

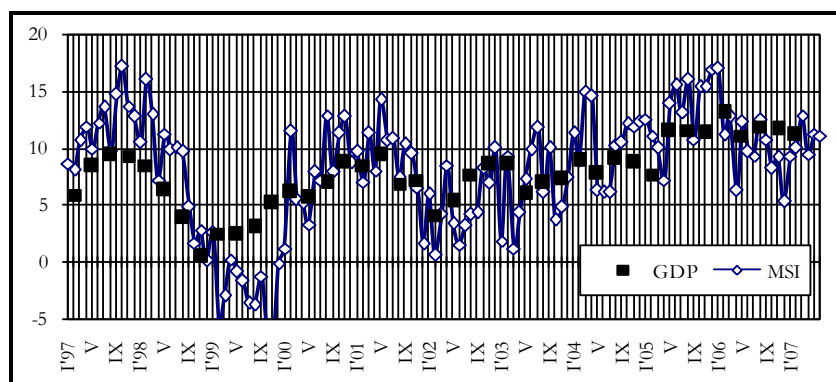
# STATE BUDGET

June '07

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in June 2007 grew by 11.1% at constant prices. Increase in turnover of retail trade and income of population were the main determinants of the growth of the index.

## Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



## Macroeconomic Indicators

		2006 1Q	2007 1Q	2007		
				May	June	June <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	2.0	0.5	4.0	*	*
Consumer price index	% <sup>1</sup>	1.4	2.7	0.6	0.9	8.8
Producer price index	% <sup>1</sup>	3.6	6.2	1.5	0.4	17.7
Cash in circulation (net of vault balances)	mln Ls	775.9	933.6	932.3	948.6	13.0
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 559.2	2 455.8	2 544.0	2582.3	37.4
Average short-term interest rates for credits (in lats)	%	6.7	7.7	11.4	11.3	*
Unemployment rate (end of the period)	%	7.5	6.4	5.9	5.8	*
Exports	mln Ls	730.1	882.1	350.1	*	*
Imports	mln Ls	1 318.9	1 756.3	662.8	*	*

Source of data: CSB and BOL.

<sup>1</sup> increase over the previous period, %

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

<sup>3</sup> seasonally adjusted data

The volume of **cargo transhipped through Latvian ports** in June amounted to 5.6 mln t, which was 11.8% 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 31.4 mln t, up by 4.6% from the same period last year.

Officially registered **unemployment rate** at the end of June amounted to 5.8% of the economically active population. As compared with the previous month, the unemployment rate declined by 0.1 percentage point, and by 1.2 percentage points, as compared with the corresponding month of the previous year. The number of people registered as unemployed in June amounted to 62.3 thsd people, which was 0.5 thsd less than in the previous month and 12.1 thsd less than in June of 2006. The highest unemployment rate in June was registered in the district of Ludza, 20.4% (27.0% in the corresponding period of 2006); in the district of Rēzekne, 19.3% (25.6%); in the district of Krāslava, 16.3% (20.5%). The lowest unemployment rate was registered in Rīga, 3.5% (3.9%); in the district of Tukums, 4.2% (5.2%); and in the district of Rīga, 4.6% (4.8%).

**Consumer Price Index (CPI)** in June, compared to May, rose by 0.9%. Prices for goods increased by 0.9% and prices for services – increased by 0.7%.

The rise in the prices of food, tobacco, beer and payments for parking, as well as the price decrease for footwear had the greatest impact on consumer price changes in June.

Price increase for fruit by 13.0 and for vegetables and potatoes by 6.0, had the highest impact for the rise in the prices of food products.

Prices of meat and meat products increased by 0.9, milk and dairy products by 1.2, bread by 0.9, fish by 1.3 and non-alcoholic beverages by 0.7 went up as well. Price of tobacco products continued to rise.

The parking fee increased noticeably in June by 20.6%. Spare parts and accessories for personal transport equipment became expensive by 0.6% and driving courses by 2.0%. The prices of automotive fuel increased by 0.9%.

There was price increase also for several services related to housing: water supply increased by 2.0%, sewerage by 1.5%, waste disposal by 3.4%, and heating energy by 1.1%.

The prices of recreational and cultural services increased by 0.7%, package holidays by 1.0% and catering services increased by 0.5%.

Under the impact of seasonal sales, prices for footwear have decreased in June by 4.8%. There were decrease of prices for mobile telecommunications by 2.1%, data processing by 0.9%, TV, audio, video and photo equipment by 1.5% and telephones by 0.5%. Due to special offers, the prices for selected food products also decreased.

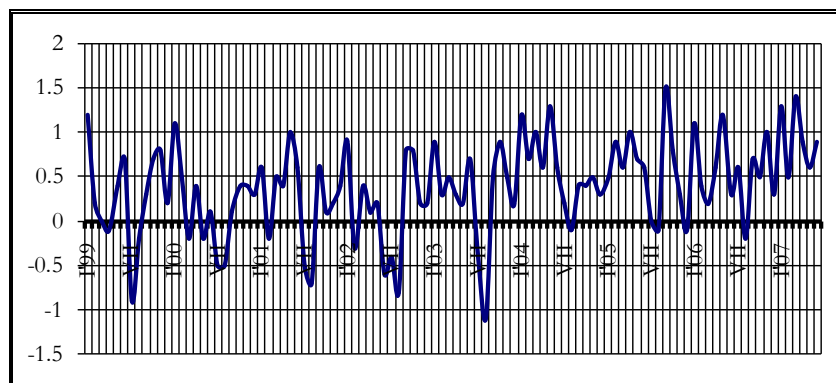
As compared to June 2006, consumer prices increased by 8.8%, of which prices for goods went up by 7.5% and for services increased by 12.4%.

The CPI in **Estonia** in June as compared to May increased by 0.1%. The year-on-year growth of the CPI in Estonia amounted to 5.8%.

The CPI in **Lithuania** in June compared to May increased by 0.2%. As compared with June of 2006, consumer prices went up by 4.8%.

### Consumer price index

% over the previous period



In May 2007, **exports and imports of goods** amounted to 1012.9 mln lats up by 23.1% from the same period last year.

As compared with May last year, export of goods grew by 27.2% and amounted to 350.1 mln lats, while import increased by 21.1%, reaching the value of 662.8 mln lats.

In May 2007, as compared to the May 2006, the trade balance deficit grew by 40.5 mln lats and amounted to 312.7 mln lats.

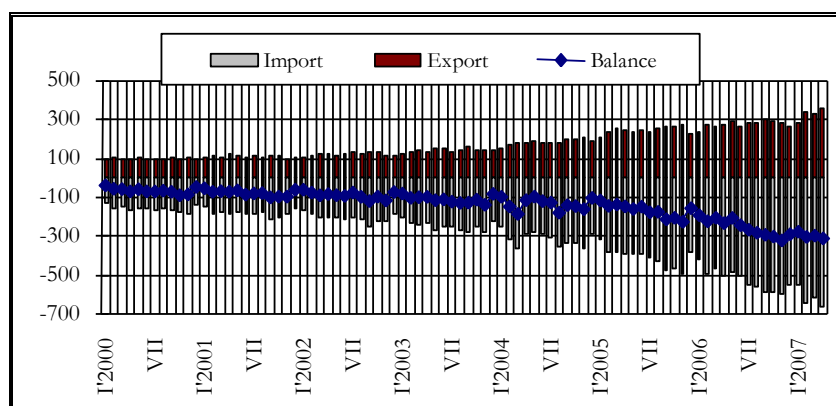
In May 2007 exports to the EU increased by 24.8% as compared with May of the previous year and amounted to 264.5 mln lats. The share of the EU in total value of exports was 75.6%. Exports to the CIS grew by 56.3% as compared with May of the previous year and amounted to 49.7 mln lats, and the share of exports to the CIS was 14.2%.

The value of imports from the EU in May 2007 grew by 22.9% year-on-year and reached 51.9 mln lats, but the share of EU imports amounted to 78.3%. The value of imports from the CIS in May 2007 increased by 15.1% year-on-year and reached 83.3 mln lats, but the share of CIS imports amounted to 12.6%.

Latvia's main export partners in May of 2007 were Lithuania, accounting for 14.1% of total exports; Estonia, 13.3%; Russia, 9.1%; Germany, 8.4%; Sweden, 7.2%. Main import partners were Germany, 14.8%; Lithuania, 13.8%; Estonia, 7.9%; Russia, 7.4%; and Poland, 7.1%.

### 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 102.8 mln lats year-on-year and amounted to 269.3 mln lats. As compared with May 2006, the goods deficit rose by 107.5 mln lats and stood at 319.4 mln lats. The negative income balance increased – in May 2007, up by 4.6 mln lats from the corresponding period last year and was 29.5 mln lats. Surplus of the services balance in May 2007 amounted to 37.4 mln lats, which was 6.7 mln lats less than in the May of 2006. The surplus of the capital and financial account in May of 2007 was 253.9 mln lats. Net inflow of direct investment in May totalled 117.1 mln lats, which was 75.6 mln lats more than in the May last year. The portfolio investment account in May was negative and amounted to 58.9 mln lats. The Bank of Latvia's reserve assets in the May decreased by 152.2 mln lats.

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

	May of 2007	June of 2007	Jan-June of 2007	Jan – June of 2006	% changes (Jan - June) 2007/2006	% of annual plan
<b>Revenue</b>	<b>391.4</b>	<b>356.7</b>	<b>2030.4</b>	<b>1578.2</b>	<b>28.7</b>	<b>48.1</b>
Basic budget tax revenue	220.0	184.3	1092.4	820.6	33.1	50.6
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-56.8	-
Basic budget non-tax revenue	36.7	14.5	111.0	101.3	9.6	39.1
Self-earned revenue	8.6	7.8	57.0	50.4	13.0	43.0
Social security budget revenue	104.3	110.9	601.4	446.5	34.7	55.7
– transfers from central government basic budget	-1.4	-1.4	-8.3	-6.7	23.6	50.0
Gifts and donations	0.3	0.4	1.8	2.1	-13.4	-
Foreign financial assistance	23.0	40.1	175.1	164.0	6.8	30.1
<b>Expenditure</b>	<b>309.3</b>	<b>375.3</b>	<b>1869.0</b>	<b>1405.3</b>	<b>33.0</b>	<b>42.5</b>
Basic budget	239.7	312.7	1450.6	1025.9	41.4	41.5
– transfers to social security budget	-1.4	-1.4	-8.3	-6.7	23.6	50.0
Social security budget	70.6	63.5	424.9	383.3	10.9	46.5
Gifts and donations	0.3	0.4	1.7	2.7	-35.4	-
<b>Financial balance</b>	<b>82.1</b>	<b>-18.5</b>	<b>161.4</b>	<b>172.9</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets.

37.8

66.5

229.3

153.3

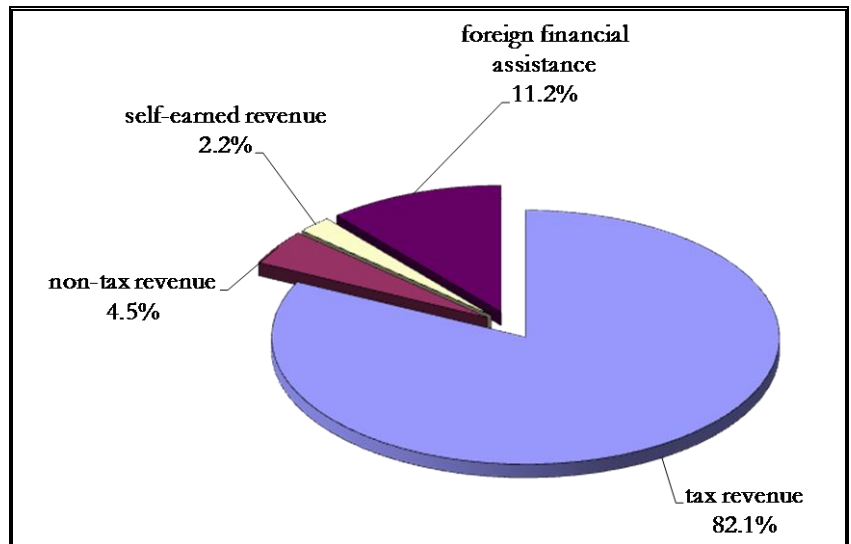
49.6

\*\* 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 the financial part.

In accordance with the State Treasury's official monthly report's (January-June 2006) data, in June 2007 the **central government consolidated budget** revenue (including gifts and donations) was 356.7 mln lats which is 34.6 mln lats or 8.9% less than in May, mainly due to decrease of tax revenue in central government basic budget by 35.6 mln lats and non-tax revenue in central government basic budget by 22.1 mln lats. The central government consolidated budget revenue in six months of 2007 was 2030.4 mln lats, which is 452.2 mln lats

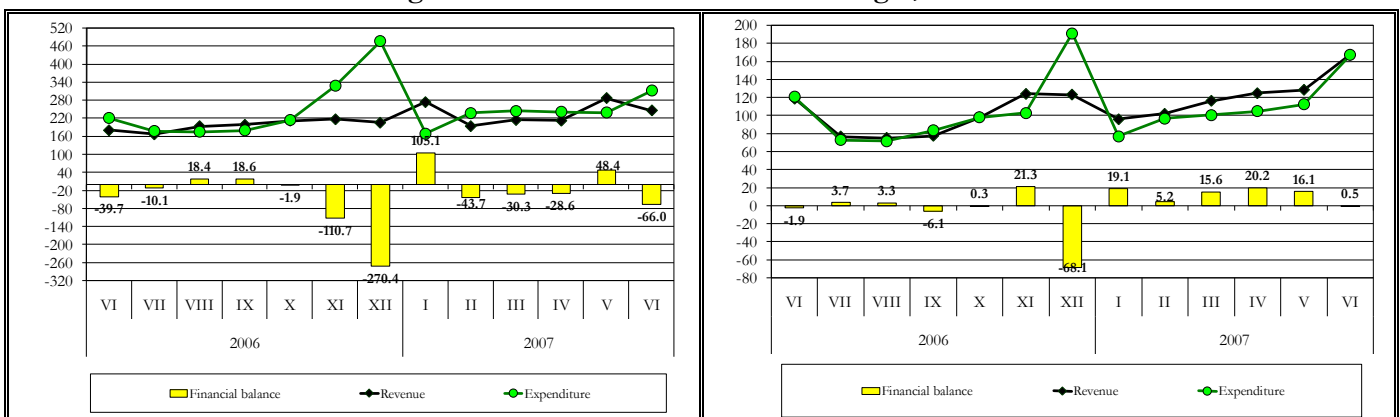
or 28.7% more than in the same period of 2006. The most significant increase in comparison with six months of 2006 was in the revenue from value added tax, social security contributions and corporate income tax. In June 2007, the central government budget expenditure (including gifts and donations) was 375.3 mln lats, which is 66.0 mln lats or 21.3% more than in May 2007. The central government budget expenditure in six months of 2007 was 1869.0 mln lats and in comparison with the same period of 2006 expenditure increased by 463.7 mln lats or 33.0%. In June 2007, the central government consolidated budget financial deficit was 18.5 mln lats.

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



**Central government basic budget** revenue in June 2007 was 246.7 mln lats, which in comparison with May 2007 is 41.4 mln lats or 14.4% less. In comparison with May 2007, tax revenue was 184.3 mln lats, which is 35.6 mln lats or 16.2% less, mainly due to decrease of corporate income tax revenue by 37.1 mln lats. In June 2007 the non-tax revenue was 14.5 mln lats, which is 22.1 mln lats or 60.4% less than in May 2007. In June 2007, revenue from the paid services and self-earned revenue was 7.8 mln lats, which is 0.8 mln lats or 8.8% less, but revenue from the foreign financial assistance was 40.1 mln lats, which is 17.1 mln lats or 74.6% more than in May.

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



In June 2007, the central government basic budget expenditure was 312.7 mln lats, which is 73.0 mln lats or 30.5% more than in May 2007. In June 2007, the central government basic budget non-capital expenditure was 289.5 mln lats or 92.6% of total basic budget expenditure and in comparison with May 2007 is 70.6 mln lats or 32.3% more, mainly due to the seasonal increase of targeted grants for local governments by 27.4 mln lats, which is explained by transferred financial funds for payments of teachers vacation pay. The central government basic budget capital expenditure in June 2007 was 23.3 mln lats and in comparison with May 2007 is 2.4 mln lats or 11.6% more. In June 2007, the financial deficit in amount of 66.0 mln lats was in the central government basic budget.

**Social security budget** revenue in June 2007 was 110.9 mln lats, which is 6.6 mln lats or 6.4% more than in May 2007. The social security budget expenditure in June 2007 was 63.5 mln. lats, which in comparison with May 2007 is 7.1 mln lats or 10.1% less. In June 2007, the social security budget financial surplus was 47.4 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in June 2007 in comparison with May 2007 was 39.0 mln lats or 30.3% more. In comparison with May 2007, the tax revenue was 4.6 mln lats or 6.6% less, that was mainly driven by decrease of real estate tax revenue by 9.3 mln lats or 78.5%. The local government basic budget non-tax revenue in June 2007 in comparison with May 2007 was 21.7 thsd lats more and the local government basic budget received payments was 44.6 mln lats or 94.0% more. Local government basic budget revenue from the paid services and other self-earned revenue in June 2007 was 1.0 mln lats or 12.2% less than in May 2007.

In June 2007 the local government basic budget expenditure was 167.4 mln lats, which is 54.7 mln lats or 48.5% more than May 2007, mainly due to increase of expenditure for wages by 30.2 mln lats or 78.9%. In June 2007, the financial deficit of 3.2 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	May of 2007	June of 2007	Jan - June of 2007	Jan - June of 2006	% changes (Jan - June) 2007/2006
<b>Revenue</b>	<b>120.9</b>	<b>145.5</b>	<b>683.0</b>	<b>483.3</b>	<b>41.3</b>
Basic budget tax revenue	69.7	65.1	368.0	262.6	40.1
Basic budget non-tax revenue	3.1	3.2	18.8	15.5	21.5
Basic budget received payments	47.5	92.1	305.0	214.6	42.1
-mutual payments*	-16.1	-30.6	-105.8	-77.3	36.9
Basic budget self-earned revenue	8.5	7.4	44.8	35.9	24.9
Special budget revenue**	8.1	8.3	51.7	29.7	73.9
Foreign financial assistance	0.0	0.0	0.4	2.3	-81.8
<b>Expenditure</b>	<b>103.8</b>	<b>148.7</b>	<b>593.0</b>	<b>435.6</b>	<b>36.1</b>
Basic budget expenditure	112.7	167.4	660.5	486.0	35.9
-mutual payments*	-16.1	-30.6	-105.8	-77.3	36.9
Special budget expenditure**	7.2	11.9	38.4	26.9	42.6
<b>Financial balance</b>	<b>17.0</b>	<b>-3.2</b>	<b>90.0</b>	<b>47.7</b>	<b>-</b>

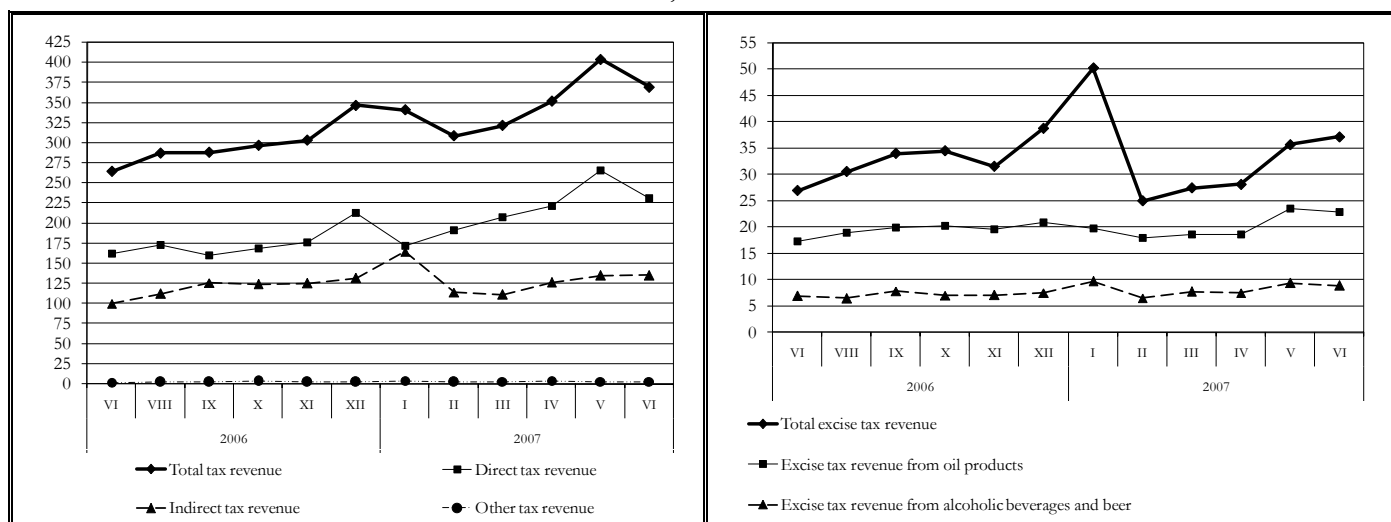
\* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

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

**Value added tax** revenue in June 2007 was 94.2 mln lats and in comparison with May 2007 is 1.1 mln lats or 1.1% less. In June 2007, the value added tax revenue collected on border was 0.8 mln lats or 3.6% less than in May 2007 and domestically net collected value added tax revenue was 0.2 mln lats or 0.3% less than in May 2007. In June 2007, value added tax repayments were 47.7 mln lats, which is 10.6 mln lats or 28.7% more than in May 2007.

Total **excise tax** revenue in June 2007 was 37.2 mln lats and in comparison with May 2007 is 1.4 mln lats or 4.0% more. Excise tax revenue from tobacco products in June 2007 was 4.8 mln lats, which is 2.3 mln lats or 96.8 % more than in May 2007. Excise tax revenue from alcoholic beverages was 7.4 mln lats and in comparison with May 2007 is 0.1 mln lats or 10.6% more. The excise tax revenue from beer in June 2007 was 1.5 mln lats, which is 0.4 mln lats or 41.8% more than in May 2007. In June 2007, the excise tax revenue from oil products amounted to 22.9 mln lats, which is 0.6 mln lats or 0.6% less than in May 2007. The excise tax revenue from non-alcoholic beverages and coffee in June 2007 was 0.6 mln lats, which is 0.1 mln lats or 28.6% more than in May 2007.

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



## Tax Revenue, mln lats

	May of 2007	June of 2007	Jan – June of 2007	Jan – June of 2006	% changes (Jan - June) 2007/2006	% of annual plan
Corporate income tax	67.5	30.4	203.7	131.2	55.2	62.8
Value added tax	95.3	94.2	560.8	420.5	33.4	47.1
Excise tax	35.8	37.2	203.9	166.2	22.7	48.8
Cars and motorcycles tax	1.7	1.7	8.7	6.0	43.1	52.4
Social security contributions*	113.9	120.4	635.9	457.6	39.0	55.3
Custom duties	2.3	2.5	13.7	9.8	39.9	66.1
Personal income tax	72.7	77.9	410.3	299.3	37.1	54.6
Real estate tax	11.9	2.6	40.5	36.0	12.5	59.3

\* including the State Funded Pension Scheme financial means of 10.9 mln lats in June 2007 and 11.1 mln lats in May 2007.

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

	End of June 2007 Average annual selling rate, (%)	End of May 2007 Shares of bonds, %	End of June 2007 Shares of bonds, %	End of June 2007 Amount in circulation, thsd. LVL
6 month T-bills	4.319	4.04	4.07	16 142.423
1 year T-bills	4.896	12.44	11.90	47 256.742
3 year bonds	5.959	0.56	0.56	2 216.915
5 year bonds	5.196	29.95	30.14	119 638.017
10 year bonds	4.728	53.02	53.34	211 746.079

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