

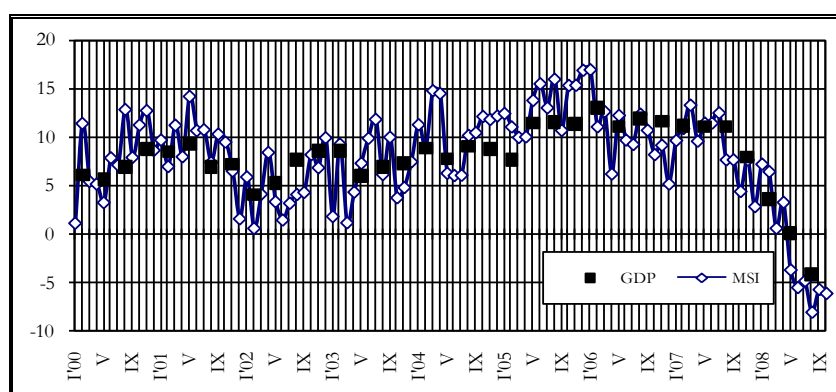
# STATE BUDGET

October '08

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in September 2008 shrank by 6.1% at constant prices. Decrease in turnover of retail trade, the industry output and the amount of cash in circulation were the main determinants of the decrease of the index. The growth of turnover in ports and the wage bill were the main contributing factors to the growth of the index value.

## Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



## Macroeconomic Indicators

		2007 3Q	2008 3Q	2008		
				September	October	October <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	2.4	-1.8	1.8	*	*
Consumer price index	% <sup>1</sup>	2.8	1.1	1.1	1.2	13.8
Producer price index	% <sup>1</sup>	1.7	1.9	-1.0	1.4	11.5
Cash in circulation (net of vault balances)	mln. Ls	914.7	876.9	876.9	912.4	2.7
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	2 715.1	2 990.2	2 990.2	2 888.3	6.2
Average short-term interest rates for credits (in lats)	%	12.8	10.0	10.0	13.9	-
Unemployment rate (end of the period)	%	5.1	5.3	5.3	5.6	-
Exports	mln. Ls	1 026.7	1 152.8	419.6	*	*
Imports	mln. Ls	2 038.5	1 922.5	690.9	*	*

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 October amounted to 4.9 mln t, up by 3.2% from the corresponding month of 2006. However the volume of cargo transhipped in ports in the first ten months of 2008 totalled 52.5 mln t, which was 1% more than in the same period of the previous year.

Officially registered **unemployment rate** in October increased by 0.3 percentage points month-on-month and amounted to 5.6% of the economically active population at the end of the month. The number of the registered unemployed increased by 3.4 thsd people from the previous month and amounted to 61.0 thsd people. As compared with October 2007, the unemployment rate increased by 0.7 percentage points, but the number of the registered unemployed increased by 8.7 thsd people. The highest unemployment rate in October was registered in the district of Rēzekne, 16.6% (17.2% in October of 2007); in the district of Ludza, 14.2% (14.4%); and in the district of Preiļi, 11.9% (10.7%). The lowest

unemployment rate was registered in Jelgava, 4.1% (4.0%); in Riga, 4.2% (3.2%); in the district of Tukums, 3.5% (3.5%); and in the district of Valmiera, 4.3% (3.9%).

**Consumer Price Index (CPI)** in October, compared with September, increased by 1.2%. Prices for goods went up by 1.6%, but for services rose by 0.2%.

The rise in tariffs of heating and natural gas, seasonal price increase for vegetables, as well as price decrease of fuel had the greatest impact on consumer price changes in October.

With the opening of heating season, heating prices went up by 16.5% starting from October 15. As from October 1 payment for natural gas on average marked up by 68.9%.

As new collections of clothing and footwear continued to arrive in market, prices for clothing increased by 1.8%, but for footwear – by 1.5%

In food sector just slight increase of average prices were observed in October. More expensive become meat and meat products – by 1.4%, due to seasonal factors prices for vegetables went up by 16.4%. Price decrease was indicated for fruits – by 4.0%

Starting from August prices for automotive fuel is still decreasing. In October average price level for fuel diminished by 4.6%

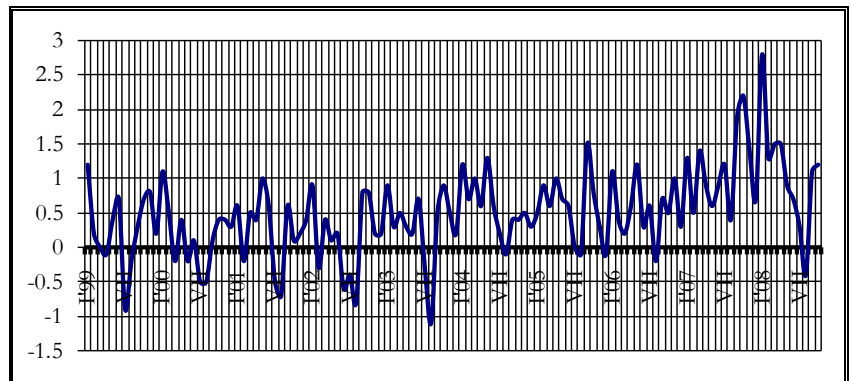
Compared to October of previous year, the consumer prices have increased by 13.8%, of which prices for goods increased by 13.5%, but for services – by 14.5%.

The CPI in **Estonia** in October compared with September increased by 0.4%. Mostly inflation was fuelled by price increase for heating and natural gas well as fuel price reduction. The year-on-year growth of the CPI in Estonia amounted to 9.8%.

CPI in **Lithuania** in October compared with September increased by 1.0%, but compared with October of 2007 consumer prices increased by 10.5%. Consumer price level was mainly influenced by price rose for dwelling, food and non alcoholic beverages as well as price decrease for transportation services and products.

**Consumer price index**

% over the previous period

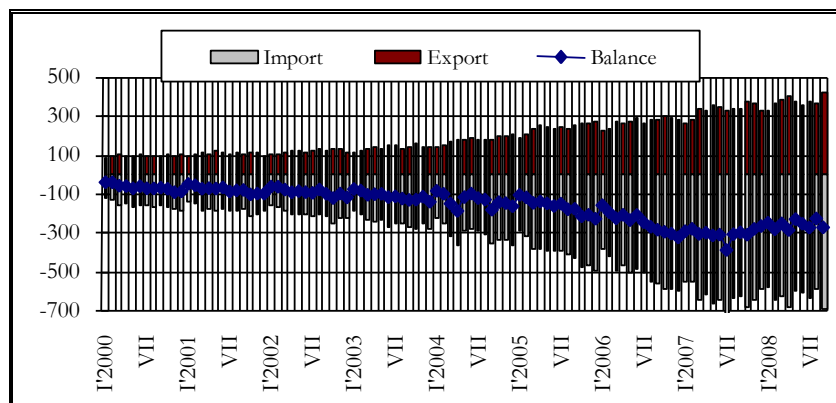


September 2008 increased by 29.6 mln lats year-on-year and reached 113.9 mln lats, but the share of CIS imports amounted to 16.5%.

Latvia's main export partners in September of 2008 were Lithuania, accounting for 15.2% of total exports; Estonia, 13.4%; Russia, 10.3%; Germany, 7.0%; Sweden, 6.5%. Main import partners were Lithuania, 18.0%; Germany, 12.7%; Russia, 10.5%; Poland, 7.0%; and Estonia, 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 September decreased by 153.3 mln lats year-on-year and amounted to 161.5 mln lats. As compared with the September of 2007, the goods deficit fell by 51.7 mln lats and stood at 250.3 mln lats. The negative income balance decreased – in the September of 2008, down by 28.5 mln lats from the corresponding period last year and was 11.7 mln lats. Surplus of the services balance in the September of 2008 amounted to 64.8 mln lats, which was 21.6 mln lats more than in the September of 2007. The surplus of current transfers increased and in September of 2008 was positive and amounted to 35.7 mln lats. The surplus of the capital and financial account in September of 2008 was 224.5 mln lats. Net inflow of direct investment in the September totalled 54.8 mln lats, which was 49.9 mln lats less than in the September last year. The portfolio investment account in the September was negative and amounted to 3.1 mln lats. The Bank of Latvia's reserve assets in the September rose by 52.5 mln lats.

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

	October of 2008	October of 2008	January-October of 2008	January – October of 2007	% changes (January – October) 2008/2007	% of annual plan
<b>Revenue</b>	<b>423.3</b>	<b>354.5</b>	<b>3983.0</b>	<b>3472.7</b>	<b>14.7</b>	<b>75.7</b>
Basic budget tax revenue	212.3	208.4	2084.7	1907.5	9.3	79.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-143.2	-
Basic budget non-tax revenue	25.6	18.5	230.0	200.0	15.0	77.8
Self-earned revenue	12.5	13.7	106.4	99.6	6.9	73.8
Social security budget revenue	135.5	116.8	1212.4	1018.4	19.0	82.7
– transfers from central government basic budget	-1.4	-1.4	-14.0	-13.8	1.3	83.1
Gifts and donations	0.3	0.2	6.6	3.4	93.7	-
Foreign financial assistance	38.5	-1.7	356.9	257.6	38.5	47.4
<b>Expenditure</b>	<b>382.7</b>	<b>563.9</b>	<b>4093.9</b>	<b>3258.4</b>	<b>25.6</b>	<b>77.9</b>
Basic budget	274.7	440.9	3122.8	2520.5	23.9	77.1
– transfers to social security budget	-1.4	-1.4	-14.0	-12.4	12.5	83.1
Social security budget	109.2	124.1	973.7	744.8	30.7	79.8
Gifts and donations	0.3	0.4	11.4	5.5	107.7	-
<b>Financial balance</b>	<b>40.6</b>	<b>-209.5</b>	<b>-110.9</b>	<b>214.3</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets

35.4

54.0

497.6

346.8

43.5

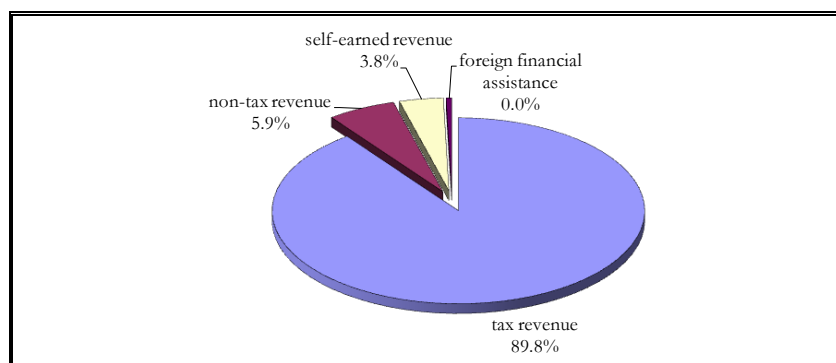
In accordance with the State Treasury's official monthly report's (January - October 2008) data, in October 2008 the **central government consolidated budget** revenue (including gifts and donations) was 354.5 mln lats, which is 68.9 mln lats or 16.3% less than in September, mainly due to decrease of central government basic budget revenue from the foreign financial assistance by 40.2 mln lats. The central government consolidated budget revenue in ten months of 2008 was 3983.0 mln lats, which is 510.4 mln lats or 14.7%

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 nine months of 2007 was in the revenue from social security contributions, corporate income tax and excise tax. In October 2008, the central government budget expenditure (including gifts and donations) was 563.9 mln lats, which is 181.2 mln lats or 47.3% more than in September 2008. The government budget total expenditure in the ten months of 2008 was 4093.9 mln lats, which is 835.6 mln lats or 25.6% more than in the same period of 2007. In October 2008, the central government consolidated budget financial deficit was 209.5 mln lats.

**Central government basic budget** revenue in October 2008 was 238.9 mln lats, which in comparison with September 2008 is 50.1 mln lats or 17.3% less. In October 2008 tax revenue was 208.4 mln lats, which is 3.9 mln lats or 1.9% less than in September 2008, mainly due to decrease of value added tax by 9.8 mln lats. In October 2008 the non-tax revenue was 18.5 mln lats, which is 7.1 mln lats or 27.6% less than in September 2008, mainly due to decrease of payments for the use of state capital by 13.3 mln lats. In October 2008, revenue from the paid services and self-earned revenue was 13.7 mln lats, which is 1.1 mln lats or 9.1% more but revenue from the foreign financial assistance was 40.2 mln lats less than in September. Central government basic budget revenues in the ten months were 2778.0 mln lats, which is 313.3 mln lats or 12.7% more than in the same period of 2007.

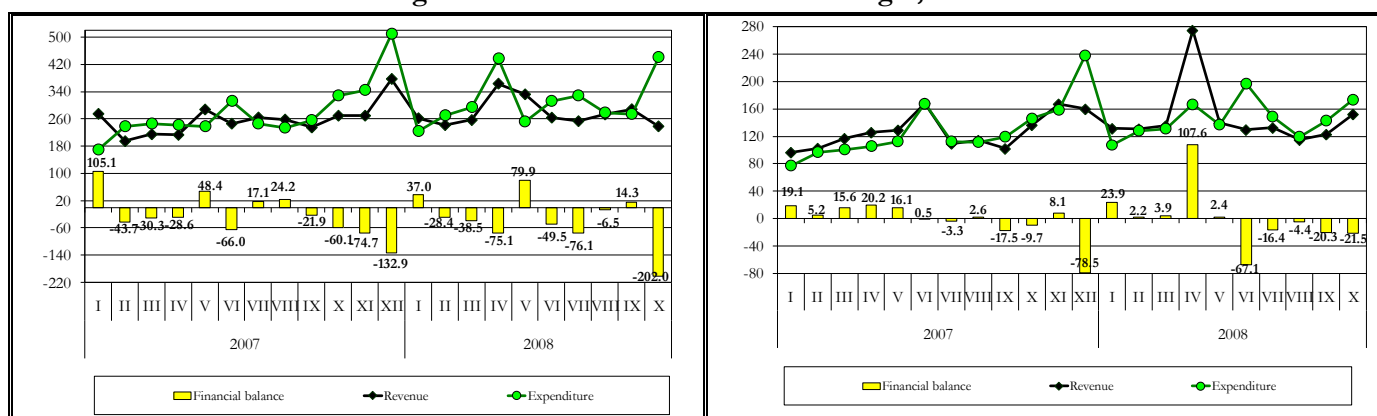
### Structure of Central Government Basic Budget and Special Budget Revenue in October 2008

Percentage



In October 2008, the central government basic budget expenditure was 440.9 mln lats, which is 166.2 mln lats or 60.5% more than in September 2008. In October 2008, the central government basic budget non-capital expenditure was 391.5 mln lats or 88.8% of total basic budget expenditure and in comparison with September 2008 is 146.1 mln lats or 59.5% more, mainly due to increase of expenditure for subsidies, grants and social benefits by 102.5 mln lats. The central government basic budget capital expenditure in October 2008 was 49.4 mln lats and in comparison with September 2008 is 20.2 mln lats or 68.8% more, mainly due to increase in expenditure in intangible investments by 13.1 mln lats. In the ten months 2008 the central government basic budget expenditure was 3122.8 mln lats which in comparison with the same period of 2007 is by 602.3 mln lats or 23.9% more. In October 2008, the financial deficit in amount of 202.0 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 October 2008 was 116.8 mln lats, which is 18.7 mln lats or 13.8% less than in September 2008. Social security budget revenue in the ten months 2008 was 1212.4 mln lats, which is

194.0 mln lats or 19.0% more than in the same period of 2007. The social security budget expenditure in October 2008 was 124.1 mln lats, which in comparison with September 2008 is 14.9 mln lats or 13.7% more, mainly due to increase of social benefits by 15.1 mln lats or 14.0%. The social security budget expenditure in the ten months 2008 was 973.7 mln lats, which is 228.9 mln lats or 30.7% more than in the same period of 2007. In October 2008, the social security budget financial deficit was 7.3 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in October 2008 was 151.8 mln lats and in comparison with September 2008 was 29.3 mln lats more. The tax revenue in comparison with September 2008 was 0.9 mln lats or 1.3% more. The local government basic budget non-tax revenue in October 2008 in comparison with September 2008 was 0.1 mln lats or 4.0% more, but the local government basic budget received payments was 27.4 mln lats more. Local government basic budget revenue from the paid services and other self-earned revenue in October 2008 were 0.9 mln lats more than in September 2008.

In October 2008 the local government basic budget expenditure was 173.3 mln lats, which is 30.4 mln lats or 21.3% more than September 2008, mainly due to increase of expenditure for wages by 14.2 mln lats and increase of percentage expenditure by 7.4 mln lats. In October 2008, the financial deficit of 20.1 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	September of 2008	October of 2008	January - October of 2008	January - October of 2007	% changes (January - October) 2008/2007
<b>Revenue</b>	<b>117.7</b>	<b>147.8</b>	<b>1374.3</b>	<b>1122.3</b>	<b>22.5</b>
Basic budget tax revenue	69.3	70.2	737.2	626.8	17.6
Basic budget non-tax revenue	3.1	3.2	26.8	34.4	-22.1
Basic budget received payments	40.8	68.2	607.1	460.0	32.0
-mutual payments*	-15.1	-22.9	-193.8	-157.3	23.2
Basic budget self-earned revenue	8.8	9.7	86.0	75.2	14.3
Special budget revenue**	10.2	18.8	108.2	81.6	32.7
Foreign financial assistance	0.5	0.5	2.7	1.6	71.6
<b>Expenditure</b>	<b>142.1</b>	<b>167.9</b>	<b>1372.3</b>	<b>1074.9</b>	<b>27.7</b>
Basic budget expenditure	142.9	173.3	1449.4	1149.2	26.1
-mutual payments*	-15.1	-22.9	-193.8	-157.3	23.2
Special budget expenditure**	14.3	17.4	116.7	82.9	40.8
<b>Financial balance</b>	<b>-24.4</b>	<b>-20.1</b>	<b>2.0</b>	<b>47.5</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 October 2008 was 94.4 mln lats and in comparison with September 2008 is 9.8 mln lats or 9.4% less. In October 2008, domestically net collected value added tax revenue was 72.1 mln lats or 76.3% of total value added tax revenue and in comparison with September 2008 is 9.7 mln lats or 11.9% less. The value added tax revenue collected on border was 0.1 mln lats or 0.4% less than in September 2008. In October 2008, value added tax repayments were 48.4 mln lats, which is 2.4 mln lats more than in September 2008.

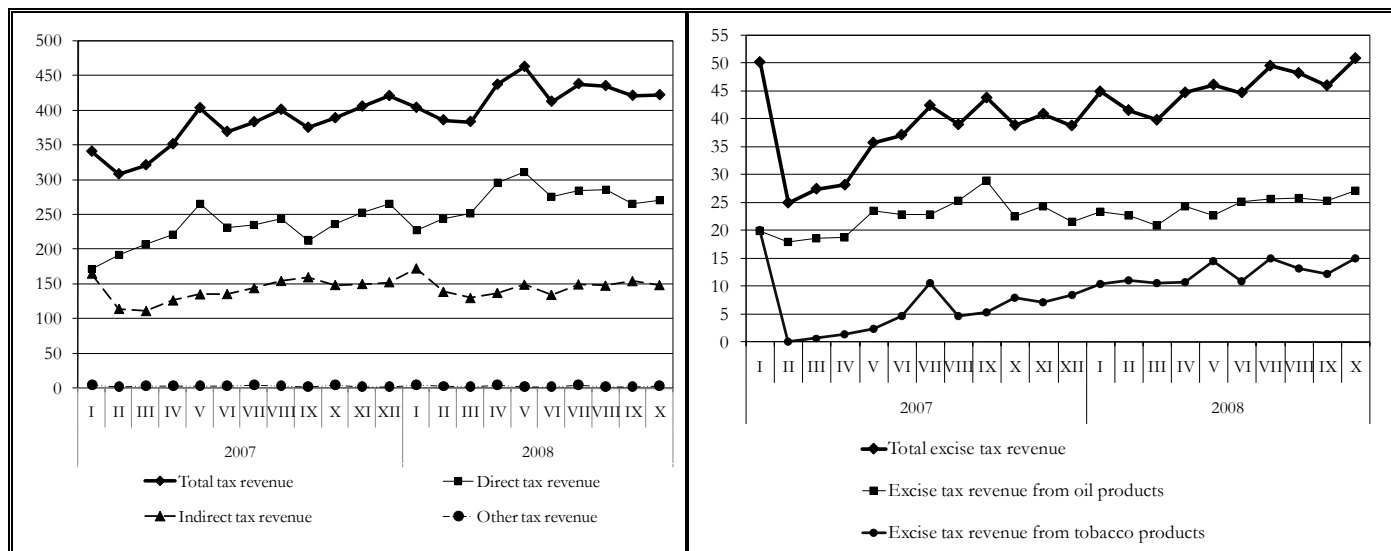
In total in the ten months 2008 value added tax revenue was 970.4 mln lats and comparison with the same period of 2007, value added tax revenue is 17.0 mln lats or 1.7% less.

Total **excise tax** revenue in October 2008 was 51.0 mln lats and in comparison with September 2008 is 4.9 mln lats or 10.6% more. Excise tax revenue from tobacco products in October 2008 was 15.1 mln lats, which is 2.8 mln lats more than in September 2008. Excise tax revenue from alcoholic beverages was 7.5 mln lats and in comparison with September 2008 is 0.6 mln lats or 7.9% more. The excise tax revenue from beer in October 2008 was 0.7 mln lats, which is 0.2 mln lats or 24.1% less than in September 2008. In October 2008, the excise tax revenue from oil products amounted to 27.2 mln lats, which is 1.8 mln lats or 7.2% more than in September 2008. The excise tax revenue from non-alcoholic beverages and coffee in October 2008 was 0.4 mln lats, which is 70.7 thsd lats or 14.0% less than in September 2008.

In total in the ten months 2008 excise tax revenue was 457.3 mln lats and comparison with the same period of 2007, excise tax revenue is 89.0 mln lats or 24.2% more.

**Corporate income tax** revenue in October 2008 was 40.4 mln lats and in comparison with September 2008 is 0.9 mln lats or 2.3% less. Corporate income tax revenue in the ten months 2008 was 431.7 mln lats and comparison with the same period of 2007 is 93.8 mln lats or 27.7% more. From all corporate income tax payers in the ten months 2008 corporate income tax payments of the biggest payers were 187.3 mln lats and these payments made 43.4% 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

	September of 2008	October of 2008	January - October of 2008	January - October of 2007	% changes (January - October) 2008/2007	% of annual plan
Corporate income tax	41.4	40.4	431.7	337.9	27.7	81.6
Value added tax	104.2	94.4	970.4	987.4	-1.7	76.8
Excise tax	46.1	51.0	457.3	368.3	24.2	84.5
Cars and motorcycles tax	0.7	0.6	8.7	14.5	-39.8	61.3
Social security contributions*	139.0	143.6	1382.1	1111.5	24.3	81.2
Custom duties	2.0	2.3	22.5	23.1	-2.9	72.5
Personal income tax	82.7	84.7	841.9	710.2	18.6	79.6
Real estate tax	2.4	1.9	58.5	60.4	-3.2	79.0

\* 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 October 2008 Average annual selling rate, (%)	End of October 2008 Shares of bonds, %	End of September 2008	End of October 2008 Amount in circulation, thsd. LVL
6 month T-bills	8.683	14.40	9.65	78 721.211
1 year T-bills	9.285	17.88	16.07	97 763.356
2 year T-bills	5.959	0.41	0.44	2 216.915
5 year bonds	6.850	22.73	24.93	124 283.909
10 year bonds	4.728	38.72	42.47	211 746.079
11 year bonds	6.850	5.87	6.44	32 085.985

Smilšu street 1. Rīga. phone 7095539. fax 7095541.  
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