

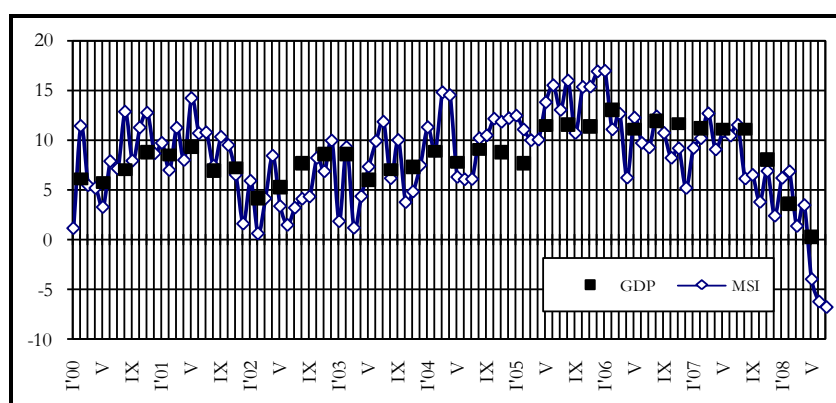
STATE BUDGET

July '08

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in July 2008 decreased by 6.8% at constant prices. The decrease in turnover of retail trade and cargo turnover by rail as well as volume of cargo transhipped in ports were the main factors which contributed to the negative growth. The only positive impact on the value of the index was from the growth of cash in circulation and the wage bill.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2007 2Q	2008 2Q	2008		
				June	July	July ²
Industrial output index ³	% ¹	0.0	-0.9	1.2	*	*
Consumer price index	% ¹	2.7	3.9	0.7	0.3	16.7
Producer price index	% ¹	4.4	5.7	1.3	0.3	12.4
Cash in circulation (net of vault balances)	mln Ls	948.6	874.4	874.4	885.6	-6.5
Bank of Latvia net foreign assets (end-of-period)	mln Ls	2 582.3	2 946.3	2 946.3	2 891.0	9.7
Average short-term interest rates for credits (in lats)	%	11.3	9.2	9.2	11.1	-
Unemployment rate (end of the period)	%	5.8	4.9	4.9	5.1	-
Exports	mln Ls	1 015.3	1 129.6	356.5	*	*
Imports	mln Ls	1 961.3	1 897.2	609.6	*	*

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 July was 5.5 mln t, down by 1.4% from the corresponding month of 2007. The volume of cargo transhipped in ports in January – July totalled 37.7 mln t, which was 2.0% more than in the same period last year.

Officially registered **unemployment rate** in July increased by 0.2 percentage points month-on-month and amounted to 5.1% of the economically active population at the end of the month. The number of the registered unemployed increased by 1.4 thsd from the previous month and at the end of the month amounted to 55.4 thsd people. As compared with July of 2007, the unemployment rate decreased by 0.6 percentage points, while the number of the unemployed – by 5.2 thsd people. The highest unemployment rate in July was registered in the district of Rēzekne, 17.0% (19.1% in July 2007); in the district of Ludza, 14.9% (18.7%); and in the district of Preiļi, 11.6% (12.0%). The lowest unemployment rate was registered in the district of Tukums, 3.2% (4.1%); in Rīga, 3.5% (3.4%); and in the district of Valmiera, 3.5% (4.6%).

Consumer Price Index (CPI) in July, compared with June, rose by 0.3%. Prices for goods remained unchanged, but for services rose by 1.1%.

Price growth of fresh meat, meat products and transportation services, as well as the price decrease of clothing and footwear, had the major impact on the consumer price changes in July.

In July prices increased for fresh meat – by 2.3%, especially for pork. Meat products marked up by 3.9%. Bread and cereal products become more expensive by 1.9%. As proportion of new potatoes harvest rose in market, it's price increased by 25.8%.

Transportation services got more expensive by 6.6%. Because of changes in methodology of determining tariffs, prices for intercity bus tickets went up by 28%. On average by 17.4% ticket prices increased for passenger train.

In July average price level for automotive fuel rose by 1.6%, but for gas – by 4.3%.

As a result of seasonal sales prices decreased for footwear – by 8.2%, clothing became less expensive by 6.4%. Prices decreased also for sport and recreation equipment – by 6.3%, household tools – by 3.9%. Prices went down for some vegetables, dairy products, cheese and eggs. Because of sales prices reduced for alcoholic beverages by 0.4%.

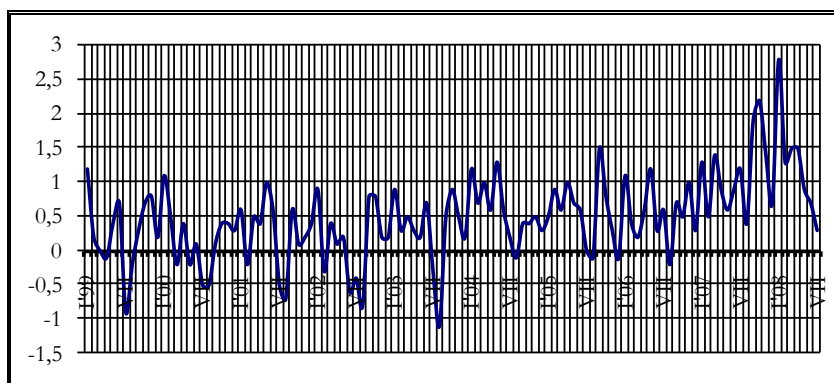
Compared to July of previous year, the consumer prices have increased by 16.7%, of which prices for goods increased by 16.4%, but for services – by 17.4%.

The CPI in **Estonia** in July compared with June increased by 0.7%. Price increase for alcoholic beverages and tobacco, which was determined by changes in excise tax, electricity as well as price decrease for vegetables, clothing and footwear, had the greatest impact on inflation. The year-on-year growth of the CPI in Estonia amounted to 11.1%.

CPI in **Lithuania** in July compared with June increased by 0.4%. Consumer price level was mainly influenced by price rose of dwelling, transportation, food and non alcoholic beverages as well as price decrease for clothing and footwear. As compared with July of 2007 consumer prices increased by 12.2%.

Consumer price index

% over the previous period



In June 2008, **exports and imports of goods** amounted to 966.1 mln lats down by 4.1% from the same period last year.

As compared with June last year, export of goods grew by 3.1% and amounted to 356.5 mln lats, while import decreased by 7.9%, reaching the value of 609.6 mln lats.

In June 2008, as compared to the June 2007, the trade balance deficit decreased by 62.6 mln lats and amounted to 253.1 mln lats.

In June 2008 exports to the EU decreased by 1.3 mln lats as compared with June of the previous year and amounted to 254.4 mln lats. The share of the EU in total value of exports was 71.4%. Exports to the CIS decreased by 3.8 mln lats as compared with June of the previous year and amounted to 55.4 mln lats, and the share of exports to the CIS was 15.5%.

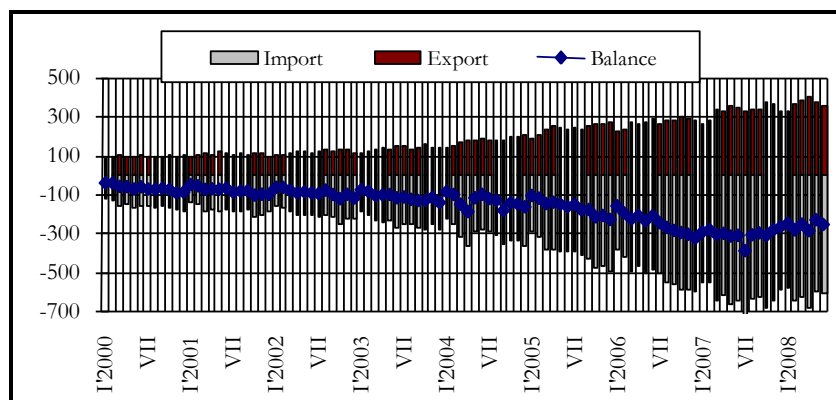
The value of imports from the EU in June 2008 decreased by 70.7 mln lats year-on-year and reached 455.2 mln lats, but the share of EU imports amounted to 74.7%. The value of imports from the CIS in June

2008 increased by 31.3 mln lats year-on-year and reached 107.8 mln lats, but the share of CIS imports amounted to 17.7%.

Latvia's main export partners in June of 2008 were Lithuania accounting for 17.2% of total exports; Estonia, 12.9%; Russia, 10.5%; Germany, 7.6%; Sweden, 6.5%. Main import partners were Lithuania, 17.1%; Germany, 13.6%; Russia, 10.4%; Poland, 6.9%; and Estonia, 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 June decreased by 48.5 mln lats year-on-year and amounted to 167.2 mln lats. As compared with June 2007, the goods deficit decreased by 46.1 mln lats and stood at 235.8 mln lats. The negative income balance decreased – in June 2008, down by 17.4 mln lats from the corresponding period last year and was 37.9 mln lats. Surplus of the services balance in June 2008 amounted to 61.4 mln lats, which was 2.1 mln lats more than in the June of 2007. The surplus of the capital and financial account in June of 2008 was 209.3 mln lats. Net inflow of direct investment in June totalled 72.2 mln lats, which was 14.1 mln lats more than in the June last year. The portfolio investment account in June was negative and amounted to 62.2 mln lats. The Bank of Latvia's reserve assets in the June increased by 14.7 mln lats.

Central Government Consolidated Budget*, mln lats

	June of 2008	July of 2008	Jan-July of 2008	Jan – July of 2007	% changes (Jan – July) 2008/2007	% of annual plan
Revenue	386.3	384.0	2808.0	2409.7	16.5	53.3
Basic budget tax revenue	194.7	211.4	1446.3	1293.6	11.8	55.2
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-61.0	-
Basic budget non-tax revenue	42.1	18.3	169.0	151.8	11.3	57.2
Self-earned revenue	7.7	9.6	67.1	64.5	4.0	46.6
Social security budget revenue	119.9	131.1	835.4	716.8	16.5	57.0
– transfers from central government basic budget	-0.0	-1.4	-9.7	-9.6	0.7	57.8
Gifts and donations	2.1	0.4	5.6	2.2	154.6	-
Foreign financial assistance	19.7	14.7	294.2	190.4	54.5	39.1
Expenditure	421.4	430.1	2773.2	2204.4	25.8	52.8
Basic budget	313.8	330.1	2127.2	1698.3	25.3	52.5
– transfers to social security budget	-0.0	-1.4	-9.7	-9.6	0.7	57.8
Social security budget	105.4	100.5	645.2	513.6	25.6	52.9
Gifts and donations	2.3	0.9	10.5	2.2	368.6	-
Financial balance	-35.1	-46.0	34.8	205.3	-	-

* including transfers to local government budgets. 21.5 36.8 383.6 255.8

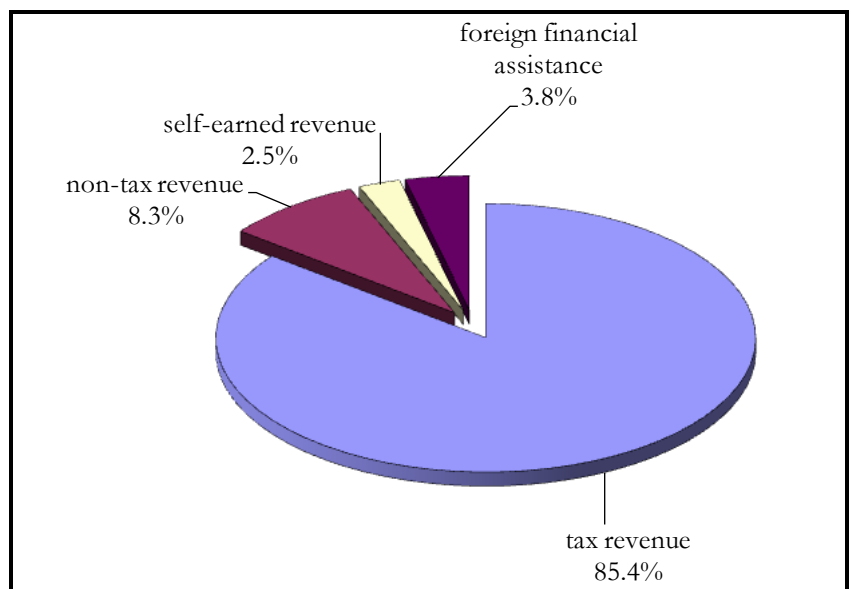
In accordance with the State Treasury's official monthly report's (January - July 2008) data, in July 2008 the **central government consolidated budget** revenue (including gifts and donations) was 384.0 mln lats, which is 2.3 mln lats or 0.6% less than in June, mainly due to decrease of central government basic budget non-tax revenue by 23.9 mln lats and revenue from the foreign financial assistance by 5.1 mln lats. The central government consolidated budget revenue in seven months of 2008 was 2808.0 mln lats, which is 398.3 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 seven

months of 2007 was in the revenue from social security contributions, excise tax and corporate income tax. In July 2008, the central government budget expenditure (including gifts and donations) was 430.1 mln lats, which is 8.6 mln lats or 2.0% more than in June 2008. The government budget total expenditure in the seven months of 2008 was 2773.2 mln lats, which is 568.8 mln lats or 25.8% more than in the same period of 2007. In July 2008, the central government consolidated budget financial deficit was 46.0 mln lats.

Central government basic budget revenue in July 2008 was 254.0 mln lats, which in comparison with June 2008 is 10.3 mln lats or 3.9% less. In July 2008 tax revenue was 211.4 mln lats, which is 16.8 mln lats or 8.6% more than in June 2008, mainly due to increase of value added tax by 9.5 mln lats and excise tax by 4.8 mln lats. In July 2008 the non-tax revenue was 18.3 mln lats, which is 23.9 mln lats or 56.7% less than in June 2008, mainly due to decrease of revenues from dividends by 30.5 mln lats. In July 2008, revenue from the paid services and self-earned revenue was 9.6 mln lats, which is 1.9 mln lats or 24.3% more, but revenue from the foreign financial assistance was 14.7 mln lats, which is 5.1 mln lats less than in June. Central government basic budget revenues in the seven months were 1976.7 mln lats, which is 276.4 mln lats or 16.3% more than in the same period of 2007.

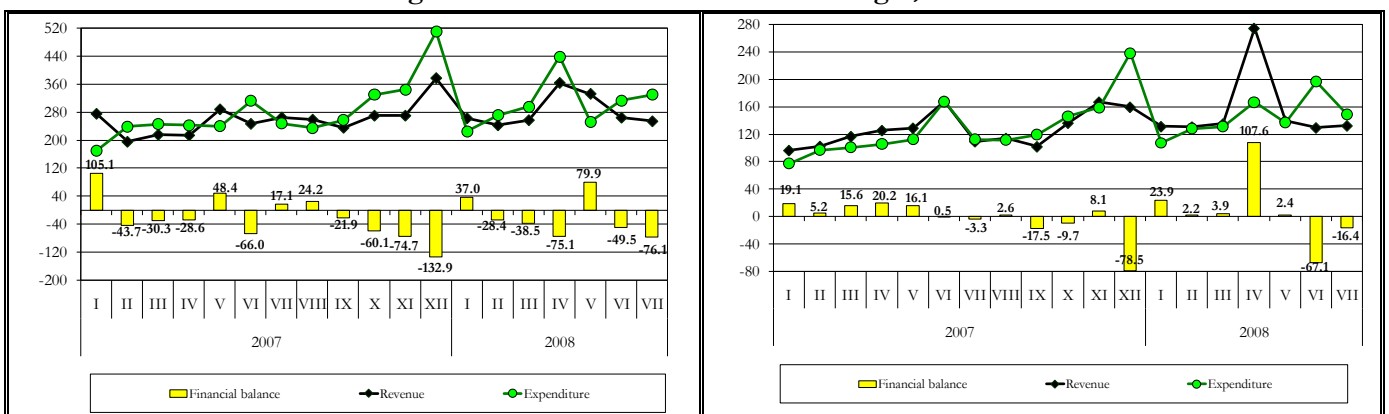
Structure of Central Government Basic Budget and Special Budget Revenue in July 2008

Percentage



In July 2008, the central government basic budget expenditure was 330.1 mln lats, which is 16.3 mln lats or 5.2% more than in June 2008. In July 2008, the central government basic budget non-capital expenditure was 280.4 mln lats or 84.9% of total basic budget expenditure and in comparison with June 2008 is 7.8 mln lats or 2.7% less, mainly due to decrease of grants for business except of agriculture by 17.8 mln lats. The central government basic budget capital expenditure in July 2008 was 49.7 mln lats and in comparison with June 2008 is 24.1 mln lats more. In the seven months 2008 the central government basic budget expenditure was 2127.2 mln lats which in comparison with the same period of 2007 is by 428.9 mln lats or 25.3% more. In July 2008, the financial deficit in amount of 76.1 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 July 2008 was 131.1 mln lats, which is 11.2 mln lats or 9.3% more than in June 2008. Social security budget revenue in the seven months 2008 was 835.4 mln lats, which is 118.6 mln lats or 16.5% more than in the same period of 2007. The social security budget expenditure in July 2008 was 100.5 mln lats, which in comparison with June 2008 is 4.9 mln lats or 4.6% less, mainly due to decrease of social benefits by 5.1 mln lats or 5.0%. The social security budget expenditure in the seven months 2008 was 645.2 mln lats, which is 131.7 mln lats or 25.6% more than in the same period of 2007. In July 2008, the social security budget financial surplus was 30.6 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in July 2008 was 132.2 mln lats and in comparison with June 2008 was 2.9 mln lats more. The tax revenue in comparison with June 2008 was 2.9 mln lats or 3.9% more, that was mainly driven by increase of personal income tax revenue by 2.9 mln lats. The local government basic budget non-tax revenue in July 2008 in comparison with June 2008 was 0.2 mln lats or 5.2% more, but the local government basic budget received payments was 6.2 mln lats less. Local government basic budget revenue from the paid services and other self-earned revenue in July 2008 was 5.9 mln lats more than in June 2008.

In July 2008 the local government basic budget expenditure was 148.5 mln lats, which is 47.8 mln lats or 24.3% less than June 2008, mainly due to decrease of expenditure for wages by 44.0 mln lats. In July 2008, the financial deficit of 21.0 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	June of 2008	July of 2008	Jan - July of 2008	Jan - July of 2007	% changes (Jan - July) 2008/2007
Revenue	108.3	129.4	994.6	789.0	26.1
Basic budget tax revenue	74.0	76.9	519.1	430.6	20.5
Basic budget non-tax revenue	3.7	3.9	17.6	23.8	-25.9
Basic budget received payments	46.5	40.3	471.5	339.4	38.9
-mutual payments*	-28.6	-13.0	-145.2	-116.8	24.4
Basic budget self-earned revenue	4.8	10.7	61.1	51.7	18.3
Special budget revenue**	7.6	10.2	68.9	59.5	15.8
Foreign financial assistance	0.3	0.3	1.5	0.8	81.5
Expenditure	180.6	150.4	938.8	705.3	33.1
Basic budget expenditure	196.3	148.5	1014.2	772.9	31.2
-mutual payments*	-28.6	-13.0	-145.2	-116.8	24.4
Special budget expenditure**	12.8	14.9	69.8	49.2	41.8
Financial balance	-72.3	-21.0	55.8	83.7	-

* 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 July 2008 was 96.3 mln lats and in comparison with June 2008 is 9.5 mln lats or 10.9% more. In July 2008, domestically net collected value added tax revenue was 72.7 mln lats or 75.4% of total value added tax revenue and in comparison with June 2008 is 7.6 mln lats or 11.7% more. The value added tax revenue collected on border was 1.8 mln lats or 8.4% more than in June 2008. In July 2008, value added tax repayments were 55.7 mln lats, which is 2.3 mln lats less than in June 2008.

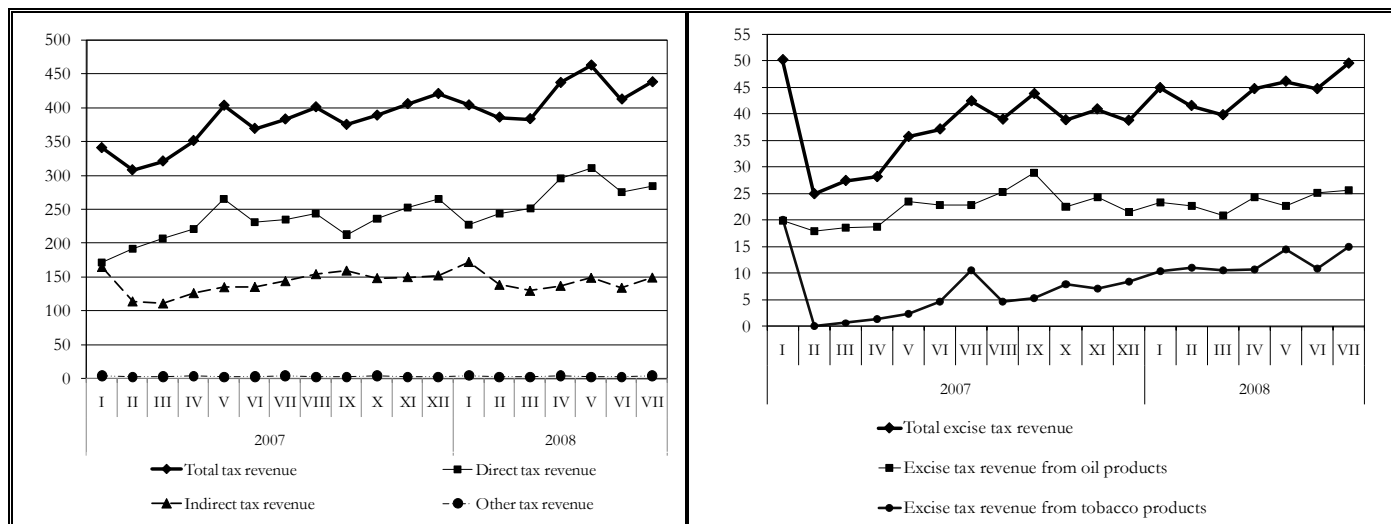
In total in the seven months 2008 value added tax revenue was 674.9 mln lats and comparison with the same period of 2007, value added tax revenue is 16.6 mln lats or 2.5% more.

Total **excise tax** revenue in July 2008 was 49.6 mln lats and in comparison with June 2008 is 4.8 mln lats or 10.8% more. Excise tax revenue from tobacco products in July 2008 was 15.0 mln lats, which is 4.0 mln lats more than in June 2008. Excise tax revenue from alcoholic beverages was 7.2 mln lats and in comparison with June 2008 is 0.3 mln lats or 4.5% more. The excise tax revenue from beer in July 2008 was 1.2 mln lats, which is 62.5 thsd lats or 5.3% more than in June 2008. In July 2008, the excise tax revenue from oil products amounted to 25.7 mln lats, which is 0.6 mln lats or 2.3% more than in June 2008. The excise tax revenue from non-alcoholic beverages and coffee in July 2008 was 0.5 mln lats, which is 0.2 mln lats or 24.9% less than in June 2008.

In total in the seven months 2008 excise tax revenue was 311.9 mln lats and comparison with the same period of 2007, excise tax revenue is 65.5 mln lats or 26.6% more.

Corporate income tax revenue in July 2008 was 40.4 mln lats and in comparison with June 2008 is 0.2 mln lats or 0.5% less. Corporate income tax revenue in the seven months 2008 was 298.4 mln lats and comparison with the same period of 2007 is 57.6 mln lats or 23.9% more. From all corporate income tax payers in the seven months 2008 corporate income tax payments of the biggest payers were 119.5 mln lats and these payments made 40.0% of total corporate income tax revenue in the seven months 2008.

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



Tax Revenue, mln lats

	June of 2008	July of 2008	Jan - July of 2008	Jan - July of 2007	% changes (Jan - July) 2008/2007	% of annual plan
Corporate income tax	40.5	40.4	298.4	240.7	23.9	56.4
Value added tax	86.9	96.3	674.9	658.3	2.5	53.4
Excise tax	44.8	49.6	311.9	246.4	26.6	57.6
Cars and motorcycles tax	0.9	0.9	6.7	10.3	-34.6	47.4
Social security contributions*	144.5	149.8	960.4	755.5	27.1	56.4
Custom duties	1.7	2.4	16.6	16.0	3.3	53.4
Personal income tax	88.9	92.5	590.9	486.8	21.4	55.9
Real estate tax	2.3	2.3	42.7	42.7	0.0	57.8

* 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 July 2008	End of June 2008	End of July 2008	End of July 2008
	Average annual selling rate, (%)	Shares of bonds, %	Shares of bonds, %	Amount in circulation, thsd. LVL
6 month T-bills	6.159	6.35	6.11	28 706.441
1 year T-bills	6.469	13.21	16.11	75 733.428
2 year bonds	5.959	0.49	0.47	2 216.915
5 year bonds	5.850	26.89	26.09	122 666.909
10 year bonds	4.728	46.87	45.03	211 746.079
11 year bonds	6.850	6.18	6.20	29 131.572

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