

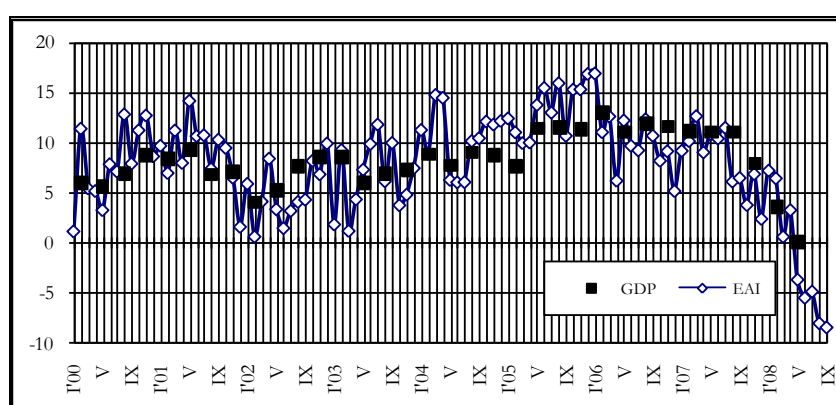
STATE BUDGET

September '08

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in September 2008 shrank by 8.5% 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 2Q	2008 2Q	2008		
				August	September	September ²
Industrial output index ³	% ¹	-0.6	-2.2	-2.0	*	*
Consumer price index	% ¹	2.7	3.9	-0.4	1.1	14.9
Producer price index	% ¹	4.4	5.7	0.9	-1.0	12.1
Cash in circulation (net of vault balances)	mln. Ls	948.6	874.4	899.6	876.9	-4.1
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	2 582.3	2 946.3	2 887.7	2 990.2	10.1
Average short-term interest rates for credits (in lats)	%	11.3	9.2	10.5	10.0	-
Unemployment rate (end of the period)	%	5.8	4.9	5.2	5.3	-
Exports	mln. Ls	1 015.3	1 125.9	362.9	*	*
Imports	mln. Ls	1 961.3	1 891.6	589.1	*	*

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 September amounted to 5.1 mln t, up by 6.1% from the corresponding month of 2007. However the volume of cargo transhipped in ports in the first nine months of 2008 totalled 47.5 mln t, which was 0.8% more than in the same period of the previous year.

Officially registered **unemployment rate** in September increased by 0.1 percentage point month-on-month and amounted to 5.3% of the economically active population at the end of the month. The number of the registered unemployed increased by 1.3 thsd people from the previous month and amounted to 57.6 thsd people. As compared with September 2007, the unemployment rate increased by 0.2 percentage points, but the number of the registered unemployed increased by 3.0 thsd people. The highest unemployment rate in September was registered in the district of Rēzekne, 16.5% (17.7% in September of 2007); in the district of Ludza, 14.5% (15.4%); and in the district of Preiļi, 11.4% (11.2%). The lowest unemployment rate was

registered in Rīga, 3.8% (3.3%); in the district of Tukums, 3.2% (3.7%); and in the district of Valmiera, 3.8% (4.2%).

Consumer Price Index (CPI) in September, compared with August, increased by 1.1%. Prices for goods went up by 0.9%, but for services rose by 1.7%.

The rise in the prices of wearing apparel and footwear, education and catering services, as well as price decrease of fuel had the greatest impact on consumer price changes in September.

Closing of sales and arrival of new collection goods in market promoted mark up for clothing by 6.1% and for footwear – by 18.2%. On average payment for education increased by 18.8%, particularly payment increased for universities – by 25.9%.

In September price growth was also indicated for catering services – by 1.9%.

As for food sector, slight increase of prices was observed for bread and cereal products – by 1.1%, as well as for meat and meat products – by 1.4%. Prices for cheese fell by 3.8%, fruits – by 4.4% but for potatoes – by 12.2%.

Water supply and other services of dwelling became more expensive by 1.4%, prices for heating increased by 0.8%. Average price level for automotive fuel fell by 1.8%. Mainly prices decreased for diesel.

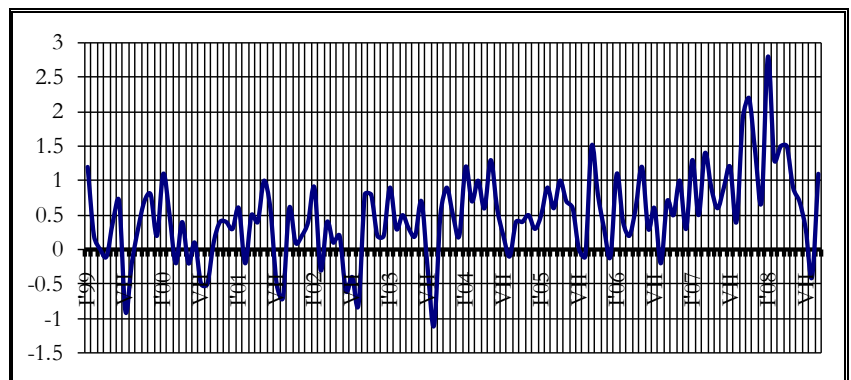
Compared to September of previous year, the consumer prices have increased by 14.9%, of which prices for goods increased by 14.5%, but for services – by 15.9%.

The CPI in **Estonia** in September compared with August increased by 0.6%. Mainly inflation was fuelled by price increase for tobacco, seasonal price growth clothing and footwear as well as price decrease for vegetables and fuel price reduction. The year-on-year growth of the CPI in Estonia amounted to 10.5%.

CPI in **Lithuania** in September compared with July increased by 0.5% but compared with September of 2007 consumer prices increased by 10.6%. Consumer price level was mainly influenced by price rose for clothing and footwear, food and non alcoholic beverages as well as price decrease for recreation and culture services and communications.

Consumer price index

% over the previous period



In August 2008, **exports and imports of goods** amounted to 952.0 mln lats down by 5.9% from the same period last year.

As compared with August last year, export of goods grew by 4.1% and amounted to 362.9 mln lats, while import decreased by 11.1%, reaching the value of 589.1 mln lats.

In August 2008, as compared to the August 2007, the trade balance deficit decreased by 88.2 mln lats and amounted to 226.2 mln lats.

In August 2008 exports to the EU decreased by 8.3 thsd lats as compared with August of the previous year and amounted to 258.3 mln lats. The share of the EU in total value of exports was 71.2%. Exports to the CIS grew by 0.5 thsd lats as compared with August of the previous year and amounted to 53.3 mln lats, and the share of exports to the CIS was 14.7%.

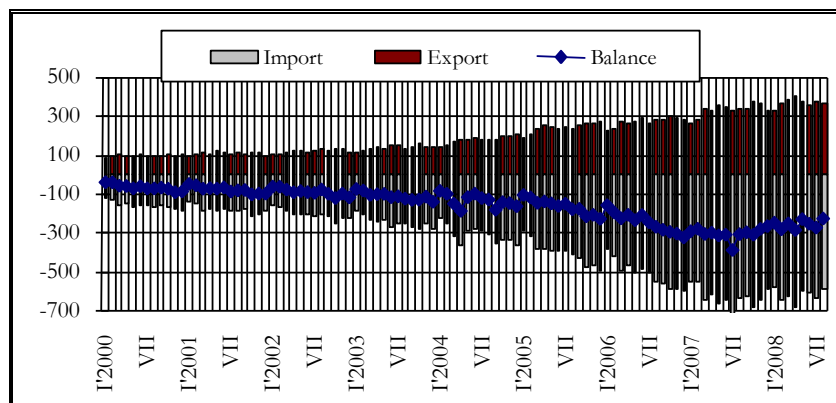
The value of imports from the EU in August 2008 decreased by 74.6 thsd lats year-on-year and reached 446.2 mln lats, but the share of EU imports amounted to 75.7%. The value of imports from the CIS in

August 2008 increased by 7.7 thsd lats year-on-year and reached 92.3 mln lats, but the share of CIS imports amounted to 15.7%.

Latvia's main export partners in August of 2008 were Lithuania, accounting for 15.7% of total exports; Estonia, 14.0%; Russia, 9.5%; Germany, 6.7%; Sweden, 6.6%. Main import partners were Lithuania, 19.8%; Germany, 11.4%; Russia, 11.2 %; Poland, 7.6% and Estonia, 7.0%.

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 August decreased by 129.0 mln lats year-on-year and amounted to 130.6 mln lats. As compared with August 2007, the goods deficit decreased by 80.3 mln lats and stood at 198.3 mln lats. The negative income balance decreased – in August 2008, down by 3.8 mln lats from the corresponding period last year and was 35.8 mln lats. Surplus of the services balance in August 2008 amounted to 58.0 mln lats, which was 9.3 mln lats more than in the August of 2007. The surplus of the capital and financial account in August of 2008 was 186.6 mln lats. Net inflow of direct investment in August totalled 101.1 mln lats, which was 49.7 mln lats more than in the August last year. The portfolio investment account in August was positive and amounted to 7.8 mln lats. The Bank of Latvia's reserve assets in August increased by 27.8 mln lats.

Central Government Consolidated Budget*, mln lats

	August of 2008	September of 2008	Jan-September of 2008	Jan – September of 2007	% changes (Jan – September) 2008/2007	% of annual plan
Revenue	397.2	423.3	3628.5	3113.9	16.5	68.9
Basic budget tax revenue	217.6	212.3	1876.3	1707.2	9.9	71.6
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-21.7	-
Basic budget non-tax revenue	16.8	25.6	211.4	185.4	14.0	71.5
Self-earned revenue	13.1	12.5	92.7	87.9	5.5	64.3
Social security budget revenue	124.8	135.5	1095.7	928.9	18.0	74.7
– transfers from central government basic budget	-1.4	-1.4	-12.5	-12.4	1.1	74.6
Gifts and donations	0.4	0.3	6.4	2.9	122.9	-
Foreign financial assistance	25.9	38.5	358.6	214.1	67.5	47.6
Expenditure	374.0	382.7	3530.0	2828.7	24.8	67.2
Basic budget	280.0	274.7	2681.8	2190.4	22.4	66.2
– transfers to social security budget	-1.4	-1.4	-12.5	-12.4	1.1	74.6
Social security budget	95.2	109.2	849.6	647.6	31.2	69.6
Gifts and donations	0.2	0.3	11.0	3.1	260.2	-
Financial balance	23.2	40.6	98.6	285.2	-	-

* including transfers to local government budgets

24.6

35.4

443.6

304.5

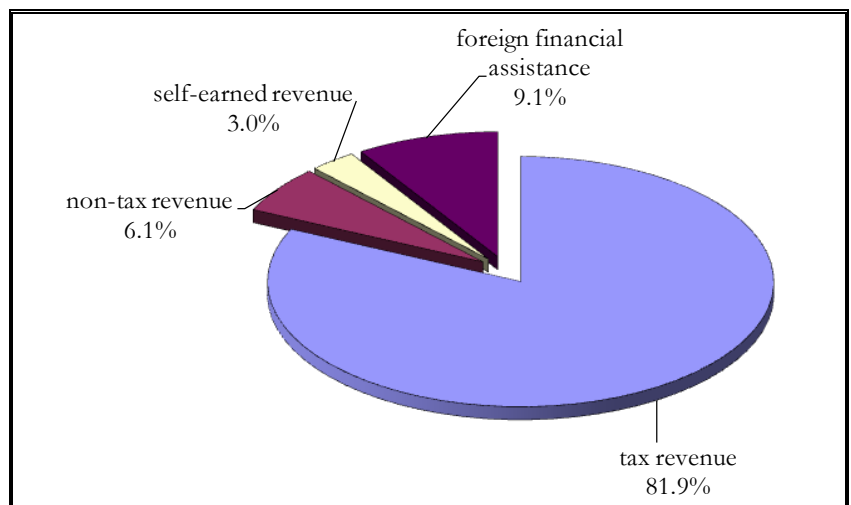
45.7

In accordance with the State Treasury's official monthly report's (January - September 2008) data, in September 2008 the **central government consolidated budget** revenue (including gifts and donations) was 423.3 mln lats, which is 26.1 mln lats or 6.6% more than in August, mainly due to increase of central government basic budget revenue from the foreign financial assistance by 12.6 mln lats. The central government consolidated budget revenue in nine months of 2008 was 3628.5 mln lats, which is 514.6 mln lats or 16.5% 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 September 2008, the central government budget expenditure (including gifts and donations) was 382.7 mln lats, which is 8.7 mln lats or 2.3% more than in August 2008. The government budget total expenditure in the nine months of 2008 was 3530.0 mln lats, which is 701.3 mln lats or 24.8% more than in the same period of 2007. In September 2008, the central government consolidated budget financial surplus was 40.6 mln lats.

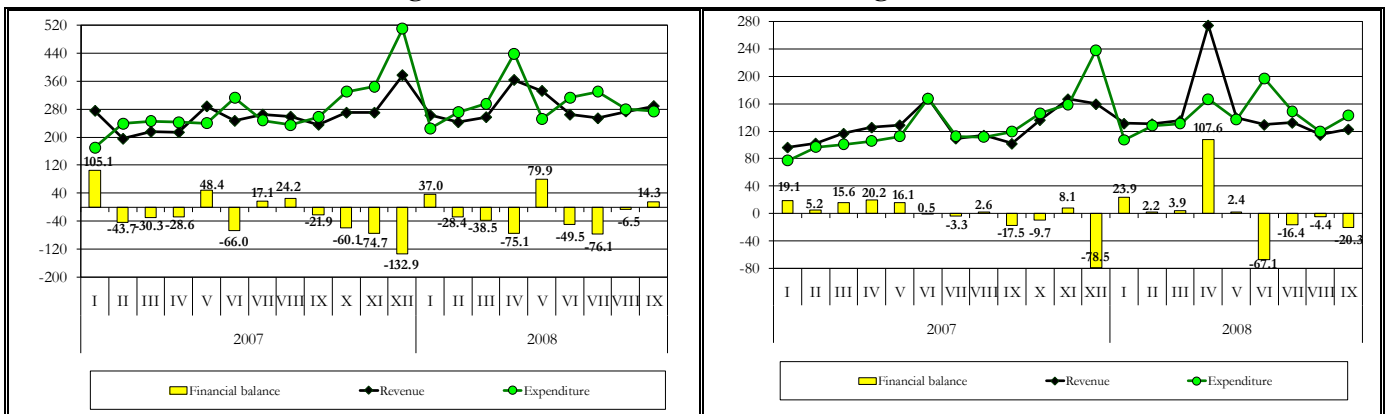
Central government basic budget revenue in September 2008 was 289.0 mln lats, which in comparison with August 2008 is 15.5 mln lats or 5.7% more. In September 2008 tax revenue was 212.3 mln lats, which is 5.3 mln lats or 2.4% less than in August 2008, mainly due to decrease of corporate income tax by 10.2 mln lats. In September 2008 the non-tax revenue was 25.6 mln lats, which is 8.8 mln lats or 52.3% more than in August 2008, mainly due to increase of payments for the use of state capital by 7.5 mln lats. In September 2008, revenue from the paid services and self-earned revenue was 12.5 mln lats, which is 0.5 mln lats or 4.1% less but revenue from the foreign financial assistance was 38.5 mln lats, which is 12.6 mln lats or 48.6% more than in August. Central government basic budget revenues in the nine months were 2539.1 mln lats, which is 344.4 mln lats or 15.7% more than in the same period of 2007.

Structure of Central Government Basic Budget and Special Budget Revenue in September 2008
Percentage



In September 2008, the central government basic budget expenditure was 274.7 mln lats, which is 5.3 mln lats or 1.9% less than in August 2008. In September 2008, the central government basic budget non-capital expenditure was 245.4 mln lats or 89.3% of total basic budget expenditure and in comparison with August 2008 is 5.2 mln lats or 2.2% more, mainly due increase to transfer to targeted grants for local governments by 12.0 mln lats. The central government basic budget capital expenditure in September 2008 was 29.3 mln lats and in comparison with August 2008 is 10.5 mln lats or 26.3% less. In the nine months 2008 the central government basic budget expenditure was 2681.8 mln lats which in comparison with the same period of 2007 is by 491.5 mln lats or 22.4% more. In September 2008, the financial surplus in amount of 14.3 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 September 2008 was 135.5 mln lats, which is 10.7 mln lats or 8.6% more than in August 2008. Social security budget revenue in the nine months 2008 was 1095.7 mln lats, which is 166.8 mln lats or 18.0% more than in the same period of 2007. The social security budget expenditure in September 2008 was 109.2 mln lats, which in comparison with August 2008 is 14.0 mln lats or 14.7% more, mainly due to increase of social benefits by 14.6 mln lats or 15.2%. The social security budget expenditure in the nine months 2008 was 849.6 mln lats, which is 202.0 mln lats or 31.2% more than in the same period of 2007. In September 2008, the social security budget financial surplus was 26.3 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in September 2008 was 122.6 mln lats and in comparison with August 2008 was 8.0 mln lats more. The tax revenue in comparison with August 2008 was 9.2 mln lats or 11.7% less, that was mainly driven by decrease of real estate tax revenue by 9.1 mln lats. The local government basic budget non-tax revenue in September 2008 in comparison with August 2008 was 0.3 mln lats or 9.7% more and the local government basic budget received payments was 14.1 mln lats more. Local government basic budget revenue from the paid services and other self-earned revenue in September 2008 were 2.6 mln lats more than in August 2008.

In September 2008 the local government basic budget expenditure was 142.9 mln lats, which is 24.0 mln lats or 20.1% more than August 2008, mainly due to increase of expenditure for wages by 10.2 mln lats and increase of grants for business except of agriculture by 9.9 mln lats. In September 2008, the financial deficit of 24.4 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	August of 2008	September of 2008	Jan - September of 2008	Jan - September of 2007	% changes (Jan - September) 2008/2007
Revenue	114.3	117.7	1226.5	997.3	23.0
Basic budget tax revenue	78.5	69.3	667.0	562.0	18.7
Basic budget non-tax revenue	2.8	3.1	23.6	31.3	-24.6
Basic budget received payments	26.7	40.8	539.0	401.0	34.4
-mutual payments*	-10.6	-15.1	-170.9	-138.5	23.4
Basic budget self-earned revenue	6.3	8.8	76.3	66.3	15.0
Special budget revenue**	10.3	10.2	89.4	73.9	21.0
Foreign financial assistance	0.3	0.5	2.3	1.3	69.8
Expenditure	123.5	142.1	1204.4	934.8	28.8
Basic budget expenditure	118.9	142.9	1276.0	1003.4	27.2
-mutual payments*	-10.6	-15.1	-170.9	-138.5	23.4
Special budget expenditure**	15.2	14.3	99.3	69.9	42.0
Financial balance	-9.2	-24.4	22.1	62.5	-

* 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 September 2008 was 104.2 mln lats and in comparison with August 2008 is 7.3 mln lats or 7.6% more. In September 2008, domestically net collected value added tax revenue was 81.8 mln lats or 78.5% of total value added tax revenue and in comparison with August 2008 is 1.9 mln lats or 2.4% more. The value added tax revenue collected on border was 5.5 mln lats or 32.2% more than in August 2008. In September 2008, value added tax repayments were 46.0 mln lats, which is 7.3 mln lats less than in August 2008.

In total in the nine months 2008 value added tax revenue was 876.0 mln lats and comparison with the same period of 2007, value added tax revenue is 5.9 mln lats or 0.7% less.

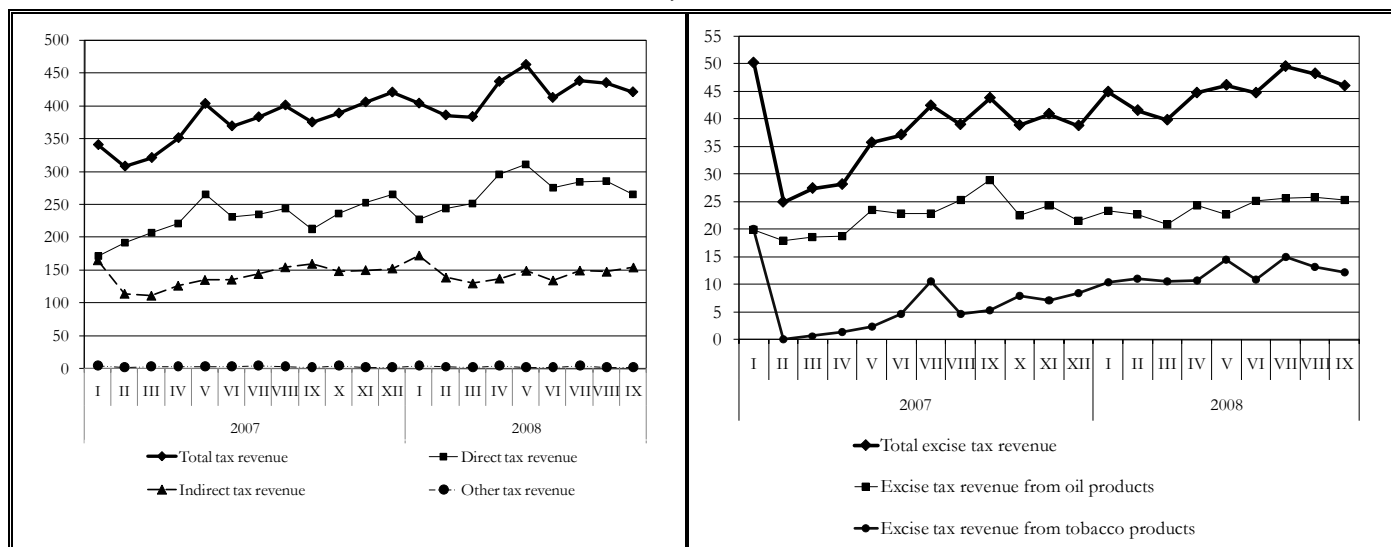
Total **excise tax** revenue in September 2008 was 46.1 mln lats and in comparison with August 2008 is 2.2 mln lats or 4.6% less. Excise tax revenue from tobacco products in September 2008 was 12.3 mln lats, which is 1.0 mln lats less than in August 2008. Excise tax revenue from alcoholic beverages was 7.0 mln lats and in comparison with August 2008 is 0.7 mln lats or 9.6% less. The excise tax revenue from beer in September 2008 was 1.0 mln lats, which is 34.6 mln lats or 3.7% more than in August 2008. In September 2008, the excise tax revenue from oil products amounted to 25.4 mln lats, which is 0.5 mln lats or 1.9% less

than in August 2008. The excise tax revenue from non-alcoholic beverages and coffee in September 2008 was 0.5 mln lats, which is 46.2 thsd lats or 8.4% less than in August 2008.

In total in the nine months 2008 excise tax revenue was 406.3 mln lats and comparison with the same period of 2007, excise tax revenue is 77.0 mln lats or 23.4% more.

Corporate income tax revenue in September 2008 was 41.4 mln lats and in comparison with August 2008 is 10.2 mln lats or 19.8% less. Corporate income tax revenue in the nine months 2008 was 391.3 mln lats and comparison with the same period of 2007 is 85.4 mln lats or 27.9% more. From all corporate income tax payers in the nine months 2008 corporate income tax payments of the biggest payers were 166.3 mln lats and these payments made 42.5% of total corporate income tax revenue in the nine months 2008.

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



Tax Revenue, mln lats

	August of 2008	September of 2008	Jan - September of 2008	Jan - September of 2007	% changes (Jan - September) 2008/2007	% of annual plan
Corporate income tax	51.5	41.4	391.3	305.9	27.9	74.0
Value added tax	96.9	104.2	876.0	881.9	-0.7	69.4
Excise tax	48.3	46.1	406.3	329.3	23.4	75.1
Cars and motorcycles tax	0.7	0.7	8.1	13.0	-37.7	57.2
Social security contributions*	139.2	139.0	1238.6	987.4	25.4	72.8
Custom duties	1.6	2.0	20.1	20.6	-2.1	65.0
Personal income tax	83.6	82.7	757.2	632.3	19.8	71.6
Real estate tax	11.4	2.4	56.6	57.9	-2.2	76.4

* 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 September 2008 Average annual selling rate, (%)	End of September 2008 Shares of bonds, %	End of August 2008	End of September 2008 Amount in circulation, thsd. LVL
6 month T-bills	6.493	9.65	7.91	48 098.809
1 year T-bills	6.537	16.07	16.02	80 120.036
2 year T-bills	5.959	0.44	0.46	2 216.915
5 year bonds	5.850	24.93	25.56	124 283.909
10 year bonds	4.728	42.47	43.64	211 746.079
11 year bonds	6.850	6.44	6.42	32 085.985

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