

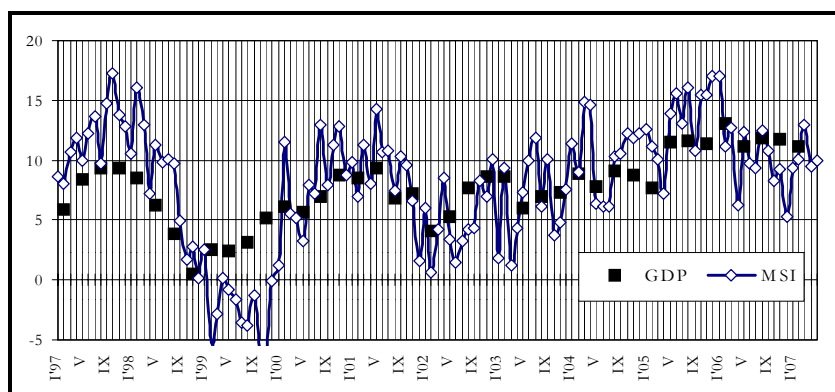
STATE BUDGET

May '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in May 2007 grew by 10% at constant prices. Increase in turnover of retail trade and income of population were the main determinants of the growth of the index. Lower contribution to the growth of the index provided increases in cargo turnover by rail, volume of cargo transhipped in ports and growth in external trade turnover. Real growth rates of industry are comparatively low; however sales turnover of industry's output increases.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2006 1Q	2007 1Q	2007		
				April	May	May ²
Industrial output index	% ¹	2.0	0.5	-1.9	*	*
Consumer price index	% ¹	1.4	2.7	0.9	0.6	8.2
Producer price index	% ¹	3.6	6.2	1.8	1.5	17.9
Cash in circulation (net of vault balances)	mln Ls	775.9	933.6	940.58	932.33	15.5
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 559.2	2 455.8	2 409.55	2 554.02	41.3
Average short-term interest rates for credits (in lats)	%	6.7	7.7	11.1	11.4	-
Unemployment rate (end of the period)	%	7.5	6.4	6.1	5.9	-
Exports	mln Ls	730.1	882.1	324.7	*	*
Imports	mln Ls	1 318.9	1 756.3	623.3	*	*

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 5.7 mln t, which was 5.3% more 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 25.8 mln t, up by 3.1% from the same period last year.

Officially registered **unemployment rate** at the end of May amounted to 5.9% of the economically active population. As compared with the previous month, the unemployment rate declined by 0.2 percentage points, and 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 62.8 thsd people, which was 2.3 thsd less than in the previous month and 12.0 thsd less than in May of 2006. The highest unemployment rate in May was registered in the district of Ludza 21.1% (27.0% in the corresponding period of 2006); in the district of Rēzekne, 19.5% (25.6%); in the district of Krāslava, 16.6% (20.8%); in the district of Balvi, 16.9% (19.9%); in the district of

Preiļi, 12.6% (19.9%); in the district of Daugavpils, 13.8% (15.4%). The lowest unemployment rate was registered in Rīga, 3.4% (3.9%); in the district of Tukums, 4.3% (5.1%) and in the district of Rīga, 4.6% (4.7%).

Consumer Price Index (CPI) in May, compared with April, rose by 0.6%. Prices for goods increased by 0.6% and prices for services by 0.7%.

The rise in the prices of automotive fuel, food, natural gas supply and catering services had the greatest impact on consumer price changes in May.

In May the prices of automotive fuel increased – by 3.5%.

In food group major impact on the price increase had meat and meat products – by 1.7%, fruit – by 4.6%, as well as bread and cereal products – by 0.7%.

Prices also increased for non-alcoholic beverages – by 1.3%, cooking oil and fats – by 0.6%, but prices of vegetables decreased – by 8.6%. Tobacco products became more expensive in May – by 1.6%.

In May price of natural gas supply rose – by 16.7%.

Prices for dwelling rent rose by – by 3.2%, for parking fee – by 3.7%, for spare parts and accessories for personal transport equipment – by 0.4% and for driving courses – by 3.8%.

There was price increase for several services: passenger transport by road – by 0.3%, recreational and cultural services – by 0.5%, services of individual care institutions – by 0.8%, package holidays – by 1.7% and insurance – by 2.2%.

With the beginning of summer, the prices increased for hotel – by 10.7% and catering services – by 1.0%.

In May prices decreased for telecommunications – by 1.7%, data processing – by 2.3%, TV, audio and video equipment – by 0.4% as well as for used cars – by 0.7%. Books became cheaper as well – by 0.3% and cut flowers – by 2.2%.

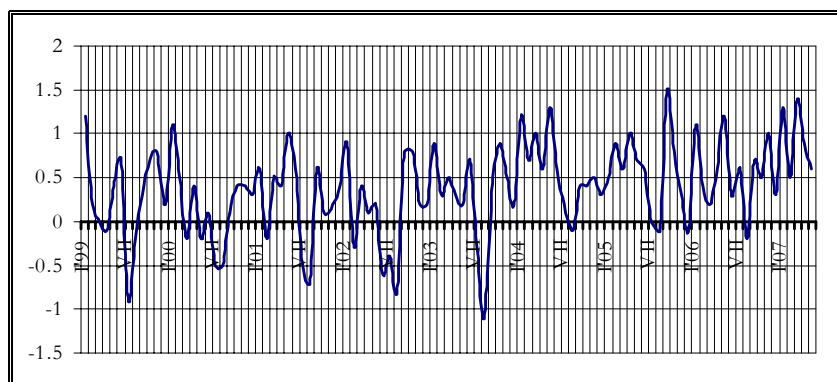
Compared with May 2006, consumer prices increased by 8.2%, of which prices for goods went up by 6.5% and for services by 12.7%.

The CPI in **Estonia** in May as compared to April increased by 0.7%. As compared with May of 2006, consumer prices picked up by 5.7%.

The CPI in **Lithuania** in May compared with April increased by 0.5%. As compared with May of 2006, consumer prices picked up by 4.2%.

Consumer price index

% over the previous period



In April 2007, **exports and imports of goods** amounted to 948.0 mln lats up by 28.3% from the same period last year.

As compared with April last year, export of goods grew by 22.8% and amounted to 324.7 mln lats, while import increased by 31.4%, reaching the value of 623.3 mln lats.

In April 2007, as compared to the April 2006, the trade balance deficit grew by 88.7 mln lats and amounted to 298.6 mln lats.

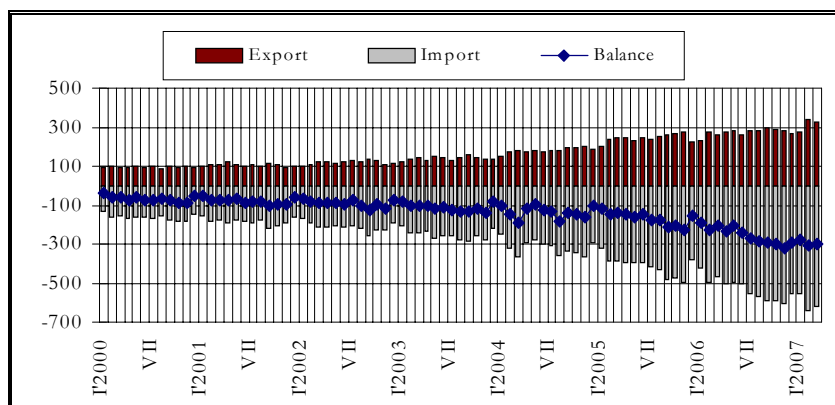
In April 2007 exports to the EU increased by 30.5% as compared with April of the previous year and amounted to 256.2 mln lats. The share of the EU in total value of exports was 78.9%. Exports to the CIS grew by 16.6% as compared with April of the previous year and amounted to 41.8 mln lats, and the share of exports to the CIS was 12.9%.

The value of imports from the EU in April 2007 grew by 35.6% year-on-year and reached 47.7 mln lats, but the share of EU imports amounted to 76.6%. The value of imports from the CIS in April 2007 increased by 20.9% year-on-year and reached 91.1 mln lats, but the share of CIS imports amounted to 14.6%.

Latvia's main export partners in April of 2007 were Lithuania, accounting for 15.7% of total exports; Estonia, 15.3%; Germany, 8.8%; Russia, 8.4%; Sweden, 7.5%. Main import partners were Lithuania, 14.2%; Germany, 13.9%; Russia, 9.2%; Estonia, 8.7%; and Poland, 7.2%.

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 increased by 106.7 mln lats year-on-year and amounted to 255.8 mln lats. As compared with April 2006, the goods deficit rose by 88.5 mln lats and stood at 272.6 mln lats. The negative income balance decreased – in April 2007, down by 0.4 mln lats from the corresponding period last year and was 24.3 mln lats. Surplus of the services balance in April 2007 amounted to 33.4 mln lats, which was 6.9 mln lats less than in the April of 2006. The surplus of the capital and financial account in April of 2007 was 227.7 mln lats. Net inflow of direct investment in April totalled 172.2 mln lats, which was 38.6 mln lats more than in the April last year. The portfolio investment account in April was negative and amounted to 31.3 mln lats. The Bank of Latvia's reserve assets in the April rose by 29.8 mln lats.

Central Government Consolidated Budget*. mln lats

	April of 2007	May of 2007	Jan-Apr of 2007	Jan – Apr of 2006	% changes (Jan - Apr) 2007/2006	% of annual plan
Revenue	312.7	391.4	1673.7	1314.5	27.3	39.7
Basic budget tax revenue	182.0	220.0	908.1	687.0	32.2	42.1
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-72.3	-
Basic budget non-tax revenue	16.3	36.7	96.5	84.4	14.4	34.0
Self-earned revenue	7.7	8.6	49.2	43.8	12.3	37.2
Social security budget revenue	99.5	104.3	490.5	363.5	34.9	45.4
– transfers from central government basic budget	-1.4	-1.4	-6.9	-5.4	27.8	41.7
Gifts and donations	0.5	0.3	1.3	1.6	-17.9	-
Foreign financial assistance	8.1	23.0	135.0	139.5	-3.2	23.2
Expenditure	312.2	309.3	1493.8	1121.2	33.2	34.0
Basic budget	242.6	239.7	1137.9	804.6	41.4	32.5
– transfers to social security budget	-1.4	-1.4	-6.9	-5.4	27.8	41.7
Social security budget	70.6	70.6	361.4	319.9	13.0	39.5
Gifts and donations	0.3	0.3	1.3	1.8	-26.2	-
Financial balance	0.5	82.1	179.9	193.3	-	-

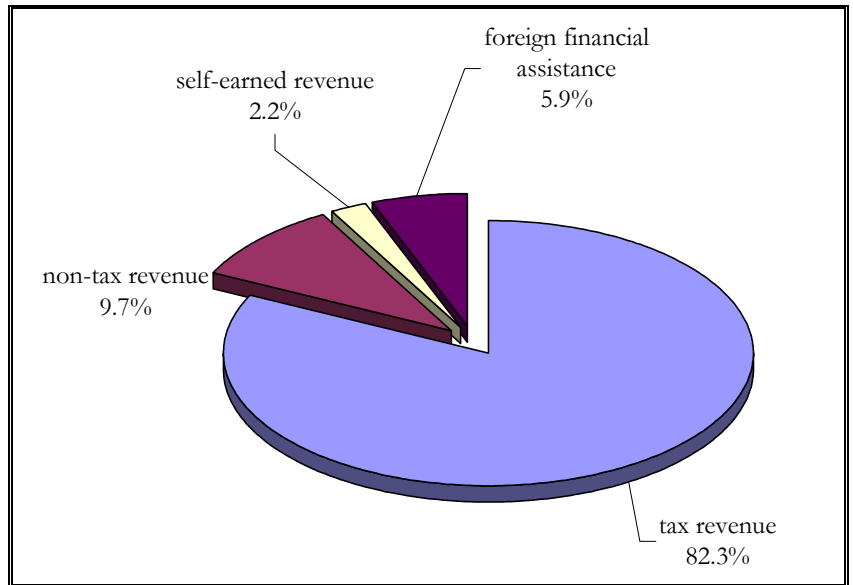
* including transfers to local government budgets.

** 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 financial part.

In May 2007 the **central government consolidated budget** revenue (including gifts and donations) was 391.4 mln lats which is 78.7 mln lats or 25.2% more than in April, mainly due to increase of tax revenue in central government basic budget by 38.0 mln lats and non-tax revenue in central government basic budget by 20.3 mln lats. Tax revenue formed significant part of the central government consolidated budget revenue. In comparison with April 2007 the most significant increase was in the revenue from corporate income tax and excise tax. In May 2007, the central government budget expenditure (including gifts and donations) was 309.3 mln lats, which is 2.9 mln lats less than in April 2007. In May 2007, the central government consolidated budget financial surplus was 82.1 mln lats.

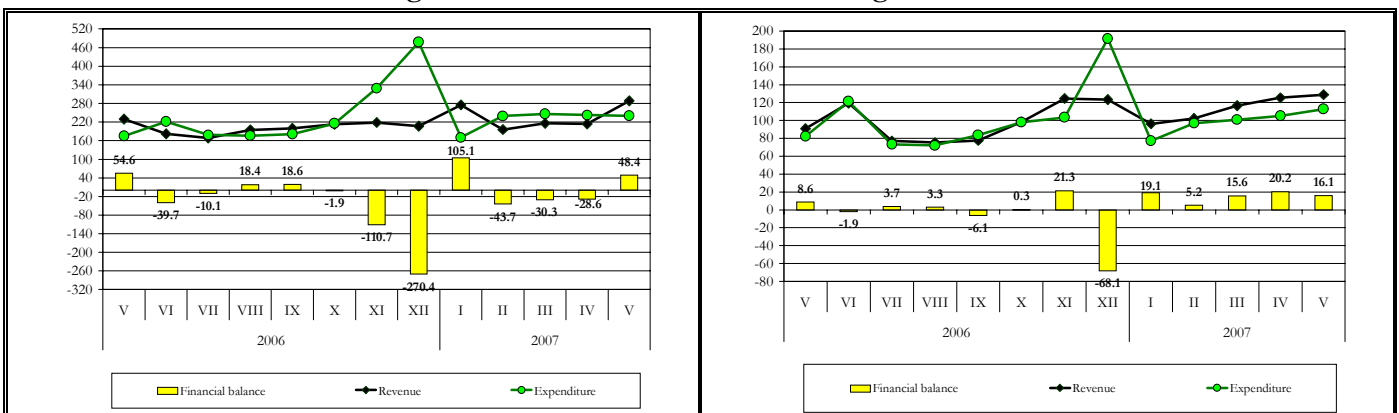
Structure of Central Government Basic Budget and Special Budget Revenue in May 2007

percentage



Central government basic budget revenue in May 2007 was 288.1 mln lats, which in comparison with April 2007 is 74.1 mln lats or 34.6% more. In comparison with April 2007, tax revenue was 220.0 mln lats, which is 38.0 mln lats or 20.9% more, mainly due to increase of corporate income tax revenue by 29.4 mln lats and excise tax revenue by 7.6 mln lats. In May 2007 the non-tax revenue was 36.7 mln lats, which is 20.3 mln lats more than in April 2007. The increase of non-tax revenue was determined mainly by the increase of payments for using the state capital by 21.0 mln lats. In May 2007, major payment for using the state capital was paid by Ltd “Lattelecom” – 18.4 mln lats. In May 2007, revenue from the paid services and self-earned revenue was 8.6 mln lats, which is 0.9 mln lats or 11.7% more and revenue from the foreign financial assistance was 23.0 mln lats, which is 14.9 mln lats more than in April.

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



In May 2007, the central government basic budget expenditure was 239.7 mln lats, which is 2.9 mln lats or 1.2% less than in April 2007. In May 2007, the central government basic budget non-capital expenditure was 218.9 mln lats or 91.3% of total basic budget expenditure and in comparison with April 2007 is 1.0 mln lats more, mainly due to increase of expenditure for subsidies, grants and social benefits. The central government

basic budget capital expenditure in May 2007 was 20.9 mln lats and in comparison with April 2007 is 3.9 mln lats or 15.7% less. In May 2007, the financial surplus in amount of 48.4 mln lats was in the central government basic budget.

Social security budget revenue in May 2007 was 104.3 mln lats, which is 4.8 mln lats or 4.8% more than in April 2007. The social security budget expenditure in May 2007 was 70.6 mln. lats, which in comparison with April 2007 is 26.3 thsd lats less. In May 2007, the social security budget financial surplus was 33.7 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in May 2007 in comparison with April 2007 was 3.5 mln lats or 2.8% more. In comparison with April 2007, the tax revenue was 6.1 mln lats or 9.6% more, that was mainly driven by decrease of real estate tax revenue by 3.6 mln lats or 44.1%. The local government basic budget non-tax revenue in May 2007 in comparison with April 2007 was 0.1 mln lats or 2.2% less and the local government basic budget received payments was 3.0 mln lats or 6.0% less. Local government basic budget revenue from the paid services and other self-earned revenue in May 2007 was 0.7 mln lats or 8.7% more than in April 2007.

In May 2007 the local government basic budget expenditure was 112.7 mln lats, which is 7.5 mln lats or 7.1% more than April 2007, mainly due to increase for capital expenditure by 2.6 mln lats or 19.1%. In May 2007, the financial surplus of 17.0 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	April of 2007	May of 2007	Jan - Apr of 2007	Jan - Apr of 2006	% changes (Jan - Apr) 2007/2006
Revenue	118.2	120.9	537.6	380.5	41.3
Basic budget tax revenue	63.6	69.7	302.9	216.6	39.8
Basic budget non-tax revenue	3.2	3.1	15.7	12.2	28.5
Basic budget received payments	50.5	47.5	213.0	151.0	41.1
-mutual payments*	-15.6	-16.1	-75.2	-55.3	36.0
Basic budget self-earned revenue	7.8	8.5	37.4	30.2	23.6
Special budget revenue**	8.4	8.1	43.4	24.2	79.5
Foreign financial assistance	0.3	0.0	0.4	1.6	-72.7
Expenditure	95.1	103.8	444.4	330.1	34.6
Basic budget expenditure	105.2	112.7	493.1	364.8	35.2
-mutual payments*	-15.6	-16.1	-75.2	-55.3	36.0
Special budget expenditure**	5.6	7.2	26.5	20.5	29.3
Financial balance	23.0	17.0	93.2	50.4	-

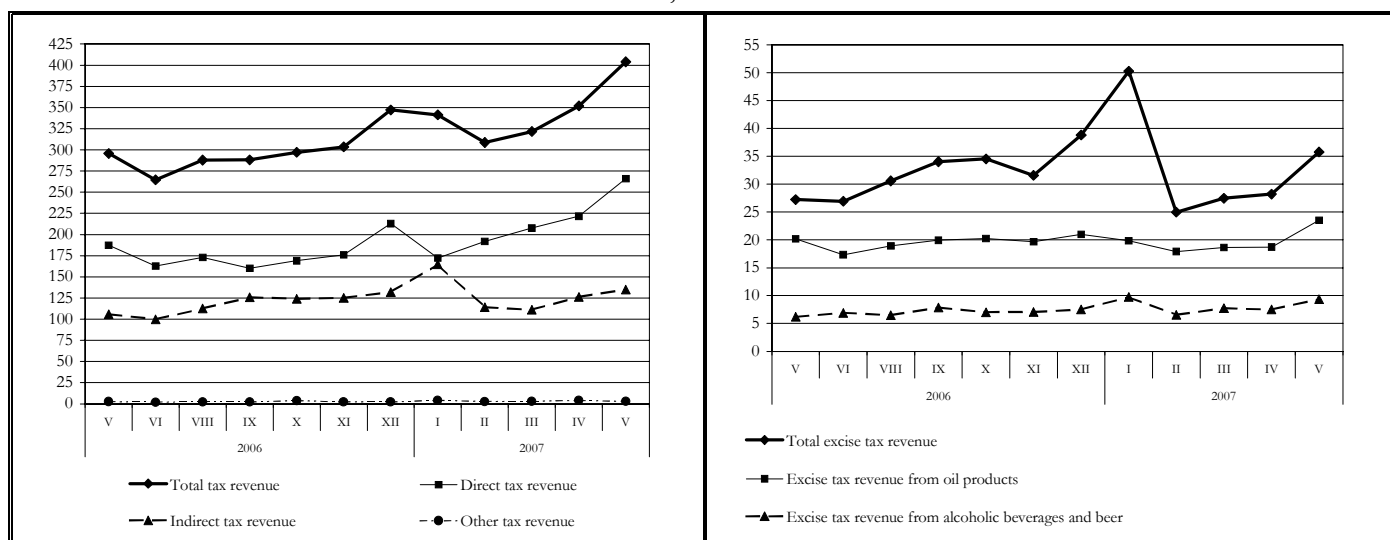
* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

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

Value added tax revenue in May 2007 was 95.3 mln lats and in comparison with April 2007 is 0.9 mln lats more. In May 2007, the value added tax revenue collected on border was 3.7 mln lats or 18.6% more than in April 2007, but domestically net collected value added tax revenue was 2.9 mln lats or 3.8% less than in April 2007. In May 2007, value added tax repayments were 37.0 mln lats, which is 5.7 mln lats or 18.3% more than in April 2007.

Total **excise tax** revenue in May 2007 was 35.8 mln lats and in comparison with April 2007 is 7.6 mln lats or 26.9% more. Excise tax revenue from tobacco products in May 2007 was 2.4 mln lats, which is 0.9 mln lats or 62.7 % more than in April 2007. Excise tax revenue from alcoholic beverages was 8.3 mln lats and in comparison with April 2007 is 1.6 mln lats or 23.9% more. The excise tax revenue from beer in May 2007 was 1.0 mln lats, which is 0.3 mln lats or 33.5% more than in April 2007. In May 2007, the excise tax revenue from oil products amounted to 23.5 mln lats, which is 4.8 mln lats or 25.8% more than in April 2007. The excise tax revenue from non-alcoholic beverages and coffee in May 2007 was 0.5 mln lats, which is 33.5 thsd lats or 6.6% less than in April 2007.

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



Tax Revenue, mln lats

	April of 2007	May of 2007	Jan – Apr of 2007	Jan - Apr of 2006	% changes (Jan - Apr) 2007/2006	% of annual plan
Corporate income tax	38.1	67.5	173.2	112.6	53.8	53.4
Value added tax	94.4	95.3	466.7	350.4	33.2	39.2
Excise tax	28.2	35.8	166.7	139.2	19.7	39.9
Cars and motorcycles tax	1.4	1.7	7.0	4.8	46.4	42.4
Social security contributions*	106.2	113.9	515.5	372.5	38.4	44.8
Custom duties	2.3	2.3	11.3	8.1	38.8	54.2
Personal income tax	69.0	72.7	332.4	244.0	36.2	44.3
Real estate tax	8.2	11.9	38.0	32.2	17.8	55.6

* including the State Funded Pension Scheme financial means of 11.1 mln lats in May 2007 and 10.2 mln lats in April 2007.

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

	End of May 2007 Average annual selling rate, (%)	End of April 2007	End of May 2007	End of May 2007 Amount in circulation, thsd. LVL
		Shares of bonds, %		
6 month T-bills	4.319	3.51	4.04	16 117.418
1 year T-bills	4.896	9.68	12.44	49 678.940
3 year bonds	5.959	0.10	0.56	2 224.718
5 year bonds	5.196	40.54	29.95	119 638.017
10 year bonds	4.728	46.17	53.02	211 746.079

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