

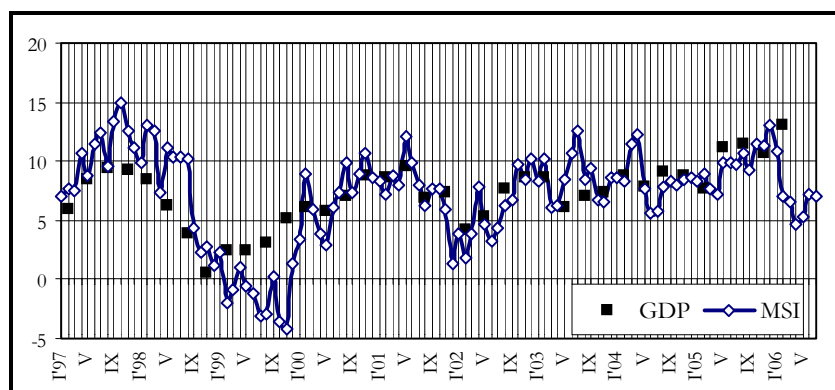
STATE BUDGET

July '06

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in July 2006 grew by 7,0% at constant prices. The highest growth of index was determined by the indistinctive for this month increase in consumer prices as well as decrease in the amount of cargo turnover and cargo traffic by rail and in the amount of cargoes loaded and unloaded in ports in July this year. The growth of index was stimulated by the increase in the domestic money supply M2D and by the growth in exports.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2005 2Q	2006 2Q	2006		
				June	July	July ²
Industrial output index ³	% ¹	5.0	1.1	1.3	*	*
Consumer price index	% ¹	2.4	1.8	0.3	0.6	6.9
Producer price index	% ¹	0.8	2.7	0.6	0.8	11.4
Cash in circulation (net of vault balances)	mln Ls	766.7	927.9	927.9	948.8	20.3
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 244.4	1 879.9	1 879.9	1 978.6	57.7
Average short-term interest rates for credits (in lats)	%	5.7	7.0	7.0	7.4	-
Unemployment rate (end of the period)	%	7.9	7.0	7.0	6.9	-
Exports	mln Ls	725.1	715.3	285.4	*	*
Imports	mln Ls	1 176.0	1458.2	493.5	*	*

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 July was 5.1 mln t, down by 5.0% from the corresponding month of 2005. The volume of cargo transhipped in ports in January – July totalled 20.7 mln t, which was 0.2% less than in the same period last year.

Officially registered **unemployment rate** in July decreased month-on-month and amounted to 6.9% of the economically active population at the end of the month. The number of the registered unemployed decreased by 1.1 thsd from the previous month and at the end of the month amounted to 73.3 thsd people. As compared with July of 2005, the unemployment rate decreased by 0.9 percentage points, while the number of the unemployed — by 9.8 thsd people. The highest unemployment rate in July was registered in the district of Ludza, 26.7% (28.0% in July 2005); in the district of Rēzekne, 25.0% (26.2%); and in the district of Krāslava,

20.1% (21.4%). The lowest unemployment rate was registered in Rīga, 3.9% (4.4%); in the district of Rīga, 4.8% (5.1%); and in the district of Ogre, 4.9% (5.3%).

The **Consumer Price Index (CPI)** in July 2006 increased by 0.6%. Prices for goods rose by 0.5% and prices for services went up by 0.8%.

The rise in the prices of vegetables, potatoes, fruit and tobacco products as well as the fall in the prices of wearing apparel and footwear had the greatest impact on price changes in July.

With the new harvest appearing on the market, prices for vegetables, especially for beet, carrots, onions and potatoes, have gone up. Fruit also became more expensive. Dairy products, confectionery, fish and fish products, meat products and cooking oil and fat also became more expensive in July.

There were increases in the prices related to dwelling maintenance (water supply, sewerage, waste removal) as well as in the prices for the management of privatised dwellings, dwelling rent and heating.

Household appliances, cars, selected household and dwelling services as well as health services became more expensive. Prices for catering and hotel services as well as for transport-related insurance have increased.

With the continuing sales of seasonal goods, prices for wearing apparel and footwear have decreased. Prices for fuel in July fell slightly.

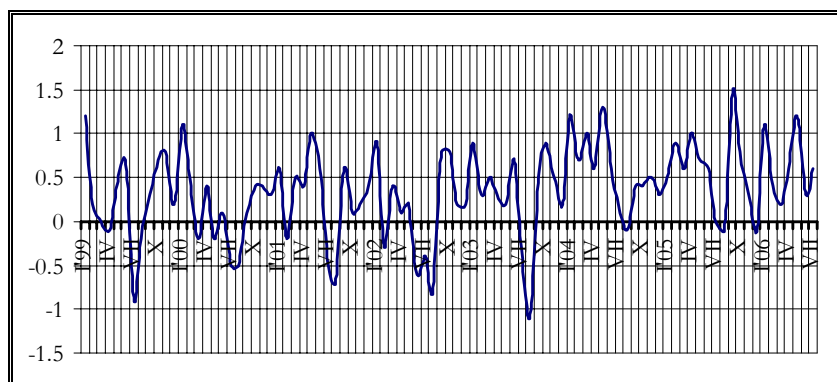
As compared with July 2005, the CPI increased by 6.9%, of which prices for goods grew by 7.1%, and for services by 6.6%.

The CPI in **Estonia** in July as compared to June increased by 0.5%. Consumer prices in Estonia were mostly influenced by an increase in the prices for fuel, vegetables and there were also increases in the prices related to dwelling maintenance. The year-on-year growth of the CPI in Estonia amounted to 4.5%.

The CPI in **Lithuania** in July compared with June increased by 0.5%. As compared with July of 2005, consumer prices went up by 4.4%.

Consumer price index

% over the previous period



In the first six months of 2006, **exports and imports of goods** amounted to 4 308.2 mln lats and up by 22.1% from the same period last year. As compared with the first six months of 2005, export of goods grew by 14.0% and amounted to 1 543.8 mln lats, while import increased by 27.0%, reaching the value of 2 764.2 mln lats.

In June 2006, as compared to the June 2005, the trade balance deficit grew by 45.7 mln lats and amounted to 208.1 mln lats.

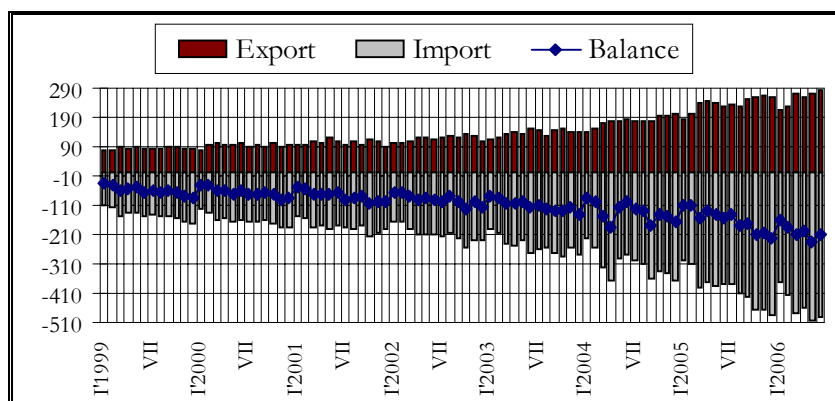
Exports to the EU increased by 25.9% as compared with June of the previous year and amounted to 216.9 mln lats. The share of the EU in total value of exports was 76.0%. Exports to the CIS grew by 24.7% as compared with June of the previous year and amounted to 37.1 mln lats, and the share of exports to the CIS was 13.0%.

The value of imports from the EU in June of the 2006 grew by 22.9% year-on-year and reached 375.9 mln lats, but the share of EU imports amounted to 72.2%. The value of imports from the CIS in June of the 2006 increased by 19.4% year-on-year and reached 68.9 mln lats, but the share of CIS imports amounted to 14.0%.

Latvia's main export partners in June of 2006 were Lithuania, accounting for 14.4% of total exports; Estonia, 12.7%; Germany, 11.9%; Russia, 8.7%; Great Britain, 6.9%. Main import partners were Germany, 14.8%; Lithuania, 13.1%; Estonia, 7.9%; Poland, 6.6%; and Russia, 6.5%.

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 June increased by 110.1 mln lats year-on-year and amounted to 166.6 mln lats. The growth of the current account deficit was mainly due to an increase in the goods and income deficit, as compared with the June of 2005, the goods deficit rose by 64.4 mln lats and stood at 193.0 mln lats. The negative income balance increased – in the June of 2006, up by 30.4 mln lats from the corresponding period last year and was 41.9 mln lats. Surplus of the services balance in the June of 2006 amounted to 47.0 mln lats, which was 21.5 mln lats more than in the June of 2005. The surplus of current transfers decreased by 36.8 mln lats year-on-year and in June of 2006 amounted to 21.3 mln lats. The surplus of the capital and financial account in June of 2006 was 230.0 mln lats. Net inflow of direct investment in the June totalled 77.4 mln lats, which was 65.2 mln lats more than in the June last year. The portfolio investment account in the June was negative and amounted to 9.0 mln lats. The Bank of Latvia's reserve assets in the June rose by 97.9 mln lats.

Central Government Consolidated Budget*, mln lats

	June of 2006	July of 2006	Jan-July of 2006	Jan - July of 2005	% changes (Jan - July) 2006/2005	% of annual plan
Revenue	266.3	250.7	1829.0	1469.1	24.5	56.5
Basic budget tax revenue	133.6	145.2	965.8	736.9	31.1	59.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	16.9	13.4	114.7	120.2	-4.5	55.3
Self-earned revenue	6.6	7.5	57.9	54.5	6.4	56.5
Social security budget revenue	83.0	83.6	530.1	426.4	24.3	61.7
– transfers from central government basic budget	-1.3	-1.4	-8.1	-8.7	-7.5	51.6
Gifts and donations	0.4	0.2	2.3	2.6	-11.4	-
Foreign financial assistance	24.5	2.2	166.2	137.3	21.0	36.1
Expenditure	284.6	232.9	1652.5	1367.7	20.8	49.1
Basic budget	221.7	178.7	1209.2	984.7	22.8	46.4
– transfers to social security budget	-1.3	-1.4	-8.1	-8.7	-7.5	51.6
Social security budget	63.6	55.3	448.5	388.8	15.4	58.2
Gifts and donations	0.6	0.2	2.9	2.9	1.2	-
Financial balance	-20.9	17.9	176.4	101.4	-	-
Net lending	4.0	4.5	2.6	-12.1	-	-
Fiscal balance	-24.9	13.4	173.8	113.6	-	-

* including transfers to local government budgets.

44.1

19.3

172.6

137.6

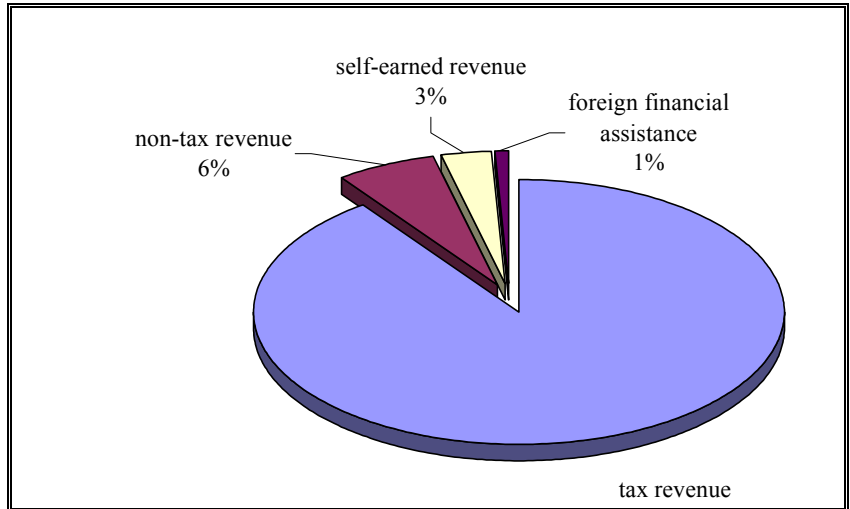
25.4

In accordance with the State Treasury's official monthly report's (January-July 2006) data, in July 2006 the **central government consolidated budget** revenue (including gifts and donations) decreased by 13.0 mln lats or 4.9%, in comparison with June 2006. The central government consolidated budget revenue in seven months of 2006 was 1829.0 mln lats, which is 359.8 mln lats or 24.5% more than in the same period of 2005. The most significant increase in comparison with seven months of 2005 was in the revenue from value added tax and corporate income tax. In July 2006, the central government budget expenditure (including gifts and

donations) was 232.9 mln lats and in comparison with June decreased by 51.8 mln lats or 18.2%. The government budget total expenditure in seven months of 2006 was 1652.5 mln lats. In comparison with the same period of 2005, expenditure increased by 284.8 mln lats or 20.8%. In July 2006, the central government consolidated budget fiscal surplus was 13.4 mln lats.

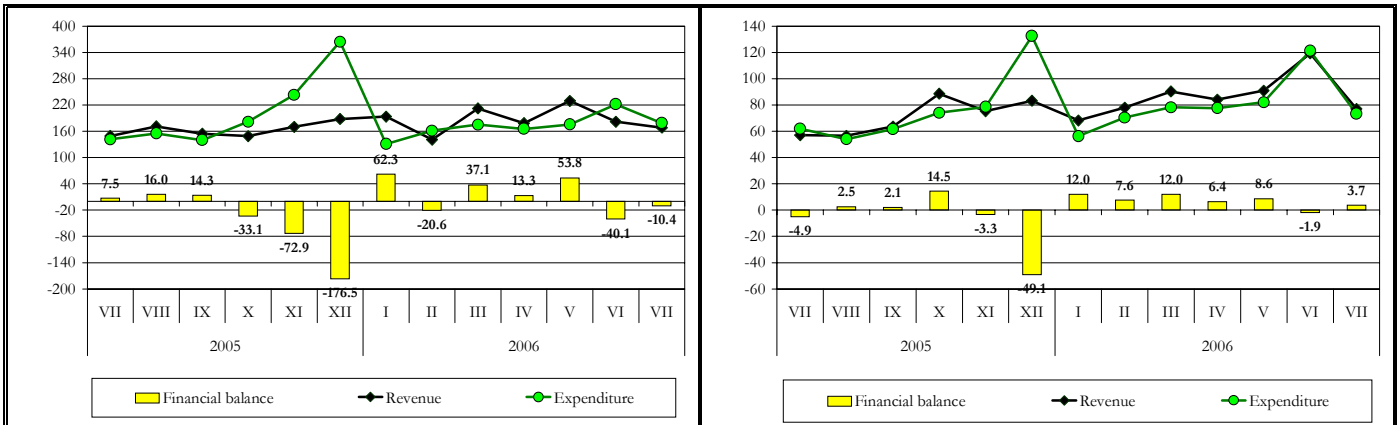
Structure of Central Government Basic Budget and Special Budget Revenue in July 2006

percentage



Central government basic budget revenue in July 2006 was 168.3 mln lats, which in comparison with June 2006 is 13.3 mln lats or 7.3% less, mainly due to decrease of revenue from foreign financial assistance. In comparison with June 2006, tax revenue was 11.6 mln lats or 8.7% more. Non-tax revenue decreased by 3.5 mln lats or 20.5%. In July 2006, revenue from the paid services and self-earned revenue increased by 0.9 mln lats or 13.1% in comparison with June 2006. In July 2006 in comparison with June 2006, revenue from the foreign financial assistance decreased by 22.3 mln lats.

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



In July 2006, central government basic budget expenditure was 178.7 mln lats, which is 43.1 mln lats or 19.4% less than in June 2006. In July 2006, the central government basic budget non-capital expenditure was 158.3 mln lats or 88.6% of total basic budget expenditure. In comparison with June 2006, non-capital expenditure decreased by 35.9 mln lats or 18.5%, mainly due to the seasonal decrease of targeted grants for local governments by 26.9 mln lats or 69.7%, which is explained by the transferred financial funds in June for the payment of teachers vacation pay. Non-capital expenditure decreased also due to decrease of expenditure of grants for institutions, organizations and enterprises by 13.3 mln lats or 25.0%. The central government basic budget capital expenditure in July 2006 was 20.4 mln lats from which investment amounted to 12.2 mln lats or 59.8%. In July 2006, investment expenditure decreased by 4.5 mln lats in comparison with June 2006. In July 2006, the fiscal deficit in amount of 14.8 mln lats was in the central government basic budget.

Social security budget revenue in July 2006 was 0.6 mln lats or 0.7% more than in June 2006. In July 2006, the social security budget expenditure was 8.3 mln lats or 13.0% less than in June 2006, mainly due to

decrease of grants to the population by 8.1 mln lats or 13.0%. In July 2006, the social security budget fiscal surplus was 28.3 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in July 2006 in comparison with June 2006 was 42.3 mln lats or 35.4% less. In comparison with June 2006, the tax revenue was 0.2 mln lats or 0.4% less. The local government basic budget non-tax revenue in July 2006 in comparison with June 2006 was 1.9 mln lats or 42.8% less, but local government basic budget revenue from the paid services and other self-earned revenue was 0.4 mln lats or 7.7% less. The local government basic budget received payments in July 2006 was 40.1 mln lats or 63.0% less than in June 2006. Significant decrease of received payments was determined by the decrease of targeted grants for teachers wages and for payments of social security contributions by 22.0 mln lats, due to received transfers in June for teachers vacation pay.

In July 2006, the local government basic budget expenditure in comparison with June 2006 was 47.9 mln lats or 39.5% less, mainly due to decrease of expenditure for wages by 30.9 mln lats or 58.3% and for subsidies and grants by 12.4 mln lats or 44.1%. In July 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

	June of 2006	July of 2006	Jan - July of 2006	Jan - July of 2005	% changes (Jan - July) 2006/2005
Revenue	102.8	75.5	558.8	456.8	22.3
Basic budget tax revenue	46.0	45.8	308.3	244.2	26.2
Basic budget non-tax revenue	4.3	2.5	26.0	22.5	15.6
Basic budget received payments	63.6	23.5	238.1	204.2	16.6
-mutual payments*	-22.0	-7.7	-85.0	-73.5	15.6
Basic budget self-earned revenue	4.7	4.3	32.2	27.7	16.4
Special budget revenue**	5.0	5.7	33.7	28.7	17.2
Gifts and donations	0.5	0.3	2.1	1.4	50.7
Foreign financial assistance	0.7	1.1	3.4	1.6	112.1
Expenditure	105.6	72.1	507.8	433.2	17.2
Basic budget expenditure	121.2	73.3	559.3	476.6	17.4
-mutual payments*	-22.0	-7.7	-85.0	-73.5	15.6
Special budget expenditure**	6.1	6.2	31.7	28.6	10.8
Gifts and donations	0.3	0.4	1.7	1.5	19.3
Financial balance	-2.8	3.4	51.0	23.7	-
Net lending	0.0	0.0	-0.6	0.4	-
Fiscal balance	-2.7	3.3	51.7	23.3	-

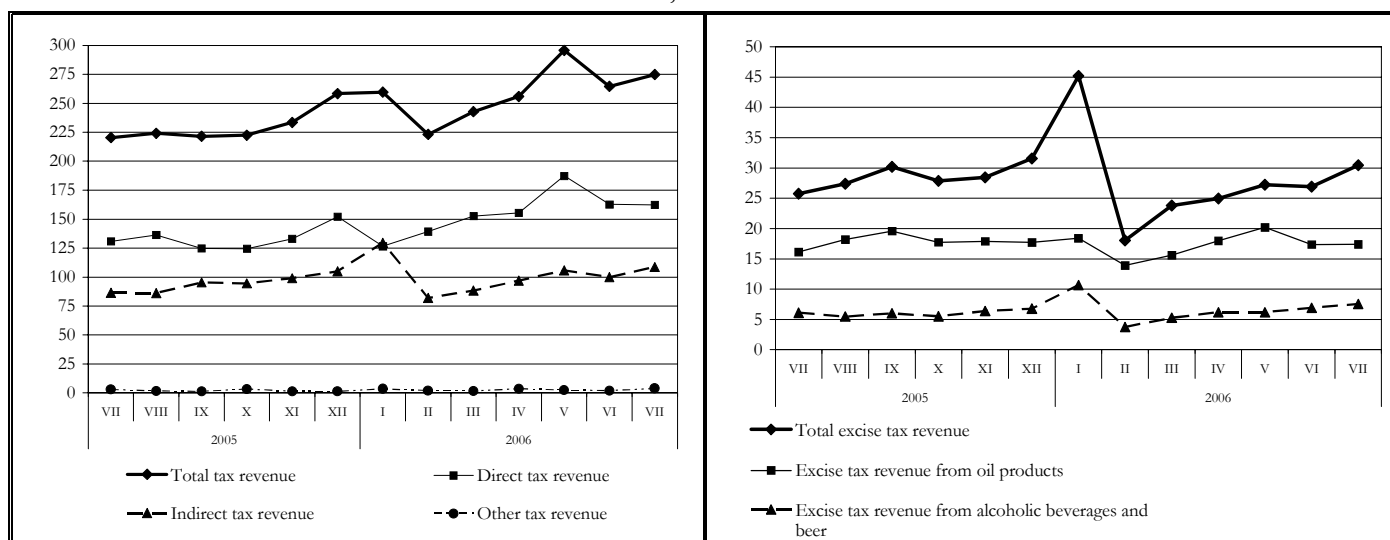
* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

** excluding revenue from privatisation.

Value added tax revenue in July 2006 in comparison with June 2006 was 5.5 mln lats or 7.9% more. In July 2006, the value added tax revenue collected on border was 0.7 mln lats or 4.2% more than in June 2006, but domestically net collected value added tax revenue was 4.8 mln lats or 9.2% more than in June 2006. In July 2006, value added tax repayments were 31.6 mln lats, which were 0.1 mln lats less than in June 2006.

Total **excise tax** revenue in July 2006 in comparison with June 2006 was 3.5 mln lats or 13.0% more. In July 2006, the excise tax revenue from oil products amounted to 17.4 mln lats, which is 27.2 thsd lats or 0.2% more than in June 2006. Excise tax revenue from tobacco products in July 2006 was 5.0 mln lats and in comparison with June 2006 was 2.8 mln lats more, but excise tax revenue from alcoholic beverages was 6.2 mln lats and in comparison with June 2006 was 0.4 mln or 6.4% more. The excise tax revenue from beer in July 2006 was 1.4 mln lats, which is 0.3 mln lats or 23.2% more than in June 2006. The excise tax revenue from non-alcoholic beverages and coffee in July 2006 was 0.6 mln lats, which is 93.0 thsd lats or 20.1% more than in June 2006.

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



Total **natural resources tax** revenue in July 2006 was 2.0 mln. lats, which is 1.7 mln lats more than in June 2006. In July 2006, natural resources tax revenue in central government basic budget was 1.9 mln lats, which in comparison with June 2006 increased by 1.6 mln lats. 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. In July 2006, the significant part of natural resources tax revenue in central government basic budget was formed by the revenue for goods packing in amount of 0.6 mln lats, for extraction of natural resources and environmental pollution in amount of 0.5 mln lats and for goods harmful to the environment in amount of 0.4 mln lats.

Tax Revenue, mln lats

	June of 2006	July of 2006	Jan - July of 2006	Jan - July of 2005	% changes (Jan - July) 2006/2005	% of annual plan
Corporate income tax	18.6	18.8	150.0	109.3	37.2	62.9
Value added tax	70.1	75.6	496.1	355.8	39.4	59.8
Excise tax	26.9	30.4	196.6	168.6	16.6	53.0
Cars and motorcycles tax	1.3	1.2	7.3	5.1	41.6	70.0
Social security contributions*	85.1	83.8	541.4	433.3	25.0	61.7
Custom duties	1.7	1.5	11.3	10.2	10.5	59.4
Personal income tax	55.3	55.9	355.2	281.5	26.2	64.6
Real estate tax	3.8	3.8	39.9	37.5	6.4	64.9
Natural resources tax	0.3	2.0	7.8	6.9	12.7	90.5

* including the State Funded Pension Scheme financial means of 2.5 mln lats in July 2006 and 3.8 mln lats in June 2006.

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

	End of July 2006	End of June 2006	End of July 2006	End of July 2006
	Average annual selling rate, (%)	Shares of bonds, %	Shares of bonds, %	Amount in circulation, thsd. LVL
6 month T-bills	3.842	0.60	0.59	2 248.559
1 year T-bills	3.842	11.20	11.71	44 311.397
3 year bonds	4.110	4.24	4.21	15 946.784
5 year bonds	3.300	29.86	29.69	112 335.309
10 year bonds	4.304	54.10	53.79	203 523.085

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