

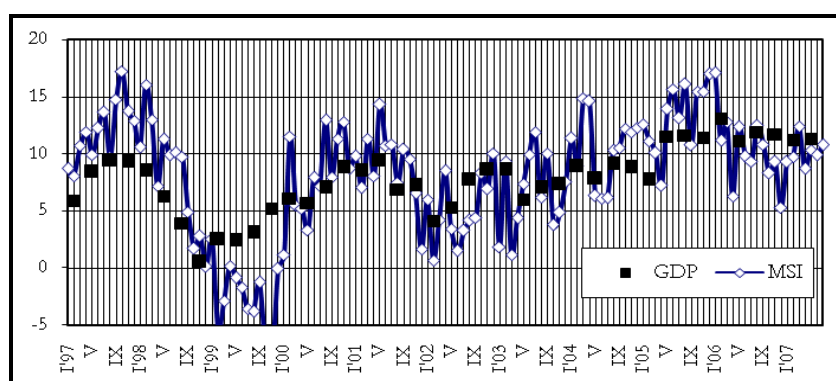
# STATE BUDGET

July '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in July 2007 grew by 10.7% 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		
				June	July	July <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	1.0	1.3	-1.0	*	*
Consumer price index	% <sup>1</sup>	1.8	2.7	0.9	1.2	9.5
Producer price index	% <sup>1</sup>	2.7	4.4	0.4	0.8	17.6
Cash in circulation (net of vault balances)	mln Ls	839.5	948.6	948.6	946.8	10.2
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 880.0	2 582.3	2 582.3	2 636.1	33.2
Average short-term interest rates for credits (in lats)	%	7.0	11.3	11.3	10.9	-
Unemployment rate (end of the period)	%	7.0	5.8	5.8	5.7	-
Exports	mln Ls	828.9	1 015.7	340.9	*	*
Imports	mln Ls	1 532.5	1 935.7	649.6	*	*

Source of data: CSB and BOL.

<sup>1</sup> increase over the previous period, %

<sup>2</sup> increase over the same period of the previous year, %

<sup>3</sup> seasonally adjusted data

The volume of **cargo transhipped in Latvian ports** in July was 5.6 mln t, up by 8.8% from the corresponding month of 2006. The volume of cargo transhipped in ports in January – July totalled 37.0 mln t, which was 5.0% more than in the same period last year.

Officially registered **unemployment rate** in July decreased month-on-month and amounted to 5.7% of the economically active population at the end of the month. The number of the registered unemployed decreased by 1.7 thsd from the previous month and at the end of the month amounted to 60.6 thsd people. As compared with July of 2006, the unemployment rate decreased by 1.2 percentage points, while the number of the unemployed — by 12.7 thsd people. The highest unemployment rate in July was registered in the district of Rēzekne, 19.1% (25.0% in July 2006); in the district of Ludza, 18.7% (26.7%); and in the district of Balvi, 16.5% (19.6%). The lowest unemployment rate was registered in Rīga, 3.4% (3.9%); in the district of Tukums, 4.1% (5.3%); and in the district of Rīga, 4.5% (4.8%).

The **Consumer Price Index (CPI)** in July 2007 increased – by 1.2%. Prices for goods rose by – 1.2% and prices for services went up – by 1.3%.

The rise in the prices of tobacco products, services related to housing, heat energy and fruit, as well as the decrease of the prices of clothing had the greatest impact on consumer price changes in July.

Price increase of fruits had the greatest impact in food group – by 7.4%

Prices rose for bread and cereal products – by 2.2%, meat and meat products – by 1.2%, and dairy products – by 2.8%. There was price increase also for sugar – by 1.2%, fresh fish – by 1.9% and non-alcoholic beverages by – 1.3%, as well, in July.

Due to the increase of the excise duty, the prices of tobacco products went up – by 14.0%.

More expensive became services related to dwelling maintenance. Prices for the management of privatised dwellings rose – by 10.7% and for heating – by 3.3%.

There was price increase for catering services – by 1.5%, personal care institution services – by 3.2%, insurance – by 1.2%. Due to rise of fee for bill payment in post offices financial services became more expensive – by 8%.

Under the impact of seasonal sales, prices for clothing decreased – by 4.5% and footwear – by 3.5%. Less expensive became prices for data processing – by 1.3%, TV, audio, video, photo equipment – by 1.2% and for telephones – by 1.5%. Prices for package holidays decreased – by 0.6% and for sport and recreational equipment – by 5.9%.

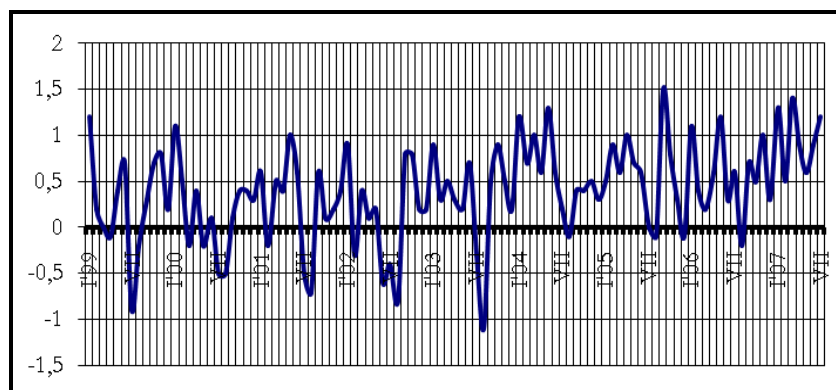
As compared with July 2006, the CPI increased – by 9.5%, of which prices for goods grew by – 8.2%, and for services – by 13%.

The CPI in **Estonia** in July as compared to June increased – by 1.1%. Consumer prices in Estonia were mostly influenced by an increase in the prices for dairy products, heating and fuel. The year-on-year growth of the CPI in Estonia amounted to 6.4%.

The CPI in **Lithuania** in July compared with June increased – by 0.7%. As compared with July of 2006, consumer prices went up – by 5.1%.

### Consumer price index

% over the previous period



In June 2007, **exports and imports of goods** amounted to 990.4 mln lats up by 23.8% from the same period last year.

As compared with June last year, export of goods grew by 17.7% and amounted to 340.9 mln lats, while import increased by 27.2%, reaching the value of 649.6 mln lats.

In June 2007, as compared to the June 2006, the trade balance deficit grew by 87.4 mln lats and amounted to 308.7 mln lats.

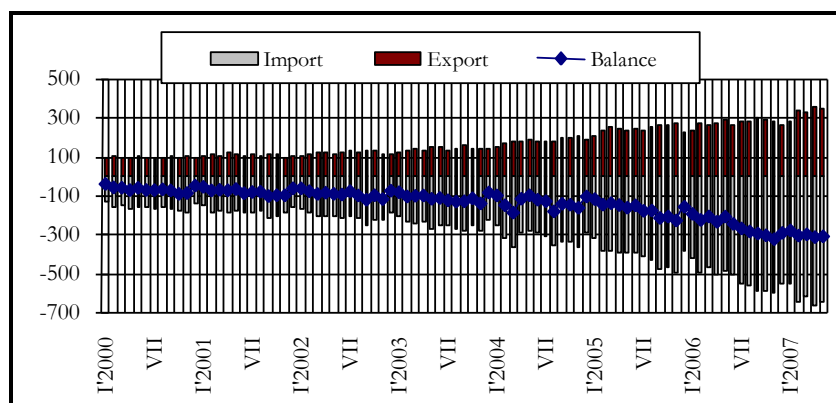
In June 2007 exports to the EU increased by 13.4% as compared with June of the previous year and amounted to 250.9 mln lats. The share of the EU in total value of exports was 73.6%. Exports to the CIS grew by 59.3% as compared with June of the previous year and amounted to 59.2 mln lats, and the share of exports to the CIS was 17.4%.

The value of imports from the EU in June 2007 grew by 30.4% year-on-year and reached 51.4 mln lats, but the share of EU imports amounted to 79.1%. The value of imports from the CIS in June 2007 increased by 11.1% year-on-year and reached 76.5 mln lats, but the share of CIS imports amounted to 11.8%.

Latvia's main export partners in June of 2007 were Estonia, accounting for 15.0% of total exports; Lithuania, 14.0%; Russia, 12.4%; Germany, 8.9%; Sweden, 7.3%. Main import partners were Lithuania, 14.9%; Germany, 14.8%; Estonia, 8.6%; Poland, 6.9%; 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 June increased by 32.2 mln lats year-on-year and amounted to 191.0 mln lats. As compared with June 2006, the goods deficit rose by 88.4 mln lats and stood at 285.2 mln lats. The negative income balance increased – in June 2007, up by 2.3 mln lats from the corresponding period last year and was 27.8 mln lats. Surplus of the services balance in June 2007 amounted to 60.5 mln lats, which was 17.8 mln lats more than in the June of 2006. The surplus of the capital and financial account in June of 2007 was 263.5 mln lats. Net inflow of direct investment in June totalled 80.0 mln lats, which was 38.3 mln lats more than in the June last year. The portfolio investment account in June was negative and amounted to 25.5 mln lats. The Bank of Latvia's reserve assets in the June decreased by 34.5 mln lats.

### Central Government Consolidated Budget\*. mln lats

	June of 2007	July of 2007	Jan-July of 2007	Jan – July of 2006	% changes (Jan - July) 2007/2006	% of annual plan
<b>Revenue</b>	<b>356.7</b>	<b>379.3</b>	<b>2409.7</b>	<b>1829.0</b>	<b>31.8</b>	<b>57.1</b>
Basic budget tax revenue	184.3	201.1	1293.6	965.8	33.9	60.0
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-11.7	-
Basic budget non-tax revenue	14.5	40.8	151.8	114.7	32.4	53.5
Self-earned revenue	7.8	7.6	64.5	57.9	11.4	48.8
Social security budget revenue	110.9	115.4	716.8	530.1	35.2	66.4
– transfers from central government basic budget	-1.4	-1.4	-9.6	-8.1	19.3	58.3
Gifts and donations	0.4	0.4	2.2	2.3	-2.5	-
Foreign financial assistance	40.1	15.3	190.4	166.2	14.6	32.7
<b>Expenditure</b>	<b>375.3</b>	<b>335.4</b>	<b>2204.4</b>	<b>1652.5</b>	<b>33.4</b>	<b>50.1</b>
Basic budget	312.7	247.7	1698.3	1209.2	40.5	48.5
– transfers to social security budget	-1.4	-1.4	-9.6	-8.1	19.3	58.3
Social security budget	63.5	88.6	513.6	448.5	14.5	56.2
Gifts and donations	0.4	0.5	2.2	2.9	-24.2	-
<b>Financial balance</b>	<b>-18.5</b>	<b>43.8</b>	<b>205.3</b>	<b>176.4</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets.

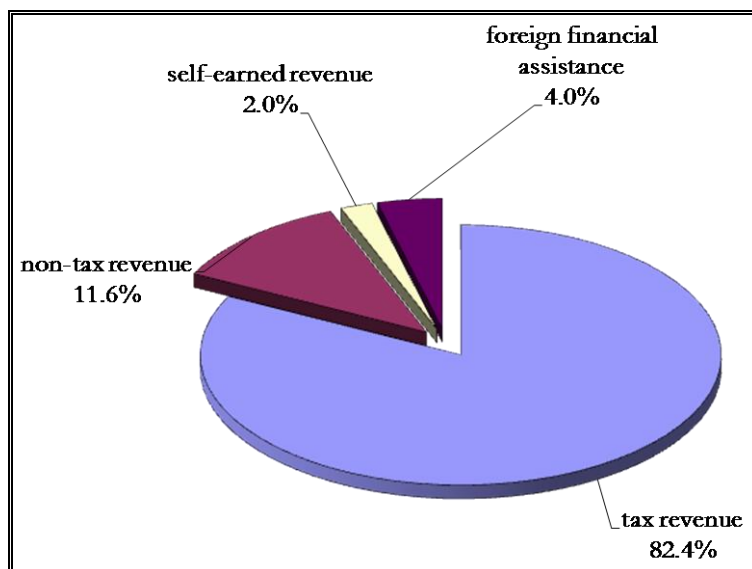
\*\* according to structure of budget 2007, i.e., repayments of loans to central government basic budget are excluded and starting from year 2007 reflected in the financial part.

In accordance with the State Treasury's official monthly report's (January-July 2007) data, in July 2007 the **central government consolidated budget** revenue (including gifts and donations) was 379.3 mln lats which is 22.5 mln lats or 6.3% more than in June, mainly due to increase of non-tax revenue in central government basic budget by 26.3 mln lats and tax revenue in the central government basic budget by 16.8 mln lats. The central government consolidated budget revenue in seven months of 2007 was 2409.7 mln lats, which is

580.8 mln lats or 31.8% more than in the same period of 2006. The most significant increase in comparison with seven months of 2006 was in the revenue from social security contributions, value added tax, personal income tax and corporate income tax. In July 2007, the central government budget expenditure (including gifts and donations) was 335.4 mln lats, which is 39.8 mln lats or 10.6% less than in June 2007. The central government budget expenditure in seven months of 2007 was 2204.4 mln lats and in comparison with the same period of 2006 expenditure increased by 551.9 mln lats or 33.4%. In July 2007, the central government consolidated budget financial surplus was 43.8 mln lats.

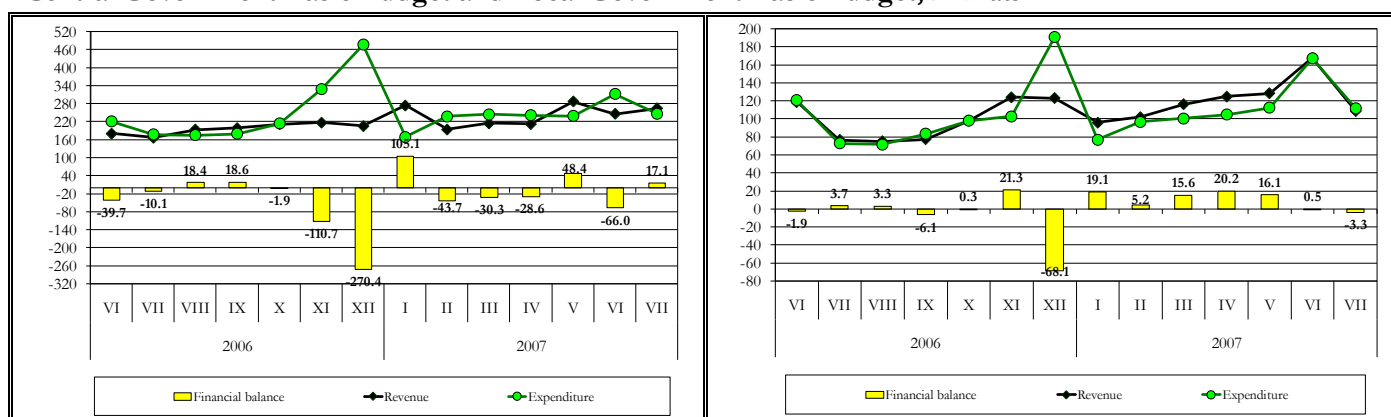
### Structure of Central Government Basic Budget and Special Budget Revenue in July 2007

percentage



**Central government basic budget** revenue in July 2007 was 264.8 mln lats, which in comparison with June 2007 is 18.1 mln lats or 7.3% more. In comparison with June 2007, tax revenue was 201.1 mln lats, which is 16.8 mln lats or 9.1% more, mainly due to increase of corporate income tax revenue by 6.6 mln lats, excise tax revenue by 5.3 mln lats and value added tax by 3.3 mln lats. In July 2007 the non-tax revenue was 40.8 mln lats, which is 26.3 mln lats more than in June 2007, mainly due to increase of payments for the use of state capital by 23.3 mln lats. The biggest dividend payers in July were JSC "Latvijas valsts meži" – 16.7 mln lats, and JSC "Latvenergo" – 6.6 mln lats. In July 2007, revenue from the paid services and self-earned revenue was 7.6 mln lats, which is 0.2 mln lats or 3.1% less, but revenue from the foreign financial assistance was 15.3 mln lats, which is 24.8 mln lats or 61.9% more than in June.

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



In July 2007, the central government basic budget expenditure was 247.7 mln lats, which is 65.1 mln lats or 20.8% less than in June 2007. In July 2007, the central government basic budget non-capital expenditure was 213.0 mln lats or 86.0% of total basic budget expenditure and in comparison with June 2007 is 76.4 mln lats or 26.4% less, mainly due to the seasonal decrease of targeted grants for local governments by 39.6 mln lats or 71.7%, which is explained by transferred financial funds for payments of teachers vacation pay. Non-

capital expenditure decreased also due to decrease of expenditure of subsidies and grants by 22.9 mln lats or 26.3%. The central government basic budget capital expenditure in July 2007 was 34.6 mln lats and in comparison with June 2007 is 11.3 mln lats or 48.7% more. In July 2007, the financial surplus in amount of 17.1 mln lats was in the central government basic budget.

**Social security budget** revenue in July 2007 was 115.4 mln lats, which is 4.5 mln lats or 4.0% more than in June 2007. The social security budget expenditure in July 2007 was 88.6 mln. lats, which in comparison with June 2007 is 25.1 mln lats or 39.6% more. In July 2007, the social security budget financial surplus was 26.8 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in July 2007 in comparison with June 2007 was 58.7 mln lats or 35.0% less. In comparison with June 2007, the tax revenue was 2.4 mln lats or 3.8% less, that was mainly driven by decrease of personal income tax revenue by 2.1 mln lats or 3.4% and real estate tax revenue by 0.3 mln lats or 12.9%. The local government basic budget non-tax revenue in July 2007 in comparison with June 2007 was 1.8 mln lats or 55.5% more and the local government basic budget received payments was 57.7 mln lats or 62.7% less, mainly due to the seasonal decrease of targeted grants for local governments function by 39.7 mln lats or 79.9%, local government basic budget transfer by 19.8 mln lats or 80.8% and local government budget revenue from district council from central government budget grants and targeted grants distribution by 19.3 mln lats or 85.3%. Local government basic budget revenue from the paid services and other self-earned revenue in July 2007 was 0.6 mln lats or 8.0% less than in June 2007.

In July 2007 the local government basic budget expenditure was 112.4 mln lats, which is 54.9 mln lats or 32.8% less than June 2007, mainly due to decrease of expenditure for wages by 37.6 mln lats or 54.9% and non-capital expenditure transfer by 19.5 mln lats or 64.0%. In July 2007, the financial deficit of 6.3 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	June of 2007	July of 2007	Jan - July of 2007	Jan - July of 2006	% changes (Jan - July) 2007/2006
<b>Revenue</b>	<b>145.5</b>	<b>106.0</b>	<b>789.0</b>	<b>558.8</b>	<b>41.2</b>
Basic budget tax revenue	65.1	62.6	430.6	308.3	39.7
Basic budget non-tax revenue	3.2	4.9	23.8	26.0	-8.4
Basic budget received payments	92.1	34.4	339.4	238.1	42.5
-mutual payments*	-30.6	-11.0	-116.8	-85.0	37.4
Basic budget self-earned revenue	7.4	6.8	51.7	32.2	60.3
Special budget revenue**	8.3	7.8	59.5	35.8	66.1
Foreign financial assistance	0.0	0.4	0.8	3.4	-75.1
<b>Expenditure</b>	<b>148.7</b>	<b>112.3</b>	<b>705.3</b>	<b>507.8</b>	<b>38.9</b>
Basic budget expenditure	167.4	112.4	772.9	559.3	38.2
-mutual payments*	-30.6	-11.0	-116.8	-85.0	37.4
Special budget expenditure**	11.9	10.8	49.2	33.5	47.1
<b>Financial balance</b>	<b>-3.2</b>	<b>-6.3</b>	<b>83.7</b>	<b>51.0</b>	<b>-</b>

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

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

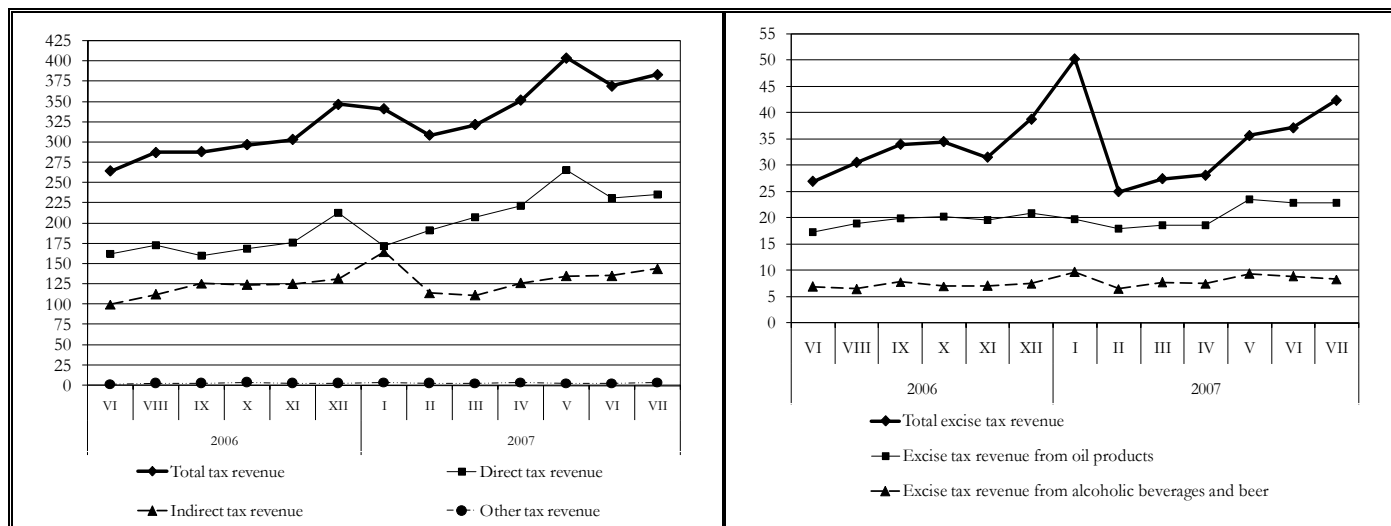
**Value added tax** revenue in July 2007 was 97.5 mln lats and in comparison with June 2007 is 3.3 mln lats or 3.5% more. In July 2007, the value added tax revenue collected on border was 2.6 mln lats or 11.4% less than in June 2007 and domestically net collected value added tax revenue was 5.9 mln lats or 8.3% more than in June 2007. In July 2007, value added tax repayments were 45.9 mln lats, which is 1.8 mln lats or 3.7% less than in June 2007.

Total **excise tax** revenue in July 2007 was 42.5 mln lats and in comparison with June 2007 is 5.3 mln lats or 14.2% more. Excise tax revenue from tobacco products in July 2007 was 10.7 mln lats, which is 5.9 mln lats or 124.1 % more than in June 2007. Excise tax revenue from alcoholic beverages was 7.0 mln lats and in comparison with June 2007 is 0.5 mln lats or 6.2% less. The excise tax revenue from beer in July 2007 was 1.4 mln lats, which is 0.1 mln lats or 6.3% less than in June 2007. In July 2007, the excise tax revenue from oil

products amounted to 22.9 mln lats, which is the same amount as in June 2007. The excise tax revenue from non-alcoholic beverages and coffee in July 2007 was 0.6 mln lats, which is the same amount as in June 2007.

**Corporate income tax** revenue in July 2007 was 37.1 mln lats and in comparison with June 2007 is 6.6 mln lats or 21.8% more. Corporate income tax revenue in seven months of 2007 was 60.5% more than in the same period of 2006 and revenue was 240.7 mln lats, which is 74.2% of annual plan. 21 of all corporate income tax payers had corporate income tax payment bigger than 1.0 mln lats and these payments make 26.5% of total corporate income tax revenue.

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



#### Tax Revenue, mln lats

	June of 2007	July of 2007	Jan – July of 2007	Jan – July of 2006	% changes (Jan - July) 2007/2006	% of annual plan
Corporate income tax	30.4	37.1	240.7	150.0	60.5	74.2
Value added tax	94.2	97.5	658.3	496.1	32.7	55.3
Excise tax	37.2	42.5	246.4	196.6	25.3	58.9
Cars and motorcycles tax	1.7	1.6	10.3	7.3	41.9	62.4
Social security contributions*	120.4	119.6	755.5	541.4	39.5	65.7
Custom duties	2.5	2.3	16.0	11.3	41.7	77.3
Personal income tax	77.9	76.5	486.8	355.2	37.1	64.8
Real estate tax	2.6	2.2	42.7	39.9	7.2	62.6

\* including the State Funded Pension Scheme financial means of 7.3 mln lats in July 2007 and 10.9 mln lats in June 2007.

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

	End of July 2007 Average annual selling rate, (%)	End of June 2007	End of July 2007	End of July 2007 Amount in circulation, thsd. LVL
		Shares of bonds, %		
6 month T-bills	4.319	4.07	4.07	16 142.423
1 year T-bills	4.896	11.90	11.90	47 256.742
3 year bonds	5.959	0.56	0.56	2 216.915
5 year bonds	5.196	30.14	30.14	119 638.017
10 year bonds	4.728	53.34	53.34	211 746.079

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