 2007. Tax revenue formed the significant part of the

central government consolidated budget revenue. The most significant increase in comparison with 2007 was in the revenue from social security contributions, corporate income tax and excise tax. In December 2008, the central government budget expenditure (including gifts and donations) was 507.8 mln lats, which is 3.0 mln lats or 0.6% more than in November 2008. The government budget total expenditure in 2008 was 5106.4 mln lats, which is 827.7 mln lats or 19.3% more than in 2007. In December 2008, the central government consolidated budget financial deficit was 131.9 mln lats.

Central government basic budget revenue in December 2008 was 256.1 mln lats, which in comparison with November 2008 is 46.5 mln lats or 22.2% more. In December 2008 tax revenue was 168.1 mln lats, which is 9.7 mln lats or 5.5% less than in November 2008, mainly due to decrease of value added tax by 12.2 mln lats. In December 2008 the non-tax revenue was 19.6 mln lats, which is 7.3 mln lats or 59.2% more than in November 2008, mainly due to increase of payments for the use of state capital by 3.6 mln. lats and of percent payments by 2.8 mln lats. In December 2008, revenue from the paid services and self-earned revenue was 9.6 mln lats, which is 1.1 mln lats or 12.8% more but revenue from the foreign financial assistance was 47.8 mln lats more than in November. Central government basic budget revenues in 2008 were 3243.8 mln lats, which is 131.8 mln lats or 4.2% more than in 2007.

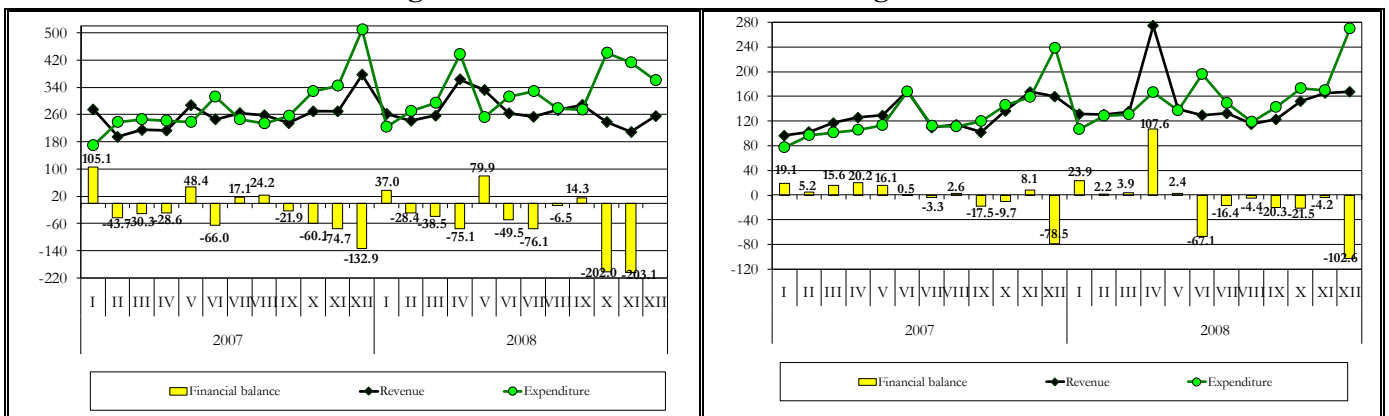
Structure of Central Government Basic Budget and Special Budget Revenue in December 2008

Percentage



In December 2008, the central government basic budget expenditure was 361.8 mln lats, which is 51.0 mln lats or 12.4% less than in November 2008. In December 2008, the central government basic budget non-capital expenditure was 320.1 mln lats or 88.5% of total basic budget expenditure and in comparison with November 2008 is 50.4 mln lats or 13.6% less, mainly due to decrease of grants for business except of agriculture by 27.4 mln lats. The central government basic budget capital expenditure in December 2008 was 41.6 mln lats and in comparison with November 2008 is 0.6 mln lats or 1.5% less, mainly due to decrease of expenditure of fixed assets by 13.7 mln lats. In 2008 the central government basic budget expenditure was 3897.3 mln lats which in comparison with 2007 is by 521.8 mln lats or 15.5% more. In December 2008, the financial deficit in amount of 105.6 mln lats was in the central government basic budget, which was less than in November and October of 2008 and less than was observed in December of previous years main due to improved measures of fiscal discipline.

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



Social security budget revenue in December 2008 was 120.8 mln lats, which is 12.9 mln lats or 12.0% more than in November 2008. Social security budget revenue in the eleven months 2008 was 1441.1 mln lats, which is 149.0 mln lats or 11.5% more than in 2007. The social security budget expenditure in December 2008 was 147.1 mln lats, which in comparison with November 2008 is 54.0 mln lats or 58.0% more, mainly due to increase of pensions by 52.5 mln lats

or 76.8%. The social security budget expenditure in 2008 was 1213.8 mln lats, which is 301.4 mln lats or 33.0% more than in 2007. In December 2008, the social security budget financial deficit was 26.3 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in December 2008 was 167.2 mln lats and in comparison with November 2008 was 1.9 mln lats more. The tax revenue in comparison with November 2008 was 9.2 mln lats or 10.6% more. The local government basic budget non-tax revenue in December 2008 in comparison with November 2008 was 0.6 mln lats or 20.5% more and the local government basic budget received payments was 10.0 mln lats more. Local government basic budget revenue from the paid services and other self-earned revenue in December 2008 were 0.6 mln lats more than in November 2008.

In December 2008 the local government basic budget expenditure was 269.8 mln lats, which is 100.3 mln lats or 59.2% more than November 2008, mainly due to increase of capital expenditure by 43.9 mln lats and increase of wages and salaries by 25.1 mln lats. In December 2008, the financial deficit of 114.3 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	November of 2008	December of 2008	January - December of 2008	January - December of 2007	% changes (January - December) 2008/2007
Revenue	150.3	152.5	1677.0	1428.9	17.4
Basic budget tax revenue	87.1	77.9	902.2	783.1	15.2
Basic budget non-tax revenue	2.7	3.3	32.8	40.2	-18.3
Basic budget received payments	65.7	75.7	748.6	604.2	23.9
-mutual payments*	-24.7	-25.3	-243.8	-197.0	23.8
Basic budget self-earned revenue	9.5	10.1	105.5	94.2	11.9
Special budget revenue**	9.7	10.5	128.4	101.7	26.3
Foreign financial assistance	0.3	0.3	3.3	2.5	34.4
Expenditure	157.1	266.8	1796.2	1461.9	22.9
Basic budget expenditure	169.5	269.8	1888.7	1545.7	22.2
-mutual payments*	-24.7	-25.3	-243.8	-197.0	23.8
Special budget expenditure**	12.3	22.2	151.3	113.1	33.8
Financial balance	-6.9	-114.3	-119.2	-33.0	-

* 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 December 2008 was 67.3 mln lats and in comparison with November 2008 is 12.2 mln lats or 15.3% less. In December 2008, domestically net collected value added tax revenue was 49.9 mln lats or 74.2% of total value added tax revenue and in comparison with November 2008 is 13.3 mln lats or 21.0% less. The value added tax revenue collected on border was 1.1 mln lats or 6.8% more than in November 2008. In December 2008, value added tax repayments were 63.5 mln lats, which is 12.3 mln lats more than in November 2008.

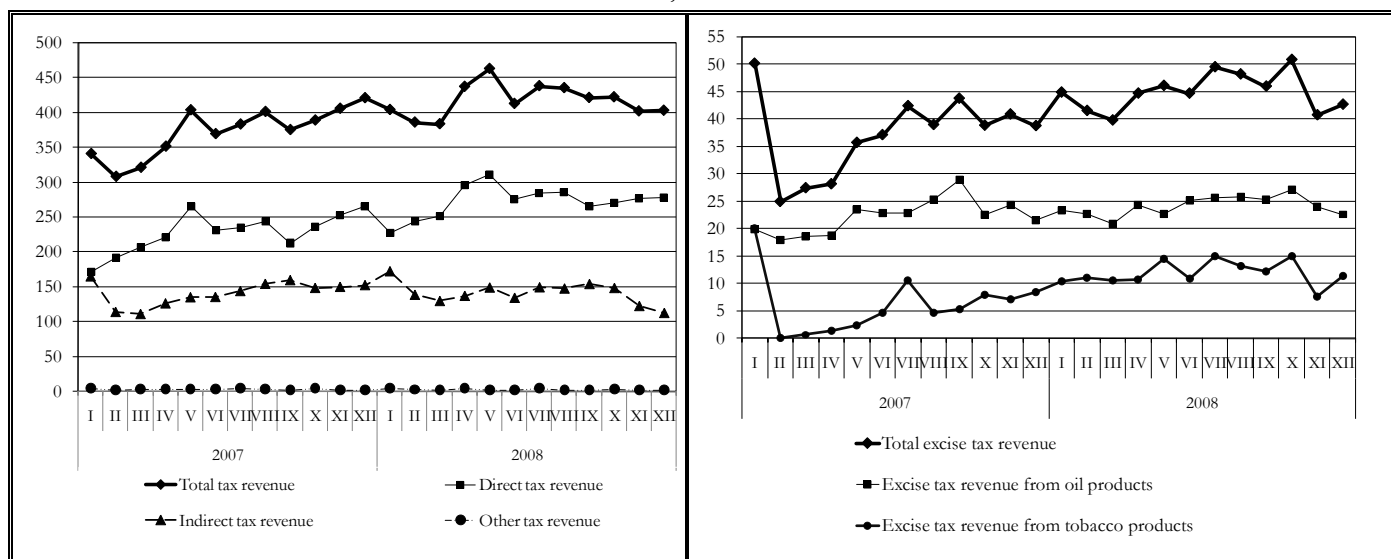
In total in 2008 value added tax revenue was 1117.2 mln lats and comparison with 2007, value added tax revenue is 85.8 mln lats or 7.1% less.

Total **excise tax** revenue in December 2008 was 42.8 mln lats and in comparison with November 2008 is 1.9. mln lats or 4.8% more. Excise tax revenue from tobacco products in December 2008 was 11.5 mln lats, which is 3.8 mln lats more than in November 2008. Excise tax revenue from alcoholic beverages was 7.6 mln lats and in comparison with November 2008 is 0.4 mln lats or 4.6% less. The excise tax revenue from beer in December 2008 was 0.6 mln lats, which is 0.1 mln lats or 16.4% less than in November 2008. In December 2008, the excise tax revenue from oil products amounted to 22.6 mln lats, which is 1.5 mln lats or 6.1% less than in November 2008. The excise tax revenue from non-alcoholic beverages and coffee in December 2008 was 0.5 mln lats, which is 48.3 thsd lats or 11.7% more than in November 2008.

In total in 2008 excise tax revenue was 540.9 mln lats and comparison with 2007, excise tax revenue is 92.8 mln lats or 20.7% more.

Corporate income tax revenue in December 2008 was 35.0 mln lats and in comparison with November 2008 is 1.5 mln lats or 4.1% less. Corporate income tax revenue in 2008 was 503.1 mln lats and comparison with 2007 is 103.4 mln lats or 25.9% more. From all corporate income tax payers in 2008 corporate income tax payments of the biggest payers were 221.8 mln lats and these payments made 44.0% of total corporate income tax revenue in 2008.

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



Tax Revenue, mln lats

	November of 2008	December of 2008	January - December of 2008	January - December of 2007	% changes (January - December) 2008/2007	% of annual plan
Corporate income tax	36.5	35.0	503.1	399.8	25.9	95.1
Value added tax	79.5	67.3	1117.2	1202.9	-7.1	88.4
Excise tax	40.8	42.8	540.9	448.1	20.7	100.0
Cars and motorcycles tax	0.4	0.4	9.5	16.7	-43.0	67.0
Social security contributions*	137.2	148.2	1667.5	1377.4	21.1	98.0
Custom duties	1.8	2.1	26.4	27.8	-5.2	85.1
Personal income tax	93.4	93.8	1029.1	888.0	15.9	97.3
Real estate tax	10.1	2.1	70.7	74.3	-4.8	95.6

* 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 December 2008	End of November 2008	End of December 2008	End of December 2008
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
91 days T-bills	11.000	17.56	18.38	184 816.471
6 month T-bills	11.000	11.99	12.39	124 521.864
1 year T-bills	11.000	32.30	32.39	325 598.080
2 year T-bills	5.959	0.23	0.22	2 216.915
5 year bonds	6.850	12.80	12.36	124 283.909
10 year bonds	4.728	21.81	21.06	211 746.079
11 year bonds	6.850	3.31	3.19	32 085.985

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