

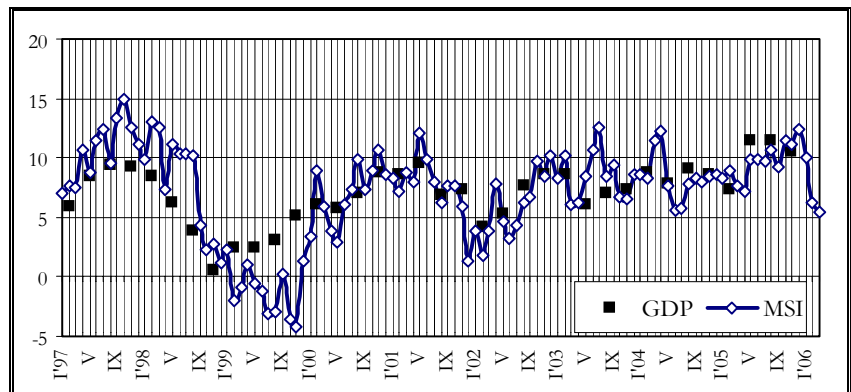
STATE BUDGET

March '06

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in March 2006 grew by 5,4% at constant prices. The increase of MSI was restricted by the high increase of producer prices and by a decrease in the amount of cargoes loaded and unloaded in ports. However 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

		2005 3Q	2005 4Q	2006		
				February	March	March**
Industrial output index	%*	0.8	0.4	0.9	*	*
Consumer price index	%*	1.0	1.9	0.4	0.2	6.5
Producer price index	%*	0.9	2.6	0.8	1.5	8.3
Cash in circulation (net of vault balances)	mln Ls	800.63	877.27	862.06	865.08	20.5
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 382.44	1 390.23	1 473.54	1 559.17	39.1
Average short-term interest rates for credits (in lats)	%	5.4	5.7	6.9	6.6	-
Unemployment rate (end of the period)	%	7.7	7.4	7.5	7.4	-
Exports	mln Ls	735.8	787.6	228.2	*	*
Imports	mln Ls	1 242.4	1 426.3	416.3	*	*

Source of data: CSB and BOL.

* increase over the previous period, %

** increase over the same period of the previous year, %

The volume of **cargo transhipped in ports** in March amounted to 4.9 mln t, down by 5.8% or 300.5 thsd t from the corresponding month of 2005.

In March 2006 the officially registered **unemployment** rate decreased by 0.1 percentage point month-on-month and amounted to 7.4% of the economically active population. The unemployment rate decreased also as compared with March 2005, by 1.2 percentage points. The number of the registered unemployed in March 2006 amounted to 78.8 thsd people, which is 0.9 thsd less than in the previous month and by 12.8 thsd less than in March 2005. The highest unemployment rate in March was registered in the district of Ludza, 27.3% (28.2% in March of 2005); in the district of Rēzekne, 25.0% (26.3%); and in the district of Balvi, 22.8% (26.4%). The lowest unemployment rate was registered in Rīga, 4.1% (4.7%); in the district of Ogre, 4.8% (5.7%); and in the district of Saldus, 5.2% (6.5%).

Consumer Price Index (CPI) in March, compared with February, grew by 0.2%. Prices for goods increased by 0.3%, but prices for services by 0.1%.

Increases in the prices of clothing, footwear and electricity and decreases in the prices for vegetables had the greatest impact on the growth of the consumer prices in March. The price level of food products decreased by 0.7%. As compared to the previous month, prices went up for potatoes – by 6.4%, fish – by 3.3%, fresheners – by 1.5% and oil and fat – by 1.6%. But there were decreases in the prices of vegetables – by 13.4%. With new spring – summer season's goods appearing in sale, there were increases in the prices of clothing and footwear – by 3.6%. Due to new electricity tariffs, prices for electricity grew – by 6.7%. Compared to the previous month, rental grew – by 3.3%, heat energy – by 0.8%. Prices also grew for other expenditures related to the maintenance of house. Prices diminished for fuel – by 1.6%, for auto gas – by 3.0%. The services of mobile telecommunications in March became slightly less expansive – by 1.8% and mobile telephones – by 1.1%.

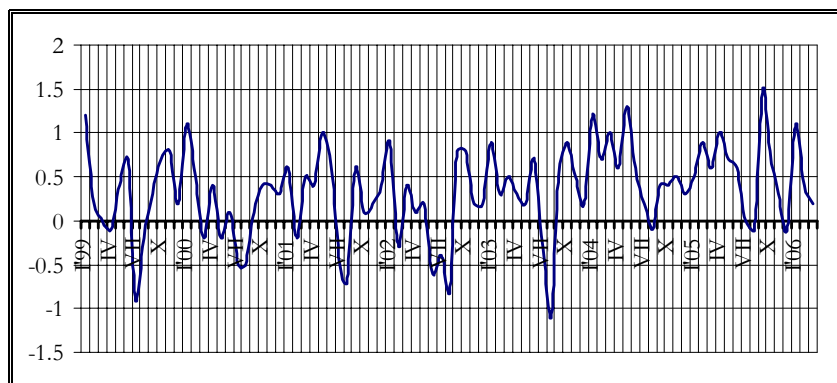
Compared with March 2005, the consumer prices increased by 6.5%, of which prices for goods went up by 6.5% and for services increased by 6.8%.

The consumer prices in **Estonia** in March 2006 increased by 0.1 % month-on-month. It was mainly derived by an increase in the prices of maintenance of house, fruits and vegetables and by a decrease in the prices for fuel. Compared to March 2005, consumer prices in Estonia increased by 4.0%.

The CPI in **Lithuania** in March 2006, compared to February increased by 0.2%. Annual inflation, March 2006 against March 2005, was 3.1%.

Consumer price index

% over the previous period



In February 2006, **foreign trade** turnover of goods totalled 644.5 mln lats at current prices, which was 23.2% more than in the corresponding period of 2005. The growth of the turnover was due to an increase in export of goods by 12.8%, and in February 2006 the value of export reached 228.2 mln lats. The value of imported goods in February 2006 totalled 416.3 mln lats, up by 29.7% from the February 2005. In February 2006, as compared to the February 2005, the trade balance deficit grew by 69.3 mln lats and amounted to 188.1 mln lats.

In February 2006, as compared with January 2006, the value of export increased by 4.8%, but the value of import by 11.0%.

Compared with January - February 2005, the sharpest increases were 66.0% in the exports of agricultural and food products, 58.7% for plastics and plastic ware. In February export decrease for mineral products – by 19.5%, wood and woodwork – by 0.7% and articles of base metals – by 0.6%.

The share of the EU in total value of exports in the February 2006 was 76.2% and amounted to 173.9 mln lats, which is 8.3% more than in the February 2005. Exports to the CIS grew by 38.9% as compared with the February of the previous year and amounted to 29.7 mln lats, while the share of exports to the CIS was 13.0%.

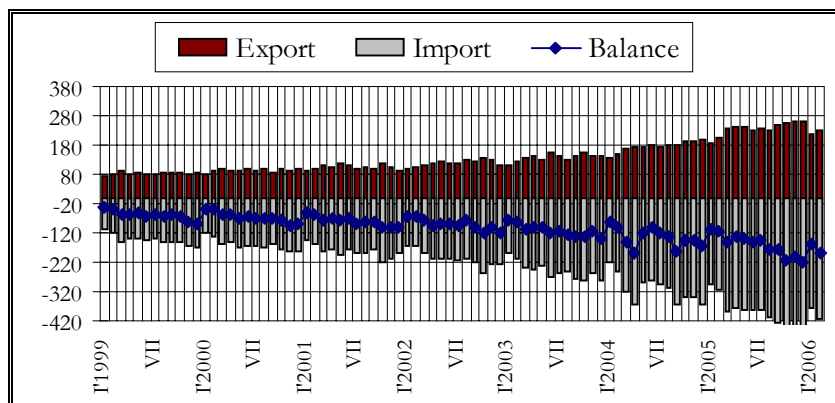
Imports from the EU in the February 2006 stood at 303.1 mln lats, which is 33.5% more than in February 2005, but the share of the EU in total imports was 72.8%. Value of imports from the CIS grew by 6.1% year-on-year and reached 71.6 mln lats, but the share of CIS imports was 17.2%.

Latvia's main export partners in February 2006 were Lithuania, accounting for 14.2% of total exports (9.3% in February 2005); Estonia, 11.3% (9.6%); Germany, 10.0% (11.8%); Great Britain, 8.7% (12.1%); and Russia, 8.4% (6.6%).

The biggest import partners were Germany, 13.7% (12.2%); Lithuania, 13.3% (11.3%); Russia, 10.2% (11.2%); Estonia, 6.9% (7.0%) and Poland, 6.3% (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 February amounted to 121.7 mln lats, which was 81.8 mln lats more than in the corresponding month of the previous year. 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 167.2 mln lats. Surplus of the services balance increased – it went up by 2.6 mln lats and stood at 30.9 mln lats in February 2006. In February of 2006 the balance of income was negative, compared with two previous month, and amounted minus 1.1 mln lats, but compared with February of 2005, it increased by 2.2 mln lats. The balance of current transfers, as compared with the February 2005, went down by 21.2 mln lats and was 15.8 mln lats. Surplus of the financial and capital account in February 2006 was 94.6 mln lats. Net inflow of the direct investment in February 2006 totalled 26.1 mln lats, which was 4.0 mln lats less than in the February of the previous year. Surplus of other investments grew by 94.0 mln lats as compared with February 2005. The balance of portfolio investments posted a deficit of 23.5 mln lats, which is 4.8 mln lats less than in the February 2005. The Bank of Latvia's reserve assets in February 2006 increased by 68.9 mln lats.

Central Government Consolidated Budget*, mln lats

	February of 2006	March of 2006	Jan-March of 2006	Jan - March of 2005	% changes (Jan - March) 2006/2005	% of annual plan
Revenue	211.9	285.6	754.8	581.5	29.8	23.3
Basic budget tax revenue	107.0	117.6	382.2	294.2	29.9	23.5
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	8.6	12.3	31.6	28.0	12.6	15.2
Self-earned revenue	9.8	9.8	28.0	25.9	8.1	27.3
Social security budget revenue	71.6	74.3	210.7	170.1	23.9	24.5
– transfers from central government basic budget	-0.8	-1.3	-3.3	-3.7	-11.2	21.0
Gifts and donations	0.3	0.2	0.8	0.3	-	-
Foreign financial assistance	15.3	72.7	104.8	66.7	57.2	22.8
Expenditure	225.3	235.9	666.4	560.9	18.8	19.8
Basic budget	161.4	175.2	467.8	385.0	21.5	17.9
– transfers to social security budget	-0.8	-1.3	-3.3	-3.7	-11.2	21.0
Social security budget	64.3	61.6	200.7	178.5	12.4	26.0
Gifts and donations	0.5	0.4	1.2	1.1	6.4	-
Financial balance	-13.5	49.6	88.5	20.6	-	-
Net lending	1.1	-0.3	-7.6	-17.3	-	-
Fiscal balance	-14.5	49.9	96.0	37.9	-	-

* including transfers to local government budgets.

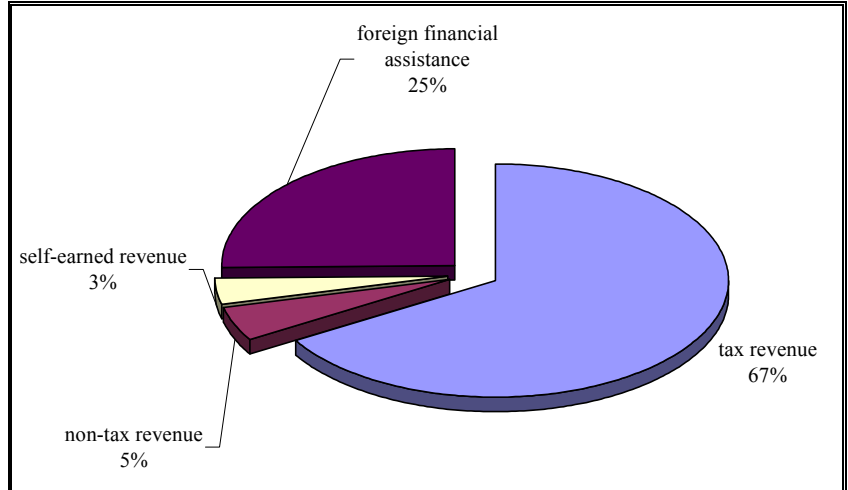
22.3 24.5 63.9 50.6 26.2

In accordance with the State Treasury's official monthly report's (January-March 2006) data, in March 2006 the **central government consolidated budget** revenue (including gifts and donations) increased by

73.7 mln lats or 34.8%, in comparison with February 2006. Tax revenue formed the significant part of the central government consolidated budget revenue. In comparison with February 2006 the most significant increase was in the revenue from excise tax, corporate income tax and social security contributions. In March 2006, the central government budget expenditure (including gifts and donations) was 10.6 mln lats or 4.7% more than in February 2006. In March 2006, the central government consolidated budget fiscal surplus was 49.9 mln lats.

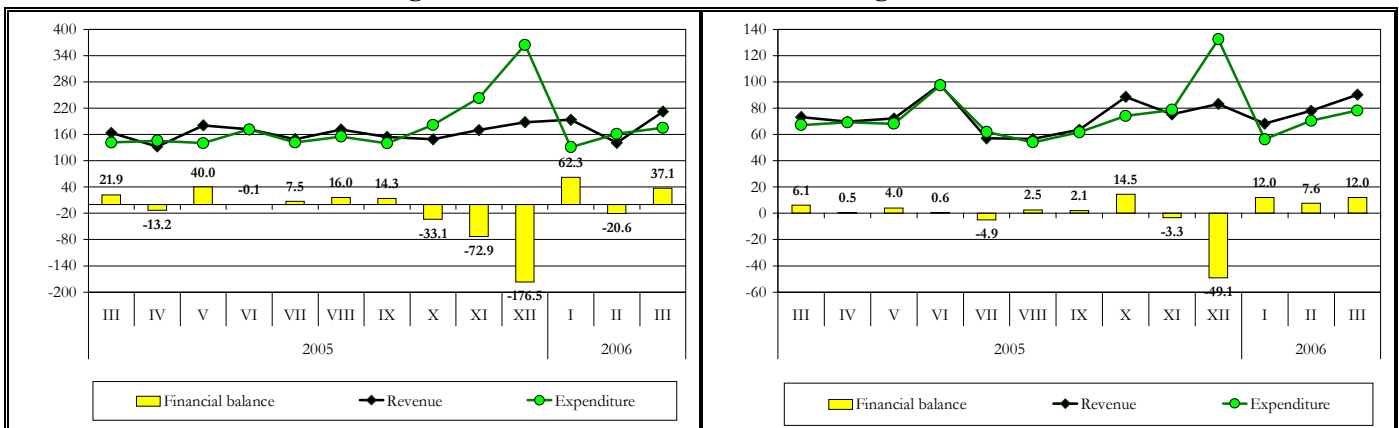
Structure of Central Government Basic Budget and Special Budget Revenue in March 2006

percentage



Central government basic budget revenue in March 2006 was 212.4 mln lats, which in comparison with February 2006 is 71.6 mln lats or 50.8% more, mainly due to increase of revenue from foreign financial assistance by 57.4 mln lats. In comparison with February 2006, tax revenue was 10.6 mln lats or 9.9% more, mainly due to increase of excise tax revenue and corporate income tax revenue. In March 2006 the non-tax revenue was 3.7 mln lats or 42.7% more than in February 2006. In March 2006, revenue from the paid services and self-earned revenue was 41.4 thsd lats less than in February 2006.

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



In March 2006, central government basic budget expenditure was 175.2 mln lats, which is 13.9 mln lats or 8.6% more than in February 2006. In March 2006, the central government basic budget non-capital expenditure was 155.4 mln lats or 88.7% of total basic budget expenditure and in comparison with February 2006 was 0.3 mln lats less. The central government basic budget capital expenditure in March 2006 was 19.9 mln lats from which investment amounted to 16.4 mln lats or 82.6%. In March 2006, investment expenditure increased by 13.2 mln lats in comparison with February 2006, mainly due to the investment in amount of 8.6 mln lats made by the ministry of Transport for the E67 VIA Baltica Saulkrasti detour road. In March 2006, the fiscal surplus in amount of 37.4 mln lats was in the central government basic budget.

Social security budget revenue in March 2006 was 2.7 mln lats or 3.8% more than in February 2006. In March 2006, the social security budget expenditure was 2.7 mln lats or 4.1% less than in February 2006. In March 2006, the social security budget fiscal surplus was 12.7 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in March 2006 in comparison with February 2006 was 12.2 mln lats or 15.6% more. In comparison with February 2006, the tax revenue was 5.4 mln lats or 12.5% more, that was mainly determined by the increase of real estate tax revenue by 3.6 mln lats or 48.3%, as a result of tax payments for first quarter. The local government basic budget non-tax revenue in March 2006 in comparison with February 2006 was 0.3 mln lats or 9.0% more, but local government basic budget revenue from the paid services and other self-earned revenue was 0.9 mln lats or 21.9% more. The local government basic budget received payments in March 2006 was 5.7 mln lats or 20.7% more than in February 2006, mainly due to increase of targeted grants for investment by 4.6 mln lats.

In March 2006, the local government basic budget expenditure in comparison with February 2006 was 7.8 mln lats or 11.1% more, mainly due to increase of grants for institutions, organizations and enterprises by 1.6 mln lats or 33.7% and for wages by 1.5 mln lats or 5.9%. In March 2006, the fiscal surplus of 12.6 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

	February of 2006	March of 2006	Jan - March of 2006	Jan - March of 2005	% changes (Jan - March) 2006/2005
Revenue	74.6	83.5	218.7	204.2	7.1
Basic budget tax revenue	43.1	48.6	126.9	102.1	24.3
Basic budget non-tax revenue	3.2	3.5	9.4	9.3	1.4
Basic budget received payments	27.6	33.3	87.6	77.9	12.4
-mutual payments*	-10.8	-11.3	-32.0	-12.1	-
Basic budget self-earned revenue	3.9	4.7	12.1	13.0	-6.9
Special budget revenue**	7.2	4.1	13.4	12.6	6.4
Gifts and donations	0.0	0.4	0.6	0.6	7.0
Foreign financial assistance	0.2	0.1	0.6	0.8	-27.0
Expenditure	63.2	71.1	182.9	177.7	2.9
Basic budget expenditure	70.5	78.3	205.0	179.7	14.0
-mutual payments*	-10.8	-11.3	-32.0	-12.1	-
Special budget expenditure**	3.4	4.0	9.5	9.5	-0.5
Gifts and donations	0.1	0.2	0.4	0.6	-29.8
Financial balance	11.4	12.4	35.8	26.4	-
Net lending	0.0	-0.2	-0.2	1.6	-
Fiscal balance	11.4	12.6	36.0	24.8	-

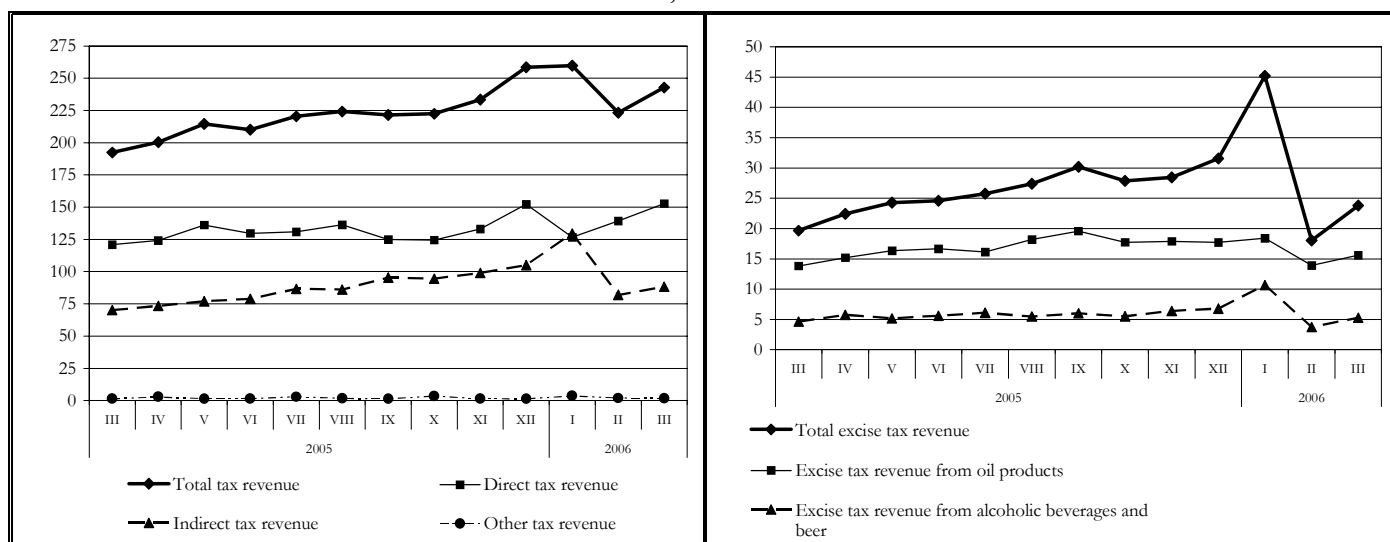
* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

** excluding revenue from privatisation.

Value added tax revenue in March 2006 in comparison with February 2006 was 0.2 mln lats less. In the first three months of 2006, value added tax revenue was 59.3 mln lats or 40.6% more than in the same period of 2005. In March 2006, the value added tax revenue collected on border was 3.6 mln lats more than in February 2006, but domestically net collected value added tax revenue was 3.8 mln lats less than in February 2006. In March 2006, value added tax repayments were 26.0 mln lats, which were 4.1 mln lats or 18.4% more than in February 2006.

Total **excise tax** revenue in March 2006 in comparison with February 2006 was 5.8 mln lats or 31.9% more. Excise tax revenue from tobacco products in March 2006 was 2.5 mln lats and in comparison with February 2006 was 2.5 mln lats more, but excise tax revenue from alcoholic beverages was 4.7 mln lats and in comparison with February 2006 was 1.4 mln lats or 43.6% more. In March 2006, the excise tax revenue from oil products amounted to 15.6 mln lats, which is 1.7 mln lats or 12.3% more than in February 2006. The excise tax revenue from beer in March 2006 was 0.5 mln lats, which is 75.0 thsd lats or 16.0% more than in February 2006. The excise tax revenue from non-alcoholic beverages and coffee in March 2006 was 0.4 mln lats, which is 45.3 thsd lats or 12.9% more than in February 2006.

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



Tax Revenue, mln lats

	February of 2006	March of 2006	Jan - March of 2006	Jan - March of 2005	% changes (Jan - March) 2006/2005	% of annual plan
Corporate income tax	12.5	15.5	41.0	34.7	18.3	17.2
Value added tax	61.8	61.6	205.4	146.1	40.6	24.7
Excise tax	18.0	23.8	87.0	71.5	21.7	23.5
Cars and motorcycles tax	0.7	1.0	2.4	1.6	46.8	23.3
Social security contributions*	72.6	76.6	215.9	173.3	24.6	24.6
Custom duties	1.3	1.9	4.9	4.5	7.0	25.5
Personal income tax	46.8	49.7	142.0	114.5	24.0	25.8
Real estate tax	7.4	11.0	19.8	18.0	9.5	32.2

* including the State Funded Pension Scheme financial means of 3.7 mln lats in March 2006 and 1.9 mln lats in February 2006.

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

	End of March 2006	End of February 2006	End of March 2006	End of March 2006
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	3.53	3.15	3.43	13 792.514
1 year T-bills	3.29	16.50	17.11	68 848.216
3 year bonds	4.11	4.01	3.96	15 946.784
5 year bonds	3.30	28.23	27.92	112 335.309
10 year bonds	3.73	48.11	47.58	191 421.070

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