

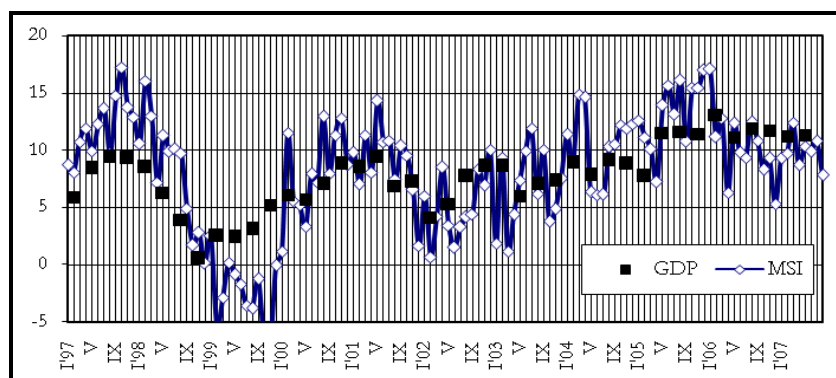
STATE BUDGET

August '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in August 2007 grew by 7.8% at constant prices. Increase in turnover of retail trade and income of population were the main determinants of the growth of the index.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2006 2Q	2007 2Q	2007		
				July	August	August ²
Industrial output index ³	% ¹	1.0	1.3	0.3	*	*
Consumer price index	% ¹	1.8	2.7	1.2	0.4	10.1
Producer price index	% ¹	2.7	4.4	0.8	0.3	16.9
Cash in circulation (net of vault balances)	mln Ls	839.5	948.6	946.8	940.6	7.5
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 880.0	2 582.3	2 636.1	2 725.6	23.8
Average short-term interest rates for credits (in lats)	%	7.0	11.3	10.9	11.1	-
Unemployment rate (end of the period)	%	7.0	5.8	5.7	5.4	-
Exports	mln Ls	828.9	1 015.7	328.3	*	*
Imports	mln Ls	1 532.5	1 935.7	717.5	*	*

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 August amounted to 5.4 mln t, down by 4.0% from the corresponding month of 2006. The volume of cargo transhipped in ports in the first eight months of 2007 totalled 42.4 mln t, which was 3.9% more than in the same period of the previous year.

The officially registered **unemployment rate** in August decreased by 0.3 percentage points month-on-month and amounted to 5.4% of the economically active population at the end of the month. The number of the registered unemployed decreased by 2.7 thsd people from the previous month and amounted to 57.9 thsd people. As compared with August 2006, the unemployment rate decreased by 1.5 percentage points, but the number of the registered unemployed decreased by 15.1 thsd people. The highest unemployment rate in August was registered in the district of Rēzekne, 18.7% (24.8% in August of 2006); in the district of Ludza, 16.8% (26.6%); and in the district of Balvi, 16.0% (19.7%). The lowest unemployment rate was registered in Rīga, 3.4% (3.9%); in the district of Tukums, 3.9% (5.2%); and in the district of Bauska, 4.4% (5.9%).

The **Consumer Price Index (CPI)** in August rose by 0.4% from the previous month, the prices remained constant for goods, but increased for services by 1.3%.

The strongest effect on the consumer prices in August was produced by rise in the prices of tobacco products, catering services, meat and meat products and heating, as well as, price decrease of vegetables.

Due to the increase of the excise duty in July, the prices of tobacco products continued to rise also in August by 9.8%.

The price increase was observed for meat and meat products by 1.5%, cheese by 3.9% and sugar by 1.5%, but the prices of vegetables and potatoes decreased by 22.3% and the prices of fruit decreased by 0.8%.

In August the heat energy became more expensive by 2.0%, rents by 2.6% and services related to maintenance of dwellings became more expensive by 1.3%.

The prices increased also for the catering services by 3.1%, household services by 5.9%, dental services by 4.4%, repair of footwear by 4.4%, repair and cleaning of clothing by 3.1%, repair of the data processing equipment by 2.3% and transport services by 1.1%.

The prices of books, furniture and solid fuel also increased.

Due to the sales campaigns, the prices of sports and recreational equipment decreased by 4.4%, prices for bicycles decreased by 3.8%. Personal care goods and TV, audio, video equipment prices also decreased.

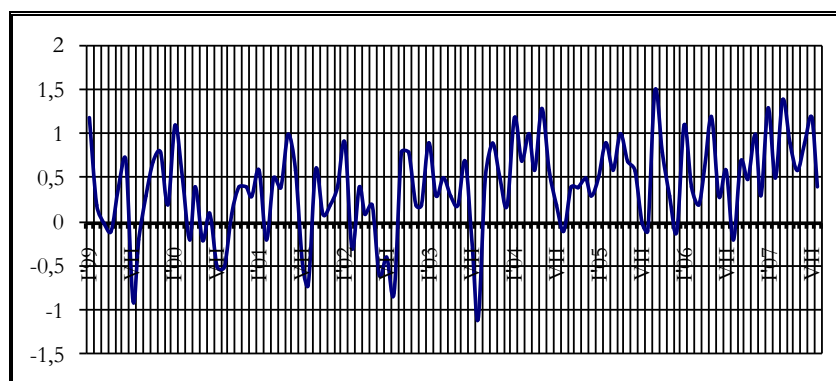
The prices of fuel decreased by 0.4%. Telecommunication and photographic equipment, tools and equipment for house and garden, as well as the prices of used motor vehicles decreased as well.

In **Estonia**, the CPI in August increased by 0.1% from the previous month. Year-on-year growth of the CPI in Estonia was 5.7%.

In **Lithuania**, the CPI increased by 0.3% from the previous month. As compared with August 2006, the consumer prices in Lithuania increased by 5.5%.

Consumer price index

% over the previous period



In July 2007, **exports and imports of goods** amounted to 1045.7 mln lats up by 34.0% from the same period last year.

As compared with July last year, export of goods grew by 23.7% and amounted to 328.3 mln lats, while import increased by 39.3%, reaching the value of 717.5 mln lats.

In July 2007, as compared to the July 2006, the trade balance deficit grew by 139.4 mln lats and amounted to 389.2 mln lats.

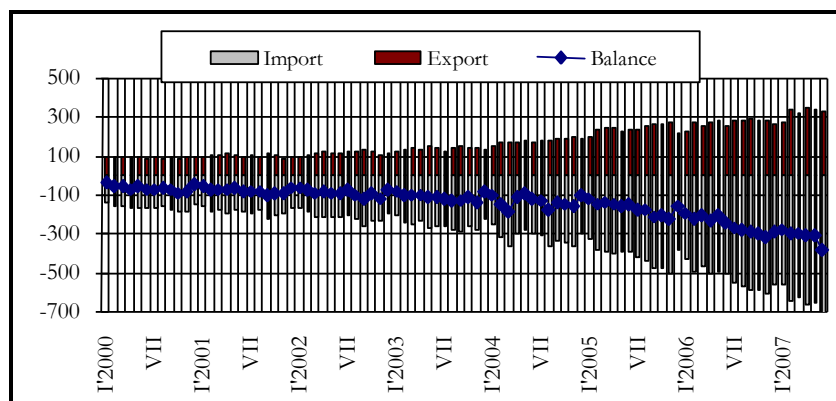
In July 2007 exports to the EU increased by 22.3% as compared with July of the previous year and amounted to 247.2 mln lats. The share of the EU in total value of exports was 75.3%. Exports to the CIS grew by 39.2% as compared with July of the previous year and amounted to 50.3 mln lats, and the share of exports to the CIS was 15.3%.

The value of imports from the EU in July 2007 grew by 48.9% year-on-year and reached 58.4 mln lats, but the share of EU imports amounted to 81.4%. The value of imports from the CIS in July 2007 increased by 1.5% year-on-year and reached 76.7 mln lats, but the share of CIS imports amounted to 10.7%.

Latvia's main export partners in July of 2007 were Estonia, accounting for 15.1% of total exports; Lithuania, 14.9%; Russia, 10.5%; Germany, 9.0%; Sweden, 7.2%. Main import partners were Germany, 16.0%; Lithuania, 15.9%; Estonia, 7.3%; Poland, 6.6%; and Russia, 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 July increased by 173.4 mln lats year-on-year and amounted to 379.2 mln lats. As compared with July 2006, the goods deficit rose by 152.5 mln lats and stood at 393.3 mln lats. The negative income balance increased – in July 2007, up by 6.2 mln lats from the corresponding period last year and was 25.0 mln lats. Surplus of the services balance in July 2007 amounted to 33.7 mln lats, which was 5.1 mln lats more than in the July of 2006. The surplus of the capital and financial account in July of 2007 was 171.5 mln lats. Net inflow of direct investment in July totalled 34.9 mln lats, which was 12.7 mln lats more than in the July last year. The portfolio investment account in July was positive and amounted to 33.8 mln lats. The Bank of Latvia's reserve assets in the July decreased by 62.4 mln lats.

Central Government Consolidated Budget*, mln lats

	July of 2007	August of 2007	Jan-August of 2007	Jan – August of 2006	% changes (Jan - August) 2007/2006	% of annual plan
Revenue	379.3	363.6	2773.4	2106.7	31.6	65.7
Basic budget tax revenue	201.1	208.3	1501.9	1116.9	34.5	69.6
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-20.8	-
Basic budget non-tax revenue	40.8	22.2	174.0	138.0	26.1	61.3
Self-earned revenue	7.6	12.0	76.6	69.0	11.0	57.8
Social security budget revenue	115.4	105.9	822.8	614.1	34.0	76.2
– transfers from central government basic budget	-1.4	-1.4	-11.0	-9.4	17.5	66.7
Gifts and donations	0.4	0.3	2.6	2.7	-6.6	-
Foreign financial assistance	15.3	16.3	206.6	175.3	17.9	35.5
Expenditure	335.4	306.8	2511.2	1884.8	33.2	57.1
Basic budget	247.7	234.6	1932.9	1380.5	40.0	55.2
– transfers to social security budget	-1.4	-1.4	-11.0	-9.4	17.5	66.7
Social security budget	88.6	73.3	586.8	510.5	15.0	64.2
Gifts and donations	0.5	0.3	2.6	3.2	-20.2	-
Financial balance	43.8	56.8	262.1	221.8	-	-

* including transfers to local government budgets.

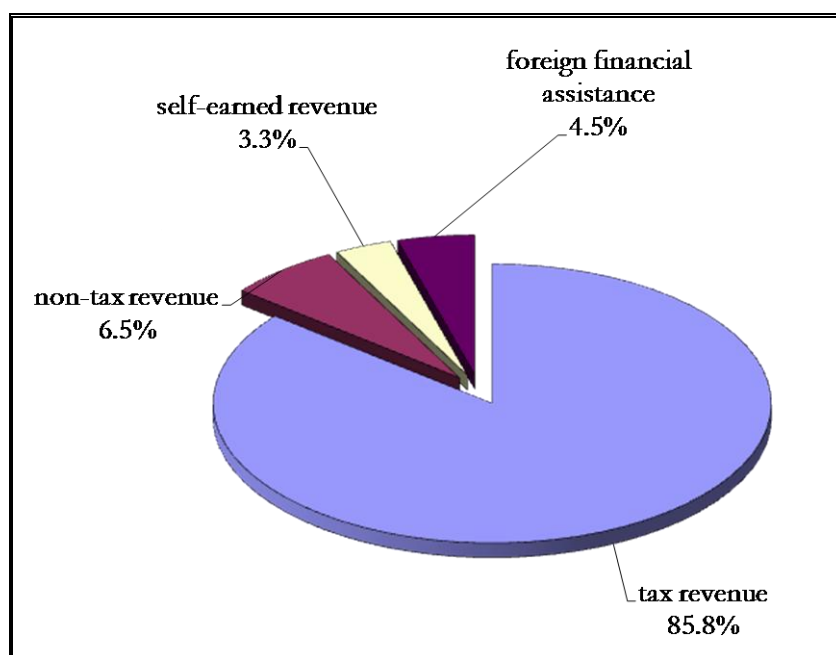
** according to structure of budget 2007, i.e., repayments of loans to central government basic budget are excluded and starting from year 2007 reflected in the financial part.

In accordance with the State Treasury's official monthly report's (January-August 2007) data, in August 2007 the **central government consolidated budget** revenue (including gifts and donations) was 363.6 mln lats which is 15.6 mln lats or 4.1% less than in July, mainly due to decrease of non-tax revenue in central government basic budget by 18.7 mln lats and social security budget revenue by 9.5 mln lats. The central government consolidated budget revenue in eight months of 2007 was 2773.4 mln lats, which is 666.7 mln lats or 31.6% more than in the same period of 2006. The most significant increase in comparison with eight months of 2006 was in the revenue from social security contributions, value added tax and corporate income tax. In August 2007, the central government budget expenditure (including gifts and donations) was 306.8 mln lats, which is 28.6 mln lats or 8.5% less than in July 2007. The central government budget

expenditure in eight months of 2007 was 2511.2 mln lats and in comparison with the same period of 2006 expenditure increased by 626.4 mln lats or 33.2%. In August 2007, the central government consolidated budget financial surplus was 56.8 mln lats.

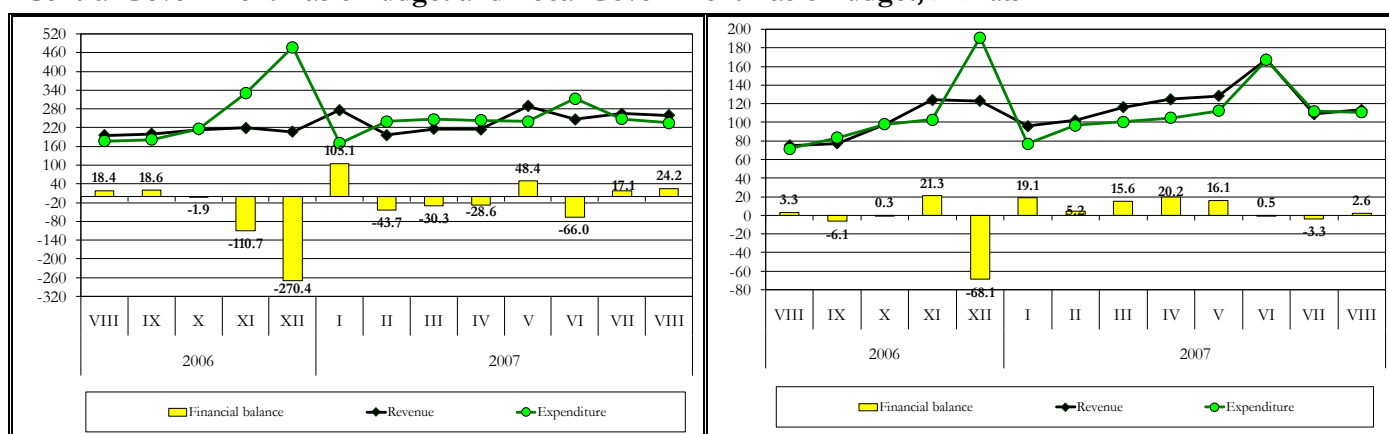
Structure of Central Government Basic Budget and Special Budget Revenue in August 2007

percentage



Central government basic budget revenue in August 2007 was 258.8 mln lats, which in comparison with July 2007 is 6.0 mln lats or 2.3% less. In comparison with July 2007, tax revenue was 208.3 mln lats, which is 7.2 mln lats or 3.6% more, mainly due to increase of value added tax by 13.9 mln lats. In August 2007 the non-tax revenue was 22.2 mln lats, which is 18.7 mln lats less than in July 2007, mainly due to decrease of payments for the use of state capital by 14.1 mln lats. In August 2007, revenue from the paid services and self-earned revenue was 12.0 mln lats, which is 4.4 mln lats or 58.8% more and revenue from the foreign financial assistance was 16.3 mln lats, which is 1.0 mln lats or 6.5% more than in July.

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



In August 2007, the central government basic budget expenditure was 234.6 mln lats, which is 13.1 mln lats or 5.3% less than in July 2007. In August 2007, the central government basic budget non-capital expenditure was 203.3 mln lats or 86.7% of total basic budget expenditure and in comparison with July 2007 is 9.7 mln lats or 4.6% less, mainly due to the decrease of expenditure for wages by 7.2 mln lats or 15.5%. The central government basic budget capital expenditure in August 2007 was 31.3 mln lats and in comparison with July 2007 is 3.3 mln lats or 9.6% less. In August 2007, the financial surplus in amount of 24.2 mln lats was in the central government basic budget.

Social security budget revenue in August 2007 was 105.9 mln lats, which is 9.5mln lats or 8.2% less than in July 2007. The social security budget expenditure in August 2007 was 73.3 mln. lats, which in comparison

with July 2007 is 15.4 mln lats or 17.3% less. In August 2007, the social security budget financial surplus was 32.7 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in August 2007 in comparison with July 2007 was 4.7 mln lats or 4.3% more. In comparison with July 2007, the tax revenue was 11.8 mln lats or 18.9% more, that was mainly driven by increase of real estate tax revenue by 11.1 mln lats. The local government basic budget non-tax revenue in August 2007 in comparison with July 2007 was 1.9 mln lats or 39.1% less and the local government basic budget received payments was 5.5 mln lats or 16.0% less, mainly due to the decrease of targeted grants for local governments function by 3.6 mln lats or 35.7%. Local government basic budget revenue from the paid services and other self-earned revenue in August 2007 was 0.2 mln lats or 3.4% more than in July 2007.

In August 2007 the local government basic budget expenditure was 111.3 mln lats, which is 1.1 mln lats or 1.0% less than July 2007, mainly due to decrease of expenditure for wages by 7.6 mln lats or 24.5%. In August 2007, the financial deficit of 0.1 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	July of 2007	August of 2007	Jan - August of 2007	Jan - August of 2006	% changes (Jan - August) 2007/2006
Revenue	106.0	111.1	900.1	633.4	42.1
Basic budget tax revenue	62.6	74.5	505.1	357.9	41.2
Basic budget non-tax revenue	4.9	3.0	26.8	20.0	33.7
Basic budget received payments	34.4	28.9	368.3	254.9	44.5
-mutual payments*	-11.0	-9.9	-126.6	-92.1	37.5
Basic budget self-earned revenue	6.8	7.1	58.8	46.3	27.0
Special budget revenue**	7.8	7.1	66.6	42.2	57.7
Foreign financial assistance	0.4	0.4	1.2	4.2	-70.5
Expenditure	112.3	111.2	816.6	579.1	41.0
Basic budget expenditure	112.4	111.3	884.2	631.3	40.1
-mutual payments*	-11.0	-9.9	-126.6	-92.1	37.5
Special budget expenditure**	10.8	9.8	59.0	39.9	48.0
Financial balance	-6.3	-0.1	83.6	54.3	-

* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

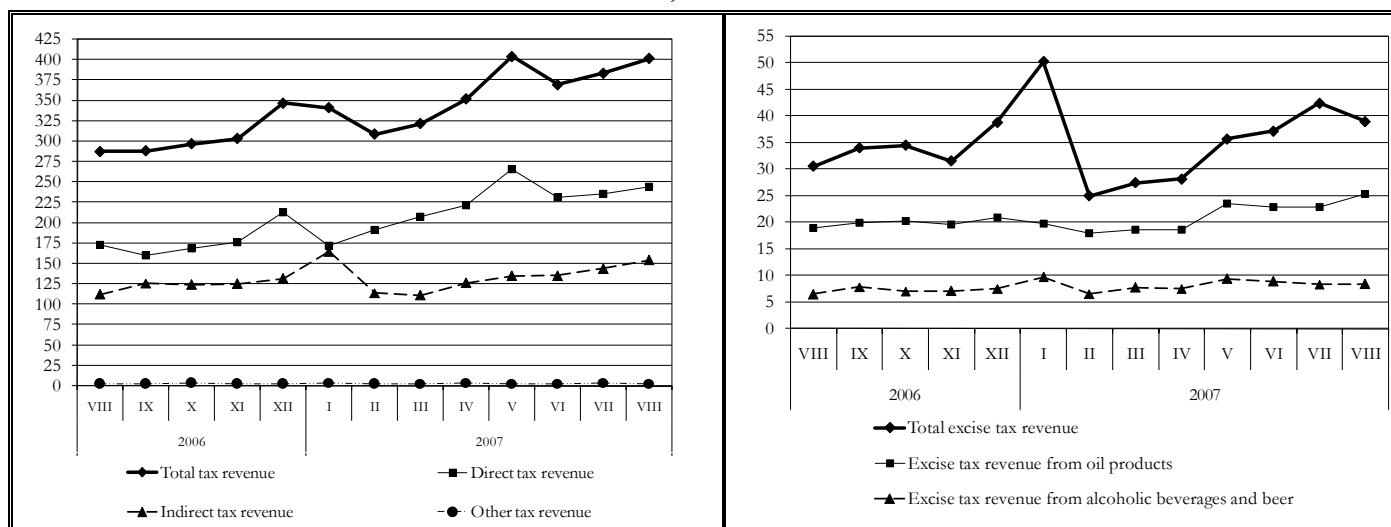
** including gifts and donations; excluding revenue from privatisation.

Value added tax revenue in August 2007 was 111.4 mln lats and in comparison with July 2007 is 13.9 mln lats or 14.2% more. In August 2007, the value added tax revenue collected on border was 2.9 mln lats or 14.4% more than in July 2007 and domestically net collected value added tax revenue was 11.0 mln lats or 14.2% more than in July 2007. In August 2007, value added tax repayments were 42.8 mln lats, which is 3.1 mln lats or 6.8% less than in July 2007.

Total **excise tax** revenue in August 2007 was 39.1 mln lats and in comparison with July 2007 is 3.4 mln lats or 8.1% less. Excise tax revenue from tobacco products in August 2007 was 4.8 mln lats, which is 5.9 mln lats or 55.4% less than in July 2007. Excise tax revenue from alcoholic beverages was 7.7 mln lats and in comparison with July 2007 is 0.7 mln lats or 10.0% more. The excise tax revenue from beer in August 2007 was 0.7 mln lats, which is 0.6 mln lats or 45.6% less than in July 2007. In August 2007, the excise tax revenue from oil products amounted to 25.4 mln lats, which is 2.5 mln lats or 10.8% more than in July 2007. The excise tax revenue from non-alcoholic beverages and coffee in August 2007 was 0.5 mln lats, which is 0.1 mln lats or 13.3% less than in July 2007.

Corporate income tax revenue in August 2007 was 36.4 mln lats and in comparison with July 2007 is 0.7 mln lats or 1.8% less. Corporate income tax revenue in eight months of 2007 was 60.0% more than in the same period of 2006 and revenue was 277.1 mln lats, which is 85.4% of annual plan. 27 of all corporate income tax payers had corporate income tax payment bigger than 1.0 mln lats and these payments make 28.5% of total corporate income tax revenue.

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



Tax Revenue, mln lats

	July of 2007	August of 2007	Jan – August of 2007	Jan – August of 2006	% changes (Jan - August) 2007/2006	% of annual plan
Corporate income tax	37.1	36.4	277.1	173.2	60.0	85.4
Value added tax	97.5	111.4	769.7	575.3	33.8	64.7
Excise tax	42.5	39.1	285.5	227.2	25.6	68.3
Cars and motorcycles tax	1.6	1.5	11.8	8.5	38.0	71.5
Social security contributions*	119.6	118.5	874.0	628.2	39.1	76.0
Custom duties	2.3	2.3	18.4	12.9	42.7	88.5
Personal income tax	76.5	76.1	562.9	410.7	37.1	75.0
Real estate tax	2.2	13.4	56.1	47.4	18.5	82.1

* including the State Funded Pension Scheme financial means of 14.1 mln lats in August 2007 and 7.3 mln lats in July 2007.

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

	End of August 2007	End of July 2007	End of August 2007	End of August 2007
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	4.319	4.07	0.01	25 004.73
1 year T-bills	4.896	11.90	12.37	47 256.742
3 year bonds	5.959	0.56	0.58	2 216.915
5 year bonds	5.237	30.14	31.33	119 638.017
10 year bonds	4.728	53.34	55.45	211 746.079
11 year bonds	5.650	-	0.26	997 992.50

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