

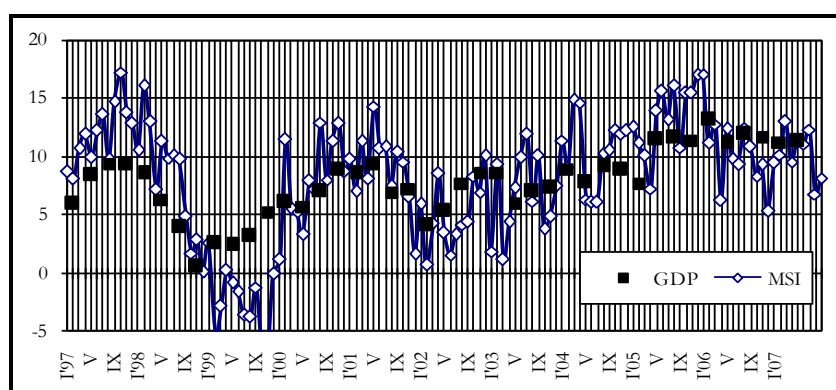
STATE BUDGET

September '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in September 2007 grew by 8.1% at constant prices. Increase in turnover of retail trade, income of population and freight turnover by rail 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		
				August	September	September ²
Industrial output index ³	% ¹	1.0	1.3	2.6	*	*
Consumer price index	% ¹	1.8	2.7	0.4	1.9	11.4
Producer price index	% ¹	2.7	4.4	0.3	0.0	15.7
Cash in circulation (net of vault balances)	mln. Ls	839.5	948.6	940.6	914.7	2.5
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	1 880.0	2 582.3	2 725.6	2 715.1	22.4
Average short-term interest rates for credits (in lats)	%	7.0	11.3	11.1	12.8	-
Unemployment rate (end of the period)	%	7.0	5.8	5.4	5.1	-
Exports	mln. Ls	828.9	1 015.7	335.7	*	*
Imports	mln. Ls	1 532.5	1 935.7	641.7	*	*

Source of data: CSB and BOL.

¹ increase over the previous period, %

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

³ seasonally adjusted data

The volume of **cargo transhipped in Latvian ports** in September amounted to 4.8 mln t, up by 5.9% from the corresponding month of 2006. However the volume of cargo transhipped in ports in the first nine months of 2007 totalled 47.2 mln t, which was 4.1% more than in the same period of the previous year.

Officially registered **unemployment rate** in September decreased by 0.3 percentage points month-on-month and amounted to 5.1% of the economically active population at the end of the month. The number of the registered unemployed decreased by 3.3 thsd people from the previous month and amounted to 54.7 thsd people. As compared with September 2006, the unemployment rate decreased by 1.7 percentage points, but the number of the registered unemployed falls by 17.0 thsd people. The highest unemployment rate in September was registered in the district of Rēzekne, 17.7% (25.6% in September of 2006); in the district of Ludza, 15.4% (25.9%); and in the district of Balvi, 15.2% (18.6%). The lowest unemployment rate was registered in Rīga, 3.3% (3.9%); in the district of Tukums, 3.7% (5.2%); and in the district of Jelgava, 3.9% (5.7%).

The **Consumer Price Index (CPI)** in September grew by 1.9% from the previous month, of that prices for goods grew by 1.6%, but for services grew by 2.5%.

The rise in the prices of wearing apparel and footwear, education and catering services, heating energy, as well as milk and dairy products had the greatest impact on consumer price changes in September.

As the seasonal discounts terminated and goods of new season entered the market, the prices of wearing apparel increased by 7.8% and prices of footwear by 17.6%.

The education services on average increased by 16.2%, prices of catering services continued to go up – by 3.7%, mainly in school canteens.

There were price increases for heating by 2.8%

In the food commodity group the highest price increase was recorded for milk and dairy products by 3.5% as well as for grain products by 4.6%. Prices rose for bread by 0.9%, vegetables by 2.6%, cheese by 3.9%, eggs by 5.4%, fats and oils by 4.8% but there were decrease in prices for fruit by 1.2%, potatoes and fish became cheaper, accordingly, for 17.6% and 3.0%.

The prices increased continuously for housing maintenance and repair by 3.4%, household services by 4.4%, railway services by 4.3%, recreational and sports services by 3.9% and for insurance by 4.5%.

Solid fuel become more expensive – by 3.9%

The prices of used cars, photo and data processing equipment decreased slightly. Due to the discounts the prices of TV, audio and video equipment and bicycles fell down as well.

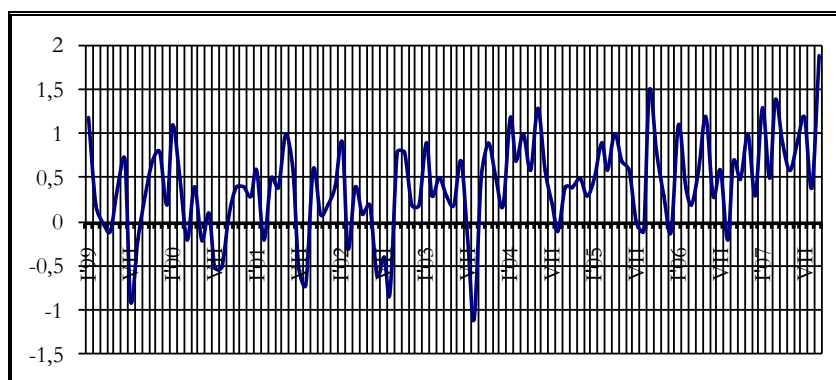
Compared to the September of previous year, the consumer prices have increased by 11.4%, of which prices for goods increased by 10.1%, but for services – by 14.9%.

In **Estonia**, the CPI in September decreased by 1.1% from the previous month. Main inflation drivers were dwellings and food. Year-on-year growth of the CPI in Estonia was 7.2%.

In **Lithuania**, the CPI increased by 1.4% from the previous month. As compared with September 2006, the consumer prices in Lithuania increased by 7.1%. Consumer prices rose for alcohol and tobacco, dwelling, clothing and footwear and transportation.

Consumer price index

% over the previous period



In August 2007, **exports and imports of goods** amounted to 977.4 mln lats up by 13.8% from the same period last year.

As compared with August last year, export of goods grew by 15.6% and amounted to 335.7 mln lats, while import increased by 12.9%, reaching the value of 641.7 mln lats.

In August 2007, as compared to the August 2006, the trade balance deficit grew by 27.9 mln lats and amounted to 306.0 mln lats.

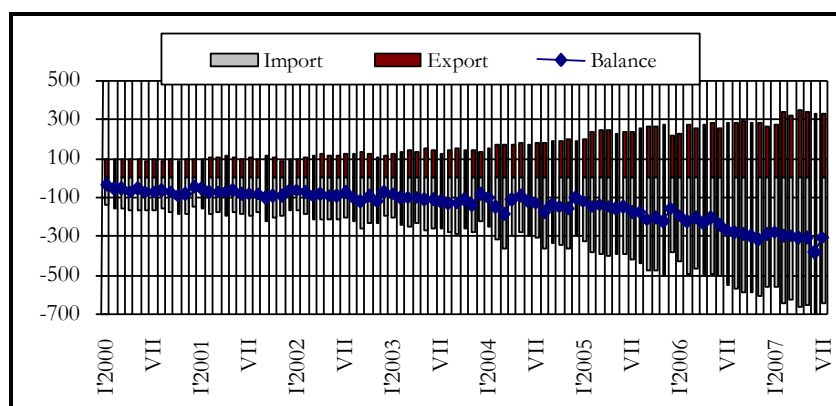
In August 2007 exports to the EU increased by 18.2% as compared with August of the previous year and amounted to 253.6 mln lats. The share of the EU in total value of exports was 75.6%. Exports to the CIS grew by 25.0% as compared with August of the previous year and amounted to 52.8 mln lats, and the share of exports to the CIS was 15.7%.

The value of imports from the EU in August 2007 grew by 11.9% year-on-year and reached 500.0 mln lats, but the share of EU imports amounted to 77.8%. The value of imports from the CIS in August 2007 increased by 7.2% year-on-year and reached 84.6 mln lats, but the share of CIS imports amounted to 13.2%.

Latvia's main export partners in August of 2007 were Lithuania, accounting for 15.1% of total exports; Estonia, 14.8%; Russia, 11.2%; Germany, 8.7%; Sweden, 8.2%. Main import partners were Lithuania, 16.3%; Germany, 13.8%; Estonia, 8.8%; Russia, 8.0%; and Poland, 7.8%.

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 August increased by 9.2 mln lats year-on-year and amounted to 258.9 mln lats. As compared with August 2006, the goods deficit rose by 6.4 mln lats and stood at 272.5 mln lats. The negative income balance increased – in August 2007, up by 3.6 mln lats from the corresponding period last year and was 28.5 mln lats. Surplus of the services balance in August 2007 amounted to 31.4 mln lats, which was 0.9 mln lats more than in the August of 2006. The surplus of the capital and financial account in August of 2007 was 300.1 mln lats. Net inflow of direct investment in August totalled 40.2 mln lats, which was 33.5 mln lats less than in the August last year. The portfolio investment account in August was negative and amounted to 82.9 mln lats. The Bank of Latvia's reserve assets in the August decreased by 110.9 mln lats.

Central Government Consolidated Budget*, mln lats

	August of 2007	September of 2007	Jan-September of 2007	Jan – September of 2006	% changes (Jan - September) 2007/2006	% of annual plan
Revenue	363.6	340.6	3113.9	2386.6	30.5	69.4
Basic budget tax revenue	208.3	205.3	1707.2	1276.9	33.7	74.3
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-45.6	-
Basic budget non-tax revenue	22.2	11.4	185.4	148.8	24.6	58.5
Self-earned revenue	12.0	11.3	87.9	80.6	9.1	66.5
Social security budget revenue	105.9	106.1	928.9	695.0	33.6	74.4
– transfers from central government basic budget	-1.4	-1.4	-12.4	-10.3	20.5	73.7
Gifts and donations	0.3	0.3	2.9	3.3	-13.2	-
Foreign financial assistance	16.3	7.5	214.1	192.3	11.3	41.9
Expenditure	306.8	317.4	2828.7	2118.8	33.5	63.8
Basic budget	234.6	257.5	2190.4	1561.3	40.3	62.1
– transfers to social security budget	-1.4	-1.4	-12.4	-10.3	20.5	73.7
Social security budget	73.3	60.8	647.6	564.3	14.8	70.0
Gifts and donations	0.3	0.5	3.1	3.5	-12.6	-
Financial balance	56.8	23.1	285.2	267.8	-	-

* including transfers to local government budgets.

21.0

27.6

304.5

202.0

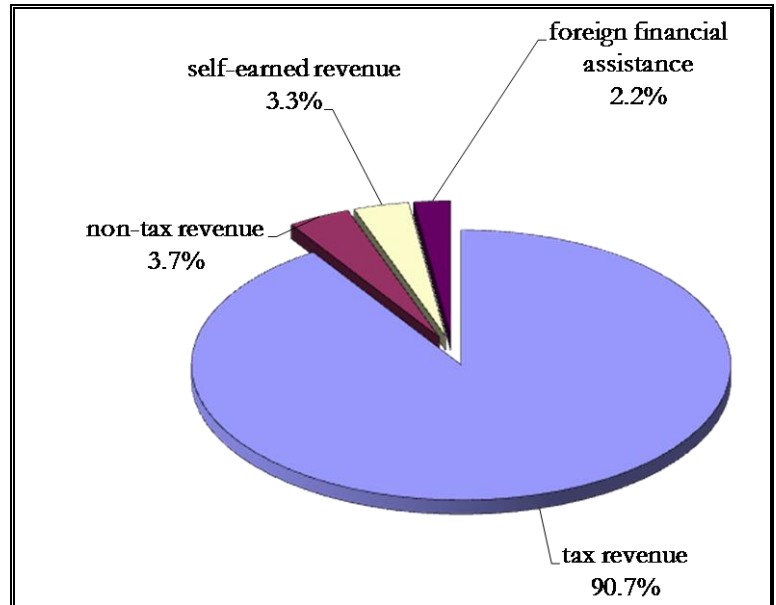
50.7

** 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-September 2007) data, in September 2007 the **central government consolidated budget** revenue (including gifts and donations) was 340.6 mln lats which is 23.1 mln lats or 6.3% less than in August, mainly due to decrease of non-tax revenue in central government basic budget by 10.8 mln lats and revenue from the foreign financial assistance by

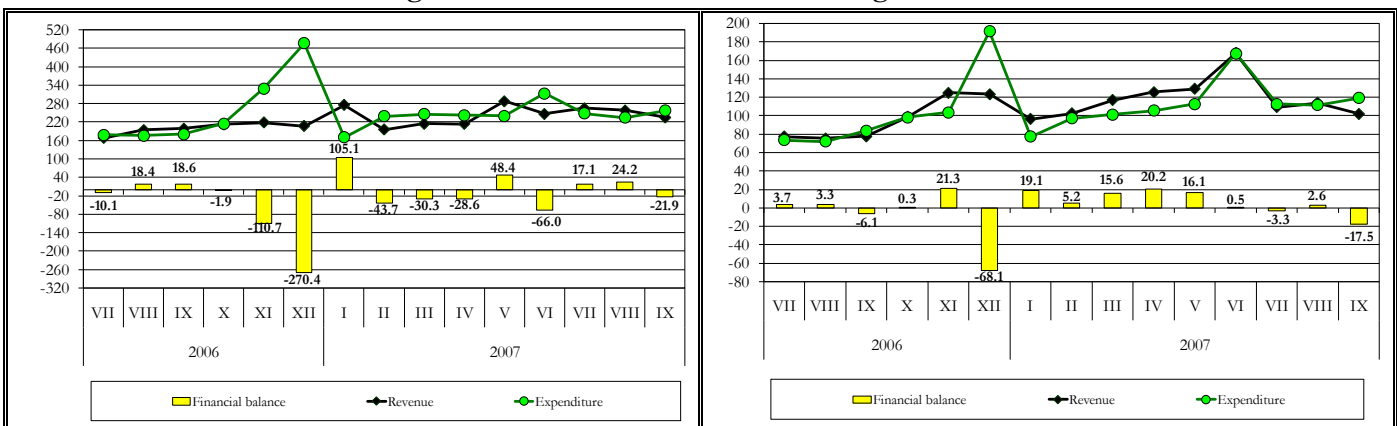
8.8 mln lats. The central government consolidated budget revenue in nine months of 2007 was 3113.9 mln lats, which is 727.3 mln lats or 30.5% more than in the same period of 2006. The most significant increase in comparison with nine months of 2006 was in the revenue from social security contributions, value added tax and corporate income tax. In September 2007, the central government budget expenditure (including gifts and donations) was 317.4 mln lats, which is 10.6 mln lats or 3.5% more than in August 2007. The central government budget expenditure in nine months of 2007 was 2828.7 mln lats and in comparison with the same period of 2006 expenditure increased by 709.9 mln lats or 33.5%. In September 2007, the central government consolidated budget financial surplus was 23.1 mln lats.

Structure of Central Government Basic Budget and Special Budget Revenue in September 2007
percentage



Central government basic budget revenue in September 2007 was 235.5 mln lats, which in comparison with August 2007 is 23.2 mln lats or 9.0% less. In comparison with August 2007, tax revenue was 205.3 mln lats, which is 2.9 mln lats or 1.4% less, mainly due to decrease of corporate income tax by 7.6 mln lats. In September 2007 the non-tax revenue was 11.4 mln lats, which is 10.8 mln lats less than in August 2007, mainly due to decrease of payments for the use of state capital by 9.7 mln lats. In September 2007, revenue from the paid services and self-earned revenue was 11.3 mln lats, which is 0.7 mln lats or 5.5% less and revenue from the foreign financial assistance was 7.5 mln lats, which is 8.8 mln lats or 54.0% less than in August.

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



In September 2007, the central government basic budget expenditure was 257.5 mln lats, which is 22.9 mln lats or 9.8% more than in August 2007. In September 2007, the central government basic budget non-capital expenditure was 223.5 mln lats or 86.8% of total basic budget expenditure and in comparison with August 2007 is 20.2 mln lats or 10.0% more, mainly due to increase of expenditure for subsidies, grants and social benefits by 8.6 mln lats or 10.8% and increase of targeted grants for local governments by 4.3 mln lats or

28.2%. The central government basic budget capital expenditure in September 2007 was 33.9 mln lats and in comparison with August 2007 is 2.7 mln lats or 8.5% more. In September 2007, the financial deficit in amount of 21,9 mln lats was in the central government basic budget.

Social security budget revenue in September 2007 was 106.1 mln lats, which is 0.1 mln lats or 0.1% more than in August 2007. The social security budget expenditure in September 2007 was 60.8 mln. lats, which in comparison with August 2007 is 12.5 mln lats or 17.0% less. In September 2007, the social security budget financial surplus was 45.3 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in September 2007 in comparison with August 2007 was 12.1 mln lats or 10.6% less. In comparison with August 2007, the tax revenue was 17.6 mln lats or 23.6% less, that was mainly driven by decrease of real estate tax revenue by 11.6 mln lats. The local government basic budget non-tax revenue in September 2007 in comparison with August 2007 was 1.5 mln lats or 49.8% more and the local government basic budget received payments was 3.8 mln lats or 13.2% more, mainly due to the increase of targeted grants for local governments function by 6.4 mln lats. Local government basic budget revenue from the paid services and other self-earned revenue in September 2007 was 0.4 mln lats or 6.3% more than in August 2007.

In September 2007 the local government basic budget expenditure was 119.2 mln lats, which is 7.9 mln lats or 7.1% more than August 2007, mainly due to increase of expenditure for wages by 7.4 mln lats or 31.7%. In September 2007, the financial deficit of 21.1 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	August of 2007	September of 2007	Jan - September of 2007	Jan - September of 2006	% changes (Jan - September) 2007/2006
Revenue	111.1	97.2	997.3	713.3	39.8
Basic budget tax revenue	74.5	56.9	562.0	403.1	39.4
Basic budget non-tax revenue	3.0	4.5	31.3	23.6	32.5
Basic budget received payments	28.9	32.7	401.0	276.6	45.0
-mutual payments*	-9.9	-11.9	-138.5	-100.6	37.7
Basic budget self-earned revenue	7.1	7.5	66.3	52.1	27.1
Special budget revenue**	7.1	7.3	73.9	53.1	39.3
Foreign financial assistance	0.4	0.1	1.3	5.5	-75.8
Expenditure	111.2	118.2	934.8	661.1	41.4
Basic budget expenditure	111.3	119.2	1003.4	715.0	40.3
-mutual payments*	-9.9	-11.9	-138.5	-100.6	37.7
Special budget expenditure**	9.8	10.9	69.9	46.7	49.7
Financial balance	-0.1	-21.1	62.5	52.2	-

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

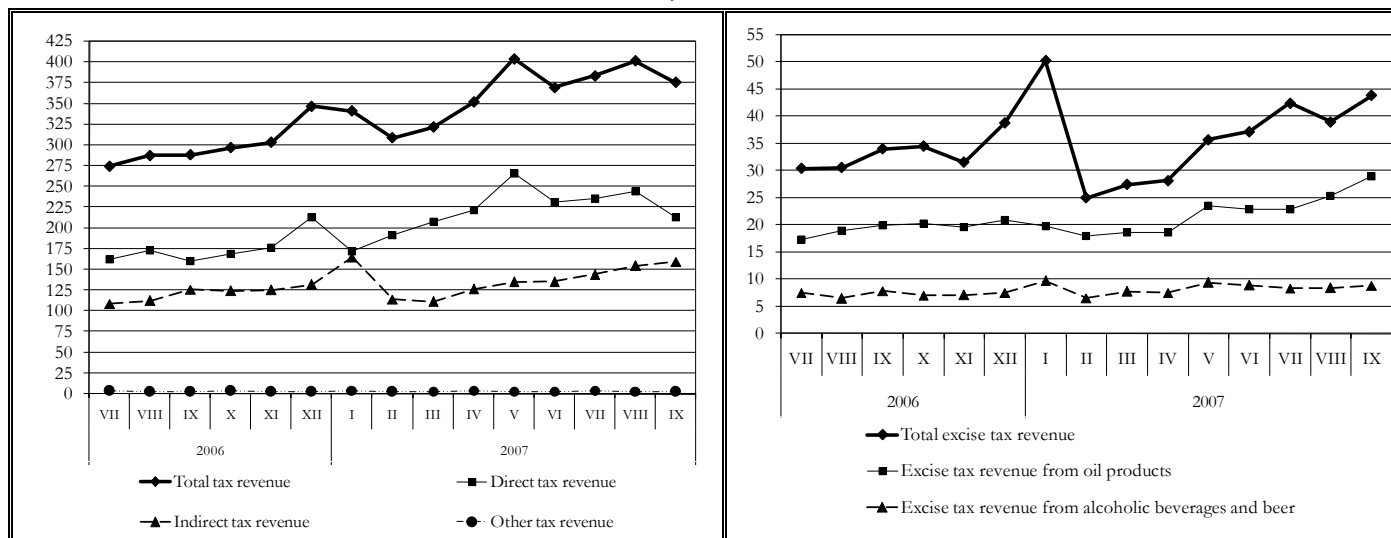
** including gifts and donations; excluding revenue from privatisation.

Value added tax revenue in September 2007 was 112.2 mln lats and in comparison with August 2007 is 0.9 mln lats or 0.8% more. In September 2007, domestically net collected value added tax revenue was 91,4 mln lats or 81,4% of total value added tax revenue and in comparison with August 2007 is 3.1 mln lats or 3.5% more. The value added tax revenue collected on border was 2.2 mln lats or 9.6% less than in August 2007. In September 2007, value added tax repayments were 34.9 mln lats, which is 7.9 mln lats or 18.4% less than in August 2007.

Total **excise tax** revenue in September 2007 was 43.9 mln lats and in comparison with August 2007 is 4.8 mln lats or 12.3% more. Excise tax revenue from tobacco products in September 2007 was 5.4 mln lats, which is 0.6 mln lats or 13.7% more than in August 2007. Excise tax revenue from alcoholic beverages was 7.5 mln lats and in comparison with August 2007 is 0.2 mln lats or 2.0% less. The excise tax revenue from beer in September 2007 was 1.3 mln lats, which is 0.6 mln lats or 75.3% more than in August 2007. In September 2007, the excise tax revenue from oil products amounted to 29.0 mln lats, which is 3.7 mln lats or 14.4% more than in August 2007. The excise tax revenue from non-alcoholic beverages and coffee in September 2007 was 0.6 mln lats, which is 0.1 mln lats or 21.0% more than in August 2007.

Corporate income tax revenue in September 2007 was 28.8 mln lats and in comparison with August 2007 is 7.6 mln lats or 21.0% less. Corporate income tax revenue in nine months of 2007 was 59.0% more than in the same period of 2006 and revenue was 305.9 mln lats, which is 75.5% of annual plan. 29 of all corporate income tax payers had corporate income tax payment bigger than 1.0 mln lats and these payments make 29.2% of total corporate income tax revenue.

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



Tax Revenue, mln lats

	August of 2007	September of 2007	Jan – September of 2007	Jan – September of 2006	% changes (Jan - September) 2007/2006	% of annual plan
Corporate income tax	36.4	28.8	305.9	192.4	59.0	75.5
Value added tax	111.4	112.2	881.9	664.1	32.8	73.2
Excise tax	39.1	43.9	329.3	261.2	26.1	76.9
Cars and motorcycles tax	1.5	1.2	13.0	9.8	33.3	73.2
Social security contributions*	118.5	113.4	987.4	711.1	38.8	74.5
Custom duties	2.3	2.2	20.6	14.8	39.2	76.3
Personal income tax	76.1	69.4	632.3	465.0	36.0	72.6
Real estate tax	13.4	1.7	57.9	51.1	13.3	81.5

* including the State Funded Pension Scheme financial means of 8.7 mln lats in September 2007 and 14.1 mln lats in August 2007.

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

	End of September 2007	End of September 2007	End of August 2007	End of September 2007
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	4.319	0.01	0.01	25 004.73
1 year T-bills	4.896	12.37	12.37	47 256.742
2 year T-bills	5.959	0.58	0.58	2 216.915
5 year bonds	5.237	31.33	31.33	119 638.017
10 year bonds	4.728	55.45	55.45	211 746.079
11 year bonds	5.650	0.26	0.26	997 992.50

Smilšu street 1. Rīga. Phone 7095539. Fax 7095541.
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