

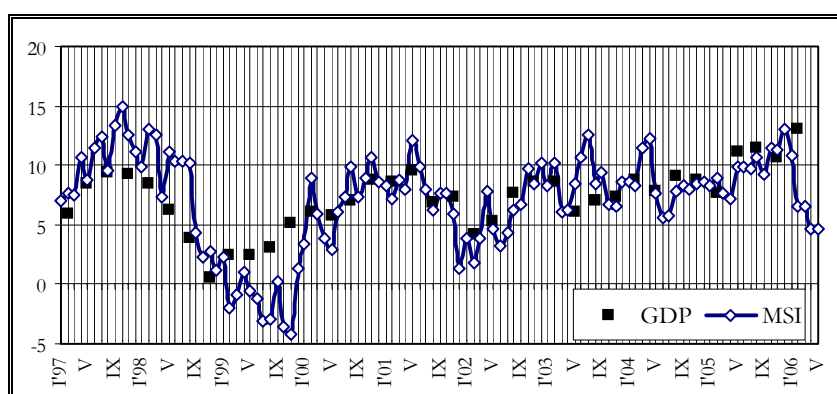
STATE BUDGET

May '06

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in May 2006 grew by 4.6% at constant prices. The increase of index was restricted by the increase in consumer and 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.

Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



Macroeconomic Indicators

		2005 1Q	2006 1Q	2006		
				April	May	May ²
Industrial output index ³	% ¹	1.2	2.2	-3.8	*	*
Consumer price index	% ¹	1.7	1.4	0.6	1.2	6.6
Producer price index	% ¹	2.3	3.0	0.3	1.4	10.0
Cash in circulation (net of vault balances)	mln Ls	717.76	865.08	885.73	892.15	19.1
Bank of Latvia net foreign assets (end-of-period)	mln Ls	1 120.59	1 559.17	1 579.55	1 807.28	61.3
Average short-term interest rates for credits (in lats)	%	7.3	6.6	6.8	7.3	-
Unemployment rate (end of the period)	%	8.6	7.4	7.3	7.0	-
Exports	mln Ls	628.6	721.3	258.4	*	*
Imports	mln Ls	999.7	1 278.0	458.7	*	*

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 May amounted to 5.4 mln t, which was 5.7% more than in the corresponding month of the previous year. Total volume of cargo transhipped in Latvian ports in the first five months of the current year was 25.1 mln t, down by 0.1% from the same period last year.

Officially registered **unemployment rate** at the end of May amounted to 7.0% of the economically active population. As compared with the previous month, the unemployment rate declined by 0.3 percentage points, and by 1.1 percentage point, as compared with the corresponding month of the previous year. The number of people registered as unemployed in May was 74.8 thsd people, which was 2.4 thsd less than in the previous month and 11.4 thsd less than in May of 2005. The highest unemployment rate in May was registered in the district of Ludza 27.0% (28.4% in the corresponding period of 2005); in the district of Rēzekne, 25.6% (26.1%); in the district of Krāslava, 20.8% (20.2%); in the district of Balvi, 19.9% (25.9%); in the district of

Preiļi, 19.9% (18.4%); in the district of Daugavpils, 15.4% (20.9%). The lowest unemployment rate was registered in Rīga, 3.9% (4.5%); in the district of Rīga, 4.7% (5.5%) and in the district of Ogre, 4.8% (5.3%).

Consumer Price Index (CPI) in May, compared with April, rose by 1.2%. Prices for goods increased by 1.4% and prices for services by 0.7%.

The overall price level in May was influenced mainly by the price increases for vegetables, fuel and public catering.

Prices for food products went up by 1.9% and this was caused mainly by the supply in trade outlets of the new season's vegetables (by 19.6%). Notable increase was also in the prices of potatoes (by 10.1%) and fruits (by 5.2%). The consumer price level was influenced by an increase in the prices for public catering (by 2.0%) and hotel services (by 30.1%) mostly due to a hockey championship in Riga. Tobacco products, soft drinks, confectionery, cereal products, fresh fish, house maintenance, medicament, travelling, hairdressing and house care services also became more expensive.

The price level in May increased also for fuel (by 7.0%) and natural gas (by 18.1%), because of new natural gas tariffs.

Less expensive became telecommunication services, cut flowers, cosmetics and hygiene goods, mobile telephones, household appliances, computer hardware, phototehnics, footwear and furnishing insurance.

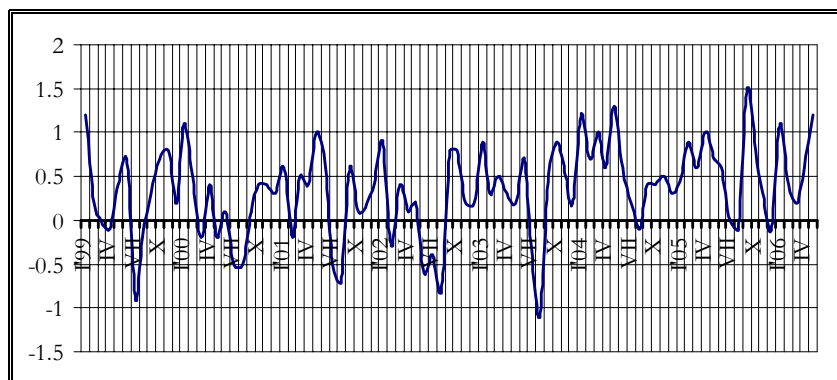
Compared with May 2005, consumer prices increased by 6.6%, of which prices for goods went up by 7.0% and for services by 5.6%.

The CPI in **Estonia** in May as compared to April increased by 0.5%. Consumer prices in Estonia were mostly influenced by increases in the prices of fuel, transport services, house maintenance and decreases in the prices of telecommunications.

The CPI in **Lithuania** in May compared with April increased by 0.4%. As compared with May of 2005, consumer prices went up by 3.6%.

Consumer price index

% over the previous period



Latvian **foreign trade** turnover in the first four month of 2006 kept growing. The growth was driven both by an increase in exports and in imports. As compared with the first four month of 2005, export of goods grew by 11.7% and amounted to 979.7 mln lats, while import increased by 25.2%, reaching the value of 1 736.7 mln lats.

In April 2006, as compared to the April 2005, the trade balance deficit grew by 61.0 mln lats and amounted to 200.3 mln lats.

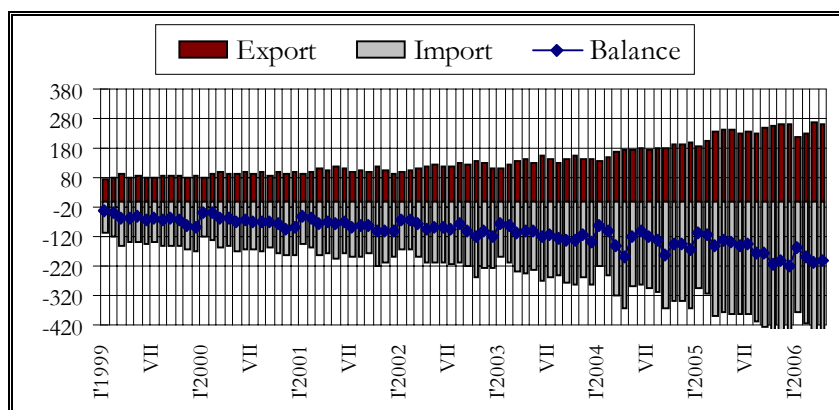
Exports to the EU decreased by 1.1% as compared with April of the previous year and amounted to 189.9 mln lats. The share of the EU in total value of exports was 73.5%. Exports to the CIS grew by 27.3% as compared with April of the previous year and amounted to 35.8 mln lats, and the share of exports to the CIS was 13.9%.

The value of imports from the EU in April of the 2006 grew by 19.9% year-on-year and reached 335.8 mln lats, but the share of EU imports amounted to 73.2%. The value of imports from the CIS in April of the 2006 decreased by 0.1% year-on-year and reached 75.3 mln lats, but the share of CIS imports amounted to 16.4%.

Latvia's main export partners in April of 2006 were Lithuania, accounting for 13.3% of total exports; Estonia, 12.6%; Germany, 9.0%; Great Britain, 7.7%; and Russia, 7.7%. Main import partners were Germany, 14.6%; Lithuania, 12.9%; Russia, 9.1%; Estonia, 7.2%; 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 April increased by 31.8 mln lats year-on-year and amounted to 130.2 mln lats.

The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the April of 2005, the goods deficit rose by 59.8 mln lats and stood at 179.4 mln lats. Surplus of the services balance in the April of 2006 amounted to 25.0 mln lats, which was 1.5 mln lats more than in the April of 2005. The negative income balance decreased – in the April of 2006, down by 10.7 mln lats from the corresponding period last year and was 2.0 mln lats. The surplus of current transfers increased by 18.8 mln lats year-on-year and in April of 2006 amounted to 26.2 mln lats. The surplus of the capital and financial account in April of 2006 was 86.9 mln lats. Net inflow of direct investment in the April totalled 133.3 mln lats, which was 124.7 mln lats more than in the April last year. The portfolio investment account in the April was negative and amounted to 35.5 mln lats. The Bank of Latvia's reserve assets in the April rose by 14.1 mln lats.

Central Government Consolidated Budget*, mln lats

	April of 2006	May of 2006	Jan-May of 2006	Jan - May of 2005	% changes (Jan - May) 2006/2005	% of annual plan
Revenue	253.2	306.4	1314.5	1017.8	29.2	40.6
Basic budget tax revenue	136.1	168.7	687.0	510.9	34.5	42.3
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	15.4	37.4	84.4	91.8	-8.1	40.7
Self-earned revenue	8.1	7.6	43.8	41.5	5.6	42.7
Social security budget revenue	74.7	78.1	363.5	294.6	23.4	42.3
– transfers from central government basic budget	-0.8	-1.3	-5.4	-6.2	-13.3	34.4
Gifts and donations	0.6	0.2	1.6	1.3	24.7	-
Foreign financial assistance	19.0	15.6	139.5	83.9	66.3	30.3
Expenditure	235.5	233.2	1135.0	955.7	18.8	33.8
Basic budget	165.4	175.6	808.7	671.3	20.5	31.0
– transfers to social security budget	-0.8	-1.3	-5.4	-6.2	-13.3	34.4
Social security budget	70.3	58.6	329.5	288.6	14.2	42.8
Gifts and donations	0.6	0.3	2.1	2.0	5.6	-
Financial balance	17.7	73.2	179.4	62.0	-	-
Net lending	1.5	0.1	-5.9	-16.2	-	-
Fiscal balance	16.2	73.1	185.3	78.2	-	-

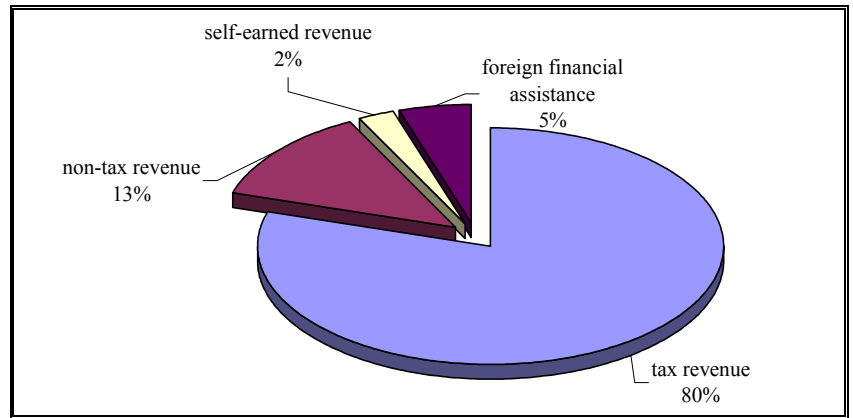
* including transfers to local government budgets.

20.7 24.7 109.2 88.3 23.7

In accordance with the State Treasury's official monthly report's (January-May 2006) data, in May 2006 the **central government consolidated budget** revenue (including gifts and donations) increased by 53.2 mln lats or 21.0%, in comparison with April 2006. Tax revenue formed the significant part of the central government consolidated budget revenue. In comparison with April 2006 the most significant increase was in the revenue from corporate income tax, value added tax and social security contributions. In May 2006, the central government budget expenditure (including gifts and donations) was 2.3 mln lats or 1.0% less than in April 2006. In May 2006, the central government consolidated budget fiscal surplus was 73.1 mln lats.

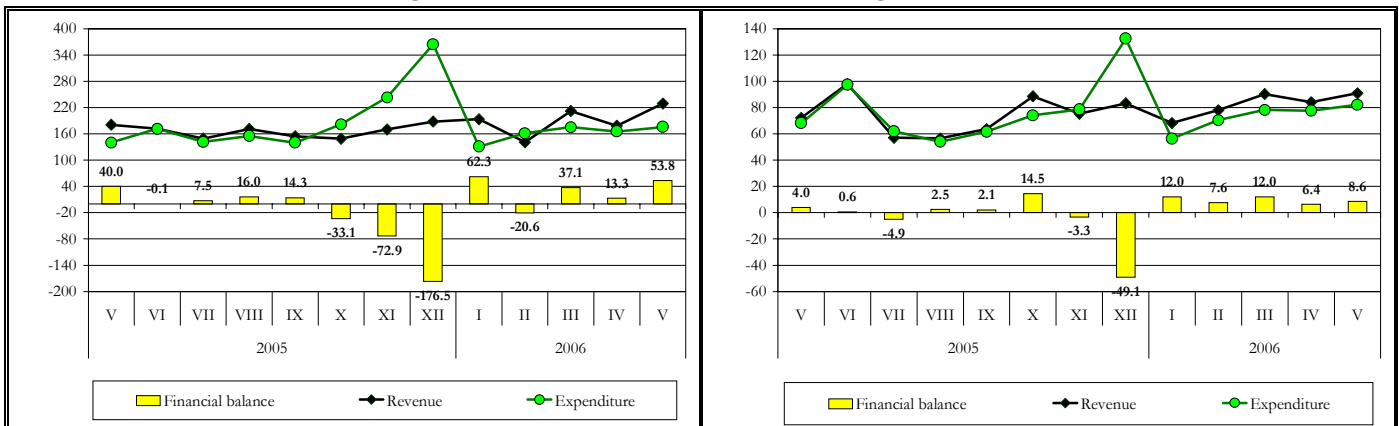
Structure of Central Government Basic Budget and Special Budget Revenue in May 2006

percentage



Central government basic budget revenue in May 2006 was 229.4 mln lats, which in comparison with April 2006 is 50.7 mln lats or 28.4% more. In comparison with April 2006, tax revenue was 32.5 mln lats or 23.9% more, mainly due to increase of revenue from corporate income tax and value added tax. In May 2006 the non-tax revenue was 22.0 mln lats more than in April 2006. The increase of non-tax revenue was determined mainly by the increase of payments for using the state capital by 26.2 mln lats. In May 2006, major payments for using the state capital were paid by JSC “Latvijas valsts meži” – 11.4 mln lats and Ltd “Lattelecom” – 10.1 mln lats. In May 2006, revenue from the paid services and self-earned revenue was 0.5 mln lats or 5.9 % less, but revenue from the foreign financial assistance was 3.4 mln lats or 17.8% less than in April 2006.

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



In May 2006, central government basic budget expenditure was 175.6 mln lats, which is 10.2 mln lats or 6.2% more than in April 2006. In May 2006, the central government basic budget non-capital expenditure was 159.7 mln lats or 91.0% of total basic budget expenditure and in comparison with April 2006 was 7.7 mln lats or 5.1% more, mainly due to increase of expenditure for subsidies and grants by 18.6 mln lats or 26.7%. Expenditure for loans and credits in May 2006 decreased by 13.4 mln lats, mainly due to the fixed Eurobonds coupon payment in amount of 11.9 mln lats paid in April 2006. The central government basic budget capital expenditure in May 2006 was 15.8 mln lats from which investment amounted to 10.5 mln lats or 66.1%. In May 2006, investment expenditure increased by 2.0 mln lats in comparison with April 2006. In May 2006, the fiscal surplus in amount of 53.7 mln lats was in the central government basic budget.

Social security budget revenue in May 2006 was 3.4 mln lats or 4.5% more than in April 2006. In May 2006, the social security budget expenditure was 11.7 mln lats or 16.7% less than in April 2006, mainly due to decrease of grants to the population by 12.8 mln lats or 18.6%. In May 2006, the social security budget fiscal surplus was 19.5 mln lats.

Local government basic budget revenue, including local government mutual payments and payments from financial equalisation fund, in May 2006 in comparison with April 2006 was 6.8 mln lats or 8.1% more. In comparison with April 2006, the tax revenue was 3.4 mln lats or 7.8% more. The local government basic budget non-tax revenue in May 2006 in comparison with April 2006 was 0.1 mln lats or 1.5% more, but local government basic budget revenue from the paid services and other self-earned revenue was 1.7 mln lats or

25.7% less. The local government basic budget received payments in May 2006 was 4.8 mln lats or 16.3% more than in April 2006.

In May 2006, the local government basic budget expenditure in comparison with April 2006 was 4.5 mln lats or 5.9% more, mainly due to increase of expenditure for wages by 1.5 mln lats or 5.7% and capital expenditure by 1.3 mln lats or 25.5%. In May 2006, the fiscal surplus of 7.3 mln lats was in the local government consolidated budget (including gifts and donations).

Local Government Budget, mln lats

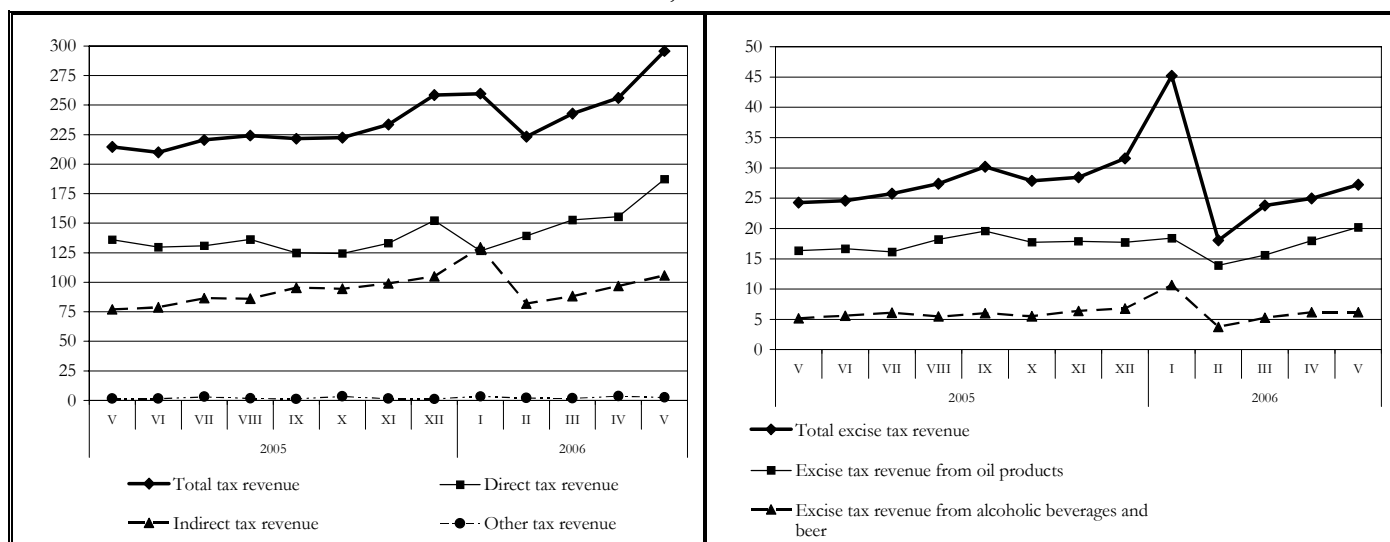
	April of 2006	May of 2006	Jan - May of 2006	Jan - May of 2005	% changes (Jan - May) 2006/2005
Revenue	77.8	84.1	380.5	320.1	18.9
Basic budget tax revenue	43.2	46.5	216.6	173.5	24.8
Basic budget non-tax revenue	4.8	4.9	19.2	16.3	17.5
Basic budget received payments	29.3	34.1	151.0	133.0	13.5
-mutual payments*	-11.3	-12.0	-55.3	-47.9	15.5
Basic budget self-earned revenue	6.4	4.8	23.3	21.3	9.4
Special budget revenue**	4.9	4.6	23.0	22.1	4.1
Gifts and donations	0.1	0.6	1.2	0.9	43.1
Foreign financial assistance	0.4	0.6	1.6	1.0	54.5
Expenditure	70.1	77.1	330.1	288.6	14.4
Basic budget expenditure	77.7	82.2	364.8	317.2	15.0
-mutual payments*	-11.3	-12.0	-55.3	-47.9	15.5
Special budget expenditure**	3.6	6.3	19.4	18.3	6.1
Gifts and donations	0.1	0.6	1.1	0.9	19.4
Financial balance	7.7	7.0	50.4	31.6	-
Net lending	-0.2	-0.3	-0.6	0.4	-
Fiscal balance	7.8	7.3	51.1	31.2	-

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

** excluding revenue from privatisation.

Value added tax revenue in May 2006 in comparison with April 2006 was 5.9 mln lats or 8.4% more. In May 2006, the value added tax revenue collected on border was 3.2 mln lats more than in April 2006, but domestically net collected value added tax revenue was 2.7 mln lats more than in April 2006. In May 2006, value added tax repayments were 27.0 mln lats, which were 3.2 mln lats or 13.7% more than in April 2006.

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



Total **excise tax** revenue in May 2006 in comparison with April 2006 was 2.3 mln lats or 9.2% more. In May 2006, the excise tax revenue from oil products amounted to 20.2 mln lats, which is 2.2 mln lats or 12.2% more than in April 2006. Excise tax revenue from tobacco products in May 2006 was 0.4 mln lats and in comparison with April 2006 was 66.9 thsd lats or 19.1% more, but excise tax revenue from alcoholic beverages was 5.4 mln lats and in comparison with April 2006 was 91.9 thsd lats or 1.7% less. The excise tax

revenue from beer in May 2006 was 0.8 mln lats, which is 96.7 thsd lats or 14.4% more than in April 2006. The excise tax revenue from non-alcoholic beverages and coffee in May 2006 was 0.5 mln lats, which is 26.4 thsd lats or 6.2% more than in April 2006.

Corporate income tax revenue in May 2006 was 48.0 mln lats, which in comparison with April 2006 is 24.4 mln. lats more. The increase of corporate income tax revenue could be explained by the reason that a part of enterprises have already submitted annual tax declarations. The submitted declarations 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.

Total **natural resources tax** revenue in May 2006 was 0.8 mln. lats, which is 1.1 mln lats or 56.9% less than in April 2006. In May 2006, natural resources tax revenue in central government basic budget was 0.4 mln lats, which in comparison with April 2006 decreased by 1.4 mln lats. The law "On natural resources tax" determines that tax payment for the preceding quarter has to be paid by the 20th date of the following month. Consequently tax payment for the first quarter had to be made by the 20th of April 2006, as a result natural resources tax revenue increased in April 2006 but decreased in May 2006.

Tax Revenue, mln lats

	April of 2006	May of 2006	Jan - May of 2006	Jan - May of 2005	% changes (Jan - May) 2006/2005	% of annual plan
Corporate income tax	23.6	48.0	112.6	75.7	48.8	47.2
Value added tax	69.6	75.4	350.4	245.0	43.0	42.2
Excise tax	25.0	27.2	139.2	118.2	17.8	37.6
Cars and motorcycles tax	1.1	1.3	4.8	3.3	43.3	46.1
Social security contributions*	76.5	80.1	372.5	299.7	24.3	42.4
Custom duties	1.4	1.9	8.1	7.7	5.5	42.6
Personal income tax	50.2	51.8	244.0	195.7	24.7	44.4
Real estate tax	5.0	7.4	32.2	29.7	8.4	52.5
Natural resources tax	1.9	0.8	5.5	4.7	17.2	63.9

* including the State Funded Pension Scheme financial means of 3.7 mln lats in May 2006 and 3.3 mln lats in April 2006.

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

	End of May 2006	End of April 2006	End of May 2006	End of May 2006
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	3.525	2.57	0.60	2 248.599
1 year T-bills	3.842	13.35	11.20	42 139.524
3 year bonds	4.11	4.17	4.24	15 946.784
5 year bonds	3.30	29.37	29.86	112 335.309
10 year bonds	4.304	50.55	54.10	203 523.085

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