

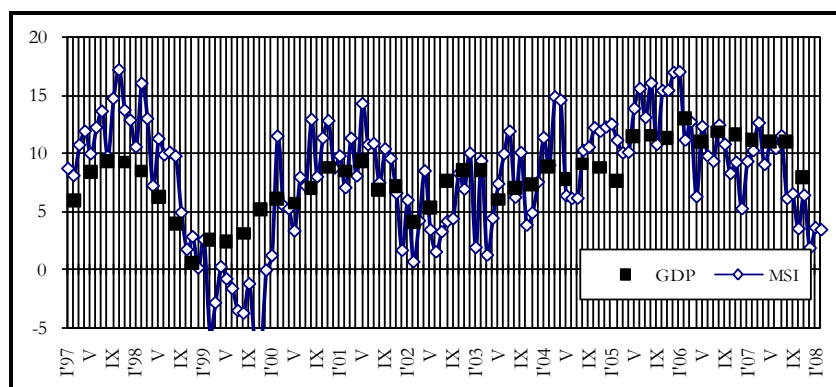
STATE BUDGET

February '08

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in February 2008 grew by 3.4% at constant prices. The largest contribution to the growth of the index came from increases in turnover by rail and in the ports. As compared to the February of the previous year, the decrease in an amount of cash in circulation and by the low level of retail trade index restricted the growth of the index.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2007	2008		
			January	February	February ²
Industrial output index ³	% ¹	*	2.0	*	*
Consumer price index	% ¹	10.1	2.8	1.3	16.7
Producer price index	% ¹	13.1	1.3	1.7	11.4
Cash in circulation (net of vault balances)	mln Ls	900.0	850.2	852.4	-8.9
Bank of Latvia net foreign assets (end-of-period)	mln Ls	2776.0	2807.0	2791.2	11.3
Average short-term interest rates for credits (in lats)	%	7.8	7.6	6.2	-
Unemployment rate (end of the period)	%	4.9	5.0	5.0	-
Exports	mln Ls	4038.7	330.7	*	*
Imports	mln Ls	7746.3	578.2	*	*

Source: CSB, BoL

¹ over the previous month

² over the same period of the previous year

³ seasonally adjusted data

The volume of **cargo transhipped in ports** in February amounted to 5.5 mln t, up by 16.7% or 925.0 thsd t from the corresponding month of 2007.

In February 2008 the unemployment rate stayed unchanged month-on-month and amounted to 5.0% of the economically active population. The unemployment rate decreased as compared with February 2007 by 1.5 percentage points. The number of the registered unemployed in February 2008 amounted to 53.4 thsd people, which is 0.1 thsd less than in the previous month and by 15.5 thsd less than in February 2007. The highest unemployment rate in February was registered in the district of Rēzekne, 16.7% (21.8% in February of 2007); in the district of Ludza, 14.5% (23.1%); and in the district of Balvi, 12.0 (17.9%). The lowest unemployment rate was registered in Rīga, 3.2% (4.8%); in the district of Tukums, 3.7% (5.3%); and in the district of Valmiera, 3.7% (5.8%).

The **Consumer Price Index (CPI)** in February grew by 1.3% from the previous month, of that prices for goods grew by 1,5%, but for services grew by 0,9%.

The price increase for tobacco, fuel, heating, food and dwelling as well as price decrease for telecommunication had the greatest impact on consumer price changes in February.

Due to rise of excise tax in January prices for tobacco continued to rise – by 10.2%, because in January previous stocks of tobacco were traded off. Prices rose for heating – by 9.2%.

In February food prices increased for all essential food groups. Prices for dairy products rose by 3.4%, eggs – by 8.6%, sweets – by 5.0%. Vegetables become less expensive by 7.4%.

More expensive become services related to dwelling. Rent increased by 14.2%, water supply – by 3.3%, sewage – by 1.8%, refuse removal – by 1.5%.

Prices continued to growth for catering – by 1.9%, health care – by 1.0%. Notary services rose in price sharply – by 54.7%.

Due to seasonal discounts prices for clothing fell by 1.0%. Mobile communications become cheaper by 6.6%. Automotive fuel fell in price by 1.3%, audio, video, photo equipment – by 1.5%.

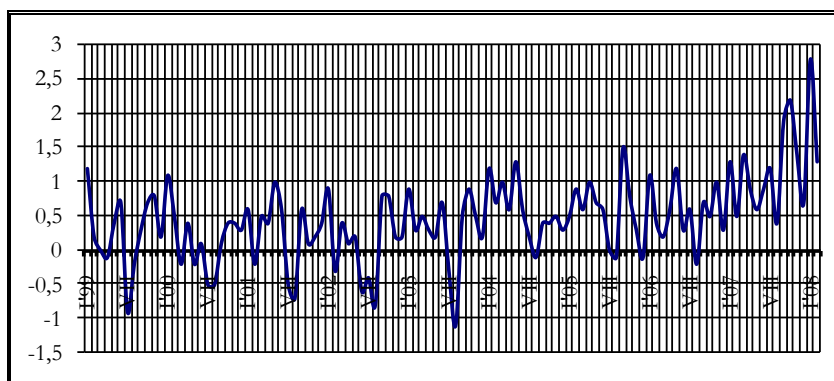
Compared to the February of previous year, the consumer prices have increased by 16.7%, of which prices for goods increased by 16.7%, but for services – by 16.5%.

In **Estonia**, the CPI in February increased by 0.4% from the previous month. Consumer price level was mainly influenced by price rose for food, alcoholic beverages, health care, catering as well as fuel. In Estonia 12 month inflation reached 11.3%.

In **Lithuania**, the CPI increased by 1.1% from the previous month. Consumer prices rose for food and non-alcoholic beverages, communications. Prices become cheaper for clothing and footwear. As compared to February 2007 consumer price level increased by 10.8%.

Consumer price index

% over the previous period



In January 2008, **exports and imports of goods** amounted to 908.9 mln lats up by 8.1% from the same period last year. As compared with January last year, export of goods grew by 18.1% and amounted to 330.7 mln lats, while import increased by 3.1%, reaching the value of 578.2 mln lats.

In January 2008, as compared to the January 2007, the trade balance deficit decreased by 33.2 mln lats and amounted to 247.5 mln lats.

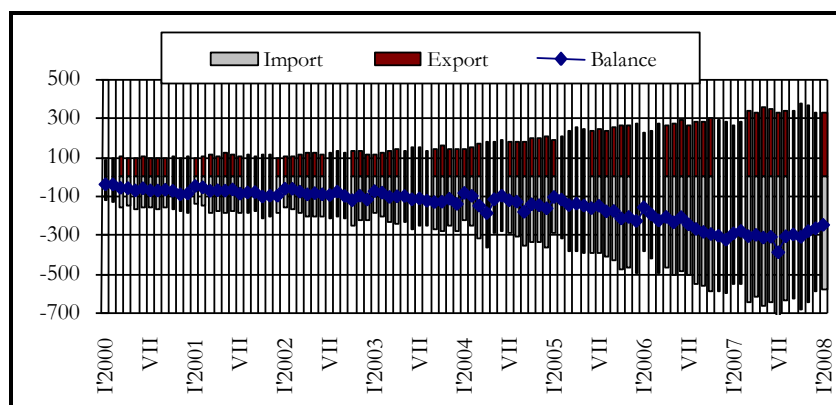
In January 2008 exports to the EU amounted to 262.3 mln lats. The share of the EU in total value of exports was 79.3%. Exports to the CIS amounted to 39.1 mln lats, and the share of exports to the CIS was 11.8%.

The value of imports from the EU in January of the 2008 reached 419.8 mln lats, but the share of EU imports amounted to 72.6%. The value of imports from the CIS in January of the 2008 reached 102.5 mln lats, but the share of CIS imports amounted to 17.7%.

Latvia's main export partners in January of 2008 were Lithuania, accounting for 16.4% of total exports; Estonia, 13.3%; Germany, 12.1%; Sweden, 8.6%; Russia, 7.9%. Main import partners were Lithuania, 14.8%; Russia, 12.0%; Germany, 11.9%; Estonia, 7.7%; and Poland, 7.1%.

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 January decreased by 38.7 mln lats year-on-year and amounted to 225.3 mln lats. As compared with the January of 2007, the goods deficit decreased by 46.1 mln lats and stood at 224.1 mln lats. The negative income balance increased – in the January of 2008, up by 5.2 mln lats from the corresponding period last year and was 32.2 mln lats. Surplus of the services balance in the January of 2008 amounted to 28.0 mln lats, which was 3.5 mln lats more than in the January of 2007. The surplus of the capital and financial account in January of 2007 was 277.1 mln lats. Net inflow of direct investment in the January totalled 82.3 mln lats, which was 4.2 mln lats less than in the January last year. The portfolio investment account in the January was positive and amounted to 63.2 mln lats. The Bank of Latvia's reserve assets in the January rose by 9.4 mln lats.

Central Government Consolidated Budget*, mln lats

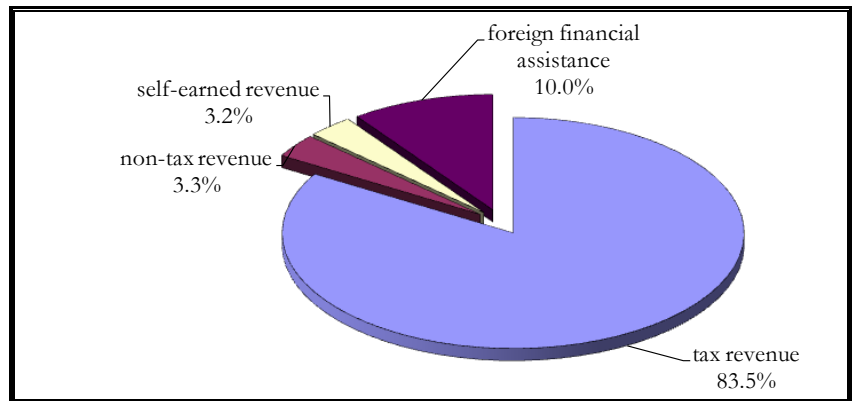
	January of 2008	February of 2008	Jan-Feb of 2008	Jan – Feb of 2007	% changes (Jan – Feb) 2008/2007	% of annual plan
Revenue	371.4	365.6	737.0	653.0	12.9	13.4
Basic budget tax revenue	221.3	183.4	404.7	355.1	14.0	14.0
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-115.9	-
Basic budget non-tax revenue	15.1	10.9	26.0	28.8	-9.7	7.8
Self-earned revenue	10.3	11.7	22.0	21.9	0.6	15.3
Social security budget revenue	111.5	123.6	235.2	184.3	27.6	16.9
– transfers from central government basic budget	-3.1	-1.1	-4.2	-2.8	50.9	24.8
Gifts and donations	0.4	0.4	0.8	0.5	80.5	-
Foreign financial assistance	15.8	36.6	52.5	65.3	-19.6	6.9
Expenditure	307.5	361.1	668.7	542.8	23.2	12.5
Basic budget	225.6	271.0	496.6	409.6	21.2	11.8
– transfers to social security budget	-3.1	-1.1	-4.2	-2.8	50.9	24.8
Social security budget	83.7	90.6	174.3	135.5	28.7	15.4
Gifts and donations	1.3	0.7	2.0	0.5	301.2	-
Financial balance	63.9	4.4	68.3	110.2	-	-
* including transfers to local government budgets.	48.0	43.6	91.5	54.4	68.3	

In accordance with the State Treasury's official monthly report's (January - February 2008) data, in February 2008 the **central government consolidated budget** revenue (including gifts and donations) was 365.6 mln lats which is 5.9 mln lats or 1.6% less than in January, mainly due to decrease of basic budget tax revenue by 37.9 mln lats and basic budget non-tax revenue by 4.2 mln lats. The central government consolidated budget revenue in January - February 2008 was 737.0 mln lats, which is 84.0 mln lats or 12.9% more than in January-February 2007. The most significant part of revenue of the central government consolidated budget in February 2008 made tax revenue. In February 2008, the central government budget expenditure (including gifts and donations) was 361.1 mln lats, which is 53.6 mln lats or 17.4% more than in January 2008. The central government budget expenditure in January - February 2008 was 668.7 mln lats and in comparison with January - February 2007 expenditure increased by 125.9 mln lats or 23.2%. In February 2008, the central government consolidated budget financial surplus was 4.4 mln lats.

Central government basic budget revenue in February 2008 was 242.6 mln lats, which in comparison with January 2008 is 20.0 mln lats or 7.6% less. In February 2008 tax revenue was 183.4 mln lats, which is 37.9 mln lats or 17.1% less than in January 2008, mainly due to decrease of value added tax by 30.2 mln lats. In February 2008 the non-tax revenue was 10.9 mln lats, which is 4.2 mln lats less than in January 2008, mainly due to decrease of the percent revenues for accommodations in national currency and percent revenues in foreign currency by 2.7 mln lats. In February 2008, revenue from the paid services and self-earned revenue was 11.7 mln lats, which is 1.4 mln lats or 13.2% more, but revenue from the foreign financial assistance was 36.6 mln lats, which is 20.8 mln lats more than in January. Central government basic budget revenues in January - February were 505.2 mln lats, which is 34.2 mln lats or 7.3% more than in January - February 2007.

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

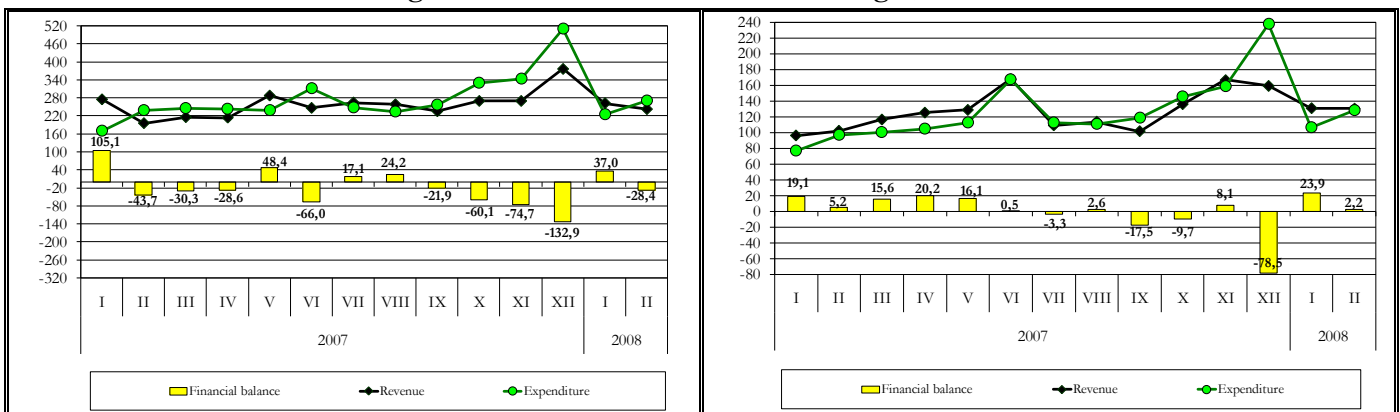
Percentage



In February 2008, the central government basic budget expenditure was 271.0 mln lats, which is 45.4 mln lats or 20.1% more than in January 2008. In February 2008, the central government basic budget non-capital expenditure was 258.7 mln lats or 95.5% of total basic budget expenditure and in comparison with January 2008 is 46.9 mln lats or 22.1% more, mainly due to increase of grants for business except of agriculture by 8.9 mln lats or 15.8% and increase of wages by 15.8 mln lats and increase of employer's social contributions by 6.9 mln lats. The central government basic budget capital expenditure in February 2008 was 12.3 mln lats and in comparison with January 2008 is 1.5 mln lats or 10.9% less. In January - February 2008 the central government basic budget expenditure was 496.6 mln lats which in comparison with January - February 2007 is by 87.0 mln lats or 21.2% more. In February 2008, the financial deficit in amount of 28.4 mln lats was in the central government basic budget.

Social security budget revenue in February 2008 was 123.6 mln lats, which is 12.1 mln lats or 10.9% more than in January 2008. Social security budget revenue in January - February 2008 was 235.2 mln lats, which is 50.9 mln lats or 27.6% more than in January - February 2007. The social security budget expenditure in February 2008 was 90.6 mln lats, which in comparison with January 2008 is 6.8 mln lats or 8.1% more. The social security budget expenditure in January - February 2008 was 174.3 mln lats, which is 38.9 mln lats or 28.7% more than in January - February 2007. In February 2008, the social security budget financial surplus was 33.1 mln lats.

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



Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in February 2008 in comparison with January 2008 was 0.6 mln lats or 0.4% less. In comparison with January 2008, the tax revenue was 5.8 mln lats more. The local government basic budget non-tax revenue in February 2008 in comparison with January 2008 was 0.2 mln lats or 9.2% less, but the local government basic budget received payments was 7.2 mln lats or 12.4% less. Local government basic budget revenue from the paid services and other self-earned revenue in February 2008 was 0.9 mln lats or 11.2% more than in January 2008.

In February 2008 the local government basic budget expenditure was 128.2 mln lats, which is 21.2 mln lats or 19.7% more than January 2008, mainly due to increase of non-capital expenditure by 19.3 mln lats, of expenditure for wages by 8.5 mln lats, as well as subsidies and grants by 4.0 mln lats. In February 2008, the financial surplus of 7.9 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	January of 2008	February of 2008	Jan - Feb of 2008	Jan - Feb of 2007	% changes (Jan - Feb) 2007/2006
Revenue	121.6	125.6	247.2	185.5	33.2
Basic budget tax revenue	62.9	68.7	131.6	105.2	25.1
Basic budget non-tax revenue	1.8	1.6	3.4	4.6	-26.0
Basic budget received payments	58.1	50.8	108.9	75.5	44.3
<i>-mutual payments*</i>	<i>-17.3</i>	<i>-18.3</i>	<i>-35.6</i>	<i>-28.5</i>	25.2
Basic budget self-earned revenue	8.0	8.9	16.9	13.2	28.6
Special budget revenue**	8.0	13.5	21.4	15.5	38.6
Foreign financial assistance	0.2	0.3	0.5	0.0	993.4
Expenditure	94.6	117.7	212.3	154.5	37.4
Basic budget expenditure	107.1	128.2	235.3	174.3	35.0
<i>-mutual payments*</i>	<i>-17.3</i>	<i>-18.3</i>	<i>-35.6</i>	<i>-28.5</i>	25.2
Special budget expenditure**	4.9	7.8	12.7	8.7	46.1
Financial balance	27.0	7.9	34.9	31.0	-

* 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 February 2008 was 93.3 mln lats and in comparison with January 2008 is 30.2 mln lats or 24.4% less. In February 2008, domestically net collected value added tax revenue was 72.1 mln lats or 77.2% of total value added tax revenue and in comparison with January 2008 is 31.6 mln lats or 30.5% less. The value added tax revenue collected on border was 1.4 mln lats or 7.1% more than in January 2008. In February 2008, value added tax repayments were 41.3 mln lats, which is 8.3 mln lats or 16.7% less than in January 2008.

In total in January - February 2008 value added tax revenue was 216.9 mln lats, which is 14.3% of annual plan. In comparison with January - February 2007, value added tax revenue is 19.6 mln lats or 9.9% more.

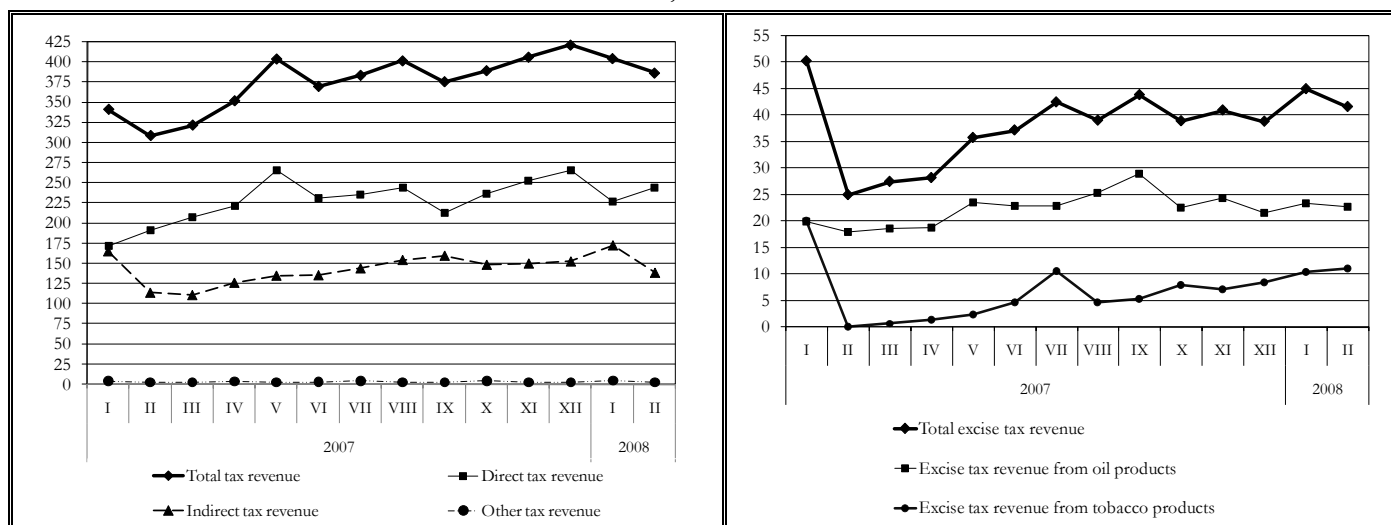
Total **excise tax** revenue in February 2008 was 41.6 mln lats and in comparison with January 2008 is 3.4 mln lats or 7.5% less. Excise tax revenue from tobacco products in February 2008 was 11.2 mln lats, which is 0.7 mln lats more than in January 2008. Excise tax revenue from alcoholic beverages was 6.8 mln lats and in comparison with January 2008 is 3.2 mln lats or 32.0% less. The excise tax revenue from beer in February 2008 was 0.5 mln lats, which is 0.2 mln lats or 33.0% less than in January 2008. In February 2008, the excise tax revenue from oil products amounted to 22.8 mln lats, which is 0.6 mln lats or 2.6% less than in January 2008. The excise tax revenue from non-alcoholic beverages and coffee in February 2008 was 0.5 mln lats, which is 2.2 thsd lats or 0.5% more than in January 2008.

In total in January - February 2008 excise tax revenue was 86.6 mln lats, which is 16.6 of annual plan. In comparison with January - February 2007, excise tax revenue is 11.4 mln lats or 15.1% more.

Corporate income tax revenue in February 2008 was 27.2 mln lats and in comparison with January 2008 is 1.4 mln lats or 5.0% less. Corporate income tax revenue in January - February 2008 made 10.0% of annual plan. From all corporate income tax payers in January - February 2008 corporate income tax payments of

the biggest payers was 26.7 mln lats and these payments made 47.8% of total corporate income tax revenue in January - February 2008.

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



Tax Revenue, mln lats

	January of 2008	February of 2008	Jan - Feb of 2008	Jan - Feb of 2007	% changes (Jan - Feb) 2008/2007	% of annual plan
Corporate income tax	28.7	27.2	55.9	44.0	27.0	10.0
Value added tax	123.5	93.3	216.9	197.3	9.9	14.3
Excise tax	45.0	41.6	86.6	75.2	15.1	16.6
Cars and motorcycles tax	1.0	0.9	1.9	2.4	-20.0	8.6
Social security contributions*	120.2	133.8	253.9	189.3	34.1	15.9
Custom duties	2.6	2.7	5.3	4.1	27.4	17.9
Personal income tax	77.7	80.1	157.8	123.9	27.4	15.7
Real estate tax	1.0	3.8	4.7	6.8	-30.7	6.5

* including the State Funded Pension Scheme financial means of 11.4 mln lats in February 2008 and 15.2 mln lats in January 2008.

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

	End of February 2008	End of January 2008	End of February 2008	End of February 2008
	Average annual selling rate, (%)		Shares of bonds, %	Amount in circulation, thsd. LVL
6 month T-bills	4.319	0.00	0.00	-
1 year T-bills	5.727	0.00	0.00	32 467.023
2 year bonds	5.959	0.61	0.60	2 216.915
5 year bonds	5.196	33.28	32.93	121 466.909
10 year bonds	4.728	58.00	57.4	211 746.079
11 year bonds	6.109	0.27	0.27	17 049.885

Smilšu street 1. Riga. phone 7095539. fax 7095541.
<http://www.fm.gov.lv/>