

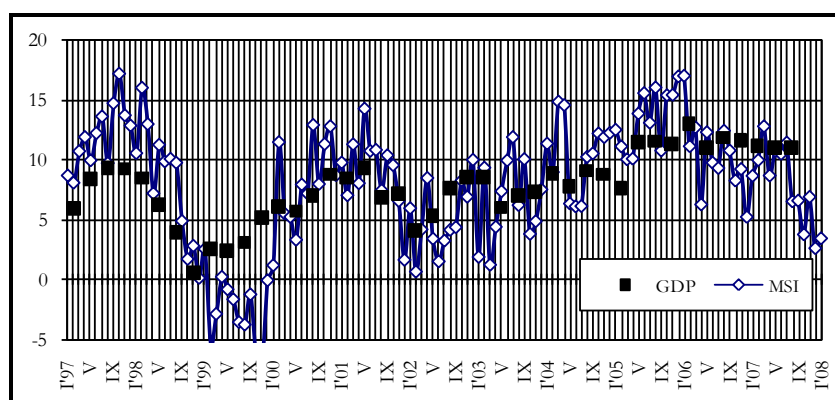
# STATE BUDGET

January '08

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators** (MSI) in January 2008 grew by 3.4% at constant prices. Increase in freight turnover by rail, cargo turnover in ports and income of population were the main determinants of the growth of the index. The deceleration in retail trade and industry were the main indicators with a negative impact on the index.

## Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



## Macroeconomic Indicators

		2006 4Q	2007 4Q	December	January	January <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	-0.1	3.5	3.2	*	*
Consumer price index	% <sup>1</sup>	1.7	4.7	0.7	2.8	15.8
Producer price index	% <sup>1</sup>	3.9	1.8	-0.1	1.3	10.9
Cash in circulation (net of vault balances)	mln. Ls	969.3	900.0	900.0	850.2	-10.9
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	2 414.4	2 776.0	2 776.0	2807.0	15.1
Average short-term interest rates for credits (in lats)	%	7.3	12.6	12.6	10.5	-
Unemployment rate (end of the period)	%	6.5	4.9	4.9	5.0	-
Exports	mln. Ls	888.6	1070.0	328.0	*	*
Imports	mln. Ls	1 860.0	1923.6	593.0	*	*

Source of data: CSB and BOL.

<sup>1</sup> increase over the previous period, %

<sup>2</sup> increase over the same period of the previous year, %

<sup>3</sup> seasonally adjusted data

The volume of **cargo transhipped in Latvian ports** in January amounted to 5.6 mln t, up by 26.5% from the corresponding month of 2007. However the volume of cargo transhipped in ports in the twelve months of 2007 totalled 62.4 mln t, which was 4.9% more than in the same period of the previous year.

Officially registered **unemployment rate** in January increased by 0.1 percentage point and amounted to 5.0% of the economically active population at the end of the month. The number of the registered unemployed increased by 1.0 thsd people from the previous month and amounted to 53.3 thsd people. As compared with January 2007, the unemployment rate decreased by 1.5 percentage points, but the number of the registered unemployed fell by 16.2 thsd people. The highest unemployment rate in January was registered in the district of Rēzekne, 16.8% (22.2% in January of 2007); in the district of Ludza, 14.9% (23.3%); and in the district of Balvi, 12.4% (17.8%). The lowest unemployment rate was registered in Rīga, 3.1% (3.8%); in the district of Tukums, 3.6% (5.3%) and in the district of Jelgava, 3.9% (6.1%).

The **Consumer Price Index (CPI)** in January grew by 2.8% from the previous month, of that prices for goods grew by 2.7%, but for services grew by 3.4%.

The price increase for tobacco, fuel, food, out-patient services, telecommunication services, catering and transportation as well as price decrease for clothing and footwear had the greatest impact on consumer price changes in January.

Due to rise of excise tax tobacco become more expensive – by 38.1%. Prices rose for automotive fuel on average by 5.0% – prices for petrol grew by 5.9%, but for diesel – by 2.4%.

In the food sector prices increased for all essential food groups. Prices for dairy products rose by 6.1%, cheese – by 4.1%, oils and fats – by 9.0%, fruits – by 7.4%.

In January price increase were observed for land transportation services – by 7.5%, particularly for city public transport. Outpatient services become expensive by 11.3%.

Because of closing seasonal campaigns, prices for mobile telecommunication services rose by 7.1%. Prices continued to grow for catering – by 2.8%, but for culture and recreation – by 2.1%.

Due to seasonal discounts prices for clothing fell by 7.1% and footwear – by 6.4%. Audio, video, photo and data processing equipment become less expensive by 1.5%, recreation and sports equipment – by 2.3%, as well as airplane tickets.

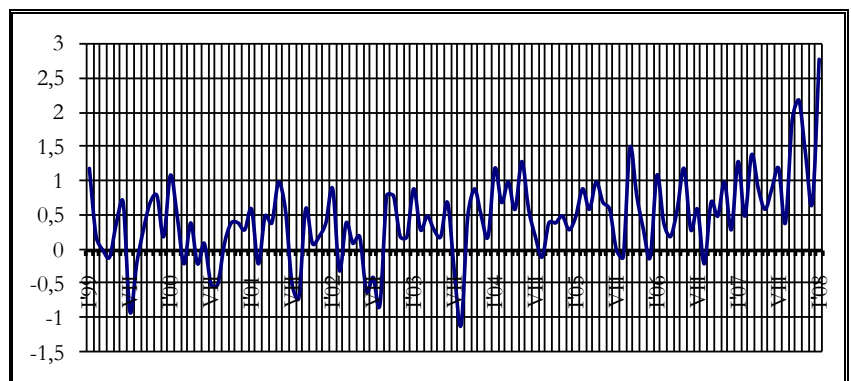
Compared to the January of previous year, the consumer prices have increased by 15.8%, of which prices for goods increased by 15.1%, but for services – by 17.5%.

In **Estonia**, the CPI in January increased by 2.2% from the previous month. Consumer price level was mainly influenced by price rose for food, dwelling and fuel. In Estonia 12 month inflation reached 11.0%.

In **Lithuania**, the CPI increased by 1.6% from the previous month. Consumer prices rose for dwelling, fuel, food and transportation. As compared to January 2007 consumer price level increased by 9.9%.

### Consumer price index

% over the previous period



In December 2007, **exports and imports of goods** amounted to 921.0 mln lats down by 0.2% from the same period last year.

As compared with December last year, export of goods grew by 12.9% and amounted to 328.0 mln lats, while import increased by 6.2%, reaching the value of 593.0 mln lats.

In December 2007, as compared to the December 2006, the trade balance deficit decreased by 76.8 mln lats and amounted to 265.0 mln lats.

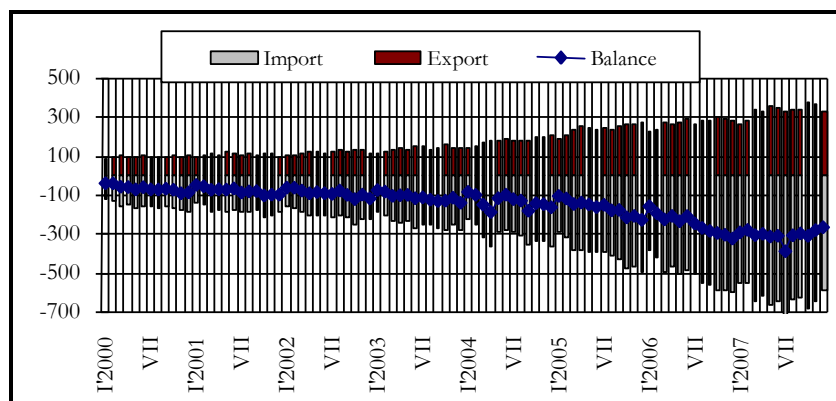
In December 2007 exports to the EU increased by 15.1% as compared with December of the previous year and amounted to 245.1 mln lats. The share of the EU in total value of exports was 74.7%. Exports to the CIS grew by 7.9% as compared with December of the previous year and amounted to 49.9 mln lats, and the share of exports to the CIS was 15.2%.

The value of imports from the EU in December 2007 grew by 7.1% year-on-year and reached 456.6 mln lats, but the share of EU imports amounted to 77.0%. The value of imports from the CIS in December 2007 increased by 2.8% year-on-year and reached 86.9 mln lats, but the share of CIS imports amounted to 14.7%.

Latvia's main export partners in December of 2007 were Lithuania, accounting for 17.0% of total exports; Estonia, 14.9%; Russia, 9.7%; Sweden, 8.1%; Germany, 7.2. Main import partners were Lithuania, 16.6%; Germany, 14.4%; Russia, 10.4%; Estonia, 6.9%; and Poland, 6.6%.

### 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 December decreased by 91.3 mln lats year-on-year and amounted to 234.3 mln lats. As compared with the December of 2006, the goods deficit decreased by 92.4 mln lats and stood at 241.9 mln lats. Surplus of the services balance in the December of 2007 amounted to 50.3 mln lats, which was 32.6 mln lats more than in the December of 2006. The negative income balance increased – in the December of 2007, up by 88.1 mln lats from the corresponding period last year and was 117.4 mln lats. The surplus of current transfers increased and in December of 2007 was positive and amounted to 74.7 mln lats. The surplus of the capital and financial account in December of 2007 was 251.1 mln lats, which was 76.1 mln lats less than in the December of 2006. Net inflow of direct investment in the December totalled 152.0 mln lats, which was 60.7 mln lats more than in the December last year. The portfolio investment account in the December was 41.4 mln lats, more than 3.2 mln lats corresponding the same period last year. The Bank of Latvia's reserve assets in the December decreased by 65.1 mln lats.

### Central Government Consolidated Budget\*, mln lats

	December of 2007	January of 2008	% changes January/December	January of 2007	% changes (January) 2008/2007	% of annual plan
<b>Revenue</b>	<b>508.6</b>	<b>371.4</b>	<b>-27.0</b>	<b>361.1</b>	<b>2.9</b>	<b>6.8</b>
Basic budget tax revenue	204.0	221.3	8.5	202.0	9.6	7.7
Taxes to be distributed among other budgets	0.0	0.0	-	-	-	-
Basic budget non-tax revenue	13.1	15.1	15.1	15.0	1.1	4.6
Self-earned revenue	8.8	10.3	16.6	10.7	-3.8	7.2
Social security budget revenue	131.9	111.5	-15.5	86.8	28.5	8.0
– transfers from central government basic budget	-1.5	-3.1	-	-	-	-
Gifts and donations	0.8	0.4	-51.1	0.3	61.1	-
Foreign financial assistance	151.4	15.8	-89.5	47.8	-66.9	2.1
<b>Expenditure</b>	<b>595.1</b>	<b>307.5</b>	<b>-48.3</b>	<b>230.7</b>	<b>33.3</b>	<b>5.8</b>
Basic budget	510.2	225.6	-55.8	170.4	32.4	5.3
– transfers to social security budget	-1.5	-3.1	-	-	-	-
Social security budget	84.8	83.7	-1.3	61.4	36.3	7.4
Gifts and donations	1.5	1.3	-15.9	0.2	432.2	-
<b>Financial balance</b>	<b>-86.5</b>	<b>63.9</b>	<b>-</b>	<b>130.5</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets.

50.6

48.0

-5.2

27.5

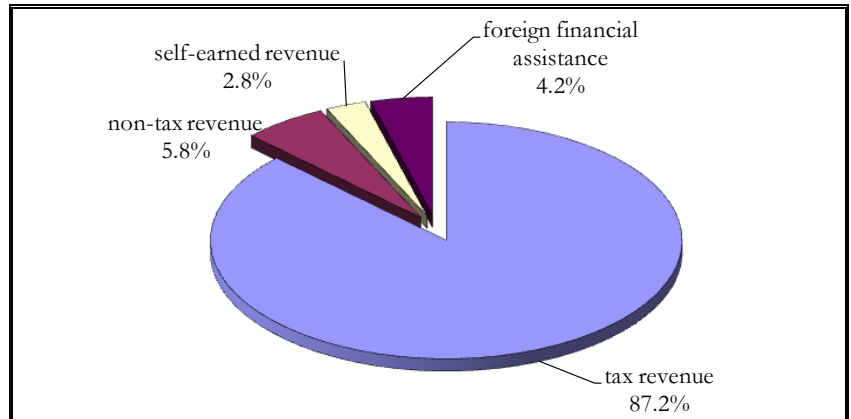
74.3

\*\* according to structure of budget 2007, i.e., repayments of loans to central government basic budget are excluded and starting from year 2007 reflected in the financial part.

In accordance with the State Treasury's official monthly report's (January 2008) data, in January 2008 the **central government consolidated budget** revenue (including gifts and donations) was 371.4 mln lats which is 10.3 mln lats or 2.9% more than in January 2007, mainly due to increase of revenue from social security budget revenue by 24.7 mln lats and central government basic budget tax revenue by 19.3 mln lats. Tax revenue formed the significant part of the central government consolidated budget revenue. In January 2008,

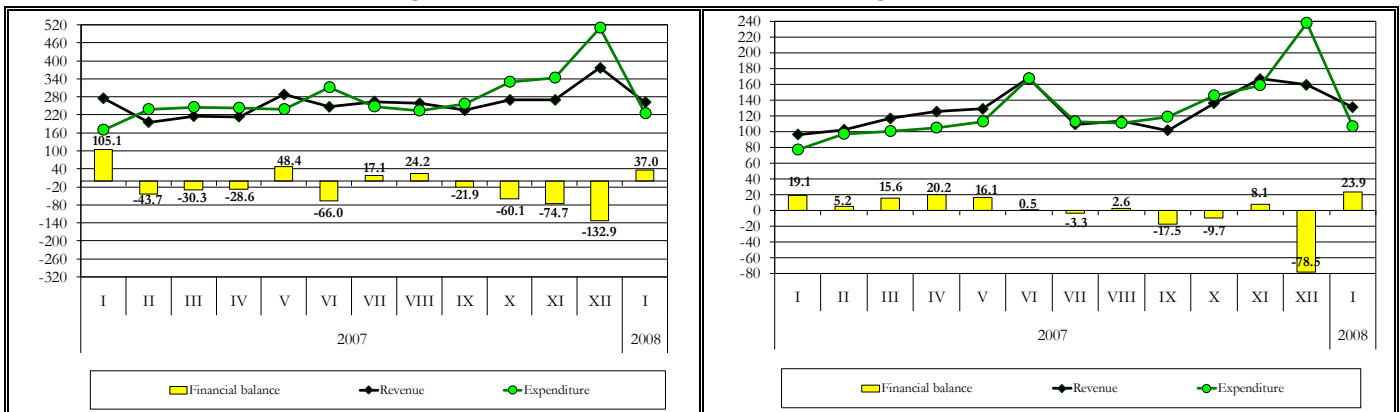
the central government budget expenditure (including gifts and donations) was 307.5 mln lats, which is 76.9 mln lats or 33.3% more than in January 2007. In January 2008, the central government consolidated budget financial surplus was 63.9 mln lats.

**Structure of Central Government Basic Budget and Special Budget Revenue in January 2008**  
percentage



**Central government basic budget** revenue in January 2008 was 262.6 mln lats, which in comparison with January 2007 is 12.9 mln lats or 4.7% less. In comparison with January 2007, tax revenue was 221.3 mln lats, which is 19.3 mln lats or 9.6% more, mainly due to increase of value added tax by 12.1 mln lats and corporate income tax by 9.0 mln lats. In January 2008 the non-tax revenue was 15.1 mln lats, which is 0.2 mln lats more than in January 2007. In January 2008, revenue from the paid services and self-earned revenue was 10.3 mln lats, which is 0.4 mln lats or 3.8% less, but revenue from the foreign financial assistance was 15.8 mln lats, which is 32.0 mln lats less than in January 2007.

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



In January 2008, the central government basic budget expenditure was 225.6 mln lats, which is 55.2 mln lats or 32.4% more than in January 2007. In January 2008, the central government basic budget non-capital expenditure was 211.8 mln lats or 93.9% of total basic budget expenditure and in comparison with January 2007 is 51.2 mln lats or 31.9% more, mainly due to increase of payments in EU budget by 13.4 mln lats and increase of grants for business except of agriculture by 10.2 mln lats. The central government basic budget capital expenditure in January 2008 was 13.8 mln lats and in comparison with January 2007 is 4.0 mln lats or 40.6% more. In January 2008, the financial surplus in amount of 37.0 mln lats was in the central government basic budget.

**Social security budget** revenue in January 2008 was 111.5 mln lats, which is 24.7 mln lats or 28.5% more than in January 2007. The social security budget expenditure in January 2008 was 83.7 mln lats, which in comparison with January 2007 is 22.3 mln lats or 36.3% more. In January 2008, the social security budget financial surplus was 27.8 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in January 2008 in comparison with January 2007 was 38.7 mln lats or 42.0% more. In comparison with January 2007, the tax revenue was 13.2 mln lats or 26.6% more, that was mainly

driven by increase of personal income tax revenue by 13.5 mln lats or 28.2%. As from January 2008, the breakdown of personal income tax revenue between central government and local government budget has changed. 80% (instead of previous 79%) of total personal income tax revenue is transferred to the local government budgets, but in the central government budget – 20% (instead of previous 21%). The local government basic budget non-tax revenue in January 2008 in comparison with January 2007 was 0.8 mln lats or 31.6% less, but the local government basic budget received payments was 21.1 mln lats or 57.3% more. Local government basic budget revenue from the paid services and other self-earned revenue in January 2008 was 1.0 mln lats or 14.3% more than in January 2007.

In January 2008 the local government basic budget expenditure was 107.1 mln lats, which is 29.9 mln lats or 38.7% more than January 2007, mainly due to increase of expenditure for wages by 9.3 mln lats and of capital expenditure by 6.6 mln lats. In January 2008, the financial surplus of 27.0 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	December of 2007	January of 2008	% changes January/ December	January of 2007	% changes (January) 2008/2007
<b>Revenue</b>	<b>151.2</b>	<b>121.6</b>	<b>-19.6</b>	<b>86.9</b>	<b>40.0</b>
Basic budget tax revenue	78.0	62.9	-19.4	49.7	26.6
Basic budget non-tax revenue	2.8	1.8	-34.6	2.6	-31.6
Basic budget received payments	68.5	58.1	-15.3	36.9	57.3
-mutual payments*	-19.1	-17.3	-9.2	-13.8	25.6
Basic budget self-earned revenue	9.6	8.0	-16.4	7.0	14.3
Special budget revenue**	10.9	8.0	-27.3	4.4	80.4
Foreign financial assistance	0.5	0.2	-57.5	0.0	1672.7
<b>Expenditure</b>	<b>235.7</b>	<b>94.6</b>	<b>-59.9</b>	<b>67.6</b>	<b>40.0</b>
Basic budget expenditure	237.9	107.1	-55.0	77.2	38.7
-mutual payments*	-19.1	-17.3	-9.2	-13.8	25.6
Special budget expenditure**	16.9	4.9	-71.2	4.2	16.7
<b>Financial balance</b>	<b>-84.4</b>	<b>27.0</b>	<b>-</b>	<b>19.3</b>	<b>-</b>

\* 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 January 2008 was 123.5 mln lats and in comparison with January 2007 is 12.1 mln lats or 10.9% more. In January 2008, domestically net collected value added tax revenue was 103.7 mln lats or 83.9% of total value added tax revenue and in comparison with January 2007 is 11.5 mln lats or 12.5% more. The value added tax revenue collected on border was 1.6 mln lats or 8.9% more than in January 2007. In January 2008, value added tax repayments were 49.6 mln lats, which is 21.2 mln lats or 74.8% more than in January 2007. The value added revenue in January 2008 was 8.1% of the annual plan.

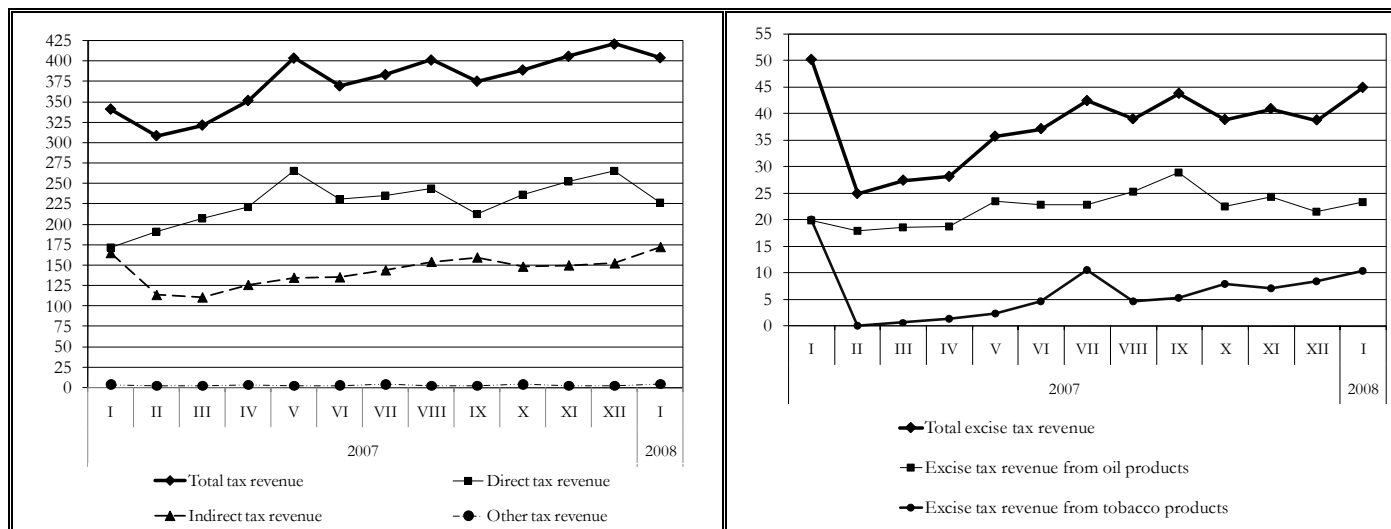
Total **excise tax revenue** in January 2008 was 45.0 mln lats and in comparison with January 2007 is 5.3 mln lats or 10.5% less. Excise tax revenue from tobacco products in January 2008 was 10.5 mln lats, which is 9.6 mln lats less than in January 2007. It can be explained by the rule of the law "On Excise Tax", which provides the inventory of tobacco reserves in retail trade on February 1, 2008 and paying the difference between tax rates into the budget, in case of increase in excise tax rates for tobacco products on January 1, 2008. Taking this into account, a letting out of a large amount of tobacco products for free circulation was not observed like in previous years before increase of tax rate.

Excise tax revenue from alcoholic beverages was 9.9 mln lats and in comparison with January 2007 is 0.9 mln lats or 10.1% more. The excise tax revenue from beer in January 2008 was 0.7 mln lats, which is 36.2 thsd lats or 5.0% less than in January 2007. In January 2008, the excise tax revenue from oil products amounted to 23.4 mln lats, which is 3.5 mln lats or 15.8% more than in January 2007. The excise tax revenue from non-alcoholic beverages and coffee in January 2008 was 0.5 mln lats, which is 31.2 thsd lats or 93.6% less than in January 2007. The excise tax revenue in January 2008 was 8.6% of the annual plan.

**Corporate income tax** revenue in January 2008 was 28.7 mln lats and in comparison with January 2007 is 9.0 mln lats or 45.5% more. Corporate income tax revenue in January 2008 was 5.1% of the annual plan.

Corporate income tax payers who corporate income tax payment was bigger than 1.0 mln lats make 46.7% of total corporate income tax revenue.

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



### Tax Revenue, mln lats

	December of 2007	January of 2008	% changes January/December	January of 2007	% changes (January) 2008/2007	% of annual plan
Corporate income tax	29.8	28.7	-4.0	19.7	45.5	5.1
Value added tax	110.4	123.5	11.9	111.4	10.9	8.1
Excise tax	38.9	45.0	15.8	50.3	-10.5	8.6
Cars and motorcycles tax	1.0	1.0	0.7	1.2	-18.6	4.5
Social security contributions*	139.2	120.1	-13.7	89.6	34.0	7.5
Custom duties	2.3	2.6	14.5	2.1	25.3	8.8
Personal income tax	95.0	77.7	-18.2	61.5	26.4	7.7
Real estate tax	1.9	1.0	-49.0	1.4	-31.5	1.3

\* including the State Funded Pension Scheme financial means of 8.9 mln lats in December 2007, 6.0 mln lats in January 2007 and 15.2 mln lats in January 2008.

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

	End of January 2008 Average annual selling rate, (%)	End of December 2007	End of January 2008 Shares of bonds, %	End of January 2008 Amount in circulation, thsd. LVL
6 month T-bills	4.319	0.01	0.00	-
1 year T-bills	5.581	8.31	7.84	28 632.799
2 year T-bills	5.959	0.61	0.61	2 216.915
5 year bonds	5.196	32.78	33.28	121 502.516
10 year bonds	4.728	58.02	58.00	211 746.079
11 year bonds	5.481	0.27	0.27	3 605.985

Smilšu street 1. Rīga. phone 7095539. fax 7095541.  
<http://www.fm.gov.lv/>