

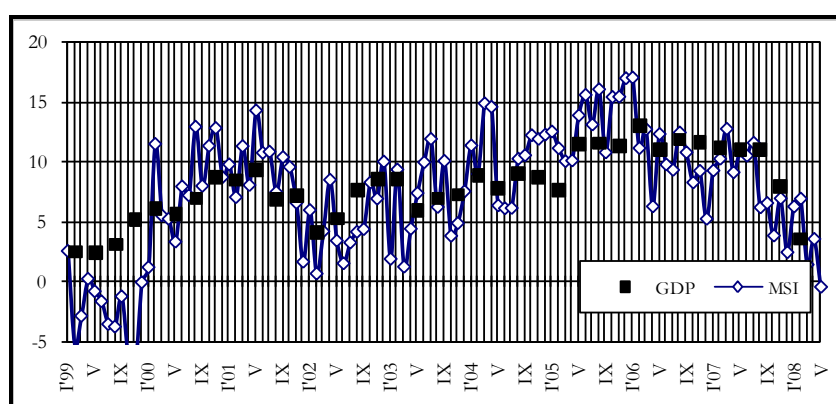
STATE BUDGET

May '08

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in May 2008 decreased by 0.5% 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.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2007 1Q	2008 1Q	2008		
				April	May	May ²
Industrial output index	% ¹	0.0	-1.0	4.4	*	*
Consumer price index	% ¹	2.7	5.2	1.5	0.9	17.9
Producer price index	% ¹	5.7	2.6	3.3	1.3	11.9
Cash in circulation (net of vault balances)	mln Ls	933.6	842.7	870.0	866.1	-7.1
Bank of Latvia net foreign assets (end-of-period)	mln Ls	2 455.8	2 961.0	2 954.6	2 958.1	15.8
Average short-term interest rates for credits (in lats)	%	8.5	12.9	8.8	13.2	-
Unemployment rate (end of the period)	%	6.3	4.9	4.8	4.8	-
Exports	mln Ls	914.7	1 074.0	403.4	*	*
Imports	mln Ls	1 796.2	1 852.0	688.5	*	*

Source of data: CSB and BOL.

¹ increase over the previous period, %

² increase over the same period of the previous year, %

The volume of **cargo transhipped in Latvian ports** in May amounted to 5.3 mln t, which was 7.4% less than in the corresponding month of the previous year. Total volume of cargo transhipped in Latvian ports in the first five months of the current year was 27.2 mln t, up by 5.3% from the same period last year.

Officially registered **unemployment rate** at the end of May amounted to 4.8% of the economically active population. As compared with the previous month, the unemployment rate unchanged, and decreased by 1.1 percentage point, as compared with the corresponding month of the previous year. The number of people registered as unemployed in May was 52.2 thsd people, which was 0.7 thsd less than in the previous month and 10.6 thsd less than in May of 2007. The highest unemployment rate in May was registered in the district of Rēzekne 17.0% (19.5% in the corresponding period of 2007); in the district of Ludza, 14.6% (21.1%); in the district of Balvi, 11.0% (16.9%); in the district of Preiļi, 11.0% (12.6%); in the district of Krāslava, 9.7%

(16.6%); in the district of Daugavpils, 7.7% (13.8%). The lowest unemployment rate was registered in Rīga, 3.1% (3.4%); in the district of Tukums, 3.0% (4.3%) and in the district of Valmiera, 3.0% (4.9%).

Consumer Price Index (CPI) in May, compared with April, rose by 0.9%. Prices for goods rose by 0.9% but services – by 1.0%.

The price increase of vegetables and fuel as well as catering had the greatest impact on price changes in May.

Due to seasonal factors prices for vegetables in May rose by 22.1%, because of arrival of new harvest in retailing. Vegetable oil and fats become more expensive by 3.5%, non-alcoholic beverages – by 2.0%. There was price increase for alcoholic beverages – by 1.8%, especially for beer.

As for automotive fuel, it got expensive by 4.4%, diesel had the greatest rise in prices – by 6.4%.

Several public services become more expensive – water supply – by 3.8%, sewage – by 3.2%, waste collection – by 4.4%, heating energy – by 1.0% and other dwelling services.

Prices in the catering services increased – by 0.1%, especially in cafes, bars and restaurants.

As a result of retailing campaigns prices decreased for milk and dairy products by 0.5%, cheese – by 3.2%, as well as macaroni, chicken meat and juices. Average price level of fruits decreased by 2.1%.

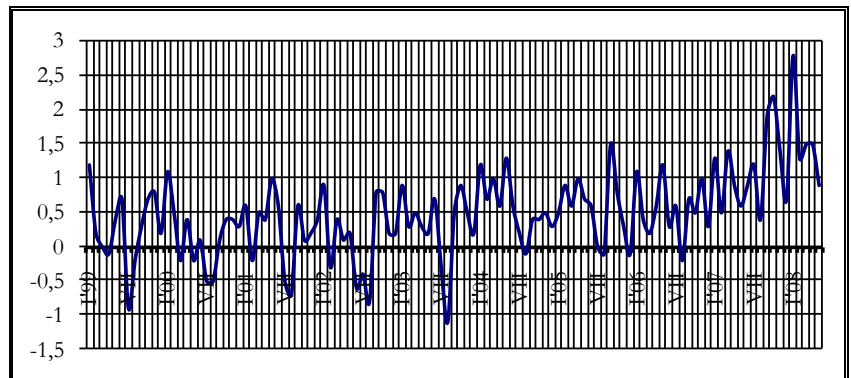
Compared to May of previous year, the consumer prices have increased by 17.9%, of which prices for goods increased by 18.0%, but prices for services – by 17.6%.

The CPI in **Estonia** in May compared with April increased by 0.6%. Price increase for vegetables, fuel, cereal products and meat had the greatest impact on inflation. The year-on-year growth of the CPI in Estonia amounted to 11.3%.

CPI in **Lithuania** in May compared with April went up by 0.8%. More expensive became transportation goods and services, food, dwelling and fuel. As compared with May of 2007, consumer prices increased by 12.0%.

Consumer price index

% over the previous period



In April 2008, **exports and imports of goods** amounted to 1 091.9 mln lats up by 14.8% from the same period last year.

As compared with April last year, export of goods grew by 24.7% and amounted to 403.4 mln lats, while import increased by 9.7%, reaching the value of 688.5 mln lats.

In April 2008, as compared to the April 2007, the trade balance deficit decreased by 18.9 mln lats and amounted to 285.1 mln lats.

In April 2008 exports to the EU increased by 39.2 mln lats as compared with April of the previous year and amounted to 294.2 mln lats. The share of the EU in total value of exports was 72.9%. Exports to the CIS grew by 16.8 mln lats as compared with April of the previous year and amounted to 58.6 mln lats, and the share of exports to the CIS was 14.5%.

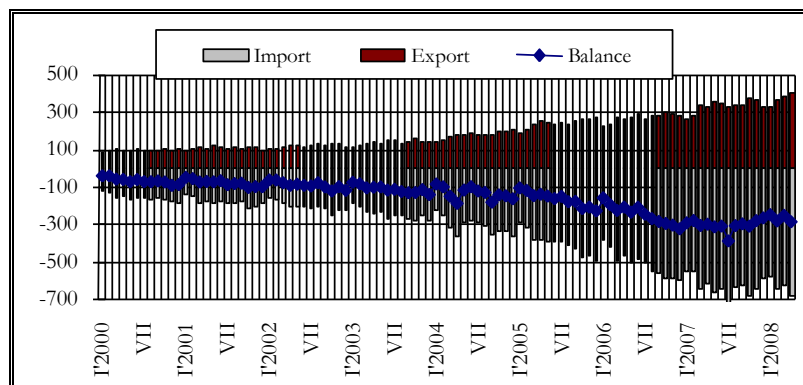
The value of imports from the EU in April of the 2008 increased by 47.1 mln lats year-on-year and reached 528.7 mln lats, but the share of EU imports amounted to 76.8%. The value of imports from the CIS in April

of the 2008 increased by 11.4 mln lats year-on-year and reached 102.5 mln lats, but the share of CIS imports amounted to 14.9%.

Latvia's main export partners in April of 2008 were Lithuania, accounting for 16.6% of total exports; Estonia, 14.1%; Russia, 9.8%; Germany, 9.7%; Sweden, 7.8%. Main import partners were Lithuania, 15.1%; Germany, 15.1%; Russia, 9.4%; Estonia, 7.1%; 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 April decreased by 50.5 mln lats year-on-year and amounted to 227.1 mln lats. As compared with April 2007, the goods deficit rose by 5.5 mln lats and stood at 275.3 mln lats. The negative income balance increased – in April 2008, up by 6.0 mln lats from the corresponding period last year and was 57.1 mln lats. Surplus of the services balance in April 2008 amounted to 58.2 mln lats and was positive. The surplus of the capital and financial account in April of 2008 was 252.0 mln lats. Net inflow of direct investment in April totalled 44.6 mln lats, which was 99.9 mln lats less than in the April last year. The portfolio investment account in April was negative and amounted to 82.3 mln lats. The Bank of Latvia's reserve assets in the April rose by 32.6 mln lats.

Central Government Consolidated Budget*, mln lats

	April of 2008	May of 2008	Jan-May of 2008	Jan – May of 2007	% changes (Jan – April) 2008/2007	% of annual plan
Revenue	479.6	443.4	2037.7	1673.7	21.7	37.1
Basic budget tax revenue	202.3	252.0	1040.2	908.1	14.5	36.0
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-33.2	-
Basic budget non-tax revenue	33.9	36.5	108.6	96.5	12.6	32.7
Self-earned revenue	10.4	7.6	49.8	49.2	1.2	34.7
Social security budget revenue	119.0	110.4	584.4	490.5	19.2	42.1
– transfers from central government basic budget	-4.2	-0.0	-8.3	-6.9	20.8	49.7
Gifts and donations	1.1	0.7	3.1	1.3	133.6	-
Foreign financial assistance	117.1	36.3	259.8	135.0	92.5	34.0
Expenditure	553.1	324.4	1921.7	1493.8	28.6	36.0
Basic budget	438.7	252.4	1483.4	1137.9	30.4	35.1
– transfers to social security budget	-4.2	-0.0	-8.3	-6.9	20.8	49.7
Social security budget	116.1	69.6	439.4	361.4	21.6	38.7
Gifts and donations	2.6	2.3	7.3	1.3	444.6	-
Financial balance	-73.6	119.0	116.0	179.9	-	-

* including transfers to local government budgets. 151.4 42.0 325.3 162.8

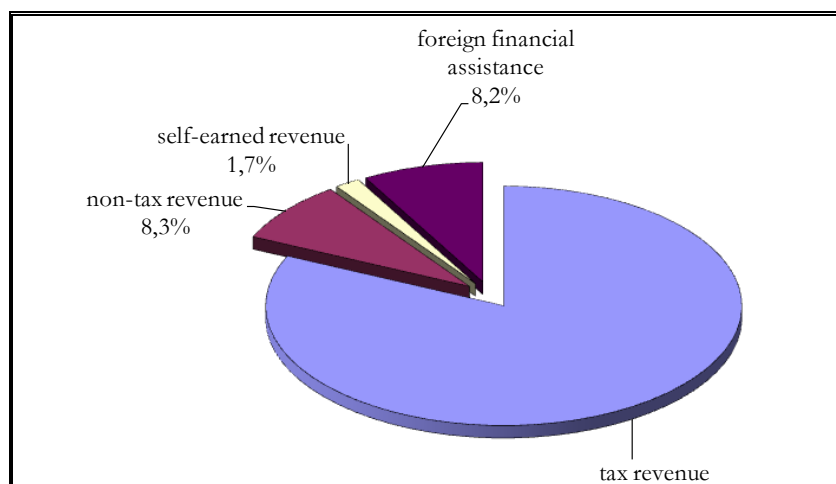
In accordance with the State Treasury's official monthly report's (January - May 2008) data, in May 2008 the **central government consolidated budget** revenue (including gifts and donations) was 443.4 mln lats, which is 36.2 mln lats or 7.5% less than in April, mainly due to decrease of revenue from the foreign financial assistance by 80.7 mln lats. The central government consolidated budget revenue in five months of 2008 was 2037.7 mln lats, which is 364.0 mln lats or 21.7% 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 five four months of 2007 was in the revenue from social security contributions, excise tax

and personal income tax. In May 2008, the central government budget expenditure (including gifts and donations) was 324.4 mln lats, which is 228.8 mln lats or 41.4% less than in April 2008. The government budget total expenditure in the first five months of 2008 was 1921.7 mln lats, which is 428.0 mln lats or 28.6% more than in the same period of 2007. In May 2008, the central government consolidated budget financial surplus was 119.0 mln lats.

Central government basic budget revenue in May 2008 was 332.4 mln lats, which in comparison with April 2008 is 31.2 mln lats or 8.6% less. In May 2008 tax revenue was 252.0 mln lats, which is 49.7 mln lats or 24.6% more than in April 2008, mainly due to increase of corporate income tax by 40.6 mln lats and value added tax by 10.7 mln. lats. In May 2008 the non-tax revenue was 36.5 mln lats, which is 2.6 mln lats more than in April 2008. In May 2008, revenue from the paid services and self-earned revenue was 7.6 mln lats, which is 2.7 mln lats or 26.5% less, but revenue from the foreign financial assistance was 36.3 mln lats, which is 80.7 mln lats less than in April. Central government basic budget revenues in the first five months were 1458.4 mln lats, which is 269.6 mln lats or 22.7% more than in the same period of 2007.

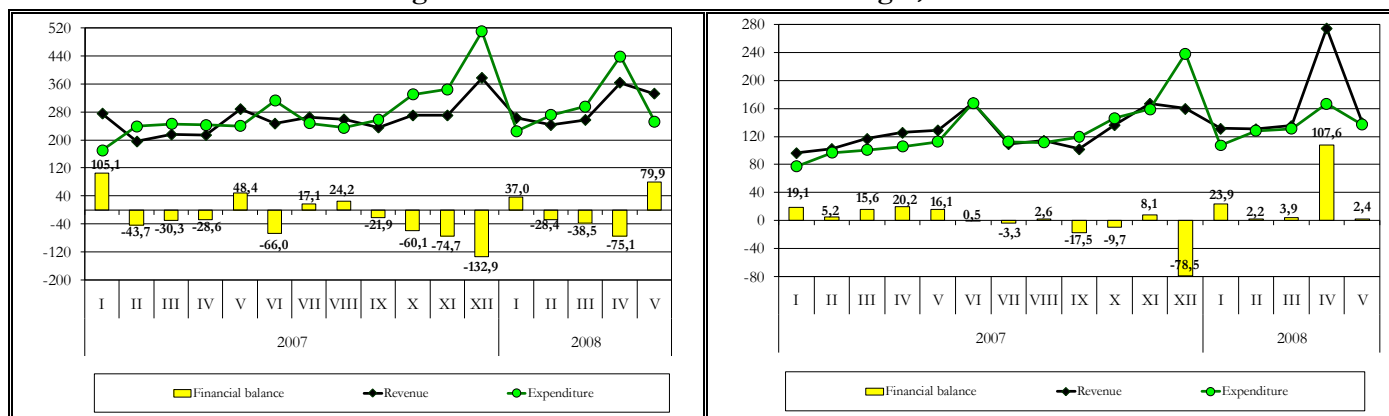
Structure of Central Government Basic Budget and Special Budget Revenue in May 2008

Percentage



In May 2008, the central government basic budget expenditure was 252.4 mln lats, which is 186.2 mln lats or 42.5% less than in April 2008. In May 2008, the central government basic budget non-capital expenditure was 234.5mln lats or 92.9% of total basic budget expenditure and in comparison with April 2008 is 187.9 mln lats or 44.5% less, mainly due to decrease of transfer to targeted grants for local governments by 124.2 mln lats and decrease of percentage expenditure by 16.8 mln lats. The central government basic budget capital expenditure in May 2008 was 17.9 mln lats and in comparison with April 2008 is 1.7 mln lats or 10.2% more. In the first five months 2008 the central government basic budget expenditure was 1483.4 mln lats which in comparison with the same period of 2007 is by 345.5 mln lats or 30.4% more. In May 2008, the financial surplus in amount of 79.9 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 May 2008 was 110.4 mln lats, which is 8.6 mln lats or 7.3% less than in April 2008. Social security budget revenue in the first five months 2008 was 584.4 mln lats, which is 93.7 mln

lats or 19.2% more than in the same period of 2007. The social security budget expenditure in May 2008 was 69.6 mln lats, which in comparison with April 2008 is 46.4 mln lats or 40.0% less, mainly due to decrease of pensions expenditures by 44.7 mln lats. The social security budget expenditure in the five months 2008 was 439.4 mln lats, which is 77.9 mln lats or 21.6% more than in the same period of 2007. In May 2008, the social security budget financial surplus was 40.7 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in May 2008 in comparison with April 2008 was 122.7 mln lats less. The tax revenue in comparison with April 2008 was 12.7 mln lats or 14.3% less, that was mainly driven by decrease of personal income tax revenue by 7.8 mln lats. The local government basic budget non-tax revenue in May 2008 in comparison with April 2008 was 0.4 mln lats or 17.8% less and the local government basic budget received payments was 120.8 mln lats less. Local government basic budget revenue from the paid services and other self-earned revenue in May 2008 was 1.4 mln lats or 13.4% less than in April 2008.

In May 2008 the local government basic budget expenditure was 136.6 mln lats, which is 29.8 mln lats or 17.9% less than April 2008, mainly due to decrease of transfer for local governments non-capital expenditure by 31.8 mln lats. In May 2008, the financial deficit of 4.0 thsd lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	April of 2008	May of 2008	Jan - May of 2008	Jan - May of 2007	% changes (Jan - May) 2008/2007
Revenue	254.1	131.8	756.9	537.6	40.8
Basic budget tax revenue	88.9	76.2	368.2	302.9	21.5
Basic budget non-tax revenue	2.4	2.0	10.0	15.7	-36.5
Basic budget received payments	172.5	51.7	384.7	213.0	80.7
-mutual payments*	-33.8	-15.6	-103.7	-75.2	37.9
Basic budget self-earned revenue	10.2	8.8	45.7	37.4	22.2
Special budget revenue**	13.8	8.4	51.1	43.4	17.6
Foreign financial assistance	0.1	0.4	0.9	0.4	112.4
Expenditure	144.1	131.8	607.8	444.4	36.8
Basic budget expenditure	166.4	136.6	669.4	493.1	35.7
-mutual payments*	-33.8	-15.6	-103.7	-75.2	37.9
Special budget expenditure**	11.4	10.8	42.1	26.5	58.8
Financial balance	110.0	-0.0	149.1	93.2	-

* 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 May 2008 was 99.6 mln lats and in comparison with April 2008 is 10.7 mln lats or 12.0% more. In May 2008, domestically net collected value added tax revenue was 77.1 mln lats or 77.4% of total value added tax revenue and in comparison with April 2008 is 10.4 mln lats or 15.5% more. The value added tax revenue collected on border was 0.3 mln lats or 1.4% more than in April 2008. In May 2008, value added tax repayments were 44.7 mln lats, which is 7.7 mln lats less than in April 2008.

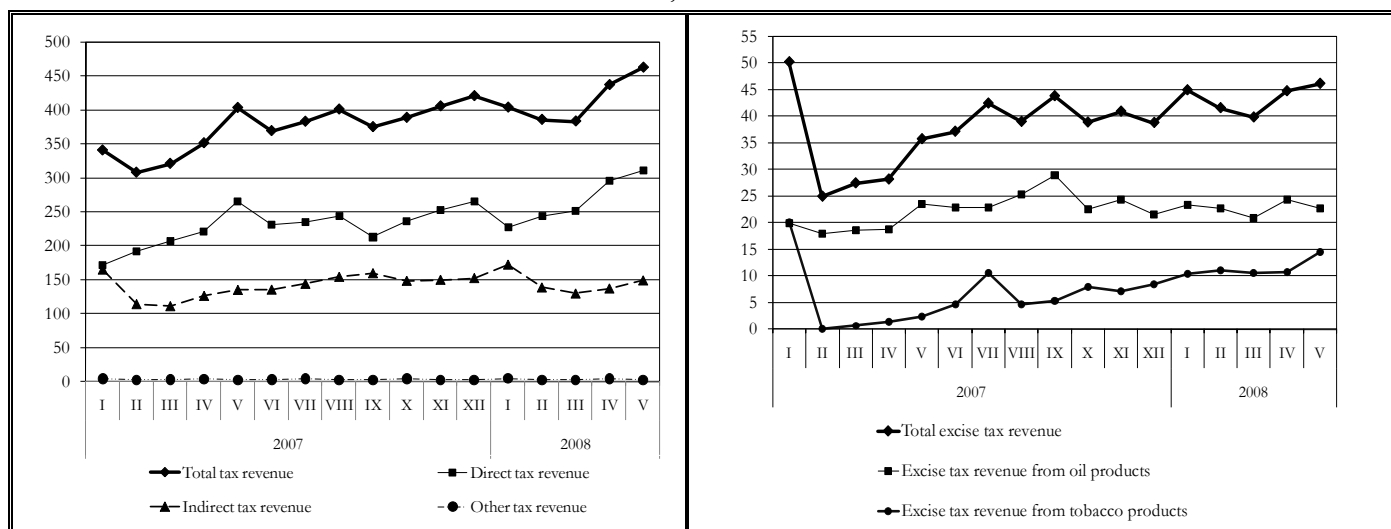
In total in the five months 2008 value added tax revenue was 491.7 mln lats, which is 32.3% of annual plan. In comparison with the same period of 2007, value added tax revenue is 25.0 mln lats or 5.4% more.

Total **excise tax** revenue in May 2008 was 46.2 mln lats and in comparison with April 2008 is 1.4 mln lats or 3.1% more. Excise tax revenue from tobacco products in May 2008 was 14.6 mln lats, which is 3.7 mln lats more than in April 2008. Excise tax revenue from alcoholic beverages was 7.2 mln lats and in comparison with April 2008 is 1.0 mln lats or 11.9% less. The excise tax revenue from beer in May 2008 was 1.2 mln lats, which is 0.4 mln lats or 45.2% more than in April 2008. In May 2008, the excise tax revenue from oil products amounted to 22.7 mln lats, which is 1.6 mln lats or 6.6% less than in April 2008. The excise tax revenue from non-alcoholic beverages and coffee in May 2008 was 0.5 mln lats, which is 55.9 thsd lats or 10.0% less than in April 2008.

In total in the five months 2008 excise tax revenue was 217.5 mln lats, which is 41.7% of annual plan. In comparison with the same period of 2007, excise tax revenue is 50.8 mln lats or 41.7% more.

Corporate income tax revenue in May 2008 was 84.4 mln lats and in comparison with April 2008 is 40.6 mln lats or 92.8% more. The growth of corporate income tax revenue in May 2008 accounts for that, that part of corporations have tendered annual declarations which show the growth of profit in 2007, as a result in May 2008 there was accrued collateral estimated amount of corporate income tax revenue. Corporate income tax revenue in the five months 2008 made 38.8% of annual plan.

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



Tax Revenue, mln lats

	April of 2008	May of 2008	Jan - May of 2008	Jan - May of 2007	% changes (Jan - May) 2008/2007	% of annual plan
Corporate income tax	43.8	84.4	217.5	173.2	25.5	38.8
Value added tax	88.9	99.6	491.7	466.7	5.4	32.3
Excise tax	44.8	46.2	217.5	166.7	30.5	41.7
Cars and motorcycles tax	1.1	0.9	4.9	7.0	-30.1	22.0
Social security contributions*	146.2	134.6	666.1	515.5	29.2	41.6
Custom duties	2.3	2.3	12.5	11.3	10.7	42.2
Personal income tax	90.7	81.7	409.6	332.4	23.2	40.7
Real estate tax	15.4	10.8	38.1	38.0	0.3	52.7

* 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 May 2008	End of April 2008	End of May 2008	End of May 2008
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	6.159	3.84	6.61	28 706.441
1 year T-bills	6.294	9.41	10.50	45 624.700
2 year bonds	5.959	0.54	0.51	2 216.915
5 year bonds	5.196	29.63	27.96	121 466.909
10 year bonds	4.728	51.66	48.74	211 746.079
11 year bonds	6.450	4.92	5.68	24 679.566

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