

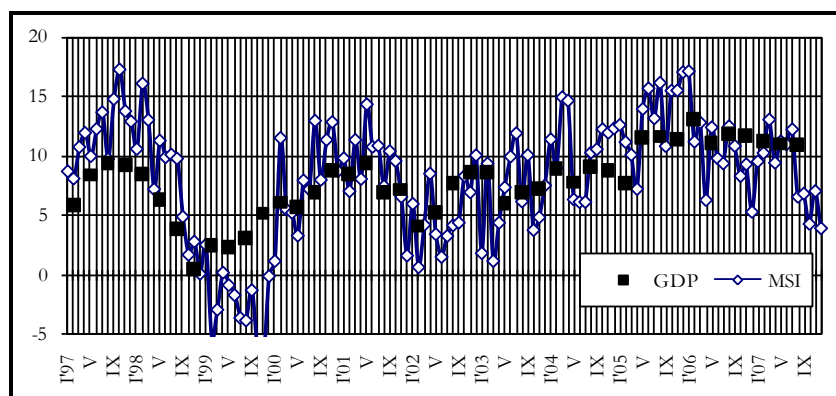
STATE BUDGET

December '07

According to the estimations of the Ministry of Finance, the Composite Index of Macroeconomic Indicators (MSI) in December 2007 grew by 3.9% at constant prices. Increase in freight turnover by rail, external trade and income of population were the main determinants of the growth of the index. The growth of the index was slowed down by the small growth rates in retail trade and industry.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

| | | 2006 4Q | 2007 4Q | 2007 | | |
|---|----------------|---------|---------|----------|----------|-----------------------|
| | | | | November | December | December ² |
| Industrial output index ³ | % ¹ | -0.1 | * | 1.0 | * | * |
| Consumer price index | % ¹ | 1.7 | 4.8 | 1.4 | 0.7 | 14.1 |
| Producer price index | % ¹ | 3.9 | 1.8 | -0.1 | -0.1 | 13.1 |
| Cash in circulation (net of vault balances) | mln. Ls | 969.3 | 900.0 | 880.3 | 900.0 | -7.2 |
| Bank of Latvia net foreign assets (end-of-period) | mln. Ls | 2 414.4 | 2 776.0 | 2 708.4 | 2 776.0 | 15.0 |
| Average short-term interest rates for credits (in lats) | % | 7.3 | 12.6 | 13.7 | 12.6 | - |
| Unemployment rate (end of the period) | % | 6.5 | 4.9 | 4.8 | 4.9 | - |
| Exports | mln. Ls | 888.6 | * | 367.8 | * | * |
| Imports | mln. Ls | 1 860.0 | * | 647.3 | * | * |

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 December amounted to 5.6 mln t, up by 19.1% from the corresponding month of 2006. However the volume of cargo transhipped in ports in the first 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 December increased by 0.1 percentage point and amounted to 4.9% of the economically active population at the end of the month. The number of the registered unemployed increased by 0.7 thsd people from the previous month and amounted to 52.3 thsd people. As compared with December 2006, the unemployment rate decreased by 1.6 percentage points, but the number of the registered unemployed fell by 16.6 thsd people. The highest unemployment rate in December was registered in the district of Rēzekne, 16.6% (22.6% in December of 2006); in the district of Ludza, 14.4%

(23.4%); and in the district of Balvi, 12.7% (17.9%). The lowest unemployment rate was registered in Rīga, 3.1% (3.8%); in the district of Tukums, 3.6% (5.2%) and in the district of Jelgava, 3.7% (5.8%).

The **Consumer Price Index (CPI)** in December grew by 0.7% from the previous month, of that prices for goods grew by 0.6%, but for services grew by 0.9%.

The price increase for food, heating and price decrease for clothing and footwear had the greatest impact on consumer price changes.

In the food sector the highest price increase was recorded for bread and cereals – by 2.6%, milk and dairy products – by 3.3%, cheese – by 8.4%, as well as eggs – by 3.1%.

Prices continued to grow for catering – by 1.0% and for heat energy – by 2.1%. Household maintenance and repair services became expensive by 1.0%.

Due to seasonal discounts prices for clothing fell by 1.9% and footwear – by 7.0%.

Compared to the December of previous year, the consumer prices have increased by 14.1%, of which prices for goods increased by 13.2%, but for services – by 16.4%. The annual average consumer price increase in 2007 reached 10.1%.

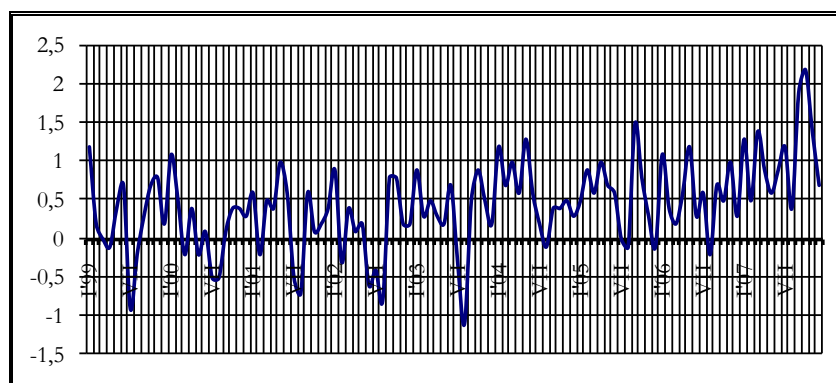
In 2007 sharp rise of food prices gave essential impact on average price level (5.06 pp influence on inflation). The most expensive became bread and cereals, dairy products, cheese, eggs and meat products. Prices for administered services - heating, water supply and refuse collection, natural gas and electricity rose as well. Household maintenance increased average price level by 2.77pp. Prices in transportation sector became more expensive, too (1.81pp). Essential rise in prices was observed for tobacco, because of increasing an excise tax in January and July of 2007. Alcoholic beverages and tobacco influenced common price level by 1.46pp. As for services, catering became more expensive.

In **Estonia**, the CPI in December increased by 0.7% from the previous month. Main inflation drivers were milk, meat, cereals, as well as price increase for fuel and heating. In Estonia consumer prices in 2007 have increased by 9.6%, but the annual average consumer price increase in 2007 was observed 6.6%.

In **Lithuania**, the CPI increased by 0.5% from the previous month. Consumer prices rose for food and dwelling. In Lithuania consumer prices in 2007 have increased by 8.1%, but the annual average consumer price increase reached 5.7%.

Consumer price index

% over the previous period



In November 2007, **exports and imports of goods** amounted to 1 015.1 mln lats up by 11.2% from the same period last year.

As compared with November last year, export of goods grew by 24.8% and amounted to 367.8 mln lats, while import increased by 4.8%, reaching the value of 647.3 mln lats.

In November 2007, as compared to the November 2006, the trade balance deficit decreased by 43.4 mln lats and amounted to 279.5 mln lats.

In November 2007 exports to the EU increased by 27.0% as compared with November of the previous year and amounted to 278.8 mln lats. The share of the EU in total value of exports was 75.8%. Exports to the CIS

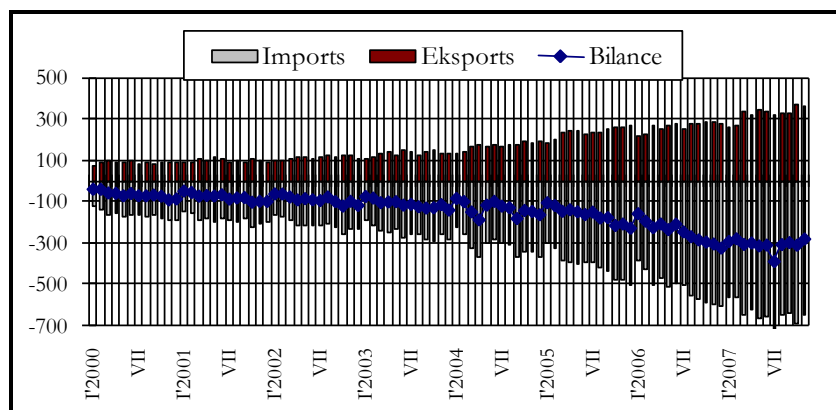
grew by 11.3% as compared with November of the previous year and amounted to 52.2 mln lats, and the share of exports to the CIS was 14.2%.

The value of imports from the EU in November 2007 grew by 1.6% year-on-year and reached 490.3 mln lats, but the share of EU imports amounted to 75.7%. The value of imports from the CIS in November 2007 increased by 20.8% year-on-year and reached 98.5 mln lats, but the share of CIS imports amounted to 15.2%.

Latvia's main export partners in November of 2007 were Lithuania, accounting for 16.2% of total exports; Estonia, 13.9%; Germany, 9.4%; Russia, 9.3%; Sweden, 7.2%. Main import partners were Germany, 14.5%; Lithuania, 12.8%; Russia, 10.1%; Estonia, 7.9%; and Poland, 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 November decreased by 41.4 mln lats year-on-year and amounted to 253.8 mln lats. As compared with the November of 2006, the goods deficit decreased by 24.5 mln lats and stood at 270.4 mln lats. The negative income balance increased – in the November of 2007, up by 0.4 mln lats from the corresponding period last year and was 27.3 mln lats. Surplus of the services balance in the November of 2007 amounted to 34.8 mln lats, which was 12.4 mln lats more than in the November of 2006. The surplus of current transfers increased and in November of 2007 was positive and amounted to 9.0 mln lats. The surplus of the capital and financial account in November of 2007 was 287.3 mln lats. Net inflow of direct investment in the November totalled 84.4 mln lats, which was 9.9 mln lats less than in the November last year. The portfolio investment account in the November was 55.1 mln lats. The Bank of Latvia's reserve assets in the November rose by 23.1 mln lats.

Central Government Consolidated Budget*, mln lats

| | November of 2007 | December of 2007 | Jan-December of 2007 | Jan – December of 2006 | % changes (Jan - December) 2007/2006 | % of annual plan |
|--|------------------|------------------|----------------------|------------------------|--------------------------------------|------------------|
| Revenue | 390.7 | 508.6 | 4395.9 | 3310.4 | 32.8 | 97.9 |
| Basic budget tax revenue | 200.8 | 204.0 | 2312.3 | 1773.2 | 30.4 | 100.6 |
| Taxes to be distributed among other budgets | 0.0 | 0.0 | 0.0 | 0.0 | -188.9 | - |
| Basic budget non-tax revenue | 11.3 | 13.1 | 224.4 | 188.8 | 18.9 | 70.8 |
| Self-earned revenue | 8.1 | 8.8 | 116.5 | 110.3 | 5.5 | 88.1 |
| Social security budget revenue | 117.8 | 131.9 | 1292.1 | 980.4 | 31.8 | 103.6 |
| – transfers from central government basic budget | -1.6 | -1.5 | -16.8 | -15.6 | 7.8 | 100.0 |
| Gifts and donations | 4.4 | 0.8 | 8.7 | 8.9 | -2.4 | - |
| Foreign financial assistance | 49.9 | 151.4 | 458.8 | 264.3 | 73.6 | 89.7 |
| Expenditure | 426.7 | 595.1 | 4278.7 | 3360.0 | 27.3 | 96.5 |
| Basic budget | 344.7 | 510.2 | 3375.4 | 2582.5 | 30.7 | 95.7 |
| – transfers to social security budget | -1.6 | -1.5 | -16.8 | -15.6 | 7.8 | 100.0 |
| Social security budget | 82.8 | 84.8 | 912.4 | 788.1 | 15.8 | 98.6 |
| Gifts and donations | 0.7 | 1.5 | 7.7 | 5.0 | 52.6 | - |
| Financial balance | -35.9 | -86.5 | 117.2 | -49.6 | - | - |

* including transfers to local government budgets.

49.6

50.6

447.1

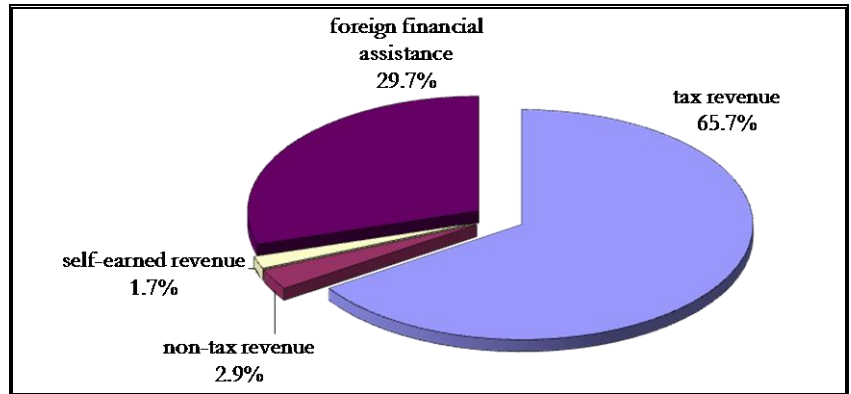
316.2

** 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-December 2007) data, in December 2007 the **central government consolidated budget** revenue (including gifts and donations) was 508.6 mln lats which is 117.9 mln lats or 30.2% more than in November, mainly due to increase of revenue from the foreign financial assistance by 101.5 mln lats and social security budget revenue by 14.1 mln lats. The central government consolidated budget revenue in 2007 was 4395.9 mln lats, which is 1085.5 mln lats or 32.8% more than in 2006. The most significant increase in comparison with 2006 was in the revenue from social security contributions, value added tax and corporate income tax. In December 2007, the central government budget expenditure (including gifts and donations) was 595.1 mln lats, which is 168.4 mln lats or 39.5% more than in November 2007. The central government budget expenditure in 2007 was 4278.7 mln lats and in comparison with 2006 expenditure increased by 918.7 mln lats or 27.3%. In December 2007, the central government consolidated budget financial deficit was 86.5 mln lats.

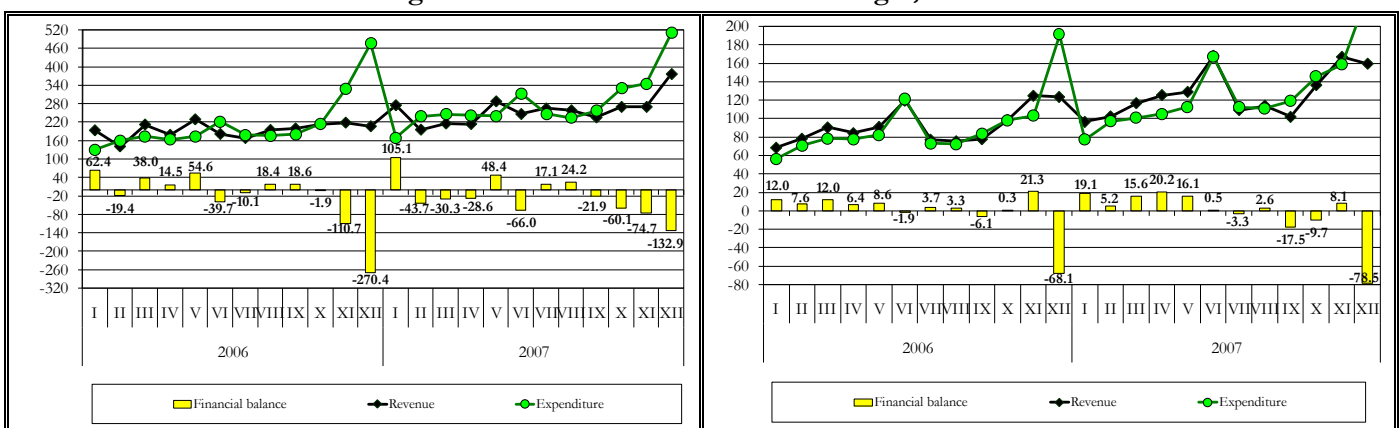
Structure of Central Government Basic Budget and Special Budget Revenue in December 2007

percentage



Central government basic budget revenue in December 2007 was 377.4 mln lats, which in comparison with November 2007 is 107.3 mln lats or 39.7% more. In comparison with November 2007, tax revenue was 204.0 mln lats, which is 3.2 mln lats or 1.6% more, mainly due to increase of value added tax by 5.2 mln lats. In December 2007 the non-tax revenue was 13.1 mln lats, which is 1.8 mln lats more than in November 2007, mainly due to increase of the others not-tax revenue by 2.1 mln lats. In December 2007, revenue from the paid services and self-earned revenue was 8.8 mln lats, which is 0.8 mln lats or 9.9% more, but revenue from the foreign financial assistance was 151.4 mln lats, which is 101.5 mln lats more than in November, mainly due to received EU funds advance payments for 2007-2013 programming period.

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



In December 2007, the central government basic budget expenditure was 510.2 mln lats, which is 165.5 mln lats or 48.0% more than in November 2007. In December 2007, the central government basic budget non-capital expenditure was 401.8 mln lats or 78.8% of total basic budget expenditure and in comparison with November 2007 is 95.5 mln lats or 31.2% more, mainly due to increase of grants for business except of agriculture by 60.9 mln lats or 80.9% and increase of services payments by 17.6 mln lats. The central government basic budget capital expenditure in December 2007 was 108.4 mln lats and in comparison with November 2007 is 70.0 mln lats or 38.5% more. In December 2007, the financial deficit in amount of 132.9 mln lats was in the central government basic budget.

Social security budget revenue in December 2007 was 131.9 mln lats, which is 14.1 mln lats or 11.9% more than in November 2007. The social security budget expenditure in December 2007 was 84.8 mln lats, which in comparison with November 2007 is 2.0 mln lats or 2.5% more. In December 2007, the social security budget financial surplus was 47.1 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in December 2007 in comparison with November 2007 was 7.4 mln lats or 4.4% less. In comparison with November 2007, the tax revenue was 0.3 mln lats less. The local government basic budget non-tax revenue in December 2007 in comparison with November 2007 was 0.2 mln lats or 7.8% less, but the local government basic budget received payments was 7.1 mln lats or 9.4% less. Local government basic budget revenue from the paid services and other self-earned revenue in December 2007 was 0.2 mln lats or 1.9% more than in November 2007.

In December 2007 the local government basic budget expenditure was 237.9 mln lats, which is 79.2 mln lats or 50.0% more than November 2007, mainly due to increase of capital expenditure by 25.4 mln lats, of expenditure for wages by 23.3 mln lats, as well as subsidies and grants by 5.9 mln lats. In December 2007, the financial deficit of 84.4 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

| | November of 2007 | December of 2007 | Jan - December of 2007 | Jan - December of 2006 | % changes (Jan - December) 2007/2006 |
|----------------------------------|------------------|------------------|------------------------|------------------------|--------------------------------------|
| Revenue | 155.3 | 151.2 | 1428.9 | 1032.6 | 38.4 |
| Basic budget tax revenue | 78.3 | 78.0 | 783.1 | 563.4 | 39.0 |
| Basic budget non-tax revenue | 3.0 | 2.8 | 40.2 | 34.4 | 16.8 |
| Basic budget received payments | 75.6 | 68.5 | 604.2 | 426.6 | 41.6 |
| -mutual payments* | -20.6 | -19.1 | -197.0 | -142.6 | 38.1 |
| Basic budget self-earned revenue | 9.4 | 9.6 | 94.2 | 73.7 | 27.8 |
| Special budget revenue** | 9.2 | 10.9 | 101.7 | 68.5 | 48.4 |
| Foreign financial assistance | 0.4 | 0.5 | 2.5 | 8.5 | -70.6 |
| Expenditure | 151.3 | 235.7 | 1461.9 | 1038.5 | 40.8 |
| Basic budget expenditure | 158.6 | 237.9 | 1545.7 | 1108.1 | 39.5 |
| -mutual payments* | -20.6 | -19.1 | -197.0 | -142.6 | 38.1 |
| Special budget expenditure** | 13.3 | 16.9 | 113.1 | 73.0 | 54.8 |
| Financial balance | 4.0 | -84.4 | -33.0 | -6.0 | - |

* 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 December 2007 was 110.4 mln lats and in comparison with November 2007 is 5.2 mln lats or 4.9% more. In December 2007, domestically net collected value added tax revenue was 88.4 mln lats or 80.1% of total value added tax revenue and in comparison with November 2007 is 7.3 mln lats or 9.0% more. The value added tax revenue collected on border was 2.1 mln lats or 8.7% less than in November 2007. In December 2007, value added tax repayments were 38.0 mln lats, which is 7.5 mln lats or 16.5% less than in November 2007.

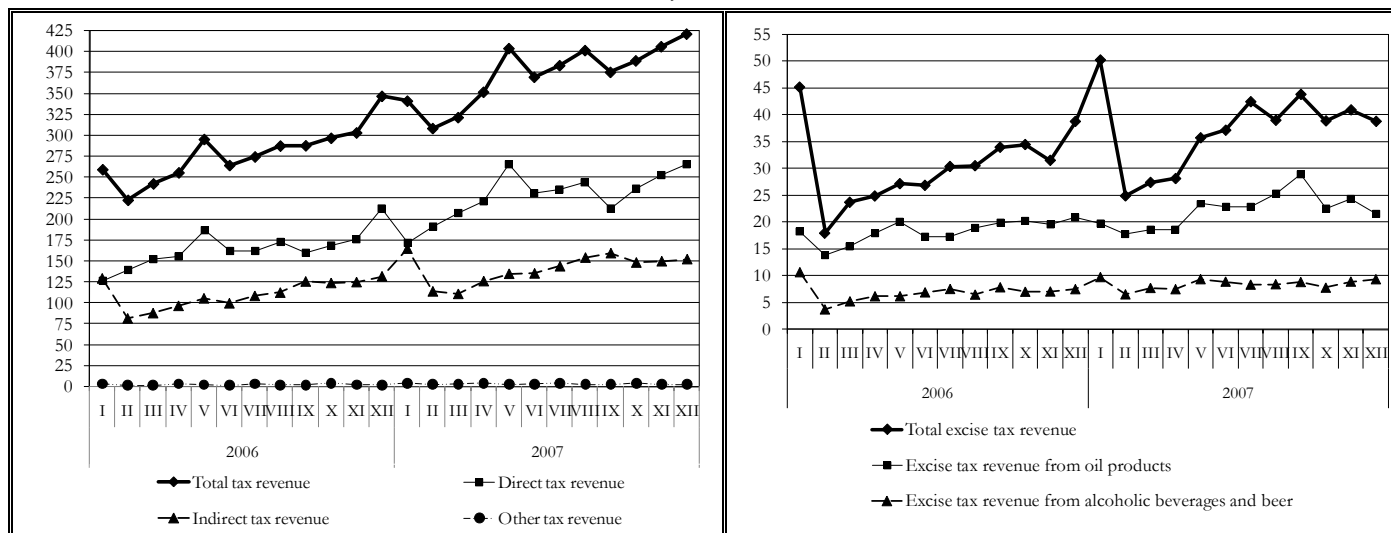
In total 2007 value added tax revenue was 1202.9 mln lats, which is 99.8 of annual plan. Comparison with 2006, value added tax revenue is 272.4 mln lats or 29.3 % more.

Total **excise tax** revenue in December 2007 was 38.9 mln lats and in comparison with November 2007 is 2.1 mln lats or 5.2% less. Excise tax revenue from tobacco products in December 2007 was 8.6 mln lats, which is 1.4 mln lats more than in November 2006. Excise tax revenue from alcoholic beverages was 7.7 mln lats and in comparison with November 2007 is 0.5 mln lats or 6.2% less. The excise tax revenue from beer in December 2007 was 0.6 mln lats, which is 0.2 mln lats or 20.9% less than in November 2007. In December 2007, the excise tax revenue from oil products amounted to 21.6 mln lats, which is 2.8 mln lats or 11.6% less than in November 2007. The excise tax revenue from non-alcoholic beverages and coffee in December 2007 was 0.5 mln lats, which is 65.2 thsd lats or 12.4% less than in November 2007.

In total 2007 excise tax revenue was 448.1 mln lats, which is 104.6 of annual plan. Comparison with 2006, excise tax revenue is 81.9 mln lats or 22.4 % more.

Corporate income tax revenue in December 2007 was 29.8 mln lats and in comparison with November 2007 is 2.1 mln lats or 6.6% less. Corporate income tax revenue in 2007 was 57.5% more than in 2006 and revenue was 399.8 mln lats, which is 98.6% of annual plan. 40 of all corporate income tax payers had corporate income tax payment bigger than 1.0 mln lats and these payments make 36.8% of total corporate income tax revenue.

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



Tax Revenue, mln lats

| | November of 2007 | December of 2007 | Jan – December of 2007 | Jan – December of 2006 | % changes (Jan - December) 2007/2006 | % of annual plan |
|--------------------------------|------------------|------------------|------------------------|------------------------|--------------------------------------|------------------|
| Corporate income tax | 32.0 | 29.8 | 399.8 | 253.8 | 57.5 | 98.6 |
| Value added tax | 105.2 | 110.4 | 1202.9 | 930.5 | 29.3 | 99.8 |
| Excise tax | 41.0 | 38.9 | 448.1 | 366.2 | 22.4 | 104.6 |
| Cars and motorcycles tax | 1.3 | 1.0 | 16.7 | 13.7 | 22.1 | 93.8 |
| Social security contributions* | 126.7 | 139.2 | 1377.4 | 1000.2 | 37.7 | 104.0 |
| Custom duties | 2.4 | 2.3 | 27.8 | 20.7 | 34.4 | 103.3 |
| Personal income tax | 82.8 | 95.0 | 888.0 | 657.2 | 35.1 | 102.0 |
| Real estate tax | 12.0 | 1.9 | 74.3 | 66.4 | 11.9 | 104.6 |

* including the State Funded Pension Scheme financial means of 8.9 mln lats in December 2007 and 10.5 mln lats in November 2007.

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

| | End of December 2007 | End of November 2007 | End of December 2007 | End of December 2007 |
|-----------------|----------------------------------|----------------------|----------------------|----------------------------------|
| | Average annual selling rate, (%) | | Shares of bonds, % | Amount in circulation, thsd. LVL |
| 6 month T-bills | 4.319 | 0.01 | 0.01 | 25 004.73 |
| 1 year T-bills | 4.896 | 8.31 | 8.31 | 30 332.291 |
| 2 year T-bills | 5.959 | 0.61 | 0.61 | 2 216.915 |
| 5 year bonds | 5.196 | 32.78 | 32.78 | 119 638.017 |
| 10 year bonds | 4.728 | 58.02 | 58.02 | 211 746.079 |
| 11 year bonds | 5.650 | 0.27 | 0.27 | 2 006.081 |

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