

STATE BUDGET

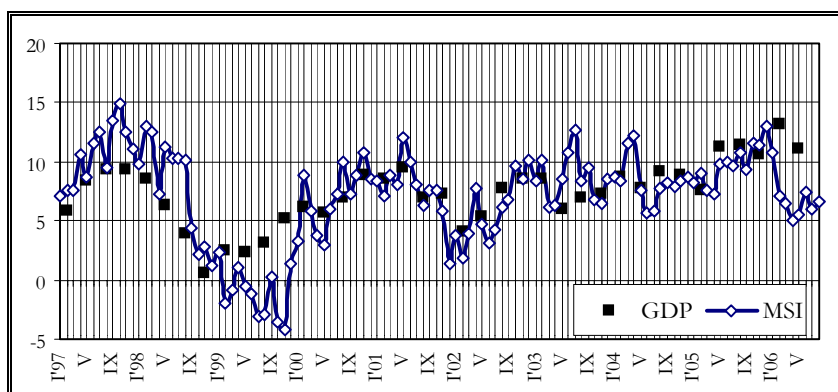
August '06

According to the Central Statistical Bureau, real **Gross Domestic Product (GDP)** in the first half of 2006 grew by 12.0% year-on-year, of which growth in the 1st quarter amounted to 13.1%, but in the 2nd quarter to 11.1%. The increase in GDP in this period was due to the rises in the following sectors: 18.2% in trade (share in GDP structure 21.5%), 8.6% in transport and communications (14.2%), 6.5% in manufacturing (12.4%) and 16.7% in construction (5.7%).

According to the estimations of the Ministry of Finance, growth of the **Composite Index of Macroeconomic Indicators (MSI)** in August amounted to 6.7% in constant prices. The increase of index was restricted by the increase in industry producer prices in manufacturing. The highest growth of index was determined by changes in the transport sector: there were decreases in the amount of cargo turnover and cargo traffic by rail. However the growth of index was stimulated by the increases in the domestic money supply M2D and in the amount of cargoes loaded and unloaded in ports.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2005 2Q	2006 2Q	2006		
				July	August	August ²
Industrial output index ³	% ¹	4.9	1.0	-0.4	*	*
Consumer price index	% ¹	2.4	1.8	0.6	-0.2	6.8
Producer price index	% ¹	0.8	2.7	0.8	0.9	11.1
Cash in circulation (net of vault balances)	mln Ls	766.7	927.9	948.8	961.4	22.5
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 244.4	1 879.9	1 978.6	2 201.5	67.1
Average short-term interest rates for credits (in lats)	%	5.7	7.0	7.4	7.8	-
Unemployment rate (end of the period)	%	7.9	7.0	6.9	6.9	-
Exports	mln Ls	725.1	818.4	258.7	*	*
Imports	mln Ls	1 176.0	1 468.6	503.8	*	*

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 August amounted to 5.6 mln t, up by 13.0% from the corresponding month of 2005. The volume of cargo transhipped in ports in the first eight months of 2006 totalled 40.8 mln t, which was 1.1% more than in the same period of the previous year.

The officially registered **unemployment rate** in August did not change from the previous month and at the end of the month was 6.9% of the economically active population. The number of the registered unemployed decreased by 0.3 thsd people from the previous month and amounted to 73.1 thsd people. As compared with August 2005, the unemployment rate decreased by 0.9 percentage points, but the number of the registered unemployed decreased by 10.3 thsd people. The highest unemployment rate in August was registered in the district of Ludza, 26.6% (28.2% in August of 2005); in the district of Rēzekne, 24.8% (26.0%); and in the district of Krāslava, 19.7% (22.0%). The lowest unemployment rate was registered in Rīga, 3.9% (4.5%); in the district of Rīga, 4.9% (5.1%); and in the district of Ogre, 5.0% (5.4%).

In August, there was a month-on-month decline of the consumer prices in Latvia. The **Consumer Price Index (CPI)** in August declined by 0.2% from the previous month, of that prices for goods decreased by 0.5%, but for services grew by 0.5%.

The strongest effect on the consumer prices in August was produced by a decrease in the prices for potatoes, fruits and vegetables. As compared with July, the prices for vegetables decreased by 21.1%, for potatoes by 18.1%, and for fruits by 5.1%.

Of the food products, meat and meat products, fish and fish products, milk and milk products, sweets, eggs, cheese became more expensive, but the prices of alcoholic beverages decrease.

With the new payment rates for sworn notaries services coming into force, fees for legal services in August went up. The prices of tobacco products continued to rise. Prices rose for motor petrol but decreased for diesel fuel.

There were price increases for a variety of services such as bus traffic, catering, health treatment, home care, sowing and cleaning of clothing, cultural and entertainment services.

The prices of communication services continued to go down. There were also price decreases for household appliances, mobile telephones, computer equipment, TV and photographic goods, sports and recreational goods, bicycles and cut flowers.

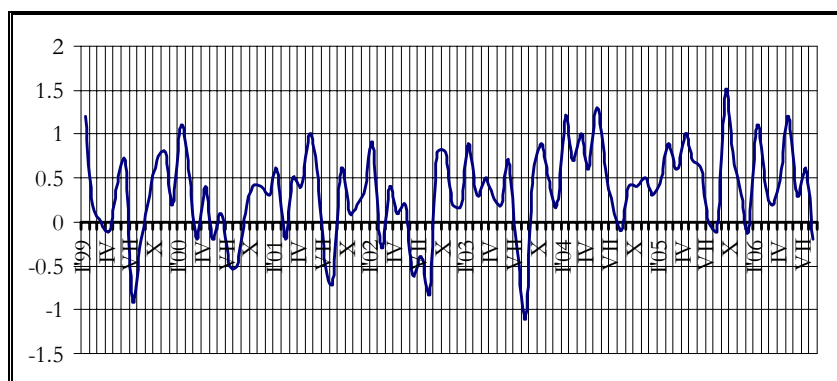
As compared with August 2005, the CPI increased by 6.8%, of which prices for goods grew by 6.9%, and for services by 6.7%.

In **Estonia**, the CPI in August increased by 0.8% from the previous month. The CPI was affected by an increase of home managing costs and by an increase of costs of the fuel. Year-on-year growth of the CPI in Estonia was 5.0%.

In **Lithuania**, the CPI increased by 0.1% from the previous month. As compared with August 2005, the consumer prices in Lithuania increased by 4.2%.

Consumer price index

% over the previous period



In the first seven month of 2006, **exports and imports of goods** amounted to 5 084.2 mln lats and up by 22.1% from the same period last year. As compared with the first seven month of 2005, export of goods grew by 13.1% and amounted to 1 805.7 mln lats, while import increased by 27.6%, reaching the value of 3 278.4 mln lats.

In July 2006, as compared to the July 2005, the trade balance deficit grew by 94.5 mln lats and amounted to 245.1 mln lats.

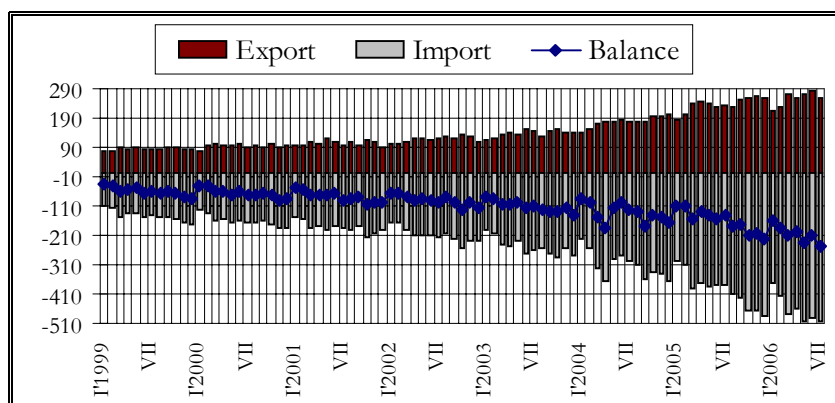
Exports to the EU increased by 7.7% as compared with July of the previous year and amounted to 195.3 mln lats. The share of the EU in total value of exports was 75.5%. Exports to the CIS grew by 21.5% as compared with July of the previous year and amounted to 36.1 mln lats, and the share of exports to the CIS was 14.0%.

The value of imports from the EU in July of the 2006 grew by 25.8% year-on-year and reached 380.3 mln lats, but the share of EU imports amounted to 75.5%. The value of imports from the CIS in July of the 2006 increased by 21.8% year-on-year and reached 75.5 mln lats, but the share of CIS imports amounted to 15.0%.

Latvia's main export partners in July of 2006 were Lithuania, accounting for 14.8% of total exports; Estonia, 12.8%; Germany, 10.4%; Great Britain, 10.1%; Russia, 8.9%. Main import partners were Germany, 17.0%; Lithuania, 13.3%; Poland, 7.5%; Russia, 7.3%; and Estonia, 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 July increased by 106.8 mln lats year-on-year and amounted to 190.0 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the July of 2005, the goods deficit rose by 113.5 mln lats and stood at 241.4 mln lats. The negative income balance increased – in the July of 2006, up by 1.0 mln lats from the corresponding period last year and was 10.8 mln lats. Surplus of the services balance in the July of 2006 amounted to 37.8 mln lats, which was 6.8 mln lats more than in the July of 2005. The surplus of current transfers increased by 1.0 mln lats year-on-year and in July of 2006 amounted to 24.5 mln lats. The surplus of the capital and financial account in July of 2006 was 101.8 mln lats. Net inflow of direct investment in the July totalled 10.8 mln lats, which was 3.4 mln lats less than in the July last year. The portfolio investment account in the July was negative and amounted to 37.1 mln lats. The Bank of Latvia's reserve assets in the July rose by 105.0 mln lats.

Central Government Consolidated Budget*, mln lats

	July of 2006	August of 2006	Jan-August of 2006	Jan - August of 2005	% changes (Jan - August) 2006/2005	% of annual plan
Revenue	250.7	277.7	2106.7	1707.6	23.4	65.1
Basic budget tax revenue	145.2	151.1	1116.9	853.4	30.9	68.8
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	13.4	23.3	138.0	129.7	6.4	66.5
Self-earned revenue	7.5	11.0	69.0	64.6	6.8	67.3
Social security budget revenue	83.6	84.0	614.1	494.0	24.3	71.5
– transfers from central government basic budget	-1.4	-1.3	-9.4	-10.0	-6.2	59.9
Gifts and donations	0.2	0.5	2.7	3.5	-21.3	-
Foreign financial assistance	2.2	9.2	175.3	172.5	1.6	38.1
Expenditure	232.9	248.0	1900.6	1586.9	19.8	56.5
Basic budget	178.7	177.1	1386.3	1140.0	21.6	53.2
– transfers to social security budget	-1.4	-1.3	-9.4	-10.0	-6.2	59.9
Social security budget	55.3	72.0	520.5	453.5	14.8	67.6
Gifts and donations	0.2	0.2	3.2	3.4	-6.6	-
Financial balance	17.9	29.7	206.1	120.7	-	-
Net lending	4.5	7.1	9.7	-9.8	-	-
Fiscal balance	13.4	22.5	196.4	130.5	-	-

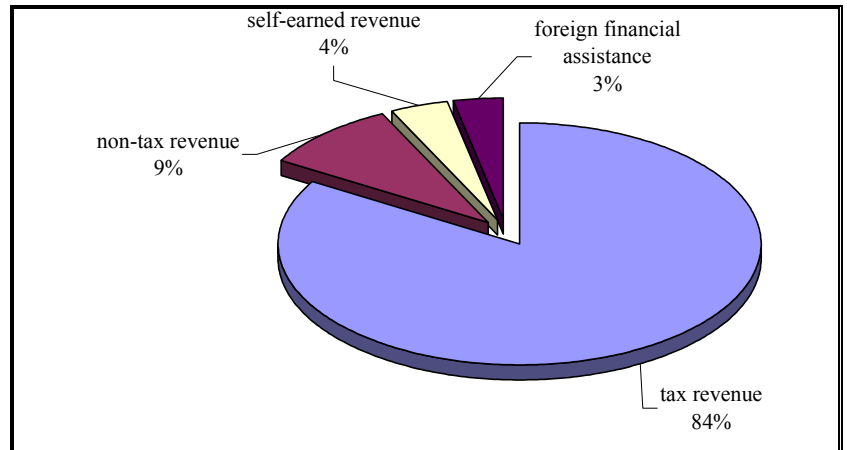
* including transfers to local government budgets.

19.3 12.1 184.7 146.4 26.2

In accordance with the State Treasury's official monthly report's (January-August 2006) data, in August 2006 the **central government consolidated budget** revenue (including gifts and donations) increased by 26.9 mln lats or 10.7%, in comparison with July 2006. The central government consolidated budget revenue in eight months of 2006 was 2106.7 mln lats, which is 399.0 mln lats or 23.4% more than in the same period of 2005. The most significant increase in comparison with eight months of 2005 was in the revenue from value added tax, social security contributions and corporate income tax. In August 2006, the central government budget expenditure (including gifts and donations) was 248.0 mln lats and in comparison with July increased by 15.2 mln lats or 6.5%. The government budget total expenditure in eight months of 2006 was 1900.6 mln lats. In comparison with the same period of 2005, expenditure increased by 313.7 mln lats or 19.8%. In August 2006, the central government consolidated budget fiscal surplus was 22.5 mln lats.

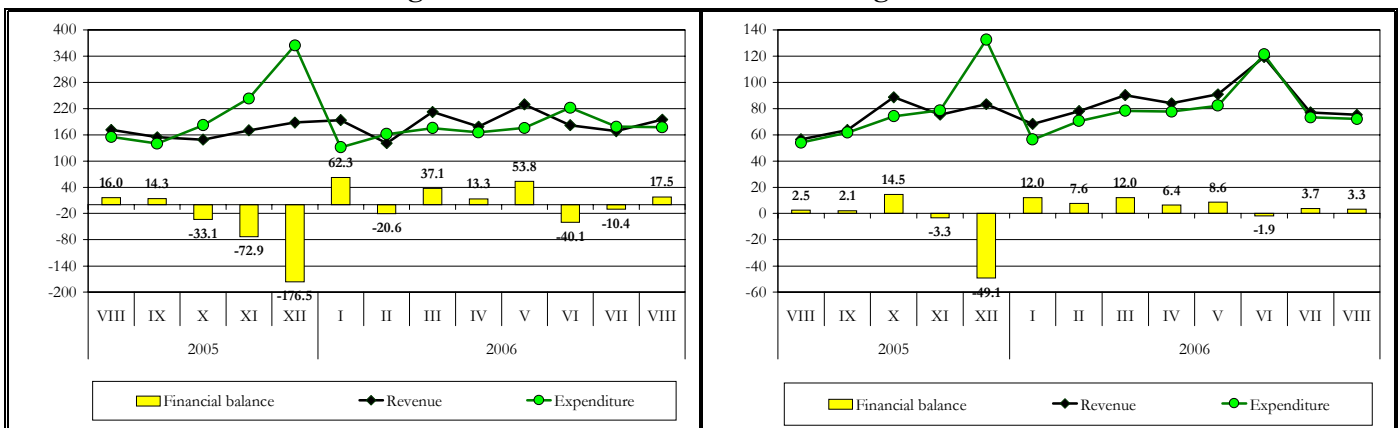
Structure of Central Government Basic Budget and Special Budget Revenue in August 2006

percentage



Central government basic budget revenue in August 2006 was 194.6 mln lats, which in comparison with July 2006 is 26.2 mln lats or 15.6% more. In comparison with July 2006, tax revenue was 5.9 mln lats or 4.1% more. Non-tax revenue increased by 9.8 mln lats or 73.1%, mainly due to the increase of payments for using the state capital by 10.7 mln lats. Payments for using the state capital increased due to payment made by JSC "Latvijas Valsts radio un televīzijas centrs" in amount of 10.0 mln lats. In August 2006, revenue from the paid services and self-earned revenue increased by 3.5 mln lats or 47.1% in comparison with July 2006. In August 2006 in comparison with July 2006, revenue from the foreign financial assistance increased by 7.0 mln lats.

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



In August 2006, central government basic budget expenditure was 177.1 mln lats, which is 1.6 mln lats less than in July 2006. In August 2006, the central government basic budget non-capital expenditure was 143.2 mln lats or 80.8% of total basic budget expenditure. In comparison with July 2006, non-capital expenditure decreased by 15.1 mln lats or 9.5%, mainly due to the decrease of expenditure for subsidies and grants by 8.8 mln lats or 10.9% and for wages by 4.7 mln lats or 13.1%. The central government basic budget capital expenditure in August 2006 was 33.9 mln lats from which investment amounted to 24.7 mln lats or 72.9%. In August 2006, investment expenditure increased by 12.5 mln lats in comparison with July 2006. In August 2006, the fiscal surplus in amount of 10.3 mln lats was in the central government basic budget.

Social security budget revenue in August 2006 was 0.4 mln lats or 0.5% more than in July 2006. In August 2006, the social security budget expenditure was 16.7 mln lats or 30.1% more than in July 2006, mainly due to increase of grants to the population by 16.6 mln lats or 30.9%. In August 2006, the social security budget fiscal surplus was 12.0 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in August 2006 in comparison with July 2006 was 1.8 mln lats or 2.3% less. In comparison with July 2006, the tax revenue was 3.8 mln lats or 8.2% more, mainly due to increase of real estate tax revenue by 3.7 mln lats. The local government basic budget non-tax revenue in August 2006 in comparison with July 2006 was 1.4 mln lats or 57.4% more, but local government basic budget revenue from the paid services and other self-earned revenue was 0.1 mln lats or 2.1% less. The local government basic budget received payments in August 2006 was 6.7 mln lats or 28.6% less than in July 2006.

In August 2006, the local government basic budget expenditure in comparison with July 2006 was 1.3 mln lats or 1.8% less, mainly due to decrease of expenditure for wages by 5.0 mln lats or 22.8%. In August 2006, the fiscal surplus of 3.3 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	July of 2006	August of 2006	Jan - August of 2006	Jan - August of 2005	% changes (Jan - August) 2006/2005
Revenue	75.5	74.6	633.4	513.5	23.3
Basic budget tax revenue	45.8	49.5	357.9	282.3	26.7
Basic budget non-tax revenue	2.5	3.9	29.8	26.0	14.8
Basic budget received payments	23.5	16.8	254.9	215.7	18.2
-mutual payments*	-7.7	-7.1	-92.1	-79.3	16.1
Basic budget self-earned revenue	4.3	4.2	36.4	31.0	17.5
Special budget revenue**	5.7	6.2	39.9	34.4	16.0
Gifts and donations	0.3	0.3	2.3	1.7	38.3
Foreign financial assistance	1.1	0.8	4.2	1.7	143.2
Expenditure	72.1	71.3	579.1	486.9	18.9
Basic budget expenditure	73.3	72.0	631.3	530.6	19.0
-mutual payments*	-7.7	-7.1	-92.1	-79.3	16.1
Special budget expenditure**	6.2	6.1	37.8	33.8	12.1
Gifts and donations	0.4	0.3	2.0	1.9	9.3
Financial balance	3.4	3.3	54.3	26.6	-
Net lending	0.0	0.0	-0.7	0.3	-
Fiscal balance	3.3	3.3	55.0	26.3	-

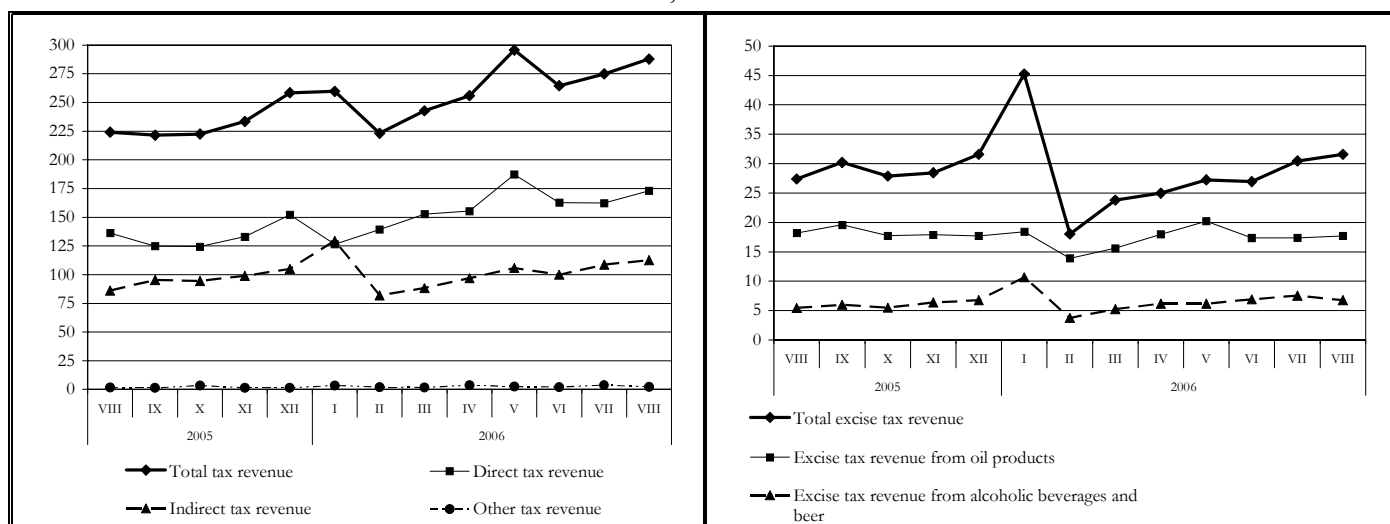
* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

** excluding revenue from privatisation.

Value added tax revenue in August 2006 in comparison with July 2006 was 3.6 mln lats or 4.8% more. In August 2006, the value added tax revenue collected on border was 1.2 mln lats or 6.2% less than in July 2006, but domestically net collected value added tax revenue was 4.8 mln lats or 8.4% more than in July 2006. In August 2006, value added tax repayments were 28.8 mln lats, which were 2.8 mln lats or 8.7% less than in July 2006.

Total **excise tax** revenue in August 2006 in comparison with July 2006 was 0.1 mln lats more. In August 2006, the excise tax revenue from oil products amounted to 18.9 mln lats, which is 1.6 mln lats or 9.0% more than in July 2006. Excise tax revenue from tobacco products in August 2006 was 4.6 mln lats and in comparison with July 2006 was 0.4 mln lats or 7.8% less, but excise tax revenue from alcoholic beverages was 5.3 mln lats and in comparison with July 2006 was 0.9 mln or 13.8% less. The excise tax revenue from beer in August 2006 was 1.2 mln lats, which is 0.2 mln lats or 14.2% less than in July 2006. The excise tax revenue from non-alcoholic beverages and coffee in August 2006 was 0.6 mln lats, which is 11.6 thsd lats or 2.1% more than in July 2006.

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



Total **natural resources tax** revenue in August 2006 was 0.4 mln. lats, which is 1.6 mln lats less than in July 2006. The law "On natural resources tax" stipulates that tax payment for the preceding quarter had to be paid by the 20th date of the following month. Consequently tax payment for the second quarter has to be made by the 20th July 2006, as a result natural resources tax revenue increased in July 2006 but decreased in August 2006.

Tax Revenue, mln lats

	July of 2006	August of 2006	Jan - August of 2006	Jan - August of 2005	% changes (Jan - August) 2006/2005	% of annual plan
Corporate income tax	18.8	23.2	173.2	126.8	36.6	72.6
Value added tax	75.6	79.3	575.3	411.7	39.7	69.3
Excise tax	30.4	30.6	227.2	196.0	15.9	61.3
Cars and motorcycles tax	1.2	1.3	8.5	6.1	41.2	82.5
Social security contributions*	83.8	86.8	628.2	502.6	25.0	71.5
Custom duties	1.5	1.5	12.9	12.1	6.1	67.5
Personal income tax	55.9	55.6	410.7	324.3	26.6	74.7
Real estate tax	3.8	7.5	47.4	44.2	7.1	77.1
Natural resources tax	2.0	0.4	8.1	7.4	9.5	95.0

* including the State Funded Pension Scheme financial means of 4.6 mln lats in August 2006 and 2.5 mln lats in July 2006.

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

	End of August 2006	End of July 2006	End of August 2006	End of August 2006
	Average annual selling rate, (%)	Shares of bonds, %	Shares of bonds, %	Amount in circulation, thsd. LVL
6 month T-bills	3.842	0.59	0.59	2 248.559
1 year T-bills	3.842	11.71	11.71	44 311.397
3 year bonds	4.110	4.21	4.21	15 946.784
5 year bonds	3.300	29.69	29.69	112 335.309
10 year bonds	4.304	53.79	53.79	203 523.085

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