

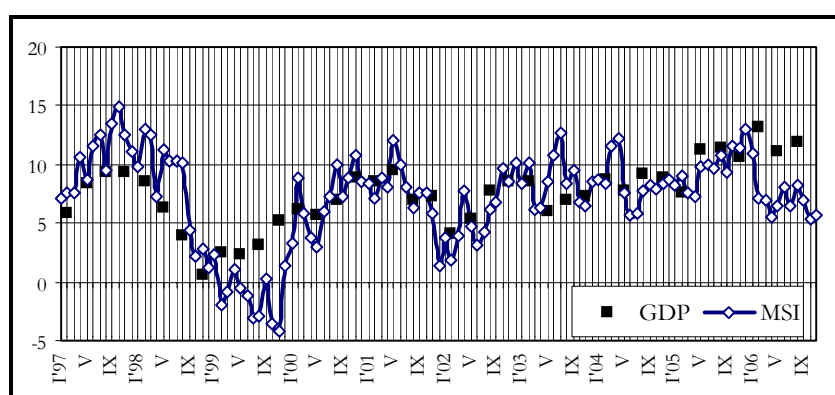
# STATE BUDGET

November '06

According to the estimations of the Ministry of Finance, the **Composite Index of Macroeconomic Indicators (MSI)** in November 2006 grew by 5.7% at constant prices. The increase of index was restricted by an increase in industry producer prices by 13.0. The lowest 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 by 22.7% and 21.2% respectively. 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 3Q	2006 3Q	2006		
				October	November	November <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	2.7	-1.0	-1.3	*	*
Consumer price index	% <sup>1</sup>	1.5	0.7	0.5	1.0	6.4
Producer price index	% <sup>1</sup>	0.4	1.1	1.6	1.6	13.0
Cash in circulation (net of vault balances)	mln. Ls	717.1	892.5	904.4	921.3	23.6
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	1 382.4	2 218.3	2 397.1	2 413.1	75.7
Average short-term interest rates for credits (in lats)	%	5.5	7.8	8.3	7.5	-
Unemployment rate (end of the period)	%	7.7	6.8	6.6	6.6	-
Exports	mln. Ls	735.8	832.3	294.5	*	*
Imports	mln. Ls	1 242.4	1 629.5	588.9	*	*

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 in Latvian ports** in November amounted to 4.6 mln t, up by 3.4% from the corresponding month of 2005. However the volume of cargo transhipped in ports in the first eleven months of 2006 totalled 54.8 mln t, which was 0.5% more than in the same period of 2005.

Officially registered **unemployment rate** in November stood unchanged month-on-month and amounted to 6.6% of the economically active population at the end of the month. The number of the registered unemployed decreased by 0.3 thsd people from the previous month and amounted to 69.7 thsd people. As compared with November 2005, the unemployment rate decreased by 0.9 percentage points, but the number of the registered unemployed fell by 9.7 thsd people. The highest unemployment rate in November was registered in the district of Ludza, 24.1% (27.3% in November of 2005); in the district of Rēzekne, 23.2%

(25.4%); and in the district of Krāslava, 18.5% (21.1%). The lowest unemployment rate was registered in Rīga, 3.9% (4.3 %); in the district of Rīga, 4.8% (5.1%); and in the district of Ogre, 5.0% (5.1%).

The **Consumer Price Index (CPI)** in November grew by 1.0% from the previous month, of that prices for goods grew by 1.1%, but for services by 0.6%.

The strongest effect on the consumer prices in November was produced by a rise in the prices for food products, heat energy, as well as the decrease of fuel prices.

The increase of food product prices was mainly determined by an increase of prices for vegetables – by 15.9%, bread – by 8.8%, cereal products – by 3.4% and fresh meat – by 1.9%.

The price of heat energy continued to increase in November – by 8.0%. More expensive became dwelling maintenance and repair services – by 2.7%, waste collection – by 1.3%, apartment rent price – by 1.2%, materials for maintenance and repair of dwelling – by 1.2%, as well as solid fuel – by 1.5%.

The prices for fuel, tobacco, as well as charges for telecommunications services continued to decrease in November.

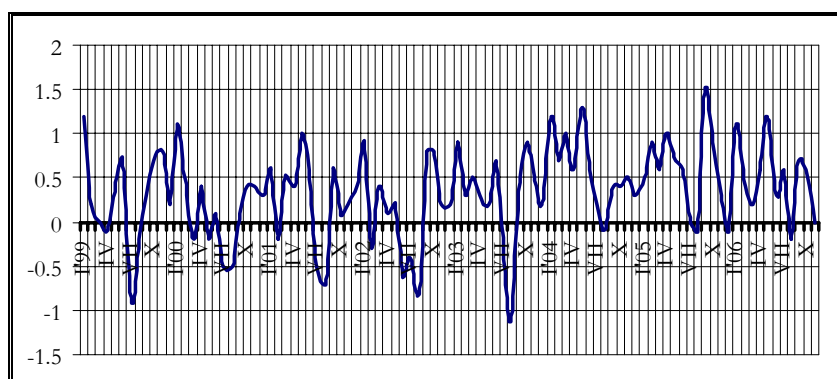
As compared with November 2005, the CPI increased by 6.4%, of which prices for goods grew by 6.0% and for services by 7.5%.

In **Estonia**, the CPI in November increased by 0.8% from October. As compared with November 2005, the consumer prices in Estonia increased by 4.6%.

In **Lithuania**, the CPI in November increased by 0.8% from October. Year-on-year growth of the CPI in Lithuania was 4.4%.

### Consumer price index

% over the previous period



In the first ten month of 2006, **exports and imports of goods** amounted to 7 730.7 mln lats up by 23.7% from the same period last year. As compared with the first ten month of 2005, export of goods grew by 14.0% and amounted to 2 682.6 mln lats, while import increased by 29.6%, reaching the value of 5 048.0 mln lats.

In October 2006, as compared to the October 2005, the trade balance deficit grew by 79.6 mln lats and amounted to 294.4 mln lats.

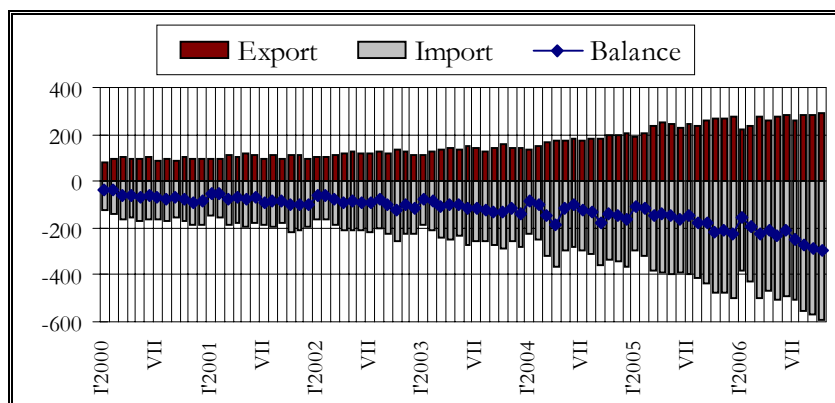
Exports to the EU increased by 5.3% as compared with October of the previous year and amounted to 217.8 mln lats. The share of the EU in total value of exports was 73.9%. Exports to the CIS grew by 50.0% as compared with October of the previous year and amounted to 45.1 mln lats, and the share of exports to the CIS was 15.3%.

The value of imports from the EU in October of the 2006 grew by 25.6% year-on-year and reached 456.3 mln lats, but the share of EU imports amounted to 77.5%. The value of imports from the CIS in October of the 2006 increased by 9.8% year-on-year and reached 80.2 mln lats, but the share of CIS imports amounted to 13.6%.

Latvia's main export partners in October of 2006 were Lithuania, accounting for 16.3% of total exports; Estonia, 13.1%; Russia, 10.5%; Germany, 10.2%; Sweden, 6.3 %. Main import partners were Germany, 15.8%; Lithuania, 11.8%; Russia, 7.9%; Estonia, 7.8%; and Poland, 7.8%.

### 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 October increased by 83.7 mln lats year-on-year and amounted to 249.0 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the October of 2005, the goods deficit rose by 81.1 mln lats and stood at 270.1 mln lats. The negative income balance increased – in the October of 2006, up by 6.8 mln lats from the corresponding period last year and was 14.2 mln lats. Surplus of the services balance in the October of 2006 amounted to 20.4 mln lats, which was 9.1 mln lats less than in the October of 2005. The surplus of the capital and financial account in October of 2006 was 231.9 mln lats. Net inflow of direct investment in the October totalled 136.6 mln lats, which was 111.8 mln lats more than in the October last year. The portfolio investment account in the October was positive and amounted to 17.5 mln lats. The Bank of Latvia's reserve assets in the October rose by 183.3 mln lats.

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

	October of 2006	November of 2006	Jan-Nov of 2006	Jan - Nov of 2005	% changes (Jan - Nov) 2006/2005	% of annual plan
<b>Revenue</b>	<b>298.4</b>	<b>309.6</b>	<b>2994.6</b>	<b>2372.6</b>	<b>26.2</b>	<b>88.2</b>
Basic budget tax revenue	162.5	160.7	1600.1	1222.0	30.9	93.4
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	14.5	11.2	174.5	159.4	9.5	66.7
Self-earned revenue	11.3	7.9	99.8	94.9	5.2	84.9
Social security budget revenue	85.1	87.9	868.0	688.6	26.1	91.8
– transfers from central government basic budget	-0.3	-1.3	-11.9	-13.8	-14.1	76.2
Gifts and donations	0.6	4.5	8.4	4.4	93.8	-
Foreign financial assistance	24.7	38.7	255.8	217.2	17.7	68.0
<b>Expenditure</b>	<b>296.3</b>	<b>407.2</b>	<b>2839.2</b>	<b>2321.2</b>	<b>22.3</b>	<b>80.4</b>
Basic budget	216.0	352.1	2136.2	1705.1	25.3	77.8
– transfers to social security budget	-0.3	-1.3	-11.9	-13.8	-14.1	76.2
Social security budget	80.2	56.0	710.5	624.9	13.7	88.6
Gifts and donations	0.4	0.5	4.4	5.0	-11.4	-
<b>Financial balance</b>	<b>2.1</b>	<b>-97.6</b>	<b>155.5</b>	<b>51.4</b>	<b>-</b>	<b>-</b>
<b>Net lending</b>	<b>5.0</b>	<b>-18.2</b>	<b>-4.2</b>	<b>-0.8</b>	<b>-</b>	<b>-</b>
<b>Fiscal balance</b>	<b>-3.0</b>	<b>-79.4</b>	<b>159.7</b>	<b>52.1</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets.

29.6

45.9

277.6

201.5

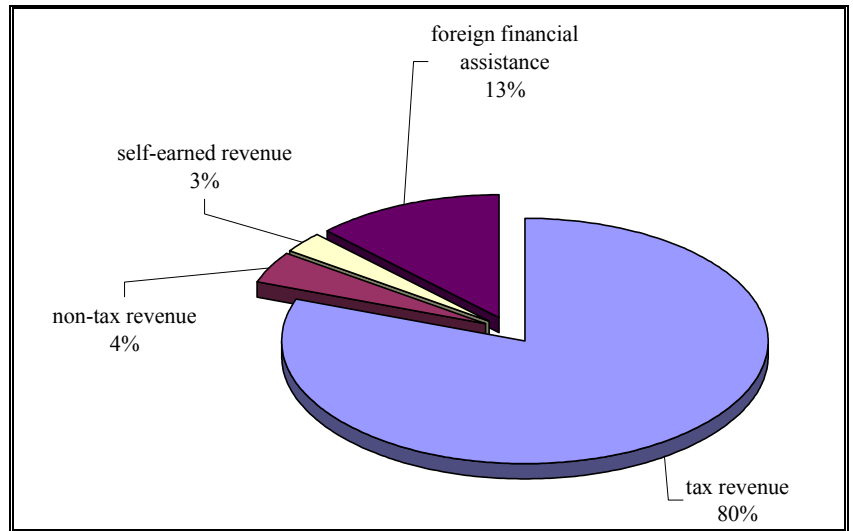
37.8

In accordance with the State Treasury's official monthly report's (January-November 2006) data, in November 2006 the **central government consolidated budget** revenue (including gifts and donations) increased by 11.3 mln lats or 3.8%, in comparison with October 2006. The central government consolidated budget revenue in eleven months of 2006 was 2994.6 mln lats, which is 622.1 mln lats or 26.2% more than in the same period of 2005. The most significant increase in comparison with eleven months of 2005 was in the revenue from value added tax, social security contributions, corporate income tax and excise tax. In November 2006, the central government budget expenditure (including gifts and donations) was 407.2 mln

lats and in comparison with October increased by 110.9 mln lats or 37.4%. The central government budget total expenditure in eleven months of 2006 was 2839.2 mln lats. In comparison with the same period of 2005, expenditure increased by 517.9 mln lats or 22.3%. In November 2006, the central government consolidated budget fiscal deficit was 79.4 mln lats.

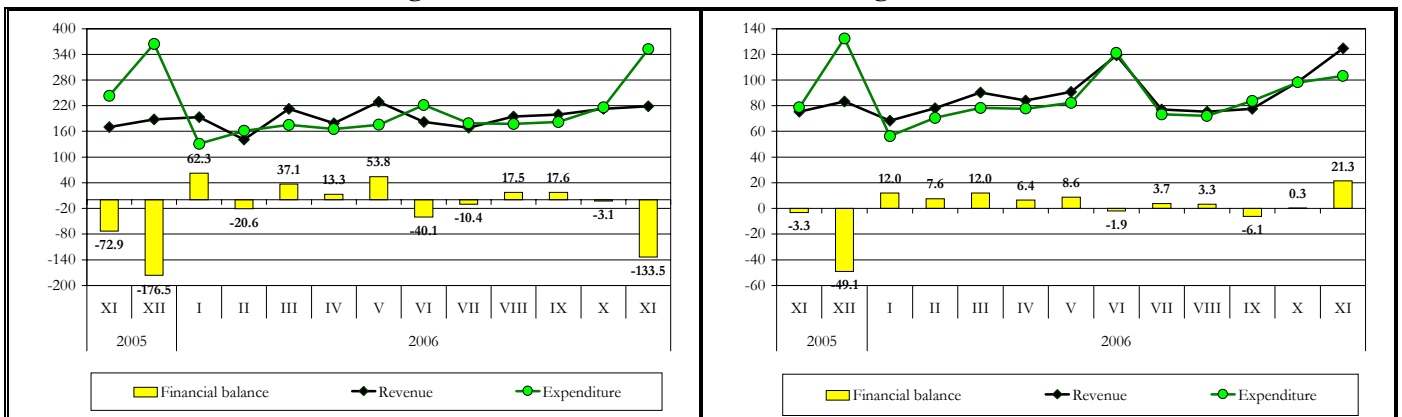
**Structure of Central Government Basic Budget and Special Budget Revenue in November 2006**

percentage



**Central government basic budget** revenue in November 2006 was 218.5 mln lats, which in comparison with October 2006 is 5.6 mln lats or 2.6% more. In comparison with October 2006, tax revenue was 1.8 mln lats or 1.1% less. Non-tax revenue decreased by 3.2 mln lats or 22.3%, mainly due to the decrease of interest payments by 1.0 mln lats and the decrease of state duties and payments for the state provided guarantee and legal and other services by 1.0 mln lats. In November 2006, revenue from the paid services and self-earned revenue decreased by 3.4 mln lats or 30.0% in comparison with October 2006. In November 2006 in comparison with October 2006, revenue from the foreign financial assistance increased by 14.0 mln lats or 56.5%.

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



In November 2006, central government basic budget expenditure was 352.1 mln lats, which is 136.0 mln lats or 63.0% more than in October 2006. In November 2006, the central government basic budget non-capital expenditure was 300.3 mln lats or 85.3% of total basic budget expenditure. In comparison with October 2006, non-capital expenditure increased by 112.9 mln lats or 60.2%, mainly due to increase of grants for institutions, organizations and enterprises by 36.1 mln lats 67.3%, increase of expenditure for wages by 13.3 mln lats or 40.4% and due to increase of grants to local governments' budgets by 6.2 mln lats or 23.9%. The central government basic budget capital expenditure in November 2006 was 51.7 mln lats from which investment amounted to 32.4 mln lats or 62.6%. In November 2006, investment expenditure increased by 16.2 mln lats in comparison with October 2006. In November 2006, the fiscal deficit in amount of 115.4 mln lats was in the central government basic budget.

**Social security budget** revenue in November 2006 was 2.8 mln lats or 3.3 % more than in October 2006. In November 2006, the social security budget expenditure was 24.2 mln lats or 30.2% less than in October 2006, mainly due to the decrease of grants to the population by 24.9 mln lats or 31.5%. In November 2006, the social security budget fiscal surplus was 31.9 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in November 2006 in comparison with October 2006 was 26.2 mln lats or 26.6% more. In comparison with October 2006, the tax revenue was 6.3 mln lats or 13.5% more, due to increase of real estate tax revenue by 3.3 mln lats or 82.2% and increase of personal income tax revenue by 3.0 mln lats or 7.2%. The revenues from the real estate tax increased by 3.3 mln lats or 82.2% and revenues from the personal income tax by 3.0 mln lats or 7.2%. The local government basic budget non-tax revenue in November 2006 in comparison with October 2006 was 0.7 mln lats or 16.1% less, but local government basic budget revenue from the paid services and other self-earned revenue was 0.2 mln lats or 4.1% more. The local government basic budget received payments in November 2006 was 20.5 mln lats or 49.6% more than in October 2006, mainly due to increase of grants for investment by 20.6 mln lats and due to increase of grants for local governments' activities by 5.3 mln lats.

In November 2006, the local government basic budget expenditure in comparison with October 2006 was 5.2 mln lats or 5.3% more, mainly due to the increase of expenditure for wages by 4.1 mln lats or 13.9% and increase for capital expenditure by 3.4 mln lats or 26.7%. In November 2006, the fiscal surplus of 22.2 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	October of 2006	November of 2006	Jan - Nov of 2006	Jan - Nov of 2005	% changes (Jan - Nov) 2006/2005
<b>Revenue</b>	<b>91.0</b>	<b>116.7</b>	<b>921.1</b>	<b>725.5</b>	<b>27.0</b>
Basic budget tax revenue	46.7	53.0	502.8	392.6	28.1
Basic budget non-tax revenue	4.5	3.8	42.5	37.3	14.1
Basic budget received payments	41.3	61.8	379.6	307.7	23.4
-mutual payments*	-13.7	-13.8	-128.3	-107.4	19.4
Basic budget self-earned revenue	5.3	5.5	52.2	44.1	18.4
Special budget revenue**	6.1	5.9	62.1	45.8	35.6
Gifts and donations	0.2	0.2	3.3	2.6	28.1
Foreign financial assistance	0.7	0.6	6.8	2.8	-
<b>Expenditure</b>	<b>91.3</b>	<b>94.9</b>	<b>847.3</b>	<b>689.2</b>	<b>22.9</b>
Basic budget expenditure	98.1	103.2	916.4	744.9	23.0
-mutual payments*	-13.7	-13.9	-128.3	-107.4	19.4
Special budget expenditure**	6.7	5.4	56.3	46.1	14.6
Gifts and donations	0.3	0.2	2.9	2.6	11.7
<b>Financial balance</b>	<b>-0.3</b>	<b>21.9</b>	<b>73.8</b>	<b>36.2</b>	<b>-</b>
<b>Net lending</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-1.1</b>	<b>-0.4</b>	<b>-</b>
<b>Fiscal balance</b>	<b>-0.2</b>	<b>22.2</b>	<b>74.9</b>	<b>36.6</b>	<b>-</b>

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

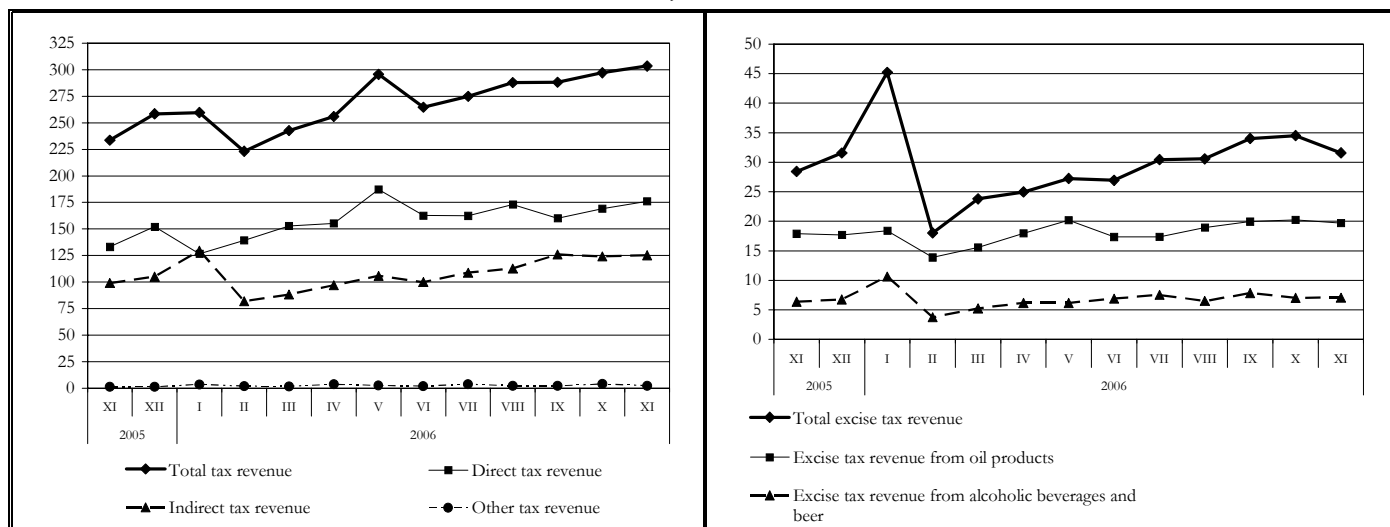
\*\* excluding revenue from privatisation.

**Value added tax** revenue in November 2006 in comparison with October 2006 was 4.4 mln lats or 5.1% more. In November 2006, the value added tax revenue collected on border was 0.2 mln lats or 0.9% less than in October 2006, but domestically net collected value added tax revenue was 4.5 mln lats or 6.8% more than in October 2006. In November 2006, value added tax repayments were 26.9 mln lats, which were 2.5 mln lats or 8.6% less than in October 2006.

Total **excise tax** revenue in November 2006 in comparison with October 2006 was 2.9 mln lats or 8.5% less. In November 2006, the excise tax revenue from oil products amounted to 19.7 mln lats, which is 0.6 mln lats or 2.9% less than in October 2006. Excise tax revenue from tobacco products in November 2006 was 4.4 mln lats and in comparison with October 2006 was 2.3 mln lats or 34.2% less, but excise tax revenue from alcoholic beverages was 6.4 mln lats and in comparison with October 2006 was 97.8 thsd lats or 1.6% more. The excise tax revenue from beer in November 2006 was 0.7 mln lats, which is 56.4 thsd lats or 7.3%

less than in October 2006. The excise tax revenue from non-alcoholic beverages and coffee in November 2006 was 0.4 mln lats, which is 0.1 mln lats or 19.5% less than in October 2006.

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



Total **natural resources tax** revenue in November 2006 was 0.3 mln. lats, which is 1.7 mln lats less than in October 2006. The law "On natural resources tax" establishes that tax payment for the preceding quarter has to be paid by the 20<sup>th</sup> date of the following month. Consequently the tax payment for the third quarter had to be paid by the 20<sup>th</sup> October 2006, as a result natural resources tax revenue in October 2006 increased in comparison with September 2006, but decreased in November 2006.

#### Tax Revenue, mln lats

	October of 2006	November of 2006	Jan - Nov of 2006	Jan - Nov of 2005	% changes (Jan - Nov) 2006/2005	% of annual plan
Corporate income tax	21.1	19.4	232.8	166.9	39.5	94.4
Value added tax	86.2	90.5	840.8	606.4	38.7	94.0
Excise tax	34.5	31.6	327.4	282.5	15.9	92.8
Cars and motorcycles tax	1.3	1.2	12.3	8.6	43.1	95.5
Social security contributions*	87.8	89.4	888.3	700.5	26.8	92.5
Custom duties	2.1	1.8	18.7	17.4	7.4	96.6
Personal income tax	56.2	60.1	581.3	455.0	27.8	89.8
Real estate tax	4.0	7.3	62.3	57.9	7.5	94.4
Natural resources tax	2.0	0.3	10.7	10.1	6.2	94.3

\* including the State Funded Pension Scheme financial means of 3.2 mln. lats in November 2006 and 4.4 mln lats in October 2006.

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

	End of November 2006	End of October 2006	End of November 2006	End of November 2006
	Average annual selling rate, (%)	Shares of bonds, %	Shares of bonds, %	Amount in circulation, thsd. LVL
6 month T-bills	4.722	1.87	2.54	10 218.560
1 year T-bills	4.603	12.61	11.87	47 800.004
3 year bonds	4.110	0.00	0.00	0.00
5 year bonds	5.128	29.64	33.01	132 924.030
10 year bonds	4.728	55.87	52.58	211 746.079

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