

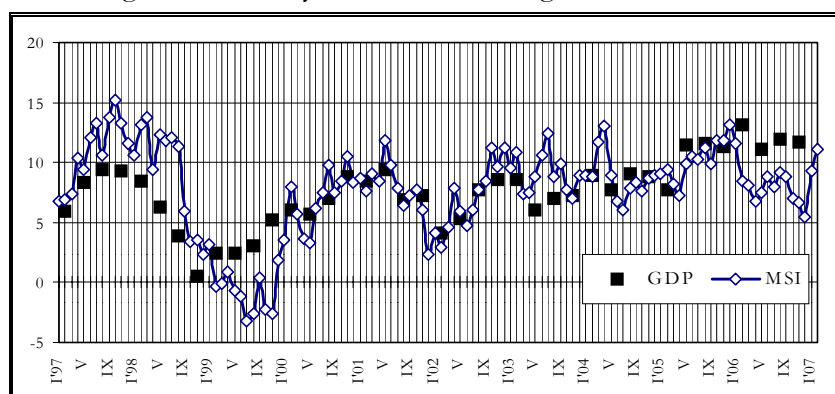
STATE BUDGET

February '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in January 2006 grew by 11.1% at constant prices. The largest contribution to the growth of the index came from increases in retail trade and external trade turnover. As compared to the February of the previous year, the decrease in an amount of freight turnover by rail restricted the growth of the index.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2006	2007		
			January	February	February ²
Industrial output index ³	% ¹	5.1	0.2	*	*
Consumer price index	% ¹	6.5	1.3	0.5	7.3
Producer price index	% ¹	10.3	3.3	1.1	15.8
Cash in circulation (net of vault balances)	mln Ls	848.7	754.3	935.7	20.6
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1944.1	2439.0	2507.8	70.2
Average short-term interest rates for credits (in lats)	%	7.3	6.7	7.8	-
Unemployment rate (end of the period)	%	7.0	6.5	6.5	-
Exports	mln Ls	3272.5	265.0	*	*
Imports	mln Ls	6298.3	556.1	*	*

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 4.7 mln t, up by 3.9% or 177.1 thsd t from the corresponding month of 2006.

In February 2007 the unemployment rate stayed unchanged month-on-month and amounted to 6.5% of the economically active population. The unemployment rate decreased as compared with February 2006 by 1.0 percentage point. The number of the registered unemployed in February 2007 amounted to 68.9 thsd people, which is 0.6 thsd less than in the previous month and by 10.7 thsd less than in February 2006. The highest unemployment rate in February was registered in the district of Ludza, 23.1% (27.4% in February of 2006); in the district of Rēzekne, 21.8% (25.2%); and in the district of Krāslava, 18.4 (21.1%). The lowest unemployment rate was registered in Rīga, 3.7% (4.1%); in the district of Rīga, 4.8% (5.3%); and in the district of Ogre, 5.3% (4.8%).

The Consumer Price Index (CPI) in February 2007 increased by 0.5% month-on-month, of which prices for goods stay unchanged, but prices for services grew – by 1.8%.

After data of Central Statistical Bureau of Latvia, increases in the prices of transport services and dwelling maintenance services, bread and cereal products and solid fuel as well as decreases in the prices of wearing apparel, footwear and automotive fuel had the greatest impact on price changes in February.

There were increases in the prices of transport services – by 8.8%, especially in the prices of tickets in urban and district bus routes and trams.

The following dwelling maintenance-related services and goods continued to become more expensive: water supply – by 5.9%, sewerage – by 4.9% and dwelling repair services – by 2.1%. Rent payments rose – by 3.1% and prices for firewood increased – by 7.3%.

There were considerable price increases for sugar – by 5.3%, cereal products – by 3.7%, bread – by 1.2% and potatoes – by 4.0%.

Due to the conclusion of special offers, the prices of cigarettes have increased – by 1.2%. Prices continued to go up for footwear repair – by 3.5%, repair of household appliances – 0.6%, health services – 3.0%, personal transport maintenance and repair services – 4.2%, insurance – by 5.9% as well as for kindergarten attendance – 1.8%.

Furniture, dwelling furnishings, vehicle spare parts and materials for dwelling maintenance and repair also became more expensive.

Under the impact of sales campaigns there were decreases in the prices of wearing apparel – by 4.1%, clothing accessories – by 6.1% and footwear – by 6.0%. A fall of 1.6% in the prices of automotive fuel could be observed in February.

There were decreases in the prices of selected vegetables, telecommunications services, TV, video and audio equipment, photographic and data processing equipment, personal grooming goods and air tickets. Due to the sales campaigns, prices for optical goods became less expensive.

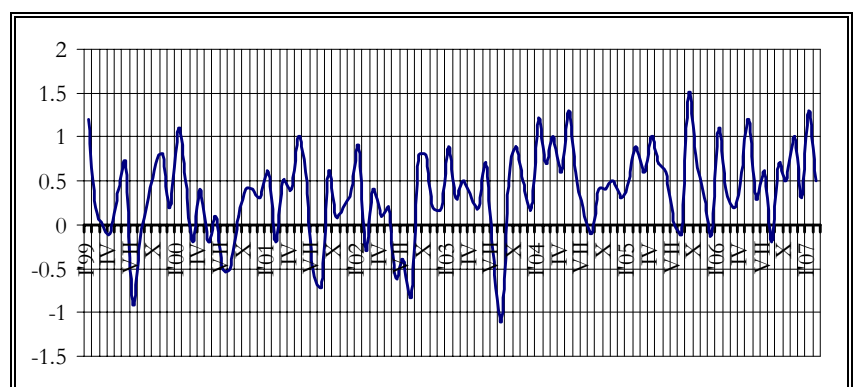
As compared to February of the previous year, consumer prices increased – by 7.3%, of which prices for goods increased – by 6.0% and for services – by 10.9%.

The consumer prices in **Estonia** in February 2007 increased – by 0.1% month-on-month. Compared with the February 2006, consumer prices in Estonia increased – by 4.7%.

In **Lithuania**, the CPI in February 2007 increased – by 0.3% month-on-month. Year-on-year growth of the CPI in Lithuania was 4.3%.

Consumer price index

% over the previous period



In January 2007, **exports and imports of goods** amounted to 821.1 mln lats up by 34.6% from the same period last year. As compared with January last year, export of goods grew by 18.0% and amounted to 265.0 mln lats, while import increased by 44.3%, reaching the value of 556.1 mln lats.

In January 2007, as compared to the January 2006, the trade balance deficit grew by 130.3 mln lats and amounted to 291.1 mln lats.

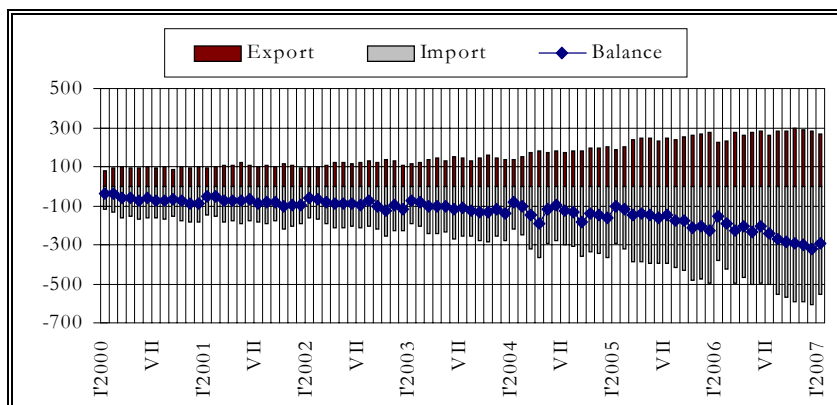
In January 2007 exports to the EU increased by 21.4% as compared with January of the previous year and amounted to 205.5 mln lats. The share of the EU in total value of exports was 77.6%. Exports to the CIS grew by 26.1% as compared with January of the previous year and amounted to 34.9 mln lats, and the share of exports to the CIS was 13.2%.

The value of imports from the EU in January of the 2007 grew by 46.5% year-on-year and reached 41.7 mln lats, but the share of EU imports amounted to 74.9%. The value of imports from the CIS in January of the 2007 increased by 27.0% year-on-year and reached 77.5 mln lats, but the share of CIS imports amounted to 13.9%.

Latvia's main export partners in January of 2007 were Lithuania, accounting for 14.6% of total exports; Estonia, 13.8%; Germany, 10.4%; Russia, 8.1%; Great Britain, 7.6%. Main import partners were Lithuania, 13.8%; Germany, 13.7%; Russia, 9.0%; Estonia, 7.7%; 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 January increased by 170.4 mln lats year-on-year and amounted to 273.8 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the January of 2006, the goods deficit rose by 137.3 mln lats and stood at 281.1 mln lats. The negative income balance increased – in the January of 2007, up by 4.6 mln lats from the corresponding period last year and was 19.4 mln lats. Surplus of the services balance in the January of 2007 amounted to 18.2 mln lats, which was 19.7 mln lats less than in the January of 2006. The surplus of the capital and financial account in January of 2007 was 283.3 mln lats. Net inflow of direct investment in the January totalled 65.6 mln lats, which was 19.4 mln lats less than in the January last year. The portfolio investment account in the January was negative and amounted to 10.2 mln lats. The Bank of Latvia's reserve assets in the January rose by 20.3 mln lats.

Central Government Consolidated Budget*, mln lats

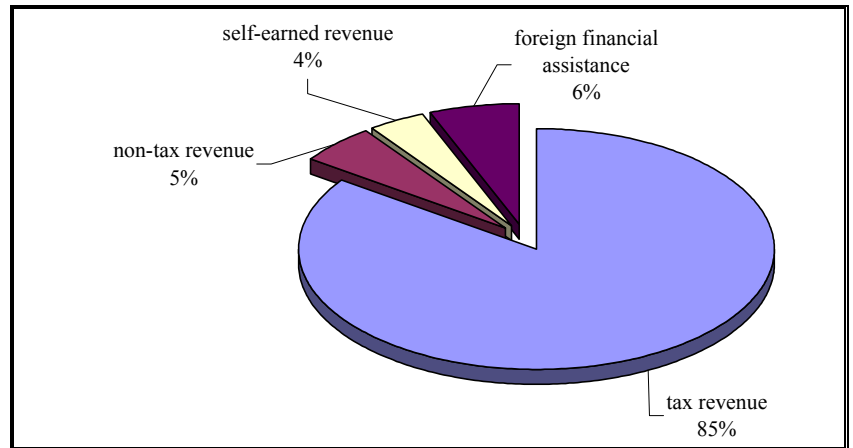
	January of 2007	February of 2007	Jan-Feb of 2007	Jan - Feb of 2006	% changes (Jan - Feb) 2007/2006	% of annual plan
Revenue	361.1	291.8	653.0	469.3	39.1	15.5
Basic budget tax revenue	202.0	153.1	355.1	264.6	34.2	16.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-10.8	-
Basic budget non-tax revenue	15.0	13.8	28.8	19.2	49.6	10.1
Self-earned revenue	10.7	11.2	21.9	18.3	19.8	16.5
Social security budget revenue	86.8	97.5	184.3	136.4	35.1	17.1
– transfers from central government basic budget	-1.4	-1.4	-2.8	-2.0	37.7	16.7
Gifts and donations	0.3	0.2	0.5	0.5	-17.7	-
Foreign financial assistance	47.8	17.5	65.3	32.1	103.2	11.2
Expenditure	230.7	312.1	542.8	420.2	29.2	12.3
Basic budget	170.4	239.2	409.6	291.2	40.6	11.7
– transfers to social security budget	-1.4	-1.4	-2.8	-2.0	37.7	16.7
Social security budget	61.4	74.0	135.5	130.1	4.1	14.8
Gifts and donations	0.2	0.3	0.5	0.9	-42.4	-
Financial balance	130.5	-20.3	110.2	49.1	-	-

* 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 financial part.

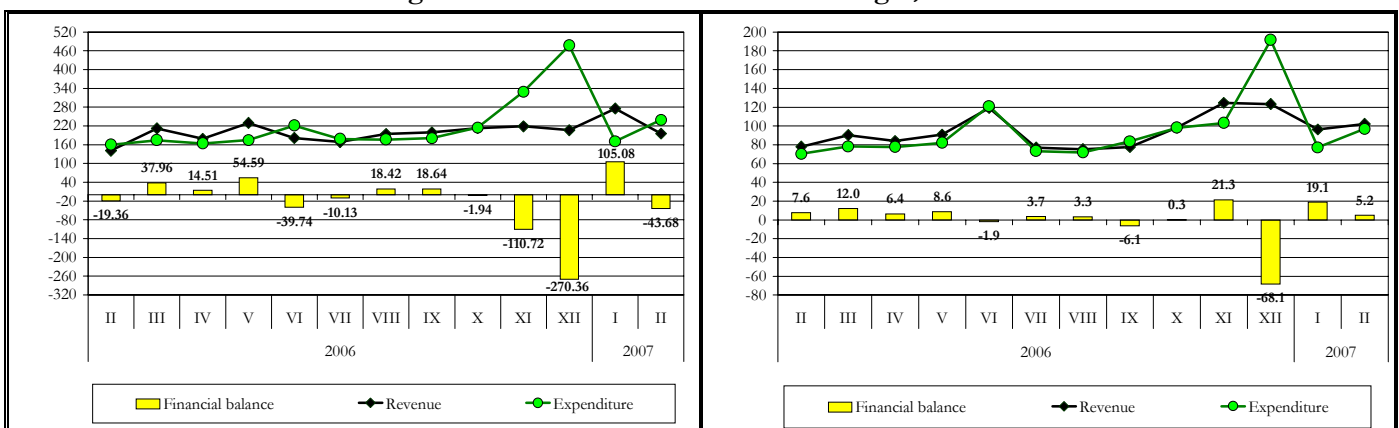
In February 2007 the **central government consolidated budget** revenue (including gifts and donations) was 291.8 mln lats which is 69.3 mln lats or 19.2% less than in January 2007. The central government consolidated budget revenue in the first two months of 2007 was 653.0 mln lats, which is 183.7 mln lats or 39.1% more than in the same period of 2006. Tax revenue formed the significant part of the central government consolidated budget revenue. The most significant increase in comparison with the first two months of 2006 was in the revenue value added tax, social security contributions and corporate income tax. In February 2007, the central government budget expenditure (including gifts and donations) was 312.1 mln lats, which is 81.5 mln lats or 35.3% more than in January 2007. The government budget total expenditure in the first two months of 2007 was 542.8 mln lats and increased by 122.6 mln lats or 29.2% more than in the same period of 2006. In February 2007, the central government consolidated budget financial deficit was 20.3 mln lats.

Structure of Central Government Basic Budget and Special Budget Revenue in February 2007
percentage



Central government basic budget revenue in February 2007 was 195.5 mln lats, which in comparison with January 2007 is 79.9 mln lats or 29.0% less. In comparison with January 2007, tax revenue was 48.9 mln lats or 24.2% less, mainly due to decrease of excise tax revenue by 50.3% and value added tax revenue by 22.9%. Rapid tax revenue increase in January and decrease in February is due to payment order and seasonal fluctuations of economical activities. In February 2007 the non-tax revenue was 1.1 mln lats or 7.4% less than in January 2007. In February 2007, revenue from the paid services and self-earned revenue was 0.4 mln lats or 4.0% more, but revenue from the foreign financial assistance was 30.3 mln lats or 63.4% less than in January 2007.

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



In February 2007 central government basic budget expenditure was 239.2 mln lats, which is 68.9 mln lats or 40.4% more than in January 2007. In February 2007, the central government basic budget non-capital expenditure was 227.3 mln lats or 95.0% of total basic budget expenditure and in comparison with January 2007 was 66.7 mln lats or 41.5% more, mainly due to increase of payments in EU budget by 28.3 mln lats and of grants for business except of agriculture by 17.2 mln lats or 37.6%. The central government basic budget capital expenditure in February 2007 was 12.0 mln lats and in comparison with January 2007 was 2.2 mln lats,

or 22.2% more. In February 2007, the financial deficit in amount of 43.7 mln lats was in the central government basic budget.

Social security budget revenue in February 2007 was 10.7 mln lats or 12.3% more than in January 2007. The social security budget expenditure in February 2007 in comparison with January 2007 was 12.6 mln lats or 20.5% more. In February 2007, the social security budget financial surplus was 23.5 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in February 2007 in comparison with January 2007 was 6.0 mln lats or 6.2% more. In comparison with January 2007, the tax revenue was 5.8 mln lats or 11.7% more, that was mainly driven by increase of real estate tax revenue by 4.0 mln lats, as a result of tax payments for first quarter taking into account payment order. The local government basic budget non-tax revenue in February 2007 in comparison with January 2007 was 0.6 mln lats or 23.5% less, but the local government basic budget received payments was 1.6 mln lats or 4.4% more. Local government basic budget revenue from the paid services and other self-earned revenue in February 2007 was 0.9 mln lats or 12.4% less than in January 2007.

In February 2007, the local government basic budget expenditure in comparison with January 2007 was 19.9 mln lats or 25.7% more, mainly due to increase for wages expenditure by 7.5 mln lats or 27.9% and capital expenditure by 3.6 mln lats or 47.7%. In February 2007, the financial surplus of 11.7 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	January of 2007	February of 2007	Jan - Feb of 2007	Jan - Feb of 2006	% changes (Jan - Feb) 2007/2006
Revenue	86.9	98.6	185.5	135.1	37.4
Basic budget tax revenue	49.7	55.5	105.2	78.4	34.2
Basic budget non-tax revenue	2.6	2.0	4.6	3.2	44.6
Basic budget received payments	36.9	38.6	75.5	54.2	39.1
-mutual payments*	-13.8	-14.7	-28.5	-20.7	37.7
Basic budget self-earned revenue	7.0	6.2	13.2	10.1	30.8
Special budget revenue**	4.4	11.0	15.5	9.3	65.4
Foreign financial assistance	0.0	0.0	0.0	0.5	-90.2
Expenditure	67.6	86.9	154.5	111.6	38.5
Basic budget expenditure	77.2	97.1	174.3	126.7	37.5
-mutual payments*	-13.8	-14.7	-28.5	-20.7	37.7
Special budget expenditure**	4.2	4.5	8.7	5.5	57.4
Financial balance	19.3	11.7	31.0	23.5	-

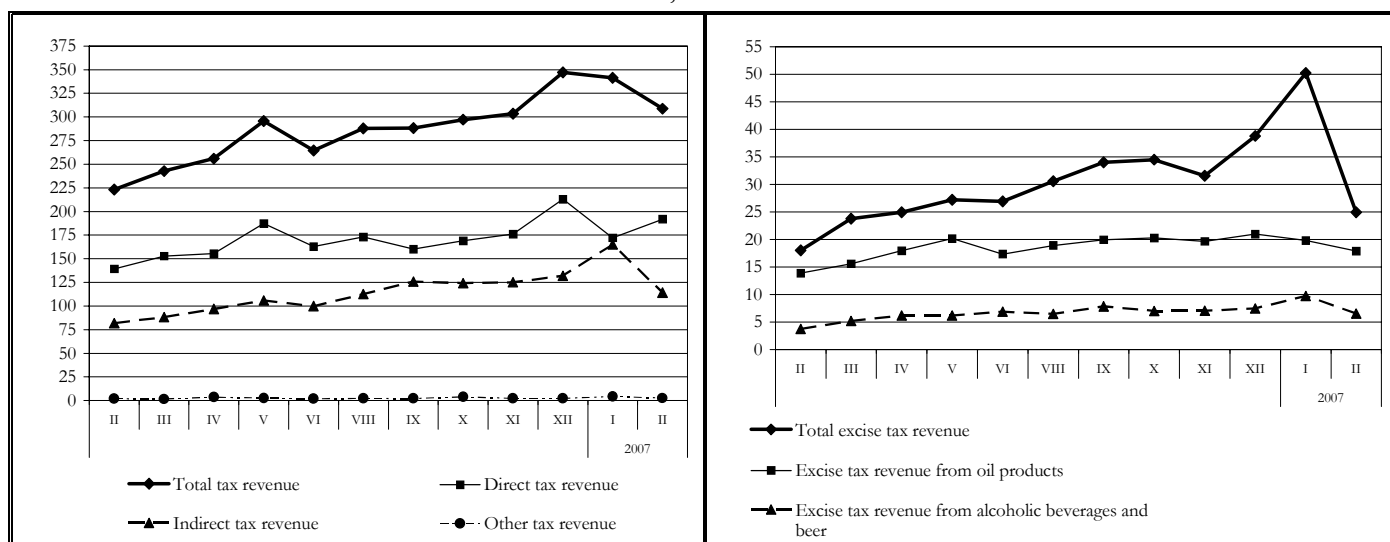
* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

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

Value added tax revenue in February 2007 was 85.9 mln lats and in comparison with January 2007 was 25.5 mln lats or 22.9% less. In the first two months of 2007, value added tax revenue was 197.3 mln lats, which is 53.5 mln lats or 37.2% more than in the same period of 2006. In February 2007, the value added tax revenue collected on border was 0.4 mln lats or 2.0% more than in January 2007, but domestically net collected value added tax revenue was 25.8 mln lats or 27.7% less than in January 2007. In February 2007, value added tax repayments were 28.4 mln lats, which were 56.3 thsd. lats or 0.2% more than in January 2007.

Total **excise tax** revenue in February 2007 was 25.0 mln lats and in comparison with January 2007 was 25.3 mln lats or 50.3% less. In the first two months of 2007, total excise tax revenue was 12.0 mln lats or 19.0% more than in the same period of 2006. As from January 1, 2007, excise tax rate for cigarettes was raised, that is why in December 2006 a large amount of tobacco products was released for free circulation. As a result, taking into account payment order, the excise tax revenue from tobacco products increased rapidly in January 2007 and decreased in February 2007. Excise tax revenue from tobacco products in February 2007 was 0.1 mln lats, but in January 2007 was 20.2 mln lats. Excise tax revenue from alcoholic beverages was 6.0 mln lats and in comparison with January 2007 was 3.1 mln lats or 34.0% less. The excise tax revenue from beer in February 2007 was 0.6 mln. lats, which is 0.1 mln. lats or 20.0% less than in January 2007. In February 2007, the excise tax revenue from oil products amounted to 17.9 mln lats, which is 1.9 mln lats or 9.7% less than in January 2007. The excise tax revenue from non-alcoholic beverages and coffee in February 2007 was 0.4 mln. lats, which is 96.2 thsd lats or 19.6% less than in January 2007.

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



Tax Revenue, mln lats

	January of 2007	February of 2007	Jan - Feb of 2007	Jan - Feb of 2007	% changes (Jan - Feb) 2007/2006	% of annual plan
Corporate income tax	19.7	24.3	44.0	25.6	72.2	13.6
Value added tax	111.4	85.9	197.3	143.9	37.2	16.6
Excise tax	50.3	25.0	75.2	63.3	19.0	18.0
Cars and motorcycles tax	1.2	1.2	2.4	1.4	70.6	14.5
Social security contributions*	89.6	99.7	189.3	139.3	35.9	16.5
Custom duties	2.1	2.1	4.1	1.6	153.3	20.0
Personal income tax	61.5	62.4	123.9	92.3	34.3	16.5
Real estate tax	1.4	5.4	6.8	8.8	-22.4	10.0

* including the State Funded Pension Scheme financial means of 4.1 mln lats in February 2007 and 6.0 mln lats in January 2007.

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

	End of February 2007	End of January 2007	End of February 2007	End of February 2007
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	4.319	4.49	5.21	23 959.580
1 year T-bills	4.161	11.16	8.36	38 487.091
3 year bonds	4.110	0.00	0.00	0.00
5 year bonds	5.196	36.84	40.41	185 913.830
10 year bonds	4.728	47.51	46.02	211 746.079

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