

STATE BUDGET

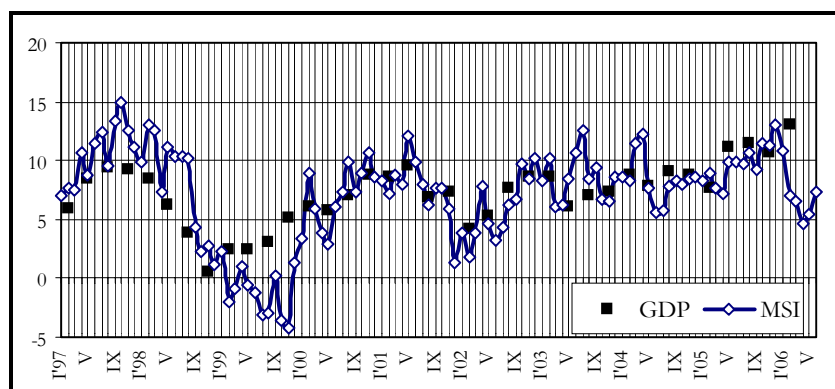
June '06

According to the estimations of the Ministry of Finance, growth of the **Composite Index of Macroeconomic Indicators (MSI)** in June amounted to 7.4% in constant prices. The increase of index was restricted by the increase in industry producer prices. 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.

Average growth of the MSI in the first half of the 2006 year amounted to 7.0%, of that in the 1st quarter was 8.1%, in the 2nd quarter — 5.9%.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2005 1Q	2006 1Q	2006		
				May	June	June ²
Industrial output index ³	% ¹	1.0	1.5	0.6	*	*
Consumer price index	% ¹	1.7	1.4	1.2	0.3	6.3
Producer price index	% ¹	2.3	3.0	1.4	0.6	9.7
Cash in circulation (net of vault balances)	mln Ls	717.8	865.1	892.2	927.9	21.0
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 120.6	1 559.2	1 807.3	1 879.9	51.1
Average short-term interest rates for credits (in lats)	%	7.3	6.6	7.3	7.0	*
Unemployment rate (end of the period)	%	8.6	7.4	7.0	7.0	*
Exports	mln Ls	628.6	721.3	271.4	*	*
Imports	mln Ls	999.7	1 288.7	506.0	*	*

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 through Latvian ports** in June amounted to 5.0 mln t, which was 3.3% more than in the corresponding month of the previous year. Total volume of cargo transhipped in Latvian ports in the first six months of the current year was 30.1 mln t, up by 0.4% from the same period last year.

Officially registered **unemployment rate** at the end of June amounted to 7.0% of the economically active population. As compared with the previous month, the unemployment rate stayed unchanged, but declined by 0.9 percentage points, as compared with the corresponding month of the previous year.

The number of people registered as unemployed in June amounted to 74.4 thsd people, which was 0.4 thsd less than in the previous month and 10.0 thsd less than in June of 2005. The highest unemployment rate in June was registered in the district of Ludza, 27.0% (28.2% in the corresponding period of 2005); in the district of Rēzekne, 25.6% (26.3%); in the district of Krāslava, 20.5% (21.6%). 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, 4.8% (5.3%).

Consumer Price Index (CPI) in June, compared to May, rose by 0.3%. Prices for goods remained the same and prices for services – increased by 1.0%.

Changes in consumer prices in June were hardly affected by the increase in the price of several food products and telecommunication services. Inflation level was increased by 0.24 percentage points because of price increase of new fruits and potatoes harvest. When the special discounts of telecommunication services were expired, the prices grew by 1.9% increasing inflation level by 0.1 percentage point. The prices of tobacco ware grew by 2.4%. The prices grew for water supply and sewage services, housing maintenance and repair services as well as apartment rent, increasing inflation level by 0.07 percentage points. The services of surface transportation became more expensive, by 2.1%.

However the increase of inflation level was restricted by the decrease in the prices of footwear and wearing that inflation level diminished by 0.11 percentage points. After the rapid price increase in May, the prices of hotel services decreased considerably (by 19.4%) in June.

The price increase during the 6 month of 2006 amounted to 3.8% (i.e. prices in June, this year, compared with December 2005). Price increase in the respective period of the previous year was 4.5%. In the first half of the 2006 year the rise in the prices of fuel (by 13.1%), gas (14.9%), heating (6.0%), electricity (6.7%), eating (4.7%) and alcoholic beverages (7.1%) had the greatest impact on the consumer price level.

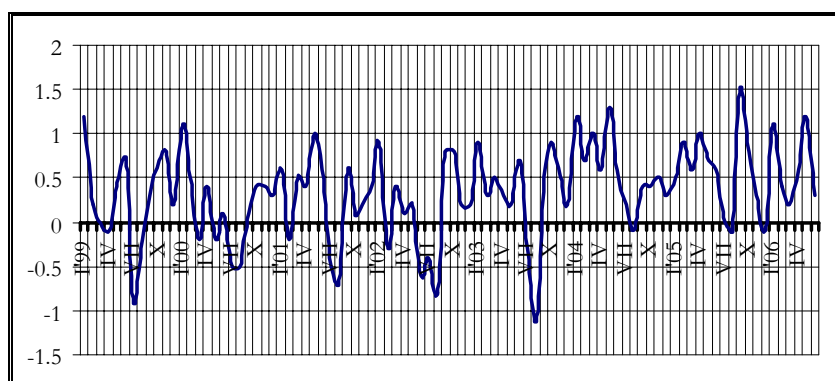
As compared to June 2005, consumer prices increased by 6.3%, of which prices for goods went up by 6.2% and for services increased by 6.7%.

The CPI in **Estonia** in June as compared to May increased by 0.4%. Consumer prices in Estonia were mostly influenced by an increase in the prices for food, soft drinks as well as housing services. The year-on-year growth of the CPI in Estonia amounted to 4.3%.

The CPI in **Lithuania** in June compared to May increased by 0.2%. As compared with June of 2005, consumer prices went up by 3.7%.

Consumer price index

% over the previous period



In the first five month of 2006, **exports and imports of goods** amounted to 3 509.2 mln lats and up by 20.7% from the same period last year. The growth was driven both by an increase in exports and in imports. As compared with the first five month of 2005, export of goods grew by 11.8% and amounted to 1 255.7 mln lats, while import increased by 26.4%, reaching the value of 2 253.4 mln lats.

In May 2006, as compared to the May 2005, the trade balance deficit grew by 85.5 mln lats and amounted to 234.6 mln lats.

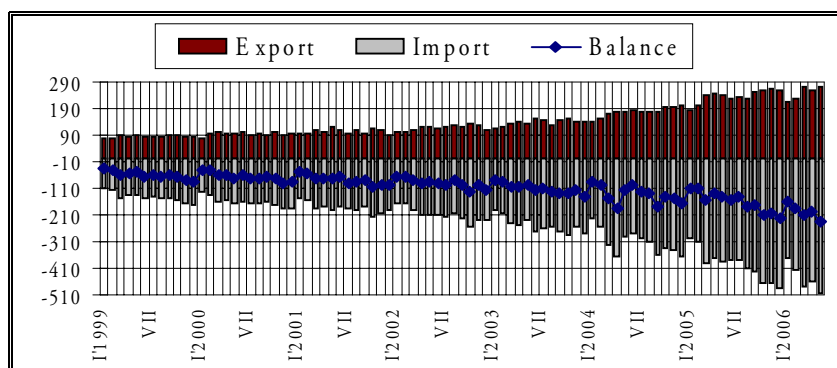
Exports to the EU increased by 9.5% as compared with May of the previous year and amounted to 207.9 mln lats. The share of the EU in total value of exports was 76.6%. Exports to the CIS grew by 4.4% as compared with May of the previous year and amounted to 31.8 mln lats, and the share of exports to the CIS was 11.7%.

The value of imports from the EU in May of the 2006 grew by 26.7% year-on-year and reached 380.4 mln lats, but the share of EU imports amounted to 75.2%. The value of imports from the CIS in May of the 2006 increased by 9.4% year-on-year and reached 72.4 mln lats, but the share of CIS imports amounted to 14.3%.

Latvia's main export partners in May of 2006 were Lithuania, accounting for 15.4% of total exports; Estonia, 12.4%; Germany, 10.3%; Great Britain, 7.3%. Main import partners were Germany, 15.2%; Lithuania, 14.5%; Estonia, 7.7%; Russia, 7.4%; and Poland, 6.2%.

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 May increased by 81.2 mln lats year-on-year and amounted to 155.2 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the May of 2005, the goods deficit rose by 93.5 mln lats and stood at 212.7 mln lats. Surplus of the services balance in the May of 2006 amounted to 42.0 mln lats, which was 18.8 mln lats more than in the May of 2005. The negative income balance increased – in the May of 2006, up by 1.2 mln lats from the corresponding period last year and was 11.7 mln lats. The surplus of current transfers decreased by 5.4 mln lats year-on-year and in May of 2006 amounted to 27.1 mln lats. The surplus of the capital and financial account in May of 2006 was 192.1 mln lats. Net inflow of direct investment in the May totalled 21.5 mln lats, which was 10.7 mln lats more than in the May last year. The portfolio investment account in the May was positive and amounted to 117.6 mln lats. The Bank of Latvia's reserve assets in the May rose by 240.7 mln lats.

Central Government Consolidated Budget*, mln lats

	May of 2006	June of 2006	Jan-June of 2006	Jan - June of 2005	% changes (Jan - June) 2006/2005	% of annual plan
Revenue	306.4	266.3	1580.8	1253.6	26.1	48.8
Basic budget tax revenue	168.7	133.6	820.6	618.9	32.6	50.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	37.4	16.9	101.3	109.8	-7.8	48.8
Self-earned revenue	7.6	6.6	50.4	47.8	5.6	49.2
Social security budget revenue	78.1	83.0	446.5	359.8	24.1	52.0
– transfers from central government basic budget	-1.3	-1.3	-6.7	-7.5	-45.3	26.1
Gifts and donations	0.2	0.4	2.1	1.7	19.9	-
Foreign financial assistance	15.6	24.5	164.0	123.1	33.2	35.7
Expenditure	233.2	287.2	1422.3	1181.6	20.4	42.3
Basic budget	175.6	221.7	1030.5	843.0	22.2	39.5
– transfers to social security budget	-1.3	-1.3	-6.7	-7.5	-45.3	26.1
Social security budget	58.6	63.6	393.2	343.6	14.4	51.0
Gifts and donations	0.3	0.6	2.7	2.5	8.1	-
Financial balance	73.2	-20.9	158.5	72.0	-	-
Net lending	0.1	4.0	-1.9	-14.4	-	-
Fiscal balance	73.1	-24.9	160.4	86.4	-	-

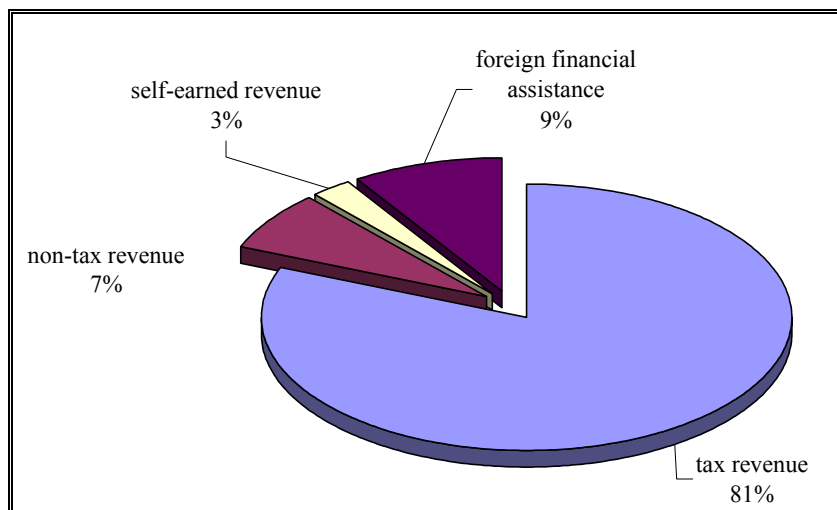
* including transfers to local government budgets.

24.7 44.1 153.3 126.7 21.1

In accordance with the State Treasury's official monthly report's (January-June 2006) data, in June 2006 the **central government consolidated budget** revenue (including gifts and donations) decreased by 40.1 mln lats or 13.1%, in comparison with May 2006. The central government consolidated budget revenue in six months of 2006 was 1580.8 mln lats, which is 327.2 mln lats or 26.1% more than in the same period of 2005. The most significant increase in comparison with six months of 2005 was in the revenue from corporate income tax and value added tax. In June 2006, the central government budget expenditure (including gifts and donations) was 287.2 mln lats. The government budget total expenditure in six months of 2006 was 1422.3 mln lats. In comparison with the same period of 2005, expenditure increased by 240.6 mln lats or 20.4%. In June 2006, the central government consolidated budget fiscal deficit was 24.9 mln lats.

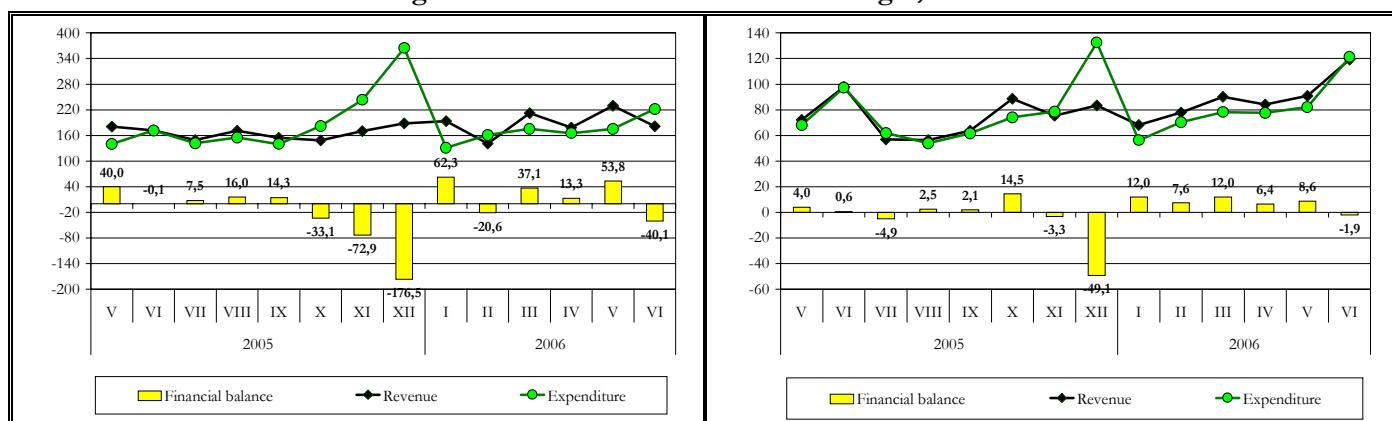
Structure of Central Government Basic Budget and Special Budget Revenue in June 2006

Percentage



Central government basic budget revenue in June 2006 was 181.6 mln lats, which in comparison with May 2006 is 47.7 mln lats or 20.8% less, mainly due to decrease of tax and non-tax revenue. In comparison with May 2006, tax revenue was 35.1 mln lats or 20.8% less, mainly due to decrease of revenue from corporate income tax by 29.4 mln lats or 61.3%. Taking into account that in May 2006 a large amount of payments for using the state capital was received, in June 2006 the non-tax revenue decreased by 20.5 mln lats or 54.8%. In June 2006, revenue from the paid services and self-earned revenue decreased by 1.0 mln lats or 13.2% in comparison with May 2006. In June 2006 in comparison with May 2006, revenue from the foreign financial assistance increased by 8.8 mln lats.

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



In June 2006, central government basic budget expenditure was 221.7 mln lats, which is 46.2 mln lats or 26.3% more than in May 2006. In June 2006, the central government basic budget non-capital expenditure was 194.2 mln lats or 87.6% of total basic budget expenditure. In comparison with May 2006, non-capital expenditure increased by 34.4 mln lats or 21.6%, mainly due to the seasonal increase of targeted grants for local governments by 19.9 mln lats, which is explained by transferred financial funds for payments of teachers vacation pay. The central government basic budget capital expenditure in June 2006 was 27.6 mln lats from which investment amounted to 16.8 mln lats or 60.8%. In June 2006, investment expenditure increased by

6.3 mln lats in comparison with May 2006. In June 2006, the fiscal deficit in amount of 44.1 mln lats was in the central government basic budget.

Social security budget revenue in June 2006 was 4.9 mln lats or 6.3% more than in May 2006. In June 2006, the social security budget expenditure was 5.0 mln lats or 8.6% more than in May 2006, mainly due to increase of grants to the population by 6.0 mln lats or 10.7%. In June 2006, the social security budget fiscal surplus was 19.4 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in June 2006 in comparison with May 2006 was 28.4 mln lats or 31.3% more. In comparison with May 2006, the tax revenue was 0.6 mln lats or 1.2% less, due to decrease of real estate tax revenue by 3.6 mln lats or 48.9%. The local government basic budget non-tax revenue in June 2006 in comparison with May 2006 was 0.6 mln lats or 11.5% less, but local government basic budget revenue from the paid services and other self-earned revenue was 0.1 mln lats or 2.5% less. The local government basic budget received payments in June 2006 was 29.6 mln lats or 86.7% more than in May 2006.

In June 2006, the local government basic budget expenditure in comparison with May 2006 was 39.0 mln lats or 47.4% more, mainly due to increase of expenditure for wages by 24.4 mln lats or 85.7%. In June 2006, the fiscal deficit of 2.7 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	May of 2006	June of 2006	Jan - June of 2006	Jan - June of 2005	% changes (Jan - June) 2006/2005
Revenue	84.1	102.8	483.3	402.5	20.1
Basic budget tax revenue	46.5	46.0	262.6	208.8	25.8
Basic budget non-tax revenue	4.9	4.3	23.5	19.5	20.3
Basic budget received payments	34.1	63.6	214.6	188.9	13.6
-mutual payments*	-12.0	-22.0	-77.3	-67.0	15.4
Basic budget self-earned revenue	4.8	4.7	27.9	24.8	12.7
Special budget revenue**	4.6	5.0	28.0	25.1	11.5
Gifts and donations	0.6	0.5	1.8	1.2	42.1
Foreign financial assistance	0.6	0.7	2.3	1.1	114.1
Expenditure	77.1	105.6	435.6	372.4	17.0
Basic budget expenditure	82.2	121.2	486.0	414.7	17.2
-mutual payments*	-12.0	-22.0	-77.3	-67.0	15.4
Special budget expenditure**	6.3	6.1	25.5	23.4	8.9
Gifts and donations	0.6	0.3	1.4	1.2	13.1
Financial balance	7.0	-2.8	47.7	30.1	-
Net lending	-0.3	0.0	-0.7	0.4	-
Fiscal balance	7.3	-2.7	48.3	29.7	-

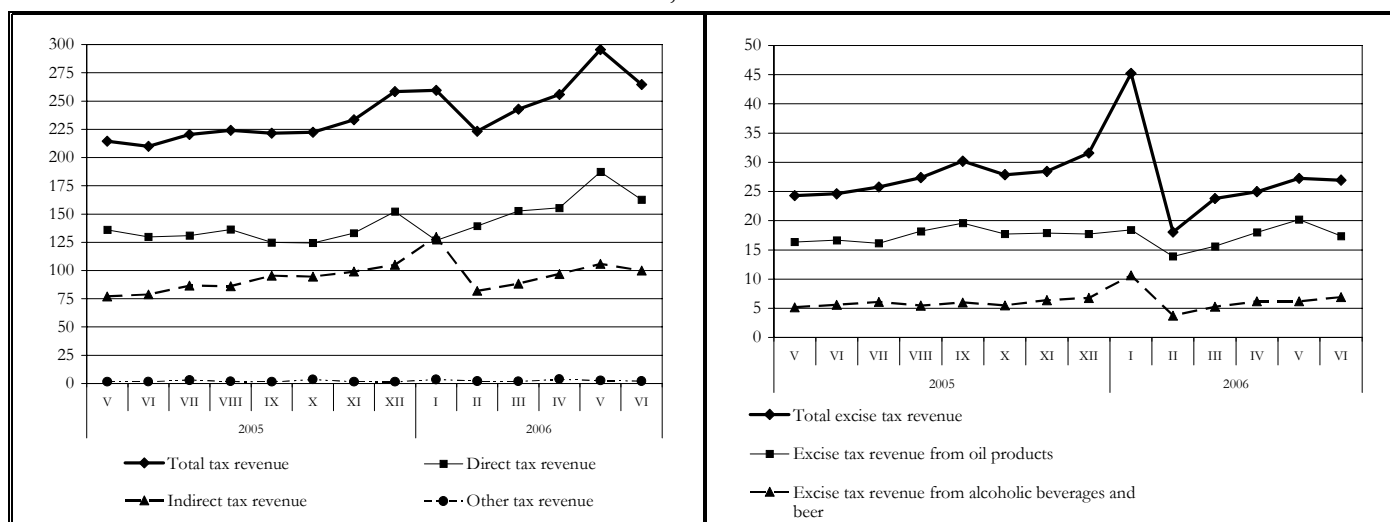
* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

** excluding revenue from privatisation.

Value added tax revenue in June 2006 in comparison with May 2006 was 5.4 mln lats or 7.1% less. In June 2006, the value added tax revenue collected on border was 1.3 mln lats less than in May 2006, but domestically net collected value added tax revenue was 4.1 mln lats less than in May 2006. In June 2006, value added tax repayments were 31.7 mln lats, which were 4.7 mln lats or 17.5% more than in May 2006.

Total **excise tax** revenue in June 2006 in comparison with May 2006 was 0.3 mln lats or 1.1% less. In June 2006, the excise tax revenue from oil products amounted to 17.4 mln lats, which is 2.8 mln lats or 14.0% less than in May 2006. Excise tax revenue from tobacco products in June 2006 was 2.2 mln lats and in comparison with May 2006 was 1.8 mln lats more, but excise tax revenue from alcoholic beverages was 5.8 mln lats and in comparison with May 2006 was 0.4 mln or 7.1% more. The excise tax revenue from beer in June 2006 was 1.1 mln lats, which is 0.3 mln lats or 44.7% more than in May 2006. The excise tax revenue from non-alcoholic beverages and coffee in June 2006 was 0.5 mln lats, which is 9.9 thsd lats or 2.2% more than in May 2006.

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



Corporate income tax revenue in June 2006 was 18.6 mln lats, which in comparison with May 2006 is 29.4 mln. lats less. The increase of corporate income tax revenue could be explained by the reason that according to law "On Corporate income tax" a part of enterprises have already submitted annual tax declarations. The submitted declarations mainly show the increase of taxpayers' profit in 2005, as a result the additional calculated amount of corporate income tax was paid into the budget in May 2006.

Tax Revenue, mln lats

	May of 2006	June of 2006	Jan - June of 2006	Jan - June of 2005	% changes (Jan - June) 2006/2005	% of annual plan
Corporate income tax	48.0	18.6	131.2	92.1	42.4	55.0
Value added tax	75.4	70.1	420.5	297.1	41.6	50.7
Excise tax	27.2	26.9	166.2	142.8	16.3	44.8
Cars and motorcycles tax	1.3	1.3	6.0	4.2	44.3	58.4
Social security contributions*	80.1	85.1	457.6	366.4	24.9	52.1
Custom duties	1.9	1.7	9.8	9.1	7.9	51.5
Personal income tax	51.8	55.3	299.3	238.7	25.4	54.4
Real estate tax	7.4	3.8	36.0	33.4	7.8	58.7
Natural resources tax	0.8	0.3	5.8	5.0	16.0	67.5

* including the State Funded Pension Scheme financial means of 3.8 mln lats in June 2006 and 3.7 mln lats in May 2006.

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

	End of June 2006	End of May 2006	End of June 2006	End of June 2006
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	3.525	0.60	0.60	2 248.599
1 year T-bills	3.842	11.20	11.20	42 139.524
3 year bonds	4.11	4.24	4.24	15 946.784
5 year bonds	3.30	29.86	29.86	112 335.309
10 year bonds	4.304	54.10	54.10	203 523.085

Smilšu street 1, Riga, phone 7095539, fax 7095541,
<http://www.fm.gov.lv/>