

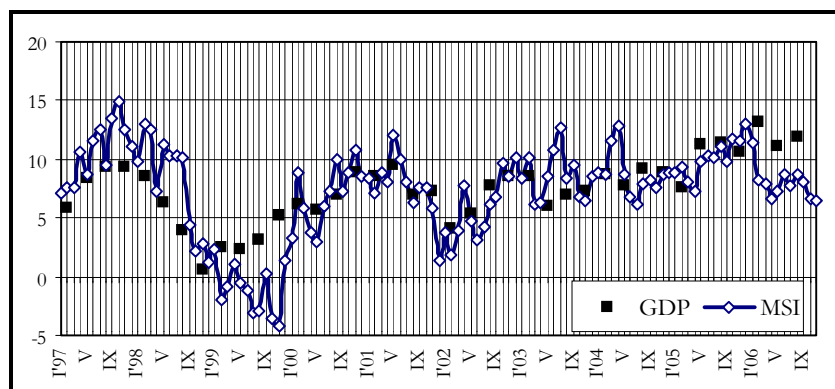
STATE BUDGET

December '06

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in December 2006 grew by 5,5% at constant prices. The increase of index was restricted by the increase in industry producer prices by 13.2. The lowest growth of index was determined by changes in the transport sector: there were decreases in the amount of cargo turnover by rail by 13.9%, cargo traffic – by 16.4%, in the amount of cargoes loaded and unloaded in ports – by 15.1%. The growth of index was stimulated by the increases in the domestic money supply M2D.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2005 4Q	2006 4Q	2006		
				November	December	December ²
Industrial output index ³	% ¹	0.7	*	-1.8	*	*
Consumer price index	% ¹	-0.1	0.3	1.0	0.3	6.8
Producer price index	% ¹	0.4	0.7	1.6	0.7	13.2
Cash in circulation (net of vault balances)	mln. Ls	786.4	969.3	921.3	969.3	23.2
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	1 390.2	2 414.4	2 413.1	2 414.4	73.7
Average short-term interest rates for credits (in lats)	%	5.7	7.3	7.5	7.3	-
Unemployment rate (end of the period)	%	7.4	6.5	6.6	6.5	-
Exports	mln. Ls	798.8	*	287.6	*	*
Imports	mln. Ls	1 448.8	*	287.6	*	*

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 December amounted to 4.7 mln t, down by 15.1% from the corresponding month of 2005. However the volume of cargo transhipped in ports in the first twelve months of 2006 totalled 59.5 mln t, which was 0.8% less than in the same period of the previous year.

Officially registered **unemployment rate** in December decreased by 0,1 percentage point and amounted to 6.5% of the economically active population at the end of the month. The number of the registered unemployed decreased by 0.8 thsd people from the previous month and amounted to 68.9 thsd people. As compared with December 2005, the unemployment rate decreased by 0.9 percentage points, but the number of the registered unemployed fell by 9.5 thsd people. The highest unemployment rate in December was registered in the district of Ludza, 23.4% (27.0% in December of 2005); in the district of Rēzekne, 22.6%

(24.8%); and in the district of Krāslava, 18.4% (21.0%). The lowest unemployment rate was registered in Rīga, 3.8% (4.1%); in the district of Rīga, 4.8% (5.7%) and in the district of Ogre, 5.0% (5.7%).

The **Consumer Price Index (CPI)** in December increased by 0.3% from the previous month, of that prices for goods grew by 0.2%, but for services grew by 0.6%.

Over the month the rise in the prices of food and catering services as well as the fall in the prices of telecommunications services had the greatest impact on consumer price changes.

The increase in prices was for vegetables by 6.1%, bread and grain mill products by 1.3%, fresh meat by 1.2%, cheese by 1.4% and eggs by 2.7%.

There were rises in the prices of dwelling maintenance and repair, recreation and culture, healthcare, passenger transportation by road and in the prices of services of the personal grooming service establishments. After a price decrease in several months, fuel in December became more expensive by 1.0%.

Due to special offers there were price decreases for telecommunications services by 1.3%. and postal services by 13.4% as well as for alcoholic beverages by 0.5% and household appliances by 1.5%.

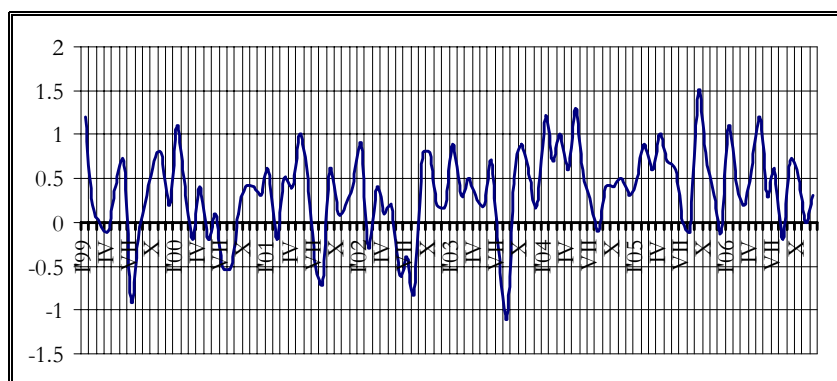
As compared with December 2005, the CPI increased by 6.8%, of which prices for goods grew by 6.4% and for services by 7.9%.

In **Estonia**, the CPI increased by 0.3% from the previous month. As compared with December 2005, the consumer prices in Estonia increased by 5.1%.

In **Lithuania**, the CPI in December increased – by 0.2%. Year-on-year growth of the CPI in Lithuania was 4.5%.

Consumer price index

% over the previous period



In the first eleven month of 2006, **exports and imports of goods** amounted to 8 623.4 mln lats up by 23.5% from the same period last year. As compared with the first eleven month of 2005, export of goods grew by 13.7% and amounted to 2 974.7 mln lats, while import increased by 29.3%, reaching the value of 5 648.7 mln lats.

In November 2006, as compared to the November 2005, the trade balance deficit grew by 96.1 mln lats and amounted to 303.6 mln lats.

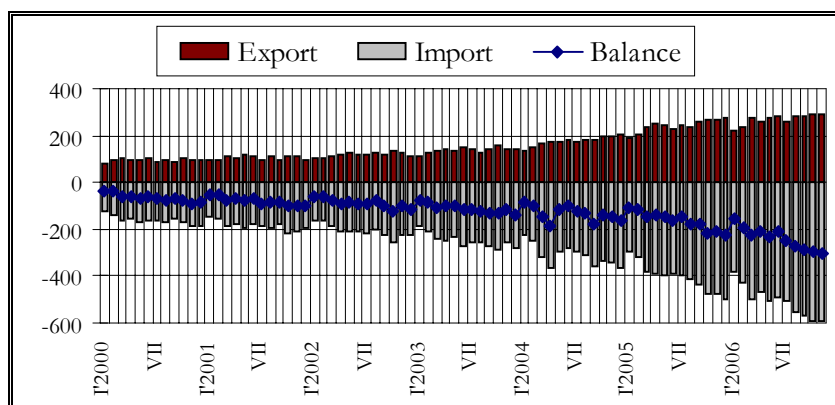
Exports to the EU increased by 5.1% as compared with November of the previous year and amounted to 211.7 mln lats. The share of the EU in total value of exports was 73.6%. Exports to the CIS grew by 42.8% as compared with November of the previous year and amounted to 46.9 mln lats, and the share of exports to the CIS was 16.3%.

The value of imports from the EU in November of the 2006 grew by 27.6% year-on-year and reached 454.7 mln lats, but the share of EU imports amounted to 76.9%. The value of imports from the CIS in November of the 2006 increased by 10.6% year-on-year and reached 81.5 mln lats, but the share of CIS imports amounted to 13.8%.

Latvia's main export partners in November of 2006 were Lithuania, accounting for 14.6% of total exports; Estonia, 13.0%; Russia, 11.1%; Germany, 9.4%; Sweden, 6.8%. Main import partners were Germany, 15.4%; Lithuania, 12.1%; Russia, 8.1%; Estonia, 7.9%; and Finland, 6.8%.

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 November increased by 163.5 mln lats year-on-year and amounted to 285.3 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the November of 2005, the goods deficit rose by 92.4 mln lats and stood at 276.9 mln lats. The negative income balance increased – in the November of 2006, up by 13.3 mln lats from the corresponding period last year and was 17.9 mln lats. Surplus of the services balance in the November of 2006 amounted to 21.3 mln lats, which was 13.4 mln lats less than in the November of 2005. The surplus of the capital and financial account in November of 2006 was 334.8 mln lats. Net inflow of direct investment in the November totalled 85.8 mln lats, which was 73.5 mln lats more than in the November last year. The portfolio investment account in the November was positive and amounted to 21.3 mln lats. The Bank of Latvia's reserve assets in the November rose by 31.6 mln lats.

In accordance with the State Treasury's official monthly report's (January-December 2006) data, **general government consolidated budget** revenue in 2006 was 4029.1 mln lats, which is 823.6 mln lats or 25.7% more than in 2005. In comparison with 2005 the general government consolidated budget expenditure increased by 808.8 mln lats or 24.4% and was 4127.6 mln lats. General government consolidated budget fiscal deficit in 2006 was 31.4 mln lats, but in 2005 – 91.6 mln lats.

Central Government Consolidated Budget*, mln lats

	November of 2006	December of 2006	Jan - Dec of 2006	Jan - Dec of 2005	% changes (Jan - Dec) 2006/2005	% of annual plan
Revenue	309.6	315.8	3310.4	2641.0	25.3	97.4
Basic budget tax revenue	160.7	173.2	1773.2	1356.0	30.8	103.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	11.2	14.3	188.8	170.2	10.9	72.2
Self-earned revenue	7.9	10.5	110.3	103.2	6.9	93.8
Social security budget revenue	87.9	112.4	980.4	769.3	27.4	103.7
– transfers from central government basic budget	-1.3	-3.7	-15.6	-15.2	3.0	100.0
Gifts and donations	4.5	0.5	8.9	5.3	67.3	-
Foreign financial assistance	38.7	8.6	264.3	252.1	4.8	70.3
Expenditure	407.2	569.2	3408.4	2738.6	24.5	96.5
Basic budget	352.1	484.1	2620.3	2069.7	26.6	95.5
– transfers to social security budget	-1.3	-3.7	-15.6	-15.2	3.0	100.0
Social security budget	56.0	88.1	798.6	678.1	17.8	99.6
Gifts and donations	0.5	0.7	5.1	5.9	-14.2	-
Financial balance	-97.6	-253.5	-98.0	-97.6	-	-
Net lending	-18.2	7.3	3.1	1.7	-	-
Fiscal balance	-79.4	-260.7	-101.1	-99.3	-	-

* including transfers to local government budgets.

45.9

38.6

316.2

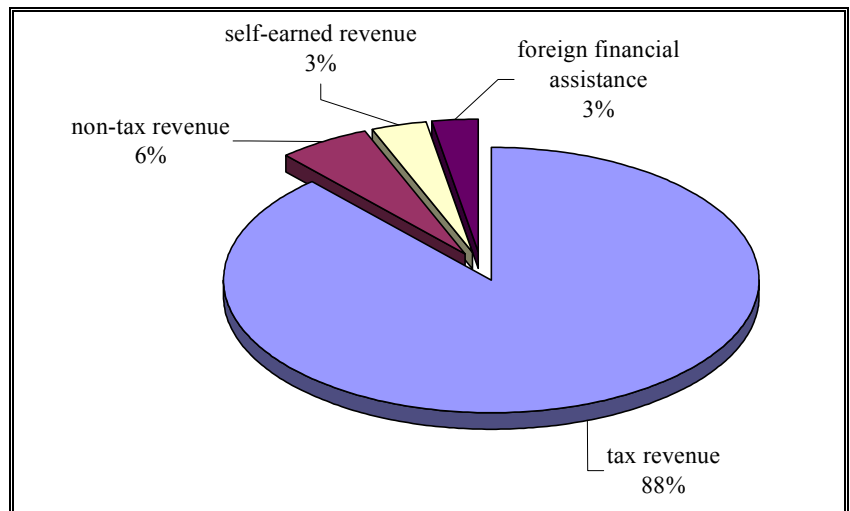
232.2

36.2

In December 2006 the **central government consolidated budget** revenue (including gifts and donations) increased by 6.1 mln lats or 2.0%, in comparison with November 2006. The central government consolidated budget revenue in 2006 was 3310.4 mln lats, which is 669.4 mln lats or 25.3% more than in 2005. The most significant increase in comparison with 2005 was in the revenue from value added tax, social security contributions, corporate income tax and personal income tax. In December 2006, the central government

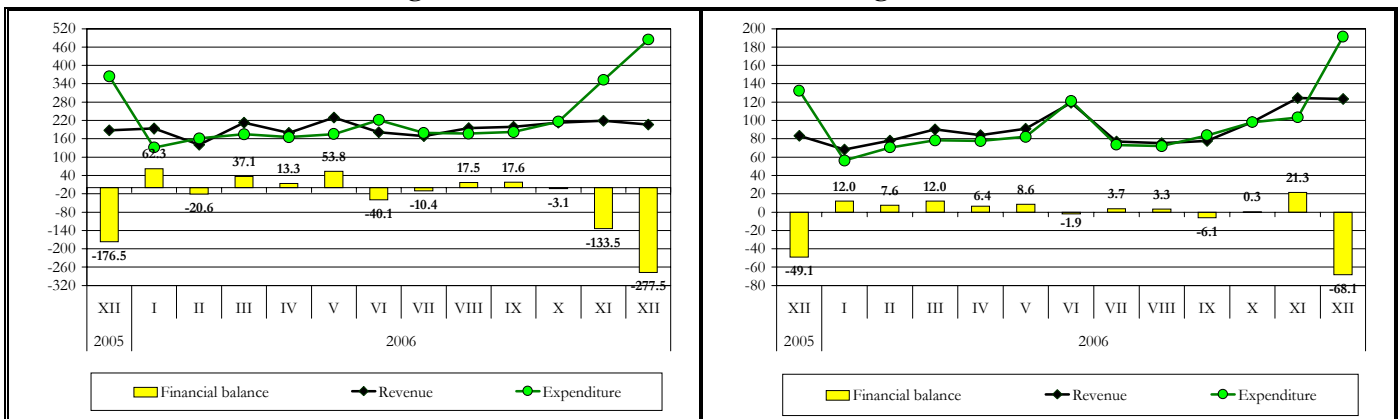
budget expenditure (including gifts and donations) was 569.2 mln lats and in comparison with November increased by 162.0 mln lats or 39.8%. The central government budget total expenditure in 2006 was 3408.4 mln lats. In comparison with 2005, expenditure increased by 669.8 mln lats or 24.5%. In December 2006, the central government consolidated budget fiscal deficit was 260.7 mln lats.

Structure of Central Government Basic Budget and Special Budget Revenue in December 2006
percentage



Central government basic budget revenue in December 2006 was 206.6 mln lats, which in comparison with November 2006 is 11.9 mln lats or 5.4% less. In comparison with November 2006, tax revenue was 12.5 mln lats or 7.8% more. Non-tax revenue increased by 3.1 mln lats or 27.5%. In December 2006, revenue from the paid services and self-earned revenue increased by 2.6 mln lats or 33.2% in comparison with November 2006. In December 2006 in comparison with November 2006, revenue from the foreign financial assistance decreased by 30.1 mln lats or 77.9%.

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



In December 2006, central government basic budget expenditure was 484.1 mln lats, which is 132.1 mln lats or 37.5% more than in November 2006. In December 2006, the central government basic budget non-capital expenditure was 390.8 mln lats or 80.7% of total basic budget expenditure. In comparison with November 2006, non-capital expenditure increased by 90.5 mln lats or 30.1%, from which the grants for institutions, organizations and enterprises increased by 39.8 mln lats 44.4%, the expenditure for wages increased by 16.3 mln lats or 35.2% and grants to local governments' budgets increased by 6.6 mln lats. The central government basic budget capital expenditure in December 2006 was 93.3 mln lats from which investment amounted to 45.5 mln lats or 48.7%. In December 2006, investment expenditure increased by 13.1 mln lats or 40.4% in comparison with November 2006. In December 2006, the fiscal deficit in amount of 284.8 mln lats was in the central government basic budget.

Social security budget revenue in December 2006 was 24.4 mln lats or 27.8 % more than in November 2006. In December 2006, the social security budget expenditure was 32.1 mln lats or 57.4% more than in

November 2006, mainly due to the increase of grants to the population by 30.9 mln lats or 57.2%. In December 2006, the social security budget fiscal surplus was 24.2 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in December 2006 in comparison with November 2006 was 1.3 mln lats less. In comparison with November 2006, the tax revenue was 8.9 mln lats or 16.8% more, due to increase of personal income tax revenue by 12.1 mln lats or 26.7%. The local government basic budget non-tax revenue in December 2006 in comparison with November 2006 was 3.1 mln lats or 82.2% more, but local government basic budget revenue from the paid services and other self-earned revenue was 0.8 mln lats or 15.1% more. The local government basic budget received payments in December 2006 was 15.2 mln lats or 24.5% less than in November 2006, mainly due to the grants for investment and grants for local governments' activities made in November 2006 in amount of 20.6 mln lats and 5.3 mln lats.

In December 2006, the local government basic budget expenditure in comparison with November 2006 was 88.2 mln lats or 85.4% more, mainly due to increase for capital expenditure by 19.9 mln lats, increase of expenditure for wages by 18.5 mln lats or 55.1% and increase for investment by 13.0 mln lats. In December 2006, the fiscal deficit of 67.0 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	November of 2006	December of 2006	Jan - Dec of 2006	Jan - Dec of 2005	% changes (Jan - Dec) 2006/2005
Revenue	116.7	115.1	1036.2	802.4	29.1
Basic budget tax revenue	53.0	61.9	564.7	436.8	29.3
Basic budget non-tax revenue	3.8	6.9	49.4	41.3	19.6
Basic budget received payments	61.8	46.6	426.2	337.4	26.3
-mutual payments*	-13.9	-14.4	-142.7	-118.2	20.7
Basic budget self-earned revenue	5.5	6.3	58.5	49.0	19.3
Special budget revenue**	5.9	5.6	67.7	49.7	36.1
Gifts and donations	0.2	0.7	4.0	3.1	29.3
Foreign financial assistance	0.6	1.6	8.4	3.3	-
Expenditure	94.9	191.5	1038.8	818.1	27.0
Basic budget expenditure	103.2	191.4	1107.8	877.3	26.3
-mutual payments*	-13.9	-14.4	-142.7	-118.2	20.7
Special budget expenditure**	5.4	13.9	70.2	56.0	25.5
Gifts and donations	0.2	0.6	3.5	3.1	14.6
Financial balance	21.9	-76.4	-2.6	-15.7	-
Net lending	-0.3	-9.4	-10.5	-0.4	-
Fiscal balance	22.2	-67.0	7.9	-15.4	-

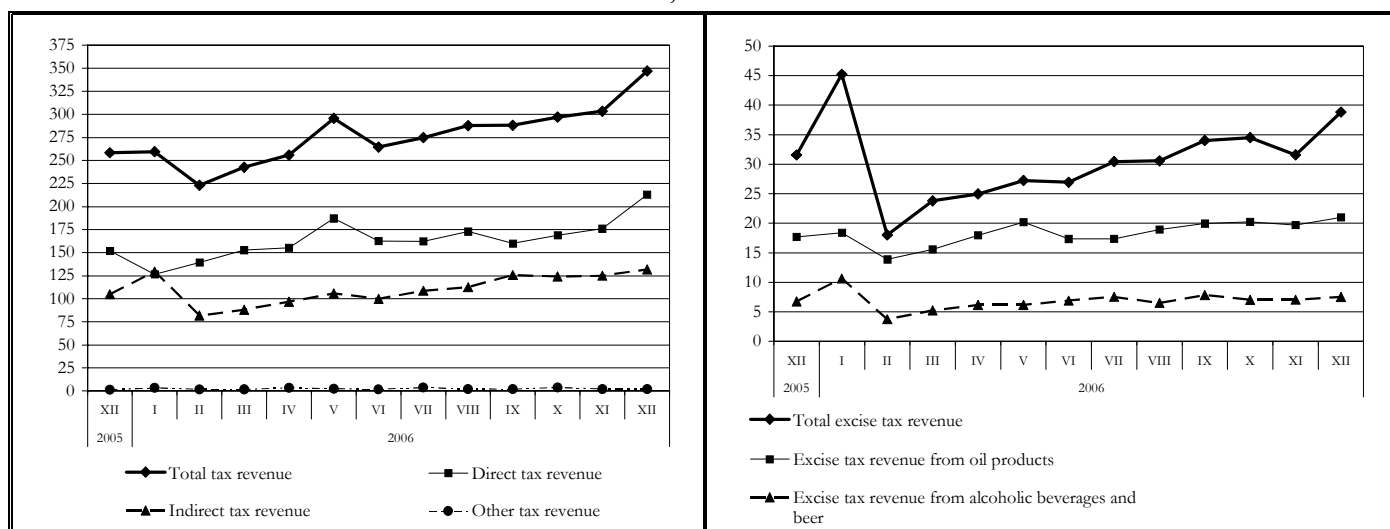
* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

** excluding revenue from privatisation.

Value added tax revenue in December 2006 in comparison with November 2006 was 0.8 mln lats or 0.9% less. In December 2006, the value added tax revenue collected on border was 1.9 mln lats or 9.7% more than in November 2006, but domestically net collected value added tax revenue was 2.7 mln lats or 3.7% less than in November 2006. In December 2006, value added tax repayments were 35.1 mln lats, which were 8.2 mln lats or 30.7% more than in November 2006.

Total **excise tax** revenue in December 2006 in comparison with November 2006 was 7.2 mln lats or 22.9% more. In December 2006, the excise tax revenue from oil products amounted to 21.0 mln lats, which is 1.3 mln lats or 6.7% more than in November 2006. As from 1 January 2007, excise tax rate for cigarettes is going to be raised, that is why already in November 2006 a large amount of tobacco products had been released for free circulation. As a result, taking into account payment order, the excise tax revenue in December 2006 was 9.9 mln lats, which is 5.5 mln lats more than in November 2006. In December 2006, excise tax revenue from alcoholic beverages was 6.8 mln lats and in comparison with November 2006 was 0.5 mln lats or 7.5% more. The excise tax revenue from beer in December 2006 was 0.7 mln lats, which is 48.8 thsd lats or 6.9% less than in November 2006. The excise tax revenue from non-alcoholic beverages and coffee in December 2006 was 0.4 mln lats, which is 13.0 thsd lats or 3.1% less than in November 2006.

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



Tax Revenue, mln lats

	November of 2006	December of 2006	Jan - Dec of 2006	Jan - Dec of 2005	% changes (Jan - Dec) 2006/2005	% of annual plan
Corporate income tax	19.4	21.0	253.8	180.7	40.5	102.9
Value added tax	90.5	89.7	930.5	677.1	37.4	104.0
Excise tax	31.6	38.8	366.2	314.0	16.6	103.8
Cars and motorcycles tax	1.2	1.3	13.7	9.5	43.9	105.8
Social security contributions*	89.4	111.9	1000.2	780.6	28.1	104.1
Custom duties	1.8	2.1	20.7	19.2	7.6	107.4
Personal income tax	60.1	76.0	657.2	509.4	29.0	101.6
Real estate tax	7.3	4.1	66.4	61.6	7.6	100.5
Natural resources tax	0.3	0.2	11.0	10.3	6.1	96.3

* including the State Funded Pension Scheme financial means of 3.7 mln. lats in December 2006 and 3.2 mln lats in November 2006.

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

	End of December 2006	End of November 2006	End of December 2006	End of December 2006
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	4.722	2.54	2.49	10 218.560
1 year T-bills	4.603	11.87	9.29	38 063.937
3 year bonds	4.110	0.00	0.00	0.00
5 year bonds	5.237	33.01	36.53	149 636.650
10 year bonds	4.728	52.58	51.69	211 746.079

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