

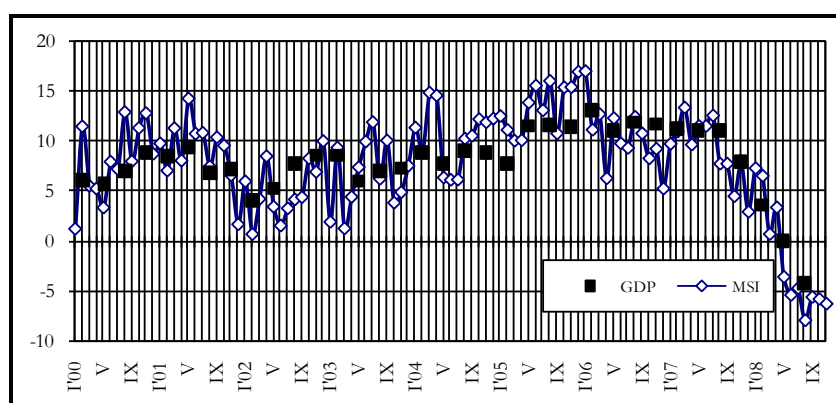
STATE BUDGET

November '08

According to the estimations of the Ministry of Finance, **the Composite Index of Macroeconomic Indicators (MSI)** in November 2008 shrank by 6.4% 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 3Q	2008 3Q	2008		
				October	November	November ²
Industrial output index ³	% ¹	2.4	-1.8	-3.7	*	*
Consumer price index	% ¹	2.8	1.1	1.2	-0.4	11.8
Producer price index	% ¹	1.7	1.9	1.4	-1.5	10.0
Cash in circulation (net of vault balances)	mln. Ls	914.7	876.9	912.4	913.2	3.7
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	2 715.1	2 990.2	2 888.3	2 367.1	-12.6
Average short-term interest rates for credits (in lats)	%	12.8	10.0	13.9	13.5	-
Unemployment rate (end of the period)	%	5.1	5.3	5.6	6.1	-
Exports	mln. Ls	1 026.7	1 152.8	390.8	*	*
Imports	mln. Ls	2 038.5	1922.5	645.6	*	*

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 November amounted to 5.4 mln t, up by 11.4% from the corresponding month of 2007. However the volume of cargo transhipped in ports in the first eleven months of 2008 totalled 57.9 mln t, which was 1.9% more than in the same period of 2007.

Officially registered **unemployment rate** in November increased by 0.5 percentage points month-on-month and amounted to 6.1% of the economically active population. The number of the registered unemployed increased by 6.0 thsd people from the previous month and amounted to 67.1 thsd people. As compared with November 2007, the unemployment rate increased by 1.3 percentage points, but the number of the registered unemployed increased by 15.4 thsd people.

Because of economical crisis, unemployment rate in November increased in regions and cities. In November the highest unemployment rate was registered in the district of Rēzekne, 17.0% (16.4% in November of 2007); in the district of Ludza, 13.9% (13.9%); and in the district of Preiļi, 12.6% (10.8%). The lowest unemployment rate was registered in the district of Tukums, 3.9% (3.6%); in the district of Valmiera, 5.0% (3.8%); from cities in Riga, 4.6% (4.1%) and in Jelgava, 4.7% (3.5%). In line with territorial overlay in Latvia unemployment rate in November also

increased in some new regions, for example – in the district of Dobele, 9.1% (6.4%) and in the district of Kuldīga, 8.4% (6.3%).

Consumer Price Index (CPI) in November, compared with October, decreased by 0.4%. Prices for goods lessened by 0.6%, but for services rose by 0.2%.

The rise in tariffs of heating as well as price decrease of fuel, vegetables, clothing and footwear had the greatest impact on consumer price changes in November.

In food sector prices went down for vegetables – by 4.5%, fruits – by 1.1%, cheese – by 3.3% and non alcoholic beverages – by 1.3%. Discounts for autumn and winter collections determined downward correction of footwear prices by 2.5% and clothing – by 0.5%. Mark up was observed for fish and fish products – by 3.9%.

Heating tariffs in November increased on average by 6.0%.

Price decrease for automotive fuel continues already for four month in a row and in November fuel price on average reduced by 12.8%. More sharply prices diminished for gas – by 14.2%, diesel become less expensive by 9.0%.

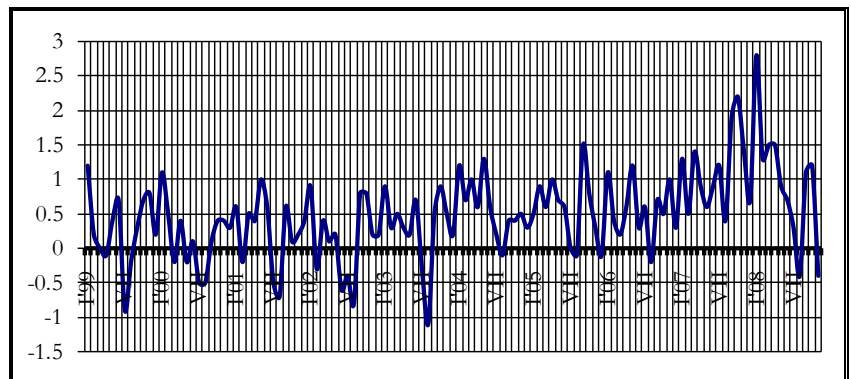
Compared to November of previous year, the consumer prices have increased by 11.8%, of which prices for goods increased by 11.0%, but for services – by 14.0%.

The CPI in **Estonia** in November compared with previous month decreased by 0.3%. Mostly inflation was driven by price increase for heating and alcoholic drinks well as price reduction for fuel and vegetables. The year-on-year growth of the CPI in Estonia amounted to 8.0%.

CPI in **Lithuania** in November compared with October fell by 0.2%. Consumer price level was mainly influenced by price rose for dwelling, food and non alcoholic beverages as well as price decrease for transportation services, automotive fuel, footwear and clothing. Comparing with November of 2007 consumer prices increased by 9.1%.

Consumer price index

% over the previous period



In October 2008, **exports and imports of goods** amounted to 1 036.3 mln lats down by 5.1% from the same period last year.

In the first ten months of 2008 the turnover of the Latvian **foreign trade** totalled 1 0135.1 mln lats at current prices, an increase of 3.2% as compared to October 2007.

As compared with October last year, export of goods grew by 2.8% and amounted to 390.8 mln lats, while import decreased by 9.3%, reaching the value of 645.6 mln lats.

In October 2008, as compared to the October 2007, the trade balance deficit fell by 76.5 mln lats and amounted to 254.8 mln lats.

In October 2008 exports to the EU decreased by 17.0 mln lats as compared with October of the previous year and amounted to 268.5 mln lats. As compared with November 2007, the share of the EU in total value of exports reduced by 6.4 percentage points and in November 2008 was 68.7%.

Exports to the CIS grew by 10.9 mln lats as compared with October of the previous year and amounted to 65.5 mln lats, and the share of exports to the CIS was 16.8%, an increase by 2.4 percentage points as compared with November 2007.

Exports to the Baltic states grew by 4.4 mln lats as compared with October of the previous year and amounted to 118.7 mln lats, and the share of exports to the Baltic states was 30.4%, an increase by 1.8 percentage points as compared with November 2007.

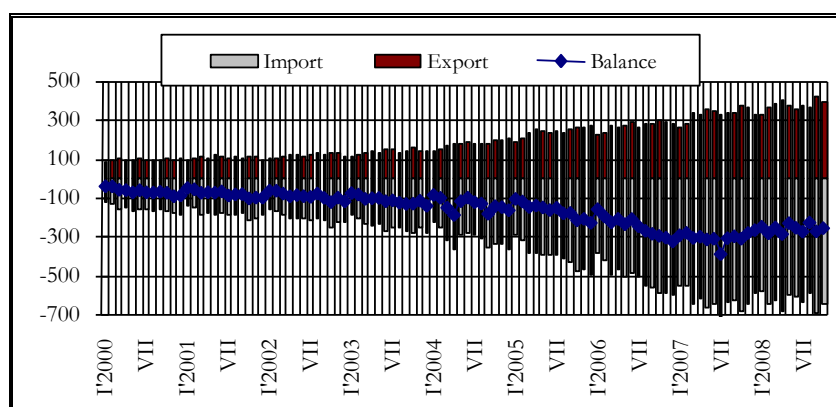
The value of imports from the EU in October 2008 decreased by 74.2 mln lats year-on-year and reached 476.6 mln lats, but the share of EU imports amounted to 73.8%, fell by 2.2 percentage points as compared with November 2007.

The value of imports from the CIS in October 2008 increased by 20.8 mln lats year-on-year and reached 116.9 mln lats, but the share of CIS imports amounted to 18.1%, an increase by 1.6 percentage points as compared with November 2007.

Import from the Baltic states grew by 16.1 mln lats as compared with October of the previous year and amounted to 156.3 mln lats, and the share of import from the Baltic states was 24.2%, an increase by 4.4 percentage points as compared with November 2007.

Latvia's main export partners in October of 2008 were Lithuania, accounting for 16.5% of total exports (15.5% in October of 2007); Estonia, 13.9% (14.9%); Russia, 10.9% (10.5%); Germany, 7.9% (9.5%); Sweden, 5.6% (6.7%). Main import partners were Lithuania, 17.0% (15.3%); Russia, 13.1% (7.8%); Germany, 11.8% (14.8%); Poland, 7.4% (7.1%); and Estonia, 7.2% (8.3%).

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 October decreased by 104.5 mln lats year-on-year and amounted to 209.2 mln lats. As compared with the October of 2007, the goods deficit decreased by 87.1 mln lats and stood at 235.1 mln lats. The negative income balance decreased – in the October of 2008, down by 18.9 mln lats from the corresponding period of 2007 and was 11.0 mln lats. Surplus of the services balance in the October of 2008 amounted to 43.9 mln lats, which was 2.0 mln lats more than in the October of 2007. The surplus of current transfers increased and in October of 2008 was negative and amounted to 7.0 mln lats. The surplus of the capital and financial account in October of 2008 was 248.3 mln lats. Net inflow of direct investment in the October totalled 49.2 mln lats, which was 42.8 mln lats more than in the October of 2007. The portfolio investment account in the October was positive and amounted to 89.6 mln lats. The Bank of Latvia's reserve assets in the October decreased by 199.1 mln lats.

Central Government Consolidated Budget*, mln lats

	October of 2008	November of 2008	January-November of 2008	January – October of 2007	% changes (January – November) 2008/2007	% of annual plan
Revenue	354.5	318.0	4301.1	3887.3	10.6	81.7
Basic budget tax revenue	208.4	177.8	2262.5	2108.3	7.3	86.3
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-152.5	-
Basic budget non-tax revenue	18.5	12.3	242.2	211.3	14.7	81.9
Self-earned revenue	13.7	8.5	114.9	107.6	6.8	79.7
Social security budget revenue	116.8	107.9	1320.3	1160.2	13.8	90.0
– transfers from central government basic budget	-1.4	-1.4	-15.4	-15.3	0.3	91.6
Gifts and donations	0.2	1.9	8.5	7.8	8.5	-
Foreign financial assistance	-1.7	11.1	368.0	307.5	19.7	48.0
Expenditure	563.9	504.8	4598.7	3683.6	24.8	87.5
Basic budget	440.9	412.8	3535.5	2865.2	23.4	87.3
– transfers to social security budget	-1.4	-1.4	-15.4	-15.3	0.3	91.6
Social security budget	124.1	93.1	1066.8	827.6	28.9	87.4
Gifts and donations	0.4	0.4	11.8	6.2	90.7	-
Financial balance	-209.5	-186.7	-297.6	203.7	-	-

* including transfers to local government budgets

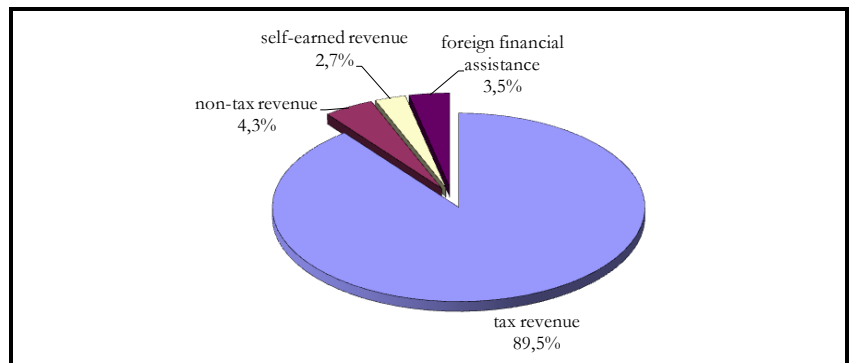
54.0 51.1 548.7 396.5 38.4

In accordance with the State Treasury's official monthly report's (January - November 2008) data, in November 2008 the **central government consolidated budget** revenue (including gifts and donations) was 318.0 mln lats, which is 36.5 mln lats or 10.3% less than in October, mainly due to decrease of central government basic budget revenue by 30.6 mln lats. The central government consolidated budget revenue in eleven months of 2008 was 4301.1 mln lats, which is 413.7 mln lats or 10.6% 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 eleven months of 2007 was in the revenue from social security contributions, corporate income tax and excise tax. In November 2008, the central government budget expenditure (including gifts and donations) was 504.8 mln lats, which is 59.2 mln lats or 10.5% less than in October 2008. The government budget total expenditure in the eleven months of 2008 was 4598.7 mln lats, which is 915.0 mln lats or 24.8% more than in the same period of 2007. In November 2008, the central government consolidated budget financial deficit was 186.7 mln lats.

Central government basic budget revenue in November 2008 was 209.7 mln lats, which in comparison with October 2008 is 29.2 mln lats or 12.2% less. In November 2008 tax revenue was 177.8 mln lats, which is 30.6 mln lats or 14.7% less than in October 2008, mainly due to decrease of value added tax by 14.9 mln lats. In November 2008 the non-tax revenue was 12.3 mln lats, which is 6.3 mln lats or 33.8% less than in October 2008, mainly due to decrease of percent payments by 3.6 mln lats. In November 2008, revenue from the paid services and self-earned revenue was 8.5 mln lats, which is 5.2 mln lats or 37.9% more but revenue from the foreign financial assistance was 12.8 mln lats more than in October. Central government basic budget revenues in the eleven months were 2987.6 mln lats, which is 253.0 mln lats or 9.3% more than in the same period of 2007.

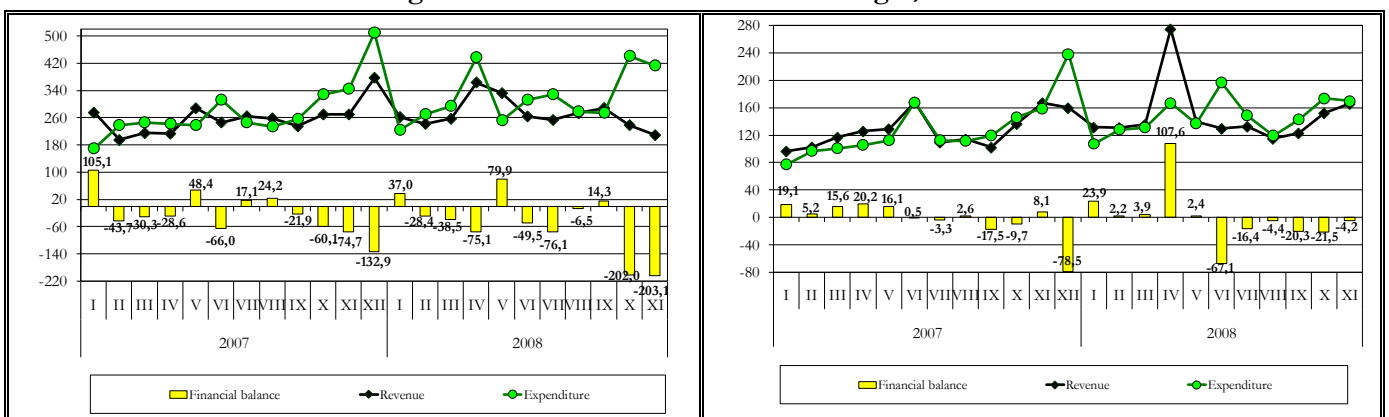
Structure of Central Government Basic Budget and Special Budget Revenue in November 2008

Percentage



In November 2008, the central government basic budget expenditure was 412.8 mln lats, which is 28.1 mln lats or 6.4% less than in October 2008. In November 2008, the central government basic budget non-capital expenditure was 370.5 mln lats or 89.8% of total basic budget expenditure and in comparison with October 2008 is 21.0 mln lats or 5.4% less, mainly due to decrease of expenditure for subsidies, grants and social benefits by 54.6 mln lats. The central government basic budget capital expenditure in November 2008 was 42.3 mln lats and in comparison with October 2008 is 7.2 mln lats or 14.5% less, mainly due to decrease in expenditure in intangible investments by 8.7 mln lats. In the eleven months 2008 the central government basic budget expenditure was 3535.5 mln lats which in comparison with the same period of 2007 is by 670.3 mln lats or 23.4% more. In November 2008, the financial deficit in amount of 203.1 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 November 2008 was 107.9 mln lats, which is 8.9 mln lats or 7.6% less than in October 2008. Social security budget revenue in the eleven months 2008 was 1320.3mln lats, which is 160.1 mln lats or 13.8% more than in the same period of 2007. The social security budget expenditure in November 2008 was 93.1 mln

lats, which in comparison with October 2008 is 31.0 mln lats or 25.0% less, mainly due to decrease of social benefits by 31.1 mln lats or 25.4%. The social security budget expenditure in the eleven months 2008 was 1066.8 mln lats, which is 239.2 mln lats or 28.9% more than in the same period of 2007. In November 2008, the social security budget financial surplus was 14.8 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in November 2008 was 165.3 mln lats and in comparison with October 2008 was 13.5 mln lats more. The tax revenue in comparison with October 2008 was 16.9 mln lats or 24.0% more. The local government basic budget non-tax revenue in November 2008 in comparison with October 2008 was 0.5 mln lats or 16.3% more, but the local government basic budget received payments was 2.5 mln lats less. Local government basic budget revenue from the paid services and other self-earned revenue in November 2008 were 0.2 mln lats less than in October 2008.

In November 2008 the local government basic budget expenditure was 169.5 mln lats, which is 3.8mln lats or 2.2% more than October 2008, mainly due to decrease of percentage expenditure by 3.7 mln lats. In November 2008, the financial deficit of 4.2 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	October of 2008	November of 2008	January - November of 2008	January - November of 2007	% changes (January - November) 2008/2007
Revenue	147.8	150.3	1524.6	1277.7	19.3
Basic budget tax revenue	70.2	87.1	824.3	705.1	16.9
Basic budget non-tax revenue	3.2	2.7	29.5	37.4	-21.1
Basic budget received payments	68.2	65.7	672.9	535.6	25.6
-mutual payments*	-22.9	-24.7	-218.5	-177.9	22.8
Basic budget self-earned revenue	9.7	9.5	95.4	84.6	12.7
Special budget revenue**	18.8	9.7	117.9	90.8	29.9
Foreign financial assistance	0.5	0.3	3.1	2.0	52.7
Expenditure	167.9	157.1	1529.5	1226.2	24.7
Basic budget expenditure	173.3	169.5	1618.9	1307.9	23.8
-mutual payments*	-22.9	-24.7	-218.5	-177.9	22.8
Special budget expenditure**	17.4	12.3	129.1	96.2	34.2
Financial balance	-20.1	-6.9	-4.9	51.5	-

* 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 November 2008 was 79.5 mln lats and in comparison with October 2008 is 14.9 mln lats or 15.8% less. In November 2008, domestically net collected value added tax revenue was 63.2 mln lats or 79.5% of total value added tax revenue and in comparison with October 2008 is 8.9 mln lats or 12.3% less. The value added tax revenue collected on border was 6.0 mln lats or 27.1% less than in October 2008. In November 2008, value added tax repayments were 51.2 mln lats, which is 2.7 mln lats more than in October 2008.

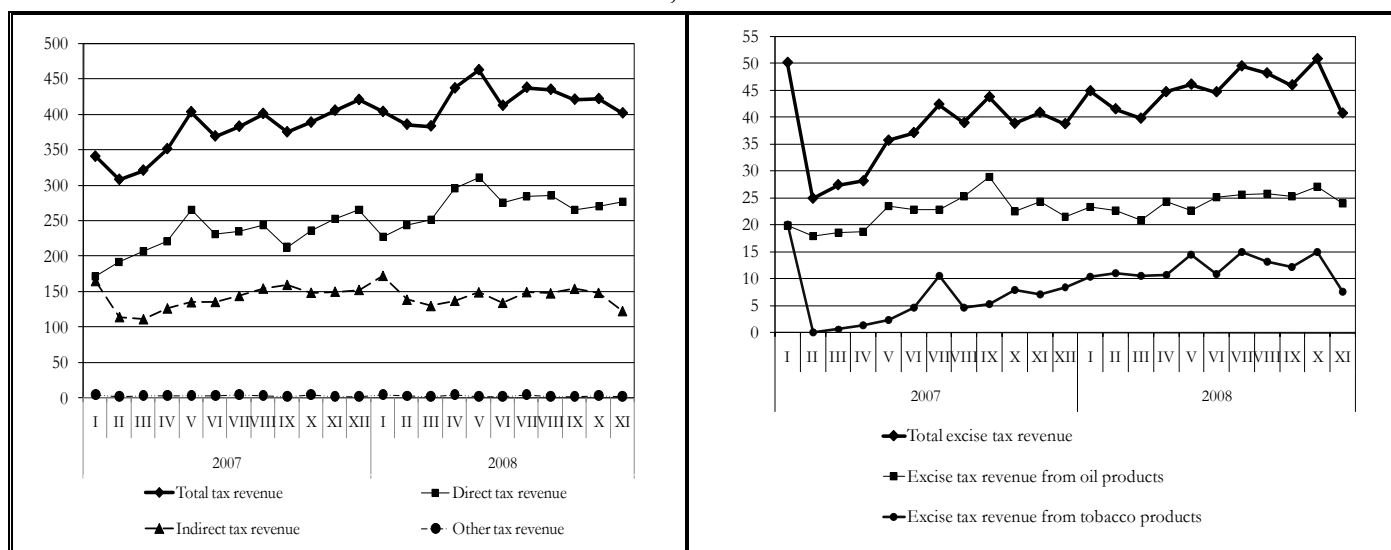
In total in the eleven months 2008 value added tax revenue was 1049.9 mln lats and comparison with the same period of 2007, value added tax revenue is 42.7 mln lats or 3.7% less.

Total excise tax revenue in November 2008 was 40.8 mln lats and in comparison with October 2008 is 10.1 mln lats or 19.9% less. Excise tax revenue from tobacco products in November 2008 was 7.7 mln lats, which is 7.4 mln lats less than in October 2008. Excise tax revenue from alcoholic beverages was 7.9 mln lats and in comparison with October 2008 is 0.4 mln lats or 5.3% more. The excise tax revenue from beer in November 2008 was 0.7 mln lats, which is 44.0 thousands lats or 6.0% less than in October 2008. In November 2008, the excise tax revenue from oil products amounted to 24.1 mln lats, which is 3.1 mln lats or 11.4% less than in October 2008. The excise tax revenue from non-alcoholic beverages and coffee in November 2008 was 0.4 mln lats, which is 21.4 thsd lats or 4.9% less than in October 2008.

In total in the eleven months 2008 excise tax revenue was 498.1 mln lats and comparison with the same period of 2007, excise tax revenue is 88.9 mln lats or 21.7% more.

Corporate income tax revenue in November 2008 was 36.5 mln lats and in comparison with October 2008 is 4.0 mln lats or 9.8% less. Corporate income tax revenue in the eleven months 2008 was 468.2 mln lats and comparison with the same period of 2007 is 98.2 mln lats or 26.6% more. From all corporate income tax payers in the ten months 2008 corporate income tax payments of the biggest payers were 204.5 mln lats and these payments made 43.7% of total corporate income tax revenue in the ten months 2008.

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



Tax Revenue, mln lats

	October of 2008	November of 2008	January - November of 2008	January - November of 2007	% changes (January - November) 2008/2007	% of annual plan
Corporate income tax	40.4	36.5	468.2	369.9	26.6	88.5
Value added tax	94.4	79.5	1049.9	1092.6	-3.9	83.1
Excise tax	51.0	40.8	498.1	409.2	21.7	92.1
Cars and motorcycles tax	0.6	0.4	9.1	15.7	-42.1	64.0
Social security contributions*	143.6	137.2	1519.3	1238.2	22.7	89.3
Custom duties	2.3	1.8	24.3	25.6	-5.1	78.3
Personal income tax	84.7	93.4	935.3	793.0	17.9	88.4
Real estate tax	1.9	10.1	68.6	72.4	-5.2	92.7

* 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 November 2008	End of October 2008	End of November 2008	End of November 2008
	Average annual selling rate, (%)		Shares of bonds, %	Amount in circulation, thsd. LVL
91 days T-bills	11.180	0.00	17.56	170 472.928
6 month T-bills	11.470	14.40	11.99	116 421.066
1 year T-bills	10.357	17.88	32.30	313 582.121
2 year T-bills	5.959	0.41	0.23	2 216.915
5 year bonds	6.850	22.73	12.80	124 283.909
10 year bonds	4.728	38.72	21.81	211 746.079
11 year bonds	6.850	5.87	3.31	32 085.985

Smilšu street 1, Rīga, phone 67095539, fax 67095541.

<http://www.fm.gov.lv/>