

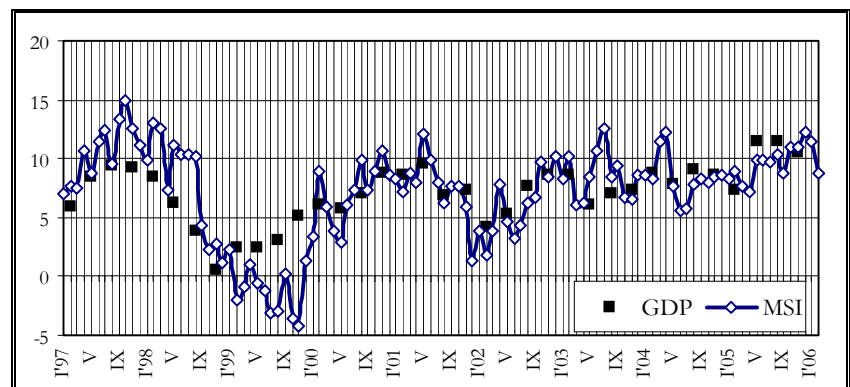
# STATE BUDGET

February '06

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in January 2006 grew by 8,7% at constant prices. The growth of index was stimulated by the increases in the domestic money supply M2D. However the increase of index was restricted by the decrease in the amount of cargo turnover and cargo traffic by rail.

## Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the  
previous year



## Macroeconomic Indicators

		2005	2006		
			January	February <sup>1</sup>	February <sup>2</sup>
Industrial output index <sup>3</sup>	%*	5.8	-0.7	*	*
Consumer price index	%*	6.7	1.1	0.4	6.9
Producer price index	%*	7.8	1.3	0.8	7.2
Cash in circulation (net of vault balances)	mln Ls	774.763	853.868	862.058	19.9%
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1039.231	1406.754	1473.542	34.3%
Average short-term interest rates for credits (in lats)	%	6.1	6.5	6.9	-
Unemployment rate (end of the period)	%	7.4	7.5	7.5	-
Exports	mln Ls	2871.4	217.7	*	*
Imports	mln Ls	4834.7	375.2	*	*

Source: CSB, BoL

<sup>1</sup> over the previous month

<sup>2</sup> over the same period of the previous year

<sup>3</sup> seasonally adjusted data

The volume of **cargo transhipped in ports** in February amounted to 4.5 mln t, down by 10.4% or 527.8 thsd t from the corresponding month of 2005.

In February 2006 the unemployment rate stayed unchanged month-on-month and amounted to 7.5% of the economically active population. The unemployment rate decreased as compared with January 2005 by 1.2 percentage points. The number of the registered unemployed in February 2006 amounted to 79.6 thsd people, which is 0.2 thsd more than in the previous month and by 13.2 thsd less than in February 2005. The highest unemployment rate in February was registered in the district of Ludza, 27.4% (28.1% in February of 2005); in the district of Rēzekne, 25.2% (26.3%); and in the district of Balvi, 22.9 (26.4%). The lowest unemployment rate was registered in Rīga, 4.1% (4.8%); in the district of Ogre, 4.8% (5.6%); and in the district of Rīga, 5.3% (5.9%).

**The Consumer Price Index (CPI)** in February 2006 increased by 0.4% month-on-month, of which prices for goods increased – by 0.4%, but for services – by 0.3%.

In February prices rose especially for vegetables – by 17.6%, for milk and milk products – by 1.9%, for cheese – by 1.6%, for fish and fish products – by 1.2%. Expenditures related to the maintenance of house have increased, because the prices for heat energy grew – by 1.7% and for waste disposal – by 2.1%. Prices also grew for other expenditures related to the maintenance of house.

Prices diminished for bread – by 1.1%, for wearing apparel and foot wear accordingly – by 1.4% and by 6.8%. In February prices declined for mobile telephones – by 4.0% and for telecommunication services – by 1.1%.

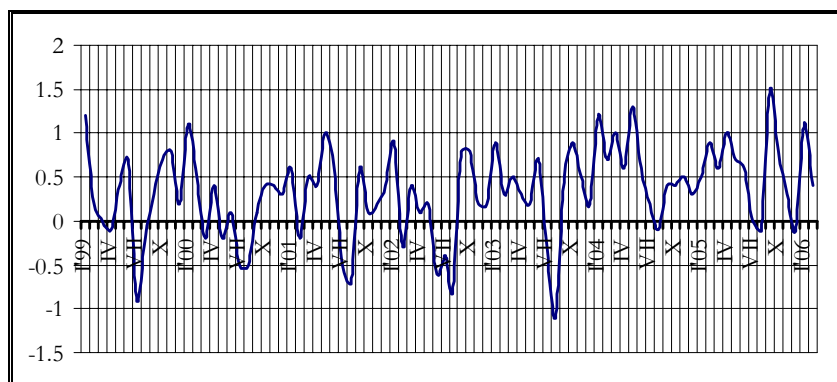
As compared to February of the previous year, consumer prices increased – by 6.9%, of which prices for goods increased – by 6.9% and for services – by 6.8%.

The consumer prices in **Estonia** in February 2006 increased – by 0.5% month-on-month. It was mainly influenced by an increase in the prices for vegetables and fuel, and by a decrease in the prices for telecommunication services. Compared with the February 2005, consumer prices in Estonia increased – by 4.6%.

In **Lithuania**, the CPI in February 2006 remained unchanged month-on-month. Year-on-year growth of the CPI in Lithuania was 3.3%.

### Consumer price index

% over the previous period



In January 2006, **foreign trade** turnover of goods totalled 592.9 mln lats at current prices, which was 22.6% more than in the corresponding period of 2005. The growth of the turnover was due to an increase in export of goods by 15.2%, and in January 2006 the value of export reached 217.7 mln lats. The value of imported goods in January 2006 totalled 375.2 mln lats, up by 27.4% from the January 2005. In January 2006, as compared to the January 2005, the trade balance deficit grew by 51.9 mln lats and amounted to 157.5 mln lats.

In January 2006, as compared with December 2005, the value of export decreased by 16.8%, but the value of import by 22.2%.

Compared with January 2005, the sharpest increases were 89.1% in the exports of alive animal and animal originating products. Exports also increase in food industry. In January export decrease for mineral products and articles of base metals.

The share of the EU in total value of exports in the January 2006 was 74.6% and amounted to 162.3 mln lats, which is 6,8% more than in the January 2005. Exports to the CIS grew by 66.7% as compared with the January of the previous year and amounted to 27.7 mln lats, while the share of exports to the CIS was 12.7%.

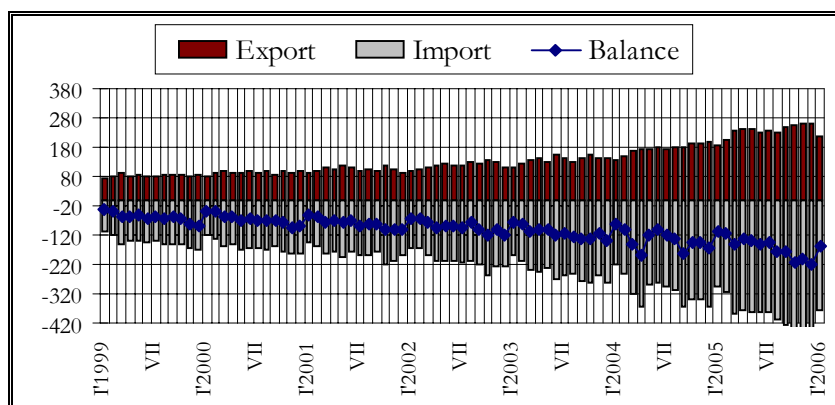
Imports from the EU in the January 2006 stood at 274.3 mln lats, which is 31.1% more than in January 2005, but the share of the EU in total imports was 73.1%. Value of imports from the CIS declined by 6.5% year-on-year and reached 61.0 mln lats, but the share of CIS imports was 16.3%.

Latvia's main export partners in January 2006 were Lithuania, accounting for 12.0% of total exports (9.4% in January 2005); Estonia, 11.3% (10.5%); Germany, 11.1% (10.9%); Russia, 8.6% (5.9%); and Great Britain, 8.3% (13.0%).

The biggest import partners were Germany, 13.8% (12.4%); Lithuania, 12.8% (13.2%); Russia, 10.2% (12.0%); Estonia, 7.9% (7.3%) and Finland, 6.8% (6.2%).

**Foreign trade balance**

mln lats



According to the Bank of Latvia's provisional data, the current account deficit of the **balance of payments** in January 2006 stood at 94.7 mln lats, which was 26.7 mln lats more than in January 2005. The main factor that caused the deterioration of the current account balance was a significant increase in the negative balance of goods; the goods balance posted a deficit of 141.8 mln lats. Surplus of the services balance increased — it went up by 5.3 mln lats and stood at 30.2 mln lats in January 2006. The income balance resumed at 0.1 mln lats. The balance of current transfers, as compared with the January 2005, went up by 12.2 mln lats and was 16.8 mln lats. Surplus of the financial and capital account in January 2006 was 133.3 mln lats. Net inflow of the direct investment in January 2006 totalled 56.9 mln lats, which was 19.3 mln lats more than in the January of the previous year. Surplus of other investments grew by 55.7 mln lats as compared with January 2005. The balance of portfolio investments posted a deficit of 33.7 mln lats, which is 14.8 mln lats less than in the January 2005. The Bank of Latvia's reserve assets in January 2006 increased by 14.5 mln lats.

**Central Government Consolidated Budget\***, mln lats

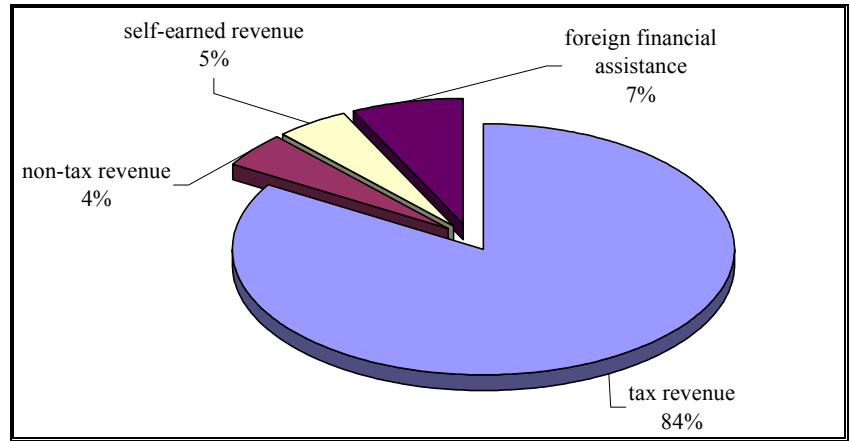
	January of 2006	February of 2006	Jan-Feb of 2006	Jan - Feb of 2005	% changes (Jan - Feb) 2006/2005	% of annual plan
<b>Revenue</b>	<b>257.4</b>	<b>211.9</b>	<b>469.3</b>	<b>361.5</b>	<b>29.8</b>	<b>14.5</b>
Basic budget tax revenue	157.6	107.0	264.6	199.3	32.8	16.3
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-48.3	-
Basic budget non-tax revenue	10.6	8.6	19.2	17.4	10.7	9.3
Self-earned revenue	8.4	9.8	18.3	17.7	3.2	17.8
Social security budget revenue	64.9	71.6	136.4	112.6	21.1	15.9
– transfers from central government basic budget	-1.2	-0.8	-2.0	-2.5	-19.0	12.8
Gifts and donations	0.3	0.3	0.5	0.1	-	-
Foreign financial assistance	16.8	15.3	32.1	16.9	89.9	7.0
<b>Expenditure</b>	<b>205.1</b>	<b>225.3</b>	<b>430.4</b>	<b>365.6</b>	<b>17.7</b>	<b>12.8</b>
Basic budget	131.1	161.4	292.5	243.3	20.2	11.2
– transfers to social security budget	-1.2	-0.8	-2.0	-2.5	-19.0	12.8
Social security budget	74.7	64.3	139.0	124.1	12.1	18.0
Gifts and donations	0.4	0.5	0.9	0.7	22.4	-
<b>Financial balance</b>	<b>52.3</b>	<b>-13.5</b>	<b>38.9</b>	<b>-4.1</b>	<b>-</b>	<b>-</b>
<b>Net lending</b>	<b>-8.3</b>	<b>1.1</b>	<b>-7.3</b>	<b>-17.2</b>	<b>-</b>	<b>-</b>
<b>Fiscal balance</b>	<b>60.7</b>	<b>-14.5</b>	<b>46.1</b>	<b>13.1</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets.

17.1      22.3      39.4      33.5      17.5

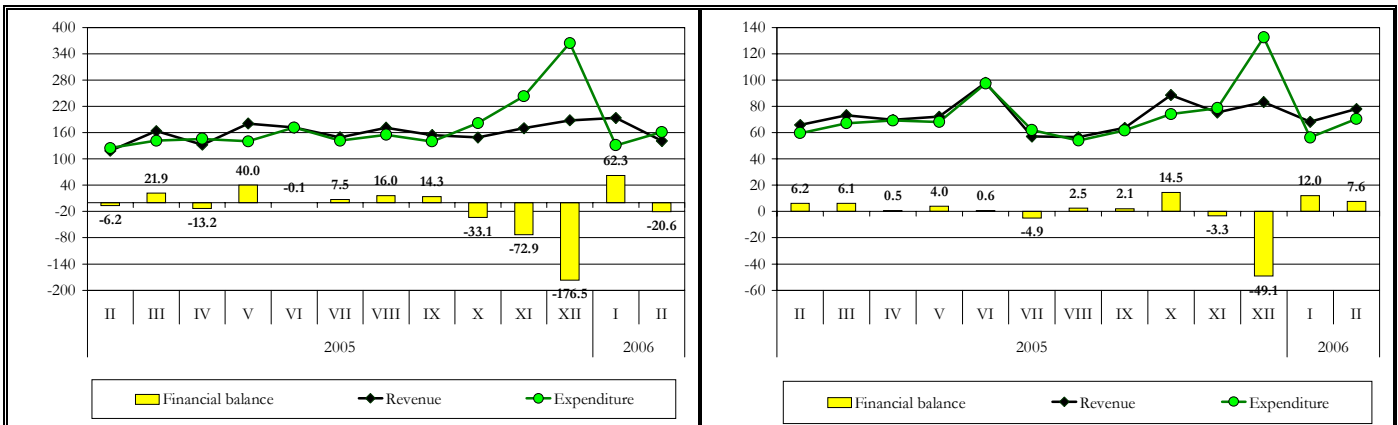
In February 2006 the **central government consolidated budget** revenue (including gifts and donations) was 45.5 mln lats or 17.7% less than in January 2006. The central government consolidated budget revenue in the first two months of 2006 was 107.7 mln lats or 29.8% more than in the same period of 2005. Tax revenue formed the significant part of the central government consolidated budget revenue. The most significant increase in comparison with the first two months of 2005 was in the revenue value added tax, social security contributions and excise tax. In February 2006, the central government budget expenditure (including gifts and donations) was 20.3 mln lats or 9.9% more than in January 2006. The government budget total expenditure in the first two months of 2006 increased by 64.8 mln lats or 17.7%. In February 2006, the central government consolidated budget fiscal de was 14.5 mln lats.

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



**Central government basic budget** revenue in February 2006 was 140.8 mln lats, which in comparison with January 2006 is 52.7 mln lats or 27.2% less. In comparison with January 2006, tax revenue was 50.6 mln lats or 32.1% less, mainly due to decrease of excise tax revenue by 60.1% and value added tax revenue by 24.6%. Rapid tax revenue increase in January and decrease in February is due to payment order and seasonal fluctuations of economical activities. In February 2006 the non-tax revenue was 2.0 mln lats or 18.4% less than in January 2006. In February 2006, revenue from the paid services and self-earned revenue was 1.4 mln lats or 16.3% more, but revenue from the foreign financial assistance was 1.4 mln lats or 8.6% less than in January 2006.

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



In February 2006 central government basic budget expenditure was 161.4 mln lats, which is 30.3 mln lats or 23.1% more than in January 2006. In February 2006, the central government basic budget non-capital expenditure was 155.7 mln lats or 96.5% of total basic budget expenditure and in comparison with January 2006 was 29.7 mln lats or 23.5% more, mainly due to increase of payments in EU budget by 13.2 mln lats and of targeted grants for local governments by 5.2 mln lats. The central government basic budget capital expenditure in February 2006 was 5.7 mln lats from which investment amounted to 3.2 mln lats or 55.8%. In February 2006 investment expenditure decreased by 0.6 mln lats or 14.8% in comparison with January 2006. In February 2006, the fiscal deficit in amount of 21.6 mln lats was in the central government basic budget.

**Social security budget** revenue in February 2006 was 6.7 mln lats or 10.4% more than in January 2006. In February 2006, the social security budget expenditure was 10.4 mln lats or 14.0% less than in January 2006. Decrease of expenditure in February 2006 was mainly due to repayments of loans in amount to 8.9 mln lats paid in January 2006. In February 2006, the social security budget fiscal surplus was 7.3 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in February 2006 in comparison with January 2006 was 9.8 mln lats or 14.3% more. In comparison with January 2006, the tax revenue was 7.9 mln lats or 22.5% more, that was mainly driven by increase of real estate tax revenue by 6.0 mln lats, as a result of tax payments for first quarter. The local government basic budget non-tax revenue in February 2006 in comparison with January 2006 was 0.5 mln lats or 18.1% more, but local government basic budget revenue from the paid services and other self-

earned revenue was 0.4 mln lats or 11.9% more. The local government basic budget received payments in February 2006 was 1.0 mln lats or 3.8% more than in January 2006.

In February 2006, the local government basic budget expenditure in comparison with January 2006 was 14.2 mln lats or 25.2% more, mainly due to increase of expenditure for subsidies and grants by 5.0 mln lats or 36.6% and for wages by 4.7 mln lats or 22.7%. In February 2006, the fiscal surplus of 11.4 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	January of 2006	February of 2006	Jan - Feb of 2006	Jan - Feb of 2005	% changes (Jan - Feb) 2006/2005
<b>Revenue</b>	<b>60.6</b>	<b>74.6</b>	<b>135.2</b>	<b>130.2</b>	<b>3.8</b>
Basic budget tax revenue	35.2	43.1	78.4	63.7	23.1
Basic budget non-tax revenue	2.7	3.2	5.9	5.5	8.6
Basic budget received payments	26.6	27.6	54.2	50.3	7.8
-mutual payments*	-9.9	-10.8	-20.7	-7.6	-
Basic budget self-earned revenue	3.5	3.9	7.4	9.5	-22.7
Special budget revenue**	2.1	7.2	9.3	7.8	19.0
Gifts and donations	0.1	0.0	0.2	0.2	23.6
Foreign financial assistance	0.2	0.2	0.5	0.8	-39.7
<b>Expenditure</b>	<b>48.6</b>	<b>63.2</b>	<b>111.8</b>	<b>110.9</b>	<b>0.8</b>
Basic budget expenditure	56.3	70.5	126.7	112.6	12.5
-mutual payments*	-9.9	-10.8	-20.7	-7.6	-
Special budget expenditure**	2.1	3.4	5.5	5.6	-1.1
Gifts and donations	0.1	0.1	0.2	0.3	-20.2
<b>Financial balance</b>	<b>12.0</b>	<b>11.4</b>	<b>23.4</b>	<b>19.3</b>	<b>-</b>
<b>Net lending</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.2</b>	<b>-</b>
<b>Fiscal balance</b>	<b>12.0</b>	<b>11.4</b>	<b>23.4</b>	<b>18.1</b>	<b>-</b>

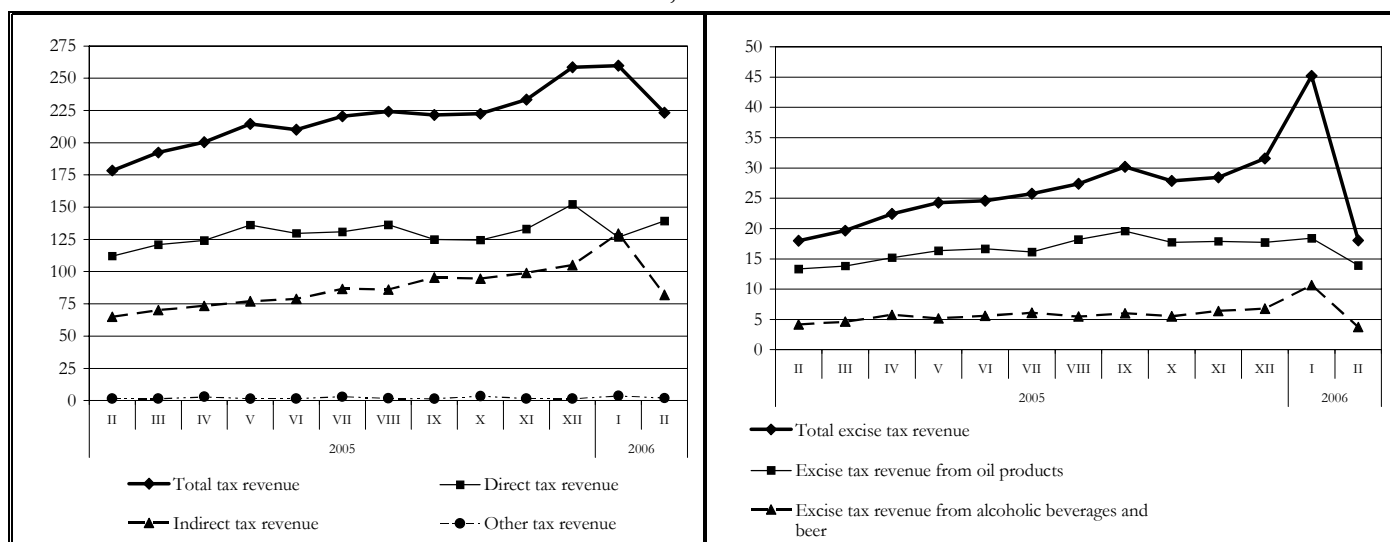
\* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

\*\* excluding revenue from privatisation.

**Value added tax** revenue in February 2006 in comparison with January 2006 was 20.2 mln lats or 24.6% less. In the first two months of 2006, value added tax revenue was 45.9 mln lats or 46.8% more than in the same period of 2005. In February 2006, the value added tax revenue collected on border was 32.2 thsd. lats or 0.2% more than in January 2006, but domestically net collected value added tax revenue was 20.3 mln lats or 30.0% less than in January 2006. In February 2006, value added tax repayments were 22.0 mln lats, which were 0.4 mln lats or 1.8% more than in January 2006.

Total **excise tax** revenue in February 2006 in comparison with January 2006 was 27.2 mln lats or 60.1% less. In the first two months of 2006, total excise tax revenue was 11.4 mln lats or 21.9% more than in the same period of 2005. Excise tax revenue from tobacco products in February 2006 was 49.2 thsd lats and in comparison with January 2006 was 15.7 mln lats less, but excise tax revenue from alcoholic beverages was 3.3 mln lats and in comparison with January 2006 was 6.8 mln lats or 67.6% less. As from January 1, 2006, excise tax rate for cigarettes and alcoholic beverages was raised, that is why in December 2005 a large amount of tobacco products and alcoholic beverages was released for free circulation. As a result, taking into account payment order, the excise tax revenue from tobacco products and alcoholic beverages increased rapidly in January 2006 and decreased in February 2006. The excise tax revenue from beer in February 2006 was 0.5 mln lats, which is 0.1 mln lats or 20.1% less than in January 2006. In February 2006, the excise tax revenue from oil products amounted to 13.9 mln lats, which is 4.5 mln lats or 24.5% less than in January 2006. The excise tax revenue from non-alcoholic beverages and coffee in February 2006 was 0.4 mln lats, which is 63.8 thsd lats or 15.3% less than in January 2006.

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



## Tax Revenue, mln lats

	January of 2006	February of 2006	Jan - Feb of 2006	Jan - Feb of 2005	% changes (Jan - Feb) 2006/2005	% of annual plan
Corporate income tax	13.1	12.5	25.6	21.3	19.9	10.7
Value added tax	82.0	61.8	143.9	98.0	46.8	17.3
Excise tax	45.2	18.0	63.3	51.9	21.9	17.1
Cars and motorcycles tax	0.7	0.7	1.4	1.0	41.2	13.6
Social security contributions*	66.7	72.6	139.3	114.3	21.9	15.9
Custom duties	1.6	1.3	3.0	2.8	6.7	15.6
Personal income tax	45.4	46.8	92.3	75.4	22.4	16.8
Real estate tax	1.4	7.4	8.8	8.6	2.2	14.3

\* including the State Funded Pension Scheme financial means of 1.9 mln lats in February 2006 and 3.6 mln lats in January 2006.

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

	End of February 2006 Average annual selling rate, (%)	End of January 2006	End of February 2006	End of February 2006 Amount in circulation, thsd. LVL
		Shares of bonds, %		
6 month T-bills	2.37	3.25	3.15	12 515.683
1 year T-bills	3.29	14.94	16.50	65 657.955
3 year bonds	4.11	4.14	4.01	15 946.784
5 year bonds	3.30	29.15	28.23	112 335.309
10 year bonds	3.73	48.51	48.11	191 421.070

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