

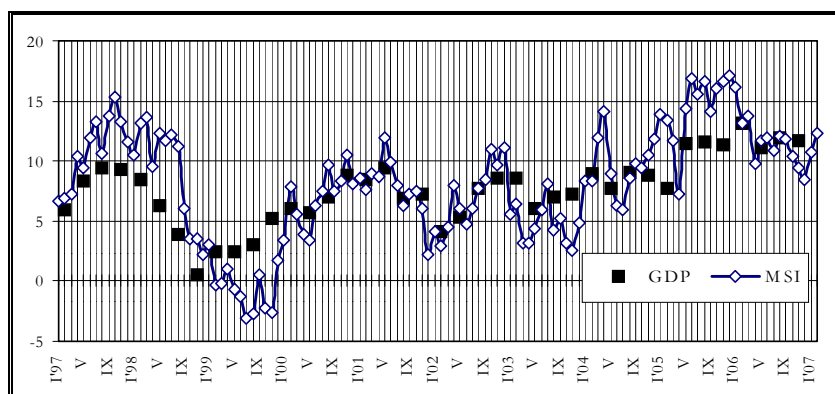
STATE BUDGET

March '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in March 2007 grew by 11.8% at constant prices. The largest contribution to the growth of the index came from increases in retail trade and external trade turnover. Increase in the index was also promoted by growth of cargo transhipped in ports, as compared to the March of the previous year.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the
previous year



Macroeconomic Indicators

		2006 3Q	2006 4Q	2007		
				February	March	March**
Industrial output index	%*	1.4	-1.8	2.7	*	*
Consumer price index	%*	1.0	1,8	0.5	1.4	8.5
Producer price index	%*	2.9	3,8	1.3	1.5	16.0
Cash in circulation (net of vault balances)	mln Ls	892.5	969.3	935.7	933.6	20.3
Bank of Latvia net foreign assets (end-of-period)	mln Ls	2 218.3	2 414.4	2507.8	2 455.8	57.5
Average short-term interest rates for credits (in lats)	%	7.8	7.6	7.8	8.5	-
Unemployment rate (end of the period)	%	6.9	6.6	6.5	6.3	-
Exports	mln Ls	841.7	878.5	265.0	277.5	*
Imports	mln Ls	1 650.3	1 825.2	556.1	556.3	*

Source of data: CSB and BOL.

* increase over the previous period, %

** increase over the same period of the previous year, %

The volume of **cargo transhipped in ports** in March amounted to 5.8 mln t, up by 15.3% or 768.3 thsd t from the corresponding month of 2006.

In March 2007 the officially registered **unemployment** rate decreased by 0.2 percentage points month-on-month and amounted to 6.3% of the economically active population. The unemployment rate decreased also as compared with March 2006, by 1.1 percentage point. The number of the registered unemployed in March 2007 amounted to 67.2 thsd people, which is 1.9 thsd less than in the previous month and by 11.6 thsd less than in March 2006. The highest unemployment rate in March was registered in the district of Ludza, 22.9% (27.3% in March of 2006); in the district of Rēzekne, 21.8% (25.0%); and in the district of Krāslava, 18.2% (21.0%). The lowest unemployment rate was registered in Rīga, 3.6% (4.1%); in the district of Rīga, 4.7% (5.3%); and in the district of Ogre, 5.0% (4.8%).

Consumer Price Index (CPI) in March, compared with February, grew by 1.4%. Prices for goods increased by 1.6%, but prices for services by 0.9%.

The rise in the prices of wearing apparel and footwear, food products as well as in the prices of catering had the greatest impact on consumer price changes in March.

With the sales campaigns coming to an end and due to the spring season's new clothing and footwear appearing on the market, prices for wearing apparel have increased – by 6.5% and for footwear – by 6.8%.

Within the foodstuffs` group the steepest increases in prices experienced meat and meat products – by 2.1%, milk and milk products – by 2.1% , bread – by 1.2% and grain products – by 3.2%.

There were also increases in the prices of cooking oil and fats – by 1.4%, sweets – by 2.0%, non-alcoholic beverages – by 1.4% and fruits – by 1.2%. Prices for alcoholic beverages grew – by 1.5%.

Following a price fall in February, the prices of automotive fuel rose – by 4.5%. Used cars, car spare parts, drivers` courses and air tickets became more expensive. Prices for furniture and household furnishings have also increased.

In March prices continued to go up for services. Dwelling maintenance and repair prices went up – by 1.5%, waste disposal – by 0.7%, home care services – by 4.5%, health services – by 0.9%, recreational and cultural services – by 1.9% and tourism services – by 0.9%. There were increases in the prices of catering – by 1.3% and personal grooming services – by 0.7%.

Some vegetables in March became cheaper and a slight fall could be observed in the prices of fish, fish products and eggs. There were price decreases for telephones – by 2.0%, photographic equipment – by 1.8% and data processing equipment – by 0.9%. Under the impact of sales campaigns household appliances became cheaper – by 0.6%.

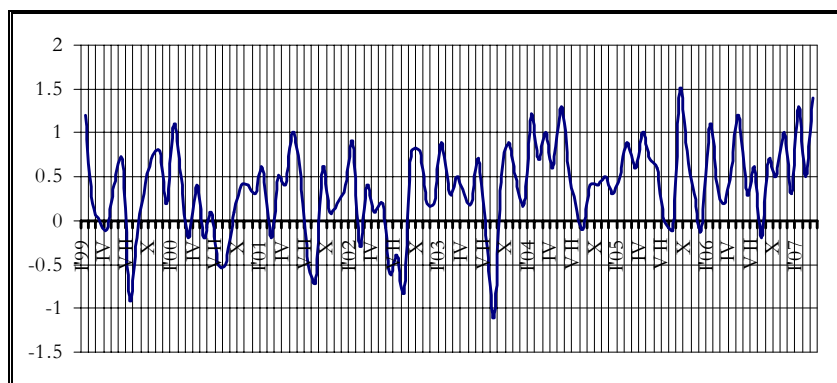
Compared with March 2006, the consumer prices increased by 8.5%, of which prices for goods went up by 7.3% and for services increased by 11.8%.

The consumer prices in **Estonia** in March 2007 increased by 1.0 % month-on-month. Compared to March 2006, consumer prices in Estonia increased by 5.7%.

The CPI in **Lithuania** in March 2007, compared to February increased by 0.6%. Annual inflation, March 2007 against March 2006, was 4.0%.

Consumer price index

% over the previous period



In February 2007, **exports and imports of goods** amounted to 833.8 mln lats up by 25.8% from the same period last year.

As compared with February last year, export of goods grew by 19.3% and amounted to 277.5 mln lats, while import increased by 29.4%, reaching the value of 556.3 mln lats.

In February 2007, as compared to the February 2006, the trade balance deficit grew by 81.4 mln lats and amounted to 278.8 mln lats.

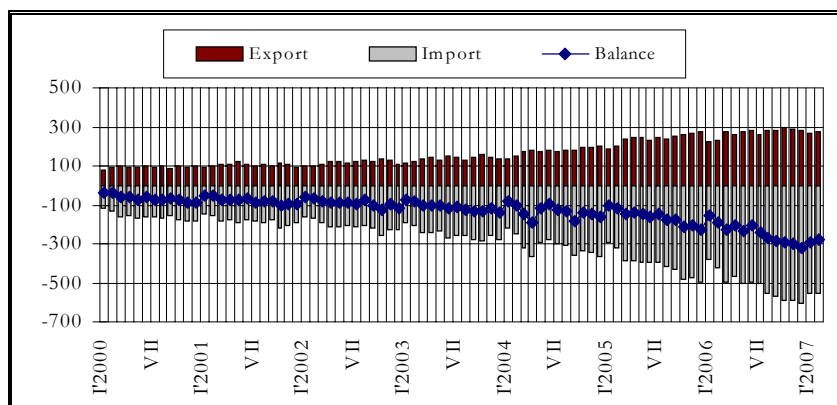
In February 2007 exports to the EU increased by 17.4% as compared with February of the previous year and amounted to 209.5 mln lats. The share of the EU in total value of exports was 75.5%. Exports to the CIS grew by 35.7% as compared with February of the previous year and amounted to 40.2 mln lats, and the share of exports to the CIS was 14.5%.

The value of imports from the EU in February of the 2007 grew by 31.5% year-on-year and reached 41.6 mln lats, but the share of EU imports amounted to 74.9%. The value of imports from the CIS in February of the 2007 increased by 15.6% year-on-year and reached 82.7 mln lats, but the share of CIS imports amounted to 14.9%.

Latvia's main export partners in February of 2007 were Lithuania, accounting for 14.9% of total exports; Estonia, 12.9%; Russia, 9.1%; Germany, 8.1%; Great Britain, 7.9%. Main import partners were Germany, 17.0%; Lithuania, 11.6%; Russia, 10.6%; Estonia, 7.7%; 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 February increased by 67.3 mln lats year-on-year and amounted to 202.7 mln lats. As compared with the February of 2006, the goods deficit rose by 27.2 mln lats and stood at 201.8 mln lats. The negative income balance decreased – in the February of 2007, down by 2.2 mln lats from the corresponding period last year and was 11.0 mln lats. Surplus of the services balance in the February of 2007 amounted to 26.6 mln lats, which was 9.9 mln lats less than in the February of 2006. The surplus of the capital and financial account in February of 2007 was 208.1 mln lats. Net inflow of direct investment in the February totalled 75.1 mln lats, which was 17.9 mln lats more than in the February last year. The portfolio investment account in the February was negative and amounted to 5.2 mln lats. The Bank of Latvia's reserve assets in the February rose by 72.4 mln lats.

Central Government Consolidated Budget*, mln lats

	February of 2007	March of 2007	Jan - Mar of 2007	Jan - Mar of 2006	% changes (Jan - Mar) 2007/2006	% of annual plan
Revenue	291.8	316.7	969.7	754.8	28.5	23.0
Basic budget tax revenue	153.1	151.1	506.2	382.2	32.4	23.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	13.8	14.7	43.5	31.6	37.8	15.3
Self-earned revenue	11.2	11.1	33.0	28.0	17.6	24.9
Social security budget revenue	97.5	102.4	286.7	210.7	36.0	26.5
– transfers from central government basic budget	-1.4	-1.4	-4.1	-3.3	25.4	25.0
Gifts and donations	0.2	0.0	0.5	0.8	-35.4	-
Foreign financial assistance	17.5	38.7	104.0	104.8	-0.8	17.9
Expenditure	312.1	329.5	872.3	655.3	33.1	19.8
Basic budget	239.2	246.0	655.5	465.6	40.8	18.7
– transfers to social security budget	-1.4	-1.4	-4.1	-3.3	25.4	25.0
Social security budget	74.0	84.7	220.2	191.7	14.8	24.1
Gifts and donations	0.3	0.2	0.7	1.2	-44.0	-
Financial balance	-20.3	-12.8	97.4	99.5	-	-

* including transfers to local government budgets.

26.9 31.3 85.6 63.9 34.0

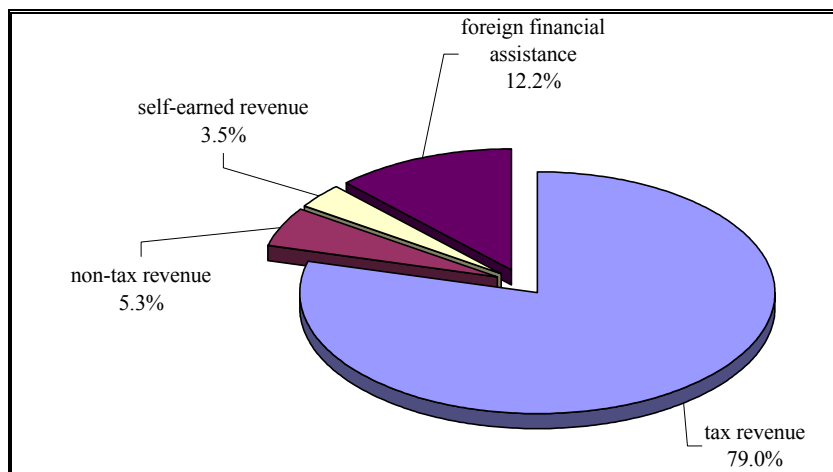
** according to structure of budget 2007, i.e., repayments of loans to central government basic budget are excluded and starting from year 2007 reflected in financial part.

In March 2007 the **central government consolidated budget** revenue (including gifts and donations) was 316.7 mln lats which is 24.8 mln lats or 8.5% more than in February 2007. The central government consolidated budget revenue in the first three months of 2007 was 969.7 mln lats, which is 214.8 mln lats or

28.5% 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 three months of 2006 was in the revenue from value added tax, social security contributions and excise tax. In March 2007, the central government budget expenditure (including gifts and donations) was 329.5 mln lats, which is 17.4 mln lats or 5.6% more than in February 2007. The government budget total expenditure in the first three months of 2007 was 872.3 mln lats and was 217.0 mln lats or 33.1% more than in the same period of 2006. In March 2007, the central government consolidated budget financial deficit was 12.8 mln lats.

Structure of Central Government Basic Budget and Special Budget Revenue in March 2007

percentage



Central government basic budget revenue in March 2007 was 215.6 mln lats, which in comparison with February 2007 is 20.1 mln lats or 10.3% more. In comparison with February 2007, tax revenue was 151.1 mln lats, which is 1.9 mln lats or 1.3% less, mainly due to decrease of value added tax revenue by 7.3% and corporate income tax revenue by 3.0%. In March 2007 the non-tax revenue was 14.7 mln lats, which is 0.9 mln lats or 6.3% more than in February 2007. In March 2007, revenue from the paid services and self-earned revenue decreased by 0.1 mln lats or 0.5%, but revenue from the foreign financial assistance increased by 21.2 mln lats in comparison with February 2007.

In March 2007 central government basic budget expenditure was 246.0 mln lats, which is 6.7 mln lats or 2.8% more than in February 2007. In March 2007, the central government basic budget non-capital expenditure was 228.9 mln lats or 93.1% of total basic budget expenditure and in comparison with February 2007 was 1.6 mln lats or 0.7% more, mainly due to increase of grants for business except of agriculture by 11.4 mln lats or 18.1% and decrease of payments in EU budget by 23.8 mln lats. The central government basic budget capital expenditure in March 2007 was 17.1 mln lats and in comparison with February 2007 was 5.1 mln lats or 42.7% more. In March 2007, the financial deficit in amount of 30.3 mln lats was in the central government basic budget.

Social security budget revenue in March 2007 was 102.4 mln lats, which is 4.9 mln lats or 5.0% more than in February 2007. The social security budget expenditure in March 2007 in comparison with February 2007 was 10.7 mln lats or 14.5% more. In March 2007, the social security budget financial surplus was 17.6 mln lats.

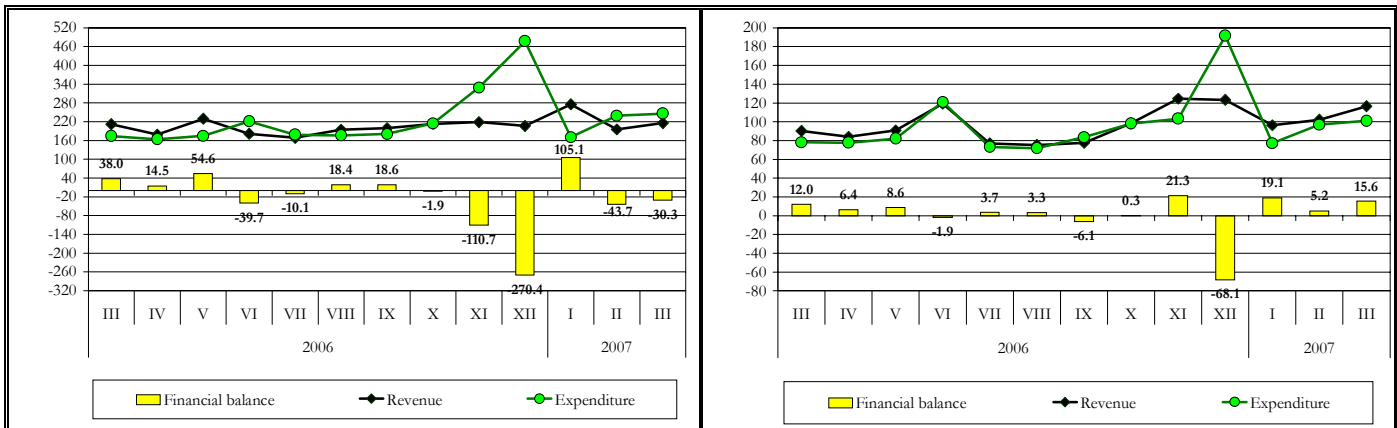
Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in March 2007 in comparison with February 2007 was 14.3 mln lats or 14.0% more. In comparison with February 2007, the tax revenue was 8.9 mln lats or 16.1% more, that was mainly driven by increase of real estate tax revenue by 5.6 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 March 2007 in comparison with February 2007 was 2.6 mln lats more and the local government basic budget received payments was 1.0 mln lats or 2.5% more. Local government basic budget revenue from the paid services and other self-earned revenue in March 2007 was 1.8 mln lats or 28.6% more than in February 2007.

Local Government Budget, mln lats

	February of 2007	March of 2007	Jan - Mar of 2007	Jan - Mar of 2006	% changes (Jan - Mar) 2007/2006
Revenue	98.6	113.0	298.5	218.7	36.5
Basic budget tax revenue	55.5	64.4	169.6	126.9	33.7
Basic budget non-tax revenue	2.0	4.7	9.3	5.3	75.3
Basic budget received payments	38.6	39.5	115.0	87.6	31.3
-mutual payments*	-14.7	-15.1	-43.6	-32.0	36.2
Basic budget self-earned revenue	6.2	7.9	21.1	16.2	30.1
Special budget revenue**	11.0	11.5	27.0	14.0	92.7
Foreign financial assistance	0.0	0.0	0.1	0.6	-87.1
Expenditure	86.9	90.9	245.4	182.9	34.2
Basic budget expenditure	97.1	101.0	275.3	205.0	34.3
-mutual payments*	-14.7	-15.1	-43.6	-32.0	36.2
Special budget expenditure**	4.5	5.1	13.7	9.9	39.0
Financial balance	11.7	22.1	53.1	35.8	-

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

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

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


In March 2007, the local government basic budget expenditure in comparison with February 2007 was 3.9 mln lats or 4.0% more, mainly due to increase of expenditure for goods and services by 3.7 mln lats or 20.1%, as well as increase of expenditure for wages and salaries by 1.4 mln lats or 4.1%. In March 2007, the financial surplus of 22.1 mln lats was in the local government consolidated budget (including gifts and donations).

Tax Revenue, mln lats

	February of 2007	March of 2007	Jan-Mar of 2007	Jan-Mar of 2006	% changes (Jan-Mar) 2007/2006	% of annual plan
Corporate income tax	24.3	23.6	67.6	41.0	64.7	20.8
Value added tax	85.9	79.6	277.0	205.4	34.8	23.3
Excise tax	25.0	27.5	102.7	87.0	18.0	24.6
Cars and motorcycles tax	1.2	1.5	3.9	2.4	61.8	23.6
Social security contributions*	99.7	106.1	295.4	215.9	36.8	25.7
Custom duties	2.1	2.5	6.6	4.9	36.6	32.0
Personal income tax	62.4	66.9	190.8	142.0	34.3	25.4
Real estate tax	5.4	11.0	17.8	19.8	-9.8	26.1

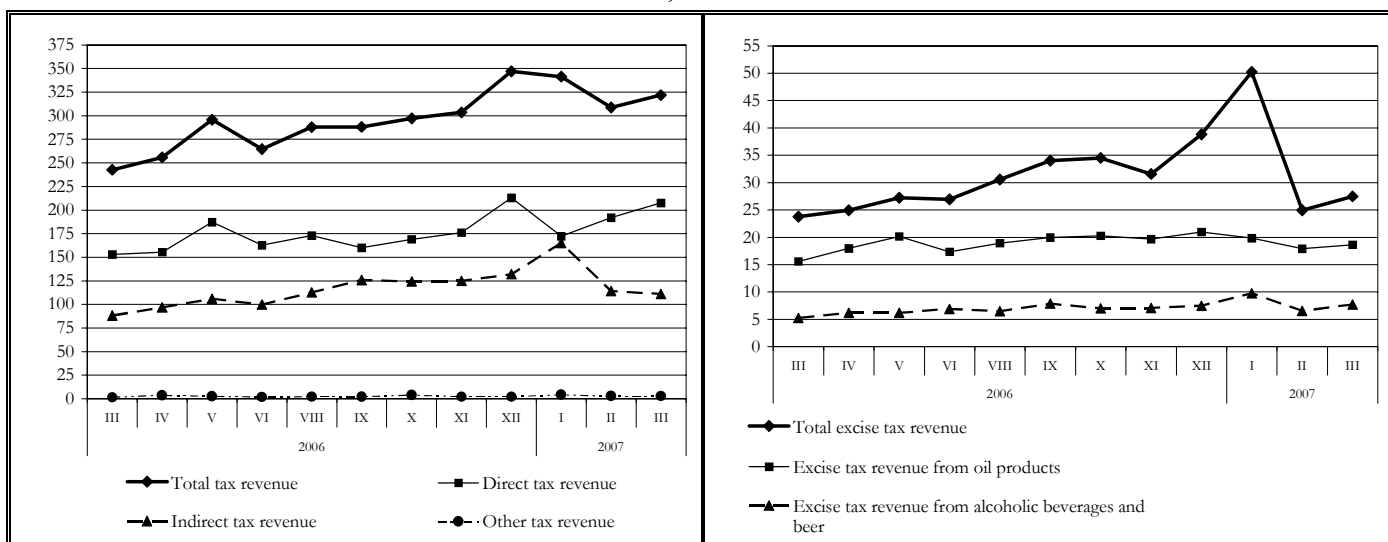
* including the State Funded Pension Scheme financial means of 5.9 mln lats in March 2007 and 4.1 mln lats in February 2007.

Total tax revenue in March 2007 was 321.7 mln lats, which in comparison with February 2007 was 13.0 mln lats or 4.2% more. In the first three months of 2007, total tax revenue was 971.8 mln lats, which is 246.2 mln lats or 33.9% more than in the same period of 2006. The most significant revenue increase was increase of corporate income tax, value added tax, social security contributions and personal income tax revenue.

Value added tax revenue in March 2007 was 79.6 mln lats and in comparison with February 2007 was 6.3 mln lats or 7.3% less. In the first three months of 2007, value added tax revenue was 277.0 mln lats, which is 71.5 mln lats or 34.8% more than in the same period of 2006. In March 2007, the value added tax revenue collected on border was 3.1 mln lats or 16.8% more than in February 2007, but domestically net collected value added tax revenue was 9.4 mln lats or 14.0% less than in February 2007. In March 2007, value added tax repayments were 33.5 mln lats, which were 5.0 mln lats or 17.6% more than in February 2007.

Total **excise tax** revenue in March 2007 was 27.5 mln lats and in comparison with February 2007 was 2.5 mln lats or 10.0% more. In the first three months of 2007, total excise tax revenue was 15.7 mln lats or 18.0% more than in the same period of 2006. Excise tax revenue from tobacco products in March 2007 was 0.7 mln lats, which is 0.6 mln lats more than in February 2007. Excise tax revenue from alcoholic beverages was 7.2 mln lats and in comparison with February 2007 was 1.3 mln lats or 21.0% more. The excise tax revenue from beer in March 2007 was 0.5 mln lats, which is 59.7 thsd lats or 10.2% less than in February 2007. In March 2007, the excise tax revenue from oil products amounted to 18.6 mln lats, which is 0.7 mln lats or 4.1% more than in February 2007. The excise tax revenue from non-alcoholic beverages and coffee in March 2007 was 0.4 mln lats, which is 2.7 thsd lats or 0.7% more than in February 2007.

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



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

	End of March 2007	End of February 2007	End of March 2007	End of March 2007
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	4.319	5.21	5.45	25 480.988
1 year T-bills	4.896	8.36	9.49	44 402.227
3 year bonds	5.959	0.00	0.03	144.778
5 year bonds	5.196	40.41	39.75	185 913.830
10 year bonds	4.728	46.02	45.28	211 746.079

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