

Consumer Price Index (CPI) in June, compared with May, rose by 0.7%. Both prices for goods and services rose by 0.7%.

In June the price growth of fuel, fresh meat, vegetables and potatoes, as well as the price decrease of footwear had the major impact on the consumer price changes in June.

Automotive fuel got expensive by 4.7%, equally sharp prices rose both for fuel and diesel.

In the food sector fresh meat, which become more expensive by 5.9%, had the largest impact on price growth. Pork meat experienced most rapid price growth – by 8.6%. As new harvest showed in retailing, prices increased for potatoes – by 37.5%, but decreased for vegetables – by 5.3%. The average price level of cereal production grew by 3.2% in particular prices for rice ran up by 29.5%. Prices for alcoholic beverages continued to raise by 1.7%, inter alia beer become more expensive by 4.5%.

In June heating energy become more expensive by 1.3% but managing of dwelling – by 2.2%.

As a result of seasonal sales prices decreased of footwear – by 5.5%. Prices decreased also for cars – by 1.2%, household equipment – by 2.4%, TV, audio, visual, photographic and computer equipment – by 2.0%, equipment for sport and open-air recreation – by 1.8%. Because of auctions some dairy products, cereals and meat production, as well as eggs become less expensive.

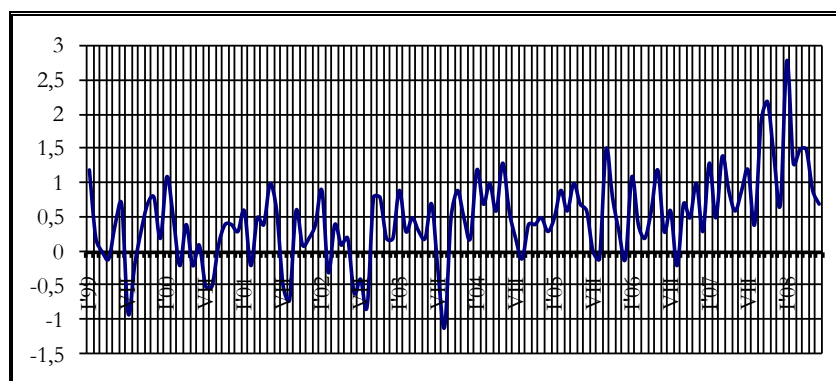
Compared to June of previous year, the consumer prices have increased by 17.7%, of which prices for goods increased by 17.7%, but for services – by 17.6%.

The CPI in **Estonia** in June compared with May increased by 0.6%. Price increase for food, dwelling and fuel had the greatest impact on inflation. The year-on-year growth of the CPI in Estonia amounted to 11.4%.

CPI in **Lithuania** in June compared with May went up by 0.6%. More expensive became food and non alcoholic beverages, goods and services of transportation sphere, health care. Prices decreased for clothing and footwear. As compared with June of 2007 consumer prices increased by 12.5%.

Consumer price index

% over the previous period



In May 2008, **exports and imports of goods** amounted to 968.7 mln lats down by 5.5% from the same period last year.

As compared with May last year, export of goods grew by 6.2% and amounted to 369.7 mln lats, while import decreased by 11.5%, reaching the value of 599.0 mln lats.

In May 2008, as compared to the May 2007, the trade balance deficit decreased by 99.0 mln lats and amounted to 229.3 mln lats.

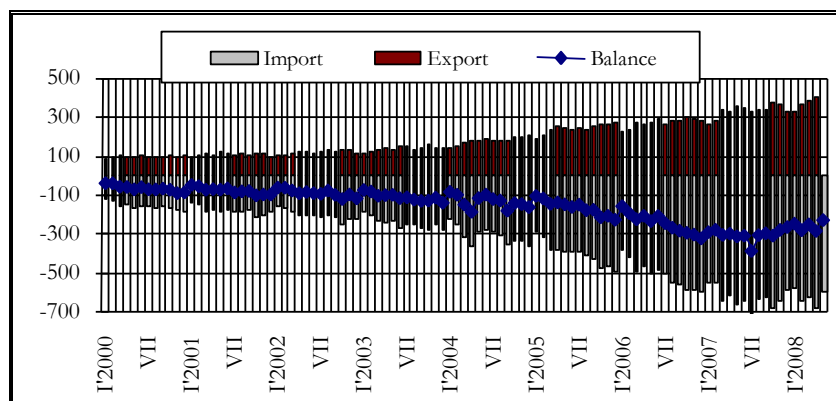
In May 2008 exports to the EU increased by 10.4 mln lats as compared with May of the previous year and amounted to 273.1 mln lats. The share of the EU in total value of exports was 73.9%. Exports to the CIS grew by 4.1 mln lats as compared with May of the previous year and amounted to 53.8 mln lats, and the share of exports to the CIS was 14.6%.

The value of imports from the EU in May 2008 decreased by 77.0 mln lats year-on-year and reached 456.1 mln lats, but the share of EU imports amounted to 76.1%. The value of imports from the CIS in May 2008 increased by 9.8 mln lats year-on-year and reached 93.1 mln lats, but the share of CIS imports amounted to 15.5%.

Latvia's main export partners in May of 2008 were Lithuania, accounting for 16.7% of total exports; Estonia, 13.5%; Russia, 10.1%; Germany, 8.9%; Sweden, 6.5%. Main import partners were Lithuania, 16.2%; Germany, 13.8%; Russia, 10.1%; Estonia, 7.2%; and Poland, 6.7%.

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 May decreased by 145.4 mln lats year-on-year and amounted to 156.8 mln lats. As compared with May 2007, the goods deficit decreased by 129.2 mln lats and stood at 191.8 mln lats. The negative income balance increased – in May 2008, up by 0.8 mln lats from the corresponding period last year and was 57.5 mln lats. Surplus of the services balance in May 2008 amounted to 51.8 mln lats, which was 19.0 mln lats more than in the May of 2007. The surplus of the capital and financial account in May of 2008 was 160.5 mln lats. Net inflow of direct investment in May totalled 25.6 mln lats, which was 134.7 mln lats less than in the May last year. The portfolio investment account in May amounted to 19.4 mln lats. The Bank of Latvia's reserve assets in the May decreased by 31.7 mln lats.

Central Government Consolidated Budget*, mln lats

	May of 2008	June of 2008	Jan-June of 2008	Jan – June of 2007	% changes (Jan – June) 2008/2007	% of annual plan
Revenue	443.4	386.3	2424.0	2030.4	19.4	44.1
Basic budget tax revenue	252.0	194.7	1234.9	1092.4	13.0	42.7
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-36.2	-
Basic budget non-tax revenue	36.5	42.1	150.7	111.0	35.8	45.4
Self-earned revenue	7.6	7.7	57.5	57.0	0.9	40.1
Social security budget revenue	110.4	119.9	704.3	601.4	17.1	50.8
– transfers from central government basic budget	-0.0	-0.0	-8.3	-8.3	0.6	49.7
Gifts and donations	0.7	2.1	5.3	1.8	195.7	-
Foreign financial assistance	36.3	19.7	279.6	175.1	59.7	36.6
Expenditure	324.4	421.4	2343.2	1869.0	25.4	43.9
Basic budget	252.4	313.8	1797.2	1450.6	23.9	42.6
– transfers to social security budget	-0.0	-0.0	-8.3	-8.3	0.7	49.7
Social security budget	69.6	105.4	544.7	424.9	28.2	48.0
Gifts and donations	2.3	2.3	9.6	1.7	447.4	-
Financial balance	119.0	-35.1	80.8	161.4	-	-

* including transfers to local government budgets.

42.0

21.5

346.8

229.3

51.2

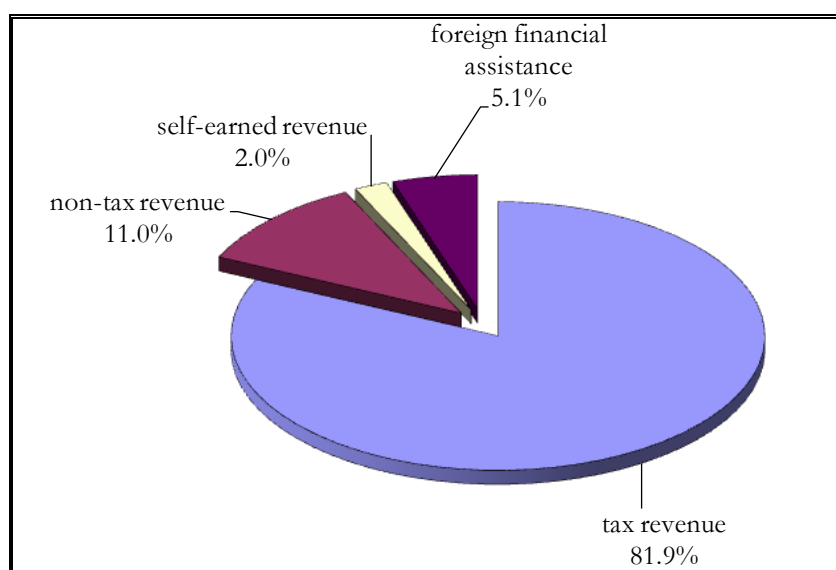
In accordance with the State Treasury's official monthly report's (January - June 2008) data, in June 2008 the **central government consolidated budget** revenue (including gifts and donations) was 386.3 mln lats, which is 57.1 mln lats or 12.9% less than in May, mainly due to decrease of central government basic budget tax revenue by 57.3 mln lats and revenue from the foreign financial assistance by 16.6 mln lats. The central government consolidated budget revenue in six months of 2008 was 2424.0 mln lats, which is 393.5 mln lats or 19.4% 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 six four months of 2007 was in the revenue from social security contributions, excise tax and corporate income tax. In June 2008, the central government budget expenditure (including gifts and donations) was 421.4 mln lats, which is 97.1 mln lats or 29.9% more than in May 2008. The government budget total expenditure in the first six

months of 2008 was 2343.2 mln lats, which is 474.1 mln lats or 25.4% more than in the same period of 2007. In June 2008, the central government consolidated budget financial deficit was 35.1 mln lats.

Central government basic budget revenue in June 2008 was 264.3 mln lats, which in comparison with May 2008 is 68.1 mln lats or 20.5% less. In June 2008 tax revenue was 194.7 mln lats, which is 57.3 mln lats or 22.7% less than in May 2008, mainly due to decrease of corporate income tax by 43.8 mln lats and value added tax by 12.7 mln lats. In June 2008 the non-tax revenue was 42.1 mln lats, which is 5.7 mln lats or 15.6% more than in May 2008, mainly due to increase of revenues from dividends by 5.3 mln lats. In June 2007, major payment for using the state capital was paid by JSC "Latvijas valsts meži" – 28.7 mln lats. In June 2008, revenue from the paid services and self-earned revenue was 7.7 mln lats, which is 0.1 mln lats or 1.6% more, but revenue from the foreign financial assistance was 19.7 mln lats, which is 16.6 mln lats less than in May. Central government basic budget revenues in the first six months were 1722.7 mln lats, which is 287.2 mln lats or 20.0% more than in the same period of 2007.

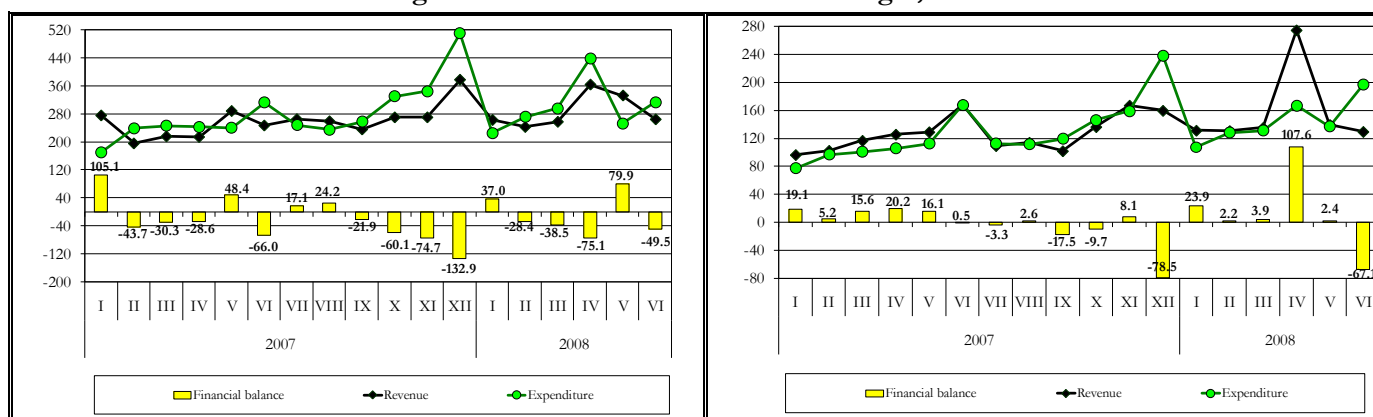
Structure of Central Government Basic Budget and Special Budget Revenue in June 2008

Percentage



In June 2008, the central government basic budget expenditure was 313.8 mln lats, which is 61.3 mln lats or 24.3% more than in May 2008. In June 2008, the central government basic budget non-capital expenditure was 288.2 mln lats or 91.9% of total basic budget expenditure and in comparison with May 2008 is 53.7 mln lats or 22.9% more, mainly due to increase of grants for business except of agriculture by 83.1 mln lats. The central government basic budget capital expenditure in June 2008 was 25.6 mln lats and in comparison with May 2008 is 7.6 mln lats or 42.5% more. In the first six months 2008 the central government basic budget expenditure was 1797.2 mln lats which in comparison with the same period of 2007 is by 346.5 mln lats or 23.9% more. In June 2008, the financial deficit in amount of 49.5 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 June 2008 was 119.9 mln lats, which is 9.5 mln lats or 8.6% more than in May 2008. Social security budget revenue in the first six months 2008 was 704.3 mln lats, which is 102.9 mln lats or 17.1% more than in the same period of 2007. The social security budget expenditure in June 2008 was 105.4 mln lats, which in comparison with May 2008 is 35.7 mln lats or 51.3% more, mainly due to increase of social benefits by 35.0 mln lats or 51.2%. The social security budget expenditure in the six months 2008 was 544.7 mln lats, which is 119.8 mln lats or 28.2% more than in the same period of 2007. In June 2008, the social security budget financial surplus was 14.5 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in June 2008 was 129.2 mln lats and in comparison with May 2008 was 9.8 mln lats less. The tax revenue in comparison with May 2008 was 2.2 mln lats or 2.9% less, that was mainly driven by decrease of real estate tax revenue by 8.5 mln lats. The local government basic budget non-tax revenue in June 2008 in comparison with May 2008 was 1.7 mln lats or 87.3% more, but the local government basic budget received payments was 5.2 mln lats less. Local government basic budget revenue from the paid services and other self-earned revenue in June 2008 was 4.0 mln lats or 45.9% less than in May 2008.

In June 2008 the local government basic budget expenditure was 196.3 mln lats, which is 59.7 mln lats or 43.7% more than May 2008, mainly due to increase of expenditure for wages by 40.3 mln lats. In June 2008, the financial deficit of 72.3 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	May of 2008	June of 2008	Jan - June of 2008	Jan - June of 2007	% changes (Jan - June) 2008/2007
Revenue	131.8	108.3	865.1	683.0	26.7
Basic budget tax revenue	76.2	74.0	442.2	368.0	20.2
Basic budget non-tax revenue	2.0	3.7	13.7	18.8	-27.4
Basic budget received payments	51.7	46.5	431.2	305.0	41.4
-mutual payments*	-15.6	-28.6	-132.3	-105.8	25.0
Basic budget self-earned revenue	8.8	4.8	50.4	44.8	12.5
Special budget revenue**	8.4	7.6	58.7	51.7	13.5
Foreign financial assistance	0.4	0.3	1.2	0.4	182.4
Expenditure	131.8	180.6	788.4	593.0	32.9
Basic budget expenditure	136.6	196.3	865.7	660.5	31.1
-mutual payments*	-15.6	-28.6	-132.3	-105.8	25.0
Special budget expenditure**	10.8	12.8	55.0	38.4	43.2
Financial balance	-0.0	-72.3	76.8	90.0	-

* 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 June 2008 was 86.9 mln lats and in comparison with May 2008 is 12.7 mln lats or 12.7% less. In June 2008, domestically net collected value added tax revenue was 65.1 mln lats or 74.9% of total value added tax revenue and in comparison with May 2008 is 12.0 mln lats or 15.6% less. The value added tax revenue collected on border was 0.7 mln lats or 3.0% less than in May 2008. In June 2008, value added tax repayments were 58.0 mln lats, which is 13.3 mln lats more than in May 2008.

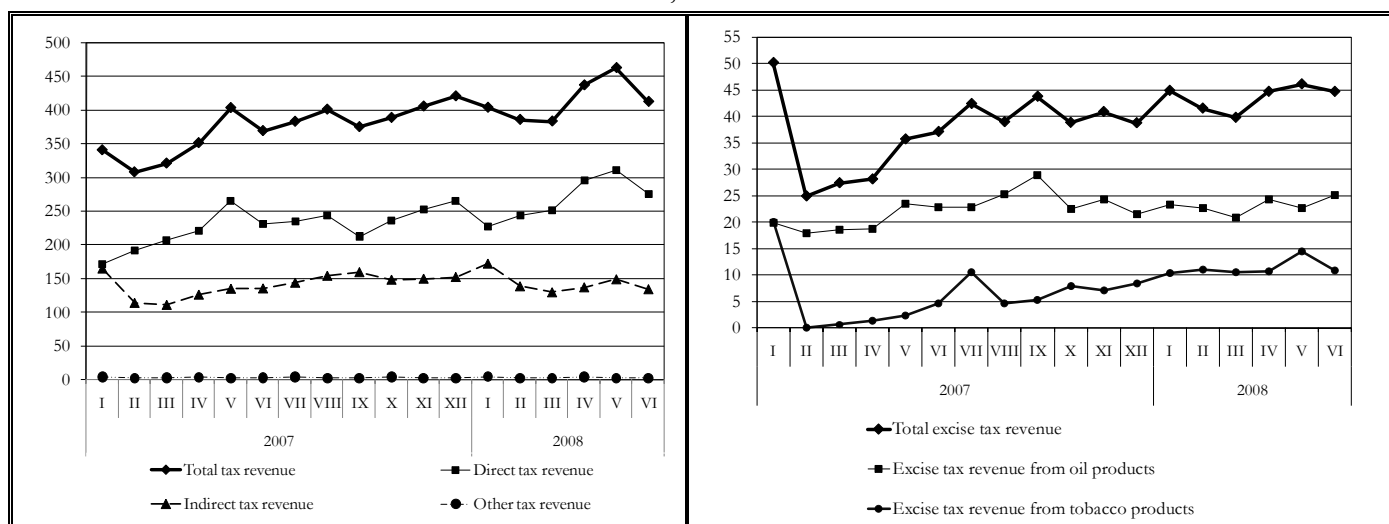
In total in the six months 2008 value added tax revenue was 578.6 mln lats, which is 38.1% of annual plan. In comparison with the same period of 2007, value added tax revenue is 17.7 mln lats or 3.2% more.

Total **excise tax** revenue in June 2008 was 44.8 mln lats and in comparison with May 2008 is 1.4 mln lats or 3.1% less. Excise tax revenue from tobacco products in June 2008 was 11.0 mln lats, which is 3.6 mln lats less than in May 2008. Excise tax revenue from alcoholic beverages was 6.8 mln lats and in comparison with May 2008 is 0.4 mln lats or 4.9% less. The excise tax revenue from beer in June 2008 was 1.2 mln lats, which is 26.8 thsd lats or 2.2% less than in May 2008. In June 2008, the excise tax revenue from oil products amounted to 25.1 mln lats, which is 2.4 mln lats or 10.6% more than in May 2008. The excise tax revenue from non-alcoholic beverages and coffee in June 2008 was 0.7 mln lats, which is 0.1 mln lats or 29.7% more than in May 2008.

In total in the six months 2008 excise tax revenue was 262.3 mln lats, which is 50.2% of annual plan. In comparison with the same period of 2007, excise tax revenue is 58.4 mln lats or 28.6% more.

Corporate income tax revenue in June 2008 was 40.5 mln lats and in comparison with May 2008 is 43.8 mln lats or 51.9% less. The corporate income tax revenue decrease is explainable according to the Law on Corporate income tax, the taxpayer should till the May, 1 fill the annual report about the year 2007 and pay the additional corporate income tax in the budget. Corporate income tax revenue in the six months 2008 made 46.1% of annual plan. From all corporate income tax payers in the six months 2008 corporate income tax payments of the biggest payers were 100.4 mln lats and these payments made 38.9% of total corporate income tax revenue in the four months 2008.

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



Tax Revenue, mln lats

	May of 2008	June of 2008	Jan - June of 2008	Jan - June of 2007	% changes (Jan - June) 2008/2007	% of annual plan
Corporate income tax	84.4	40.5	258.0	203.7	26.7	46.1
Value added tax	99.6	86.9	578.6	560.8	3.2	38.1
Excise tax	46.2	44.8	262.3	203.9	28.6	50.2
Cars and motorcycles tax	0.9	0.9	5.8	8.7	-33.1	26.1
Social security contributions*	134.6	144.5	810.6	635.9	27.5	50.6
Custom duties	2.3	1.7	14.2	13.7	3.4	48.1
Personal income tax	81.7	88.9	498.4	410.3	21.5	49.5
Real estate tax	10.8	2.3	40.4	40.5	-0.2	56.0

* 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 June 2008	End of May 2008	End of June 2008	End of June 2008
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	6.159	6.61	6.35	28 706.441
1 year T-bills	6.360	10.50	13.21	59 697.942
2 year bonds	5.959	0.51	0.49	2 216.915
5 year bonds	5.196	27.96	26.89	121 466.909
10 year bonds	4.728	48.74	46.87	211 746.079
11 year bonds	6.749	5.68	6.18	27 940.639

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