

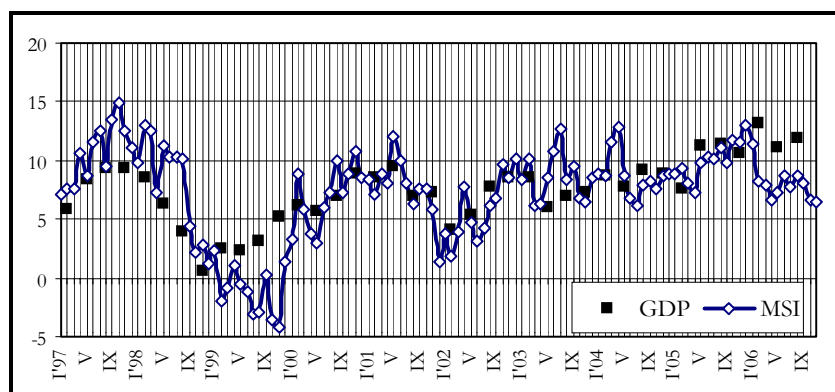
# STATE BUDGET

January '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in January 2007 grew by 6.0% at constant prices. The increase of index was restricted by the increase in industry producer prices by 15.5 as well as by the increase in consumer prices by 7.1%. 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 9.9%, cargo traffic – by 12.2%, in the amount of cargoes loaded and unloaded in ports – by 10.8%. 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

		2006 4Q	2006 December	2007	
				January	January <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	2.5	2.5	*	*
Consumer price index	% <sup>1</sup>	0.3	0.3	1.3	7.1
Producer price index	% <sup>1</sup>	0.7	0.7	3.4	15.5
Cash in circulation (net of vault balances)	mln Ls	969.313	969.313	954.320	24.2
Bank of Latvia net foreign assets (end-of-period)	mln Ls	2 414.366	2 414.366	2 439.012	73.4
Average short-term interest rates for credits (in lats)	%	7.3	7.3	6.7	-
Unemployment rate (end of the period)	%	6.5	6.5	6.5	-
Exports	mln Ls	864.1	282.0	*	*
Imports	mln Ls	1 785.1	605.0	*	*

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 January amounted to 4.4 mln t, down by 10.8% or 540.7 mln t from the corresponding month of 2006.

In January 2007 the **unemployment rate** stay unchanged and amounted to 6.5% of the economically active population. The unemployment rate decreased as compared with January 2006, by 1.0 percentage point. The number of the registered unemployed in January 2007 amounted to 69.5 thsd people, which is 0.6 thsd more than in the previous month and by 9.8 thsd less than in January 2006. The highest unemployment rate in January was registered in the district of Ludza, 23.3% (27.3% in January of 2006); in the district of Rēzekne,

22.2% (25.0%); and in the district of Krāslava, 18.4 (20.9%). The lowest unemployment rate was registered in Rīga, 3.8% (4.1%); in the district of Rīga, 4.8% (5.2%); and in the district of Ogre, 5.2% (4.8%).

**The Consumer Price Index (CPI)** in January 2007 increased by 1.3% month-on-month, of which prices for goods increased – by 1.0%, but for services – by 2.4%.

The rise in the prices of vegetables, catering services, electricity and automotive fuel as well as the fall in the prices of wearing apparel, footwear and natural gas had the greatest impact on consumer price changes in January.

Due to the seasonal impact vegetables have become more expensive – by 25.9%. Prices continued to rise for the following products: bread – by 2.2%, grain mill products – by 1.4%, confectionery – by 1.2%, milk products – by 1.7%, sugar – by 1.9%, meat and meat products – by 0.6%. Coffee became more expensive – by 2.8%, and mineral water – by 2.2%.

In January there were rises in the prices of services and commodities related to dwelling maintenance. Prices continued to rise for the following products: water supply and sewerage – by 5.0%, electricity – by 6.3%, dwelling repair services – by 4.4% and heating – by 1.1%. Due to the reduced rate of value added tax, supply of natural gas became cheaper – by 4.1%.

The services of catering, hairdressers and personal grooming establishments, health and passenger transport by railway became more expensive.

Due to the seasonal sales, there were decreases in the prices of wearing apparel and footwear.

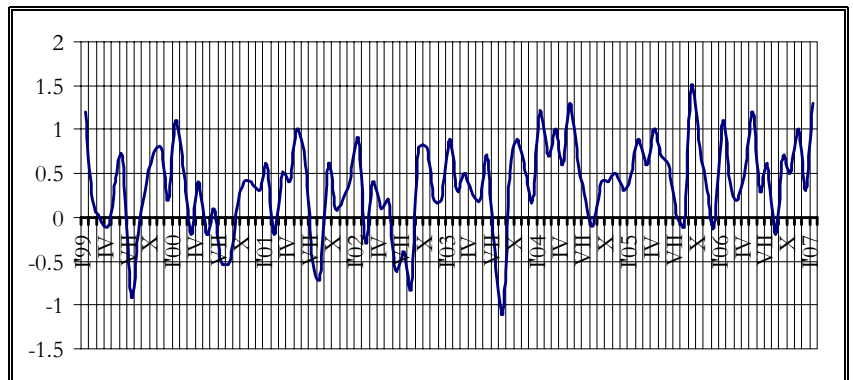
Compared with January of the previous year, consumer prices increased – by 7.1%, of which prices for goods increased – by 6.4% and for services – by 9.3%.

The consumer prices in **Estonia** in January 2007 increased – by 0.9% month-on-month. It was mainly influenced by an increase in the prices for house maintenance, food and services. Compared with the January 2006, consumer prices in Estonia increased – by 5.1%.

In **Lithuania**, the CPI in January 2007 stays unchanged. Year-on-year growth of the CPI in Lithuania was 4.0%.

**Consumer price index**

% over the previous period



In the twelve month of 2006, **exports and imports of goods** amounted to 9 529.6 mln lats up by 22.9% from the same period last year. As compared with the twelve month of 2005, export of goods grew by 12.9% and amounted to 3 261.6 mln lats, while import increased by 28.7%, reaching the value of 6 268.0 mln lats.

In December 2006, as compared to the December 2005, the trade balance deficit grew by 95.3 mln lats and amounted to 323.0 mln lats.

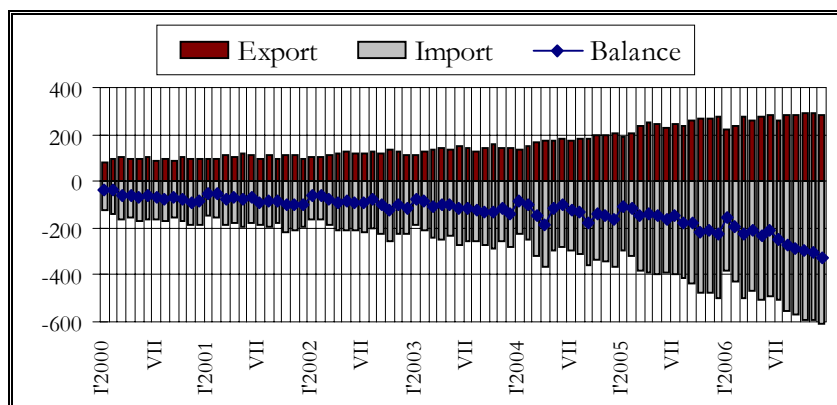
In December 2006 exports to the EU increased by 2.7% as compared with December of the previous year and amounted to 203.7 mln lats. The share of the EU in total value of exports was 72.2%. Exports to the CIS grew by 7.7% as compared with December of the previous year and amounted to 46.2 mln lats, and the share of exports to the CIS was 16.4%.

The value of imports from the EU in December of the 2006 grew by 23.7% year-on-year and reached 463.0 mln lats, but the share of EU imports amounted to 76.5%. The value of imports from the CIS in December of the 2006 increased by 3.0% year-on-year and reached 84.6 mln lats, but the share of CIS imports amounted to 14.0%.

Latvia's main export partners in December of 2006 were Estonia, accounting for 14.7% of total exports; Lithuania, 14.4%; Great Britain, 10.3%; Russia, 9.2%; Germany, 8.5%. Main import partners were Germany, 14.0%; Lithuania, 13.4%; Russia, 8.7%; Estonia, 8.6%; and Poland, 6.7%.

### 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 December increased by 193.2 mln lats year-on-year and amounted to 305.8 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the December of 2005, the goods deficit rose by 115.8 mln lats and stood at 317.3 mln lats. The negative income balance increased – in the December of 2006, up by 21.3 mln lats from the corresponding period last year and was 20.8 mln lats. Surplus of the services balance in the December of 2006 amounted to 13.4 mln lats, which was 17.8 mln lats less than in the December of 2005. The surplus of the capital and financial account in December of 2006 was 379.2 mln lats. Net inflow of direct investment in the December totalled 75.0 mln lats, which was 48.3 mln lats more than in the December last year. The portfolio investment account in the December was positive and amounted to 39.3 mln lats. The Bank of Latvia's reserve assets in the December rose by 22.5 mln lats.

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

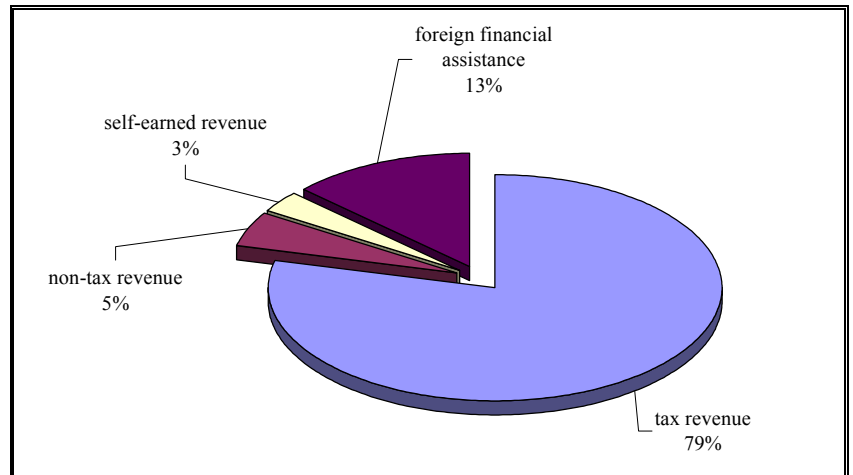
	December of 2006	January of 2007	% changes Jan/Dec	January of 2006	% changes (January) 2007/2006	% of annual plan
<b>Revenue</b>	<b>315.8</b>	<b>361.1</b>	<b>14.4</b>	<b>257.4</b>	<b>40.3</b>	<b>8.6</b>
Basic budget tax revenue	173.2	202.0	16.6	157.6	28.1	9.4
Taxes to be distributed among other budgets	0.0	0.0	-	0.0	-	-
Basic budget non-tax revenue	14.3	15.0	4.3	10.6	41.1	5.3
Self-earned revenue	10.5	10.7	1.7	8.4	27.0	8.1
Social security budget revenue	112.4	86.8	-22.7	64.9	33.8	8.0
– transfers from central government basic budget	-3.7	-1.4	-62.9	-1.2	14.2	8.3
Gifts and donations	0.5	0.3	-45.1	0.3	-10.4	-
Foreign financial assistance	8.6	47.8	-	16.8	-	8.2
<b>Expenditure</b>	<b>562.1</b>	<b>230.7</b>	<b>-59.0</b>	<b>196.1</b>	<b>17.6</b>	<b>5.2</b>
Basic budget	477.0	170.4	-64.3	131.0	30.0	4.9
– transfers to social security budget	-3.7	-1.4	-62.9	-1.2	14.2	8.3
Social security budget	88.1	61.4	-30.3	65.8	-6.7	6.7
Gifts and donations	0.7	0.2	-63.1	0.4	-39.6	-
<b>Fiscal balance**</b>	<b>-246.3</b>	<b>130.5</b>	<b>-</b>	<b>61.3</b>	<b>-</b>	<b>-</b>

\* 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.

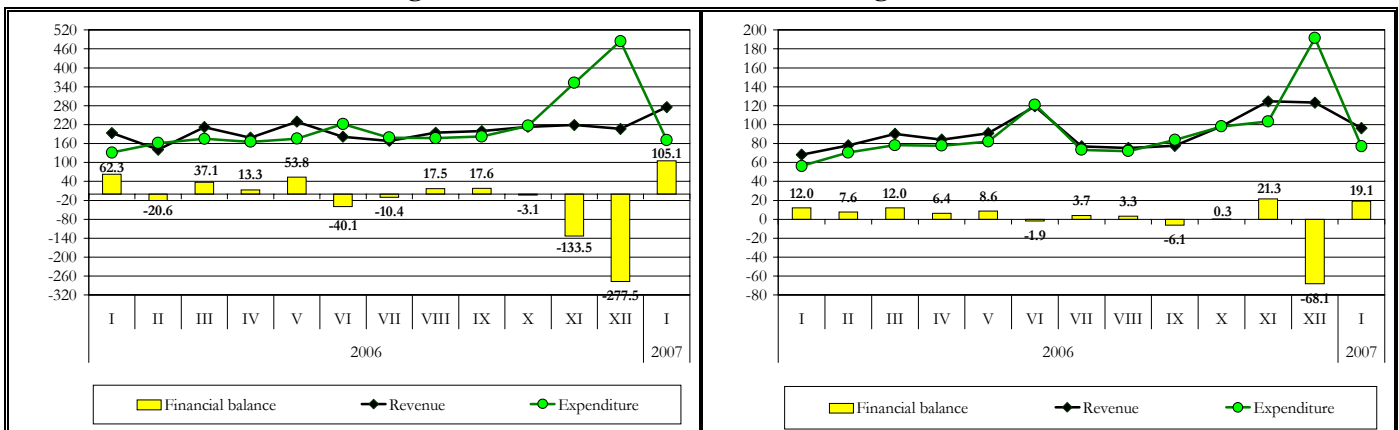
In January 2007 the **central government consolidated budget** revenue (including gifts and donations) was 103.7 mln lats or 40.3% more than in January 2006. Tax revenue formed the significant part of the central government consolidated budget revenue. In comparison with January 2006, the most significant increase was in the revenue from value added tax, social security contributions and corporate income tax. In January 2007, the central government budget expenditure (including gifts and donations) was 34.6 mln lats or 17.6% more than in January 2006. In January 2007, the central government consolidated budget financial surplus was 103.5 mln lats.

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



**Central government basic budget** revenue in January 2007 was 275.4 mln lats, which in comparison with January 2006 is 82.0 mln lats or 42.4% more. In comparison with January 2006, tax revenue was 44.3 mln lats or 28.1% more, mainly due to increase of value added tax revenue by 35.8%. In January 2007 the non-tax revenue was 4.4 mln lats or 41.1% more than in January 2006. In January 2007, revenue from the paid services and self-earned revenue was 2.3 mln lats or 27.0% more, but revenue from the foreign financial assistance was 31.0 mln lats more than in January 2006.

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



In January 2007 central government basic budget expenditure was 170.4 mln lats, which is 39.3 mln lats or 30.0% more than in January 2006. In January 2007, the central government basic budget non-capital expenditure was 160.6 mln lats or 94.3% of total basic budget expenditure and in comparison with January 2006 was 34.2 mln lats or 27.1% more, mainly due to increase of grants for business except of agriculture by 11.2 mln lats or 32.3% and of wages by 6.8 mln lats or 30.6%. The central government basic budget capital expenditure in January 2007 was 9.8 mln lats and in comparison with January 2006 was 5.1 mln lats more. In January 2007, the financial surplus in amount of 105.1 mln lats was in the central government basic budget.

**Social security budget** revenue in January 2007 was 21.9 mln lats or 33.8% more than in January 2006. In January 2007, the social security budget expenditure was 4.4 mln lats or 6.7% less than in January 2006. In January 2007, the social security budget financial surplus was 25.4 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in January 2007 in comparison with January 2006 was 28.0 mln lats or 41.0% more. In comparison with January 2006, the tax revenue was 14.5 mln lats or 41.1% more, due to increase of personal income tax revenue by 14.2 mln lats or 42.4%. As from 2007, the breakdown of personal income tax revenue between central government and local government budget has changed. 79% (instead of previous 75%) of total personal income tax revenue is transferred to the local government budgets, but in the central government budget – 21% (instead of previous 25%). The local government basic budget non-tax revenue in January 2007 in comparison with January 2006 was 1.2 mln lats or 77.9% more, but local government basic budget revenue from the paid services and other self-earned revenue was 2.3 mln lats or 49.1% more. The local government basic budget received payments in January 2007 was 10.3 mln lats or 38.7% more than in January 2006.

In January 2007, the local government basic budget expenditure in comparison with January 2006 was 20.9 mln lats or 37.2% more, mainly due to increase of current expenditure by 9.4 mln lats or 25.3% and of capital expenditure by 3.4 mln lats. In January 2007, the financial surplus of 19.3 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	December of 2006	January of 2007	% changes Jan/Dec	January of 2006	% changes (January) 2007/2006
<b>Revenue</b>	<b>115.1</b>	<b>86.9</b>	<b>-24.5</b>	<b>60.6</b>	<b>43.3</b>
Basic budget tax revenue	61.9	49.7	-19.8	35.2	41.1
Basic budget non-tax revenue	5.1	2.6	-48.0	1.5	77.9
Basic budget received payments	46.6	36.9	-20.8	26.6	38.7
<i>-mutual payments*</i>	<i>-14.4</i>	<i>-13.8</i>	<i>- 4.4</i>	<i>-9.9</i>	<i>40.1</i>
Basic budget self-earned revenue	8.1	7.0	-13.3	4.7	49.1
Special budget revenue**	5.6	4.4	-29.2	2.2	98.7
Foreign financial assistance	1.6	0.0	-99.3	0.2	-95.2
<b>Expenditure</b>	<b>191.5</b>	<b>67.6</b>	<b>-64.7</b>	<b>48.6</b>	<b>39.0</b>
Basic budget expenditure	191.4	77.2	-59.7	56.3	37.2
<i>-mutual payments*</i>	<i>-14.4</i>	<i>-13.8</i>	<i>- 4.4</i>	<i>-9.9</i>	<i>40.1</i>
Special budget expenditure**	14.5	4.2	-71.3	2.2	88.5
<b>Financial balance</b>	<b>-76.4</b>	<b>19.3</b>	<b>-</b>	<b>12.0</b>	<b>-</b>

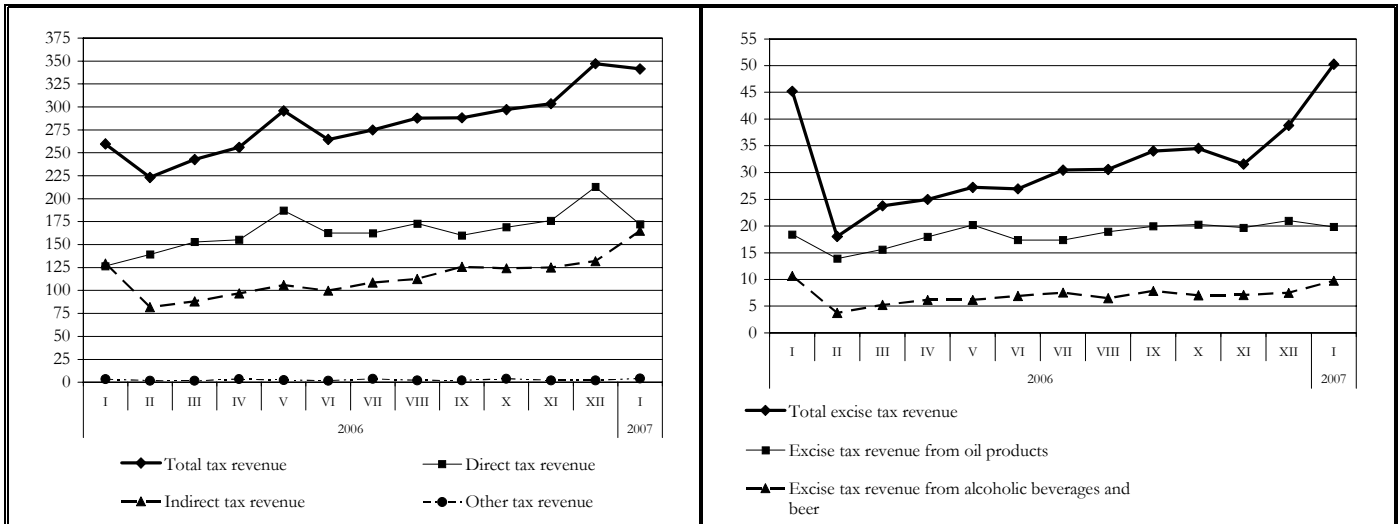
\* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

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

**Value added tax** revenue in January 2007 in comparison with January 2006 was 29.4 mln lats or 35.8% more. In January 2007, the value added tax revenue collected on border was 3.0 mln lats or 14.3% less than in January 2006, but domestically net collected value added tax revenue was 24.7 mln lats or 36.0% more than in January 2006. In January 2007, value added tax repayments were 28.4 mln lats, which were 6.8 mln lats or 31.3% more than in January 2006.

Total **excise tax** revenue in January 2007 in comparison with January 2006 was 5.0 mln lats or 11.2% more. As from January 1, 2007, excise tax rate for cigarettes was raised, that is why in December 2006 a large amount of tobacco products was released for free circulation. The law "On Excise Tax" establishes that the tax calculated for excise goods has to be paid into the central government budget within 15 days after the end of the taxable period, as a result tax payments for December 2006 were paid in January 2007. Excise tax revenue from tobacco products in January 2007 was 20.2 mln lats, which is 4.5 mln lats or 28.3% more than in January 2006. The excise tax revenue from tobacco in January 2007 was 14.7% of the annual plan (31.3% of annual plan in January 2006). It is expected that the excise tax revenue from tobacco products next month is going to be less than in January 2007, due to a large amount of tobacco products which was released for free circulation in December 2006 and is going to be realized. In January 2007 excise tax revenue from alcoholic beverages was 9.0 mln lats, which is 1.1 mln lats or 10.4% less than in January 2006. Excise tax revenue from beer in January 2007 was 0.7 mln lats, which is 0.1 mln lats or 24.6% more than in January 2006. In January 2007, the excise tax revenue from oil products amounted to 19.8 mln lats, which is 1.4 mln lats or 7.8% more than in January 2006. The excise tax revenue from non-alcoholic beverages and coffee in January 2007 was 0.5 mln lats, which is 73.8 thsd lats or 17.7% more than in January 2006.

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



## Tax Revenue, mln lats

	December of 2006	January of 2007	% changes Jan/Dec	January of 2006	% changes (January) 2007/2006	% of annual plan
Corporate income tax	21.0	19.7	-6.3	13.1	50.5	6.1
Value added tax	89.7	111.4	24.1	82.0	35.8	9.4
Excise tax	38.8	50.3	29.5	45.2	11.2	12.0
Cars and motorcycles tax	1.3	1.2	-7.2	0.7	87.1	7.5
Social security contributions*	111.9	89.6	-19.9	66.7	34.3	7.8
Custom duties	2.1	2.1	-0.1	1.6	26.2	10.0
Personal income tax	76.0	61.5	-19.1	45.4	35.3	8.2
Real estate tax	4.1	1.4	-65.6	1.4	1.7	2.0

\* including the State Funded Pension Scheme financial means of 6.0 mln lats in January 2007, and 3.6 mln lats in January 2006.

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

	End of January 2007	End of December 2006	End of January 2007	End of January 2007
	Average annual selling rate, (%)	Shares of bonds, %	Shares of bonds, %	Amount in circulation, thsd. LVL
6 month T-bills	4.125	2.49	4.49	20 026.760
1 year T-bills	4.161	9.29	11.16	49 749.740
3 year bonds	4.110	0.00	0.00	0.00
5 year bonds	5.089	36.53	36.84	164 209.829
10 year bonds	4.728	51.69	47.51	211 746.079

Smilšu street 1. Riga. phone 7095539. fax 7095541.  
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