

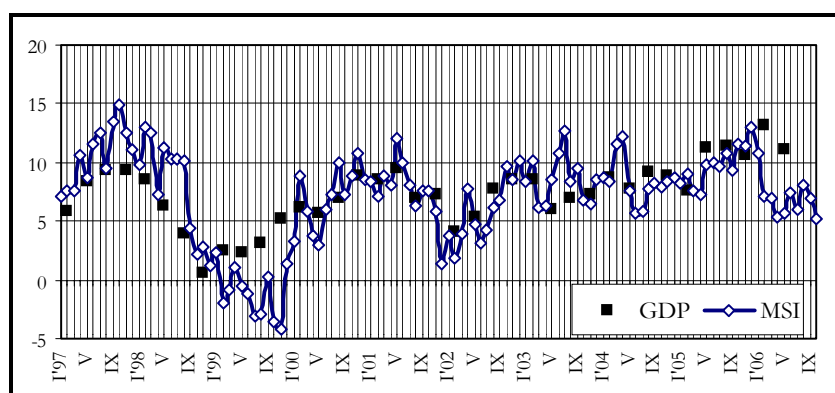
# STATE BUDGET

October '06

According to the estimations of the Ministry of Finance, growth of the **Composite Index of Macroeconomic Indicators (MSI)** in October amounted to 5.3% in constant prices. The increase of index was restricted by the increase in industry producer prices by 12.3%. The highest growth of index was determined by changes in the transport sector: there were decreases in the amount of cargoes loaded and unloaded in ports by 5.8%, in the amount of cargo turnover and cargo traffic by rail by 24.0% and 20.9% respectively. However the growth of index was stimulated by an increase in the domestic money supply M2D.

## Composite Index of Macroeconomic Indicators (MSI)

% over the same period of the previous year



## Macroeconomic Indicators

		2005 3Q	2006 3Q	2006		
				September	October	October <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	0.8	1.8	-1.0	*	*
Consumer price index	% <sup>1</sup>	1.0	1.2	0.7	0.5	5.6
Producer price index	% <sup>1</sup>	0.9	2.7	1.1	1.6	12.3
Cash in circulation (net of vault balances)	mln. Ls	717.1	892.5	892.5	904.4	23.8
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	1382.4	2218.3	2218.3	2397.1	74.6
Average short-term interest rates for credits (in lats)	%	5.5	7.8	8.1	8.3	-
Unemployment rate (end of the period)	%	7.7	6.8	6.8	6.6	-
Exports	mln. Ls	735.8	826.7	283.6	*	*
Imports	mln. Ls	1242.4	1624.3	567.5	*	*

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 October amounted to 4.9 mln t, down by 5.8% from the corresponding month of 2005. However the volume of cargo transhipped in ports in the first ten months of 2005 totalled 50.2 mln t, which was 0.4% more than in the same period of the previous year.

Officially registered **unemployment rate** in October decreased by 0.2 percentage points 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 1.7 thsd people from the previous month and amounted to 70.0 thsd people. As compared with October 2005, the unemployment rate decreased by 0.9 percentage points, but the number of the registered unemployed fell by 10.0 thsd people. The highest unemployment rate in October was registered in the district of Ludza, 24.8% (27.3% in October of 2005); in the district of Rēzekne, 23.4%

(25.6%); and in the district of Krāslava, 18.6% (21.3%). 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 Jelgava, 4.9% (5.7%).

The **Consumer Price Index (CPI)** in October grew by 0.5% from the previous month, of that prices for goods grew by 0.6%, but for services grew by 0.4%.

The strongest effect on the consumer prices in October was produced by a rise of food products by 1.3%, mainly caused by an increase in prices of vegetables by 16.3%, meat and meat products by 1.5%. There were price increases also for bread, cereal products and confectionery. Prices for milk and milk products, cheese, eggs, cooking oil, fats and sugar also went up.

There were price increases for catering services by 1.2%. The increases in the prices of wearing apparel by 2.6% were mainly caused by the clearance sales coming to an end. There were price increases for heating by 1.9% and solid fuel by 1.2%.

The prices of automotive fuel in October continued to decrease by 6.3%. Under the impact of sales actions, tobacco products became cheaper. With the winter prices taking effect, the prices of hotel services went down.

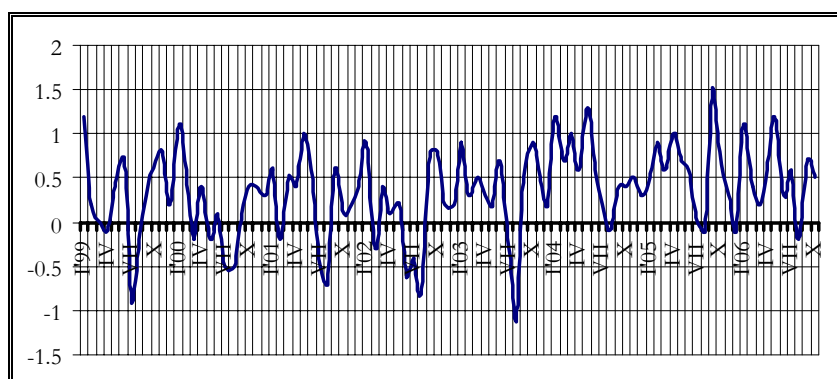
As compared with October 2005, the CPI increased by 5.6%, of which prices for goods grew by 5.3% and for services by 6.7%.

In **Estonia**, the CPI in October decreased by 0.1% from the previous month. Year-on-year growth of the CPI in Estonia was 3.7%.

In **Lithuania**, the CPI increased by 0.1% from the previous month. As compared with October 2005, the consumer prices in Lithuania increased by 3.6%.

#### Consumer price index

% over the previous period



In the first nine month of 2006, **exports and imports of goods** amounted to 6 772.4 mln lats and up by 23.0% from the same period last year. As compared with the first nine month of 2005, export of goods grew by 13.6% and amounted to 2 373.6 mln lats, while import increased by 28.7%, reaching the value of 4 398.8 mln lats.

In September 2006, as compared to the September 2005, the trade balance deficit grew by 106.9 mln lats and amounted to 283.9 mln lats.

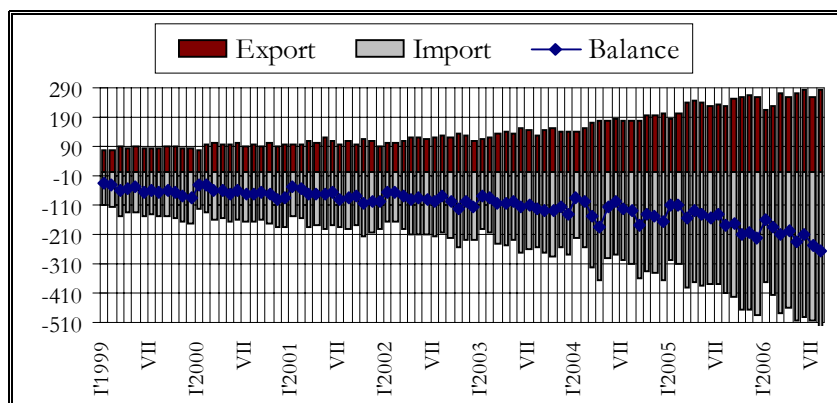
Exports to the EU increased by 7.1% as compared with September of the previous year and amounted to 211.4 mln lats. The share of the EU in total value of exports was 74.6%. Exports to the CIS grew by 20.0% as compared with September of the previous year and amounted to 44.8 mln lats, and the share of exports to the CIS was 15.8%.

The value of imports from the EU in September of the 2006 grew by 27.3% year-on-year and reached 442.9 mln lats, but the share of EU imports amounted to 78.0%. The value of imports from the CIS in September of the 2006 increased by 33.0% year-on-year and reached 72.8 mln lats, but the share of CIS imports amounted to 12.8%.

Latvia's main export partners in September of 2006 were Lithuania, accounting for 14.8% of total exports; Germany, 11.8%; Estonia, 11.5%; Russia, 10.3%; Great Britain, 8.0 %. Main import partners were Germany, 14.2%; Lithuania, 13.8%; Estonia, 7.9%; Poland, 7.3%; and Finland, 6.5%.

### 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 September increased by 182.0 mln lats year-on-year and amounted to 296.3 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the September of 2005, the goods deficit rose by 130.9 mln lats and stood at 284.4 mln lats. The negative income balance increased – in the September of 2006, up by 15.0 mln lats from the corresponding period last year and was 29.3 mln lats. Surplus of the services balance in the September of 2006 amounted to 12.5 mln lats, which was 15.0 mln lats less than in the September of 2005. The surplus of current transfers decreased by 21.0 mln lats year-on-year and in September of 2006 amounted to 5.0 mln lats. The surplus of the capital and financial account in September of 2006 was 260.9 mln lats. Net inflow of direct investment in the September totalled 70.1 mln lats, which was 12.5 mln lats more than in the September last year. The portfolio investment account in the September was positive and amounted to 31.8 mln lats. The Bank of Latvia's reserve assets in the September rose by 10.5 mln lats.

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

	September of 2006	October of 2006	Jan-Oct of 2006	Jan - Oct of 2005	% changes (Jan - Oct) 2006/2005	% of annual plan
<b>Revenue</b>	<b>280.0</b>	<b>298.4</b>	<b>2685.0</b>	<b>2137.5</b>	<b>25.6</b>	<b>79.0</b>
Basic budget tax revenue	160.0	162.5	1439.4	1096.5	31.3	84.1
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	10.8	14.5	163.2	150.7	8.3	62.4
Self-earned revenue	11.6	11.3	91.9	86.7	5.9	78.1
Social security budget revenue	80.9	85.1	780.1	623.0	25.2	82.5
– transfers from central government basic budget	-0.9	-0.3	-10.6	-12.6	-15.7	67.8
Gifts and donations	0.6	0.6	3.9	3.9	1.4	-
Foreign financial assistance	17.0	24.7	217.1	189.4	14.6	57.7
<b>Expenditure</b>	<b>235.0</b>	<b>296.3</b>	<b>2431.9</b>	<b>2014.6</b>	<b>20.7</b>	<b>68.9</b>
Basic budget	181.8	216.0	1784.1	1462.0	22.0	65.0
– transfers to social security budget	-0.9	-0.3	-10.6	-12.6	-15.7	67.8
Social security budget	53.8	80.2	654.5	560.6	16.7	81.6
Gifts and donations	0.3	0.4	3.9	4.5	-13.3	-
<b>Financial balance</b>	<b>44.9</b>	<b>2.1</b>	<b>253.1</b>	<b>122.9</b>	<b>-</b>	<b>-</b>
<b>Net lending</b>	<b>-0.8</b>	<b>5.0</b>	<b>14.0</b>	<b>-1.5</b>	<b>-</b>	<b>-</b>
<b>Fiscal balance</b>	<b>45.7</b>	<b>-3.0</b>	<b>239.1</b>	<b>124.4</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets.

17.2

29.6

231.6

178.3

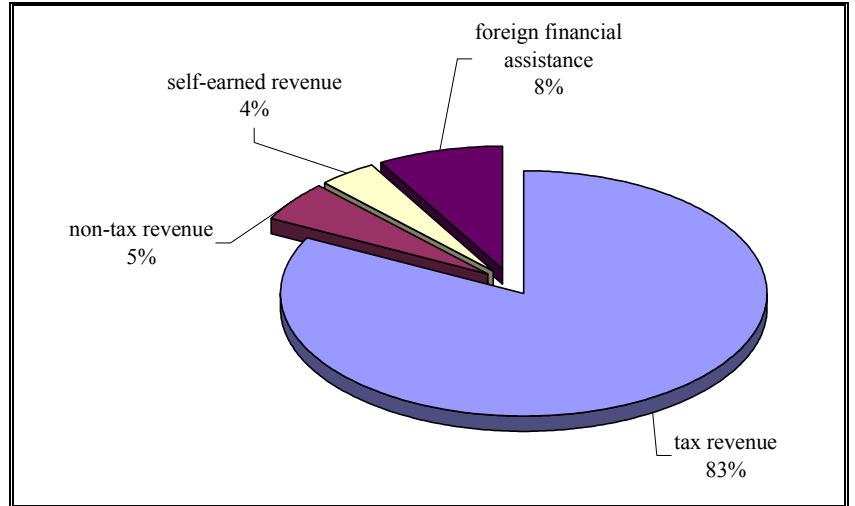
29.9

In accordance with the State Treasury's official monthly report's (January-October 2006) data, in October 2006 the **central government consolidated budget** revenue (including gifts and donations) increased by 18.4 mln lats or 6.6%, in comparison with September 2006. The central government consolidated budget revenue in ten months of 2006 was 2685.0 mln lats, which is 547.5 mln lats or 25.6% more than in the same period of 2005. The most significant increase in comparison with ten months of 2005 was in the revenue

from value added tax, social security contributions, corporate income tax and excise tax. In October 2006, the central government budget expenditure (including gifts and donations) was 296.3 mln lats and in comparison with September increased by 61.3 mln lats or 26.1%. The government budget total expenditure in ten months of 2006 was 2431.9 mln lats. In comparison with the same period of 2005, expenditure increased by 417.3 mln lats or 20.7%. In October 2006, the central government consolidated budget fiscal deficit was 3.0 mln lats.

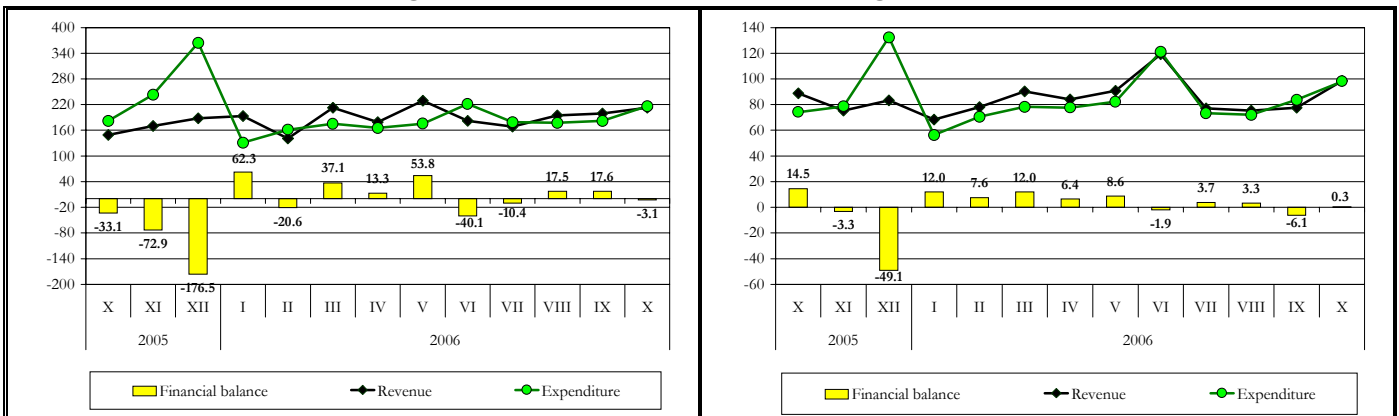
**Structure of Central Government Basic Budget and Special Budget Revenue in October 2006**

percentage



**Central government basic budget** revenue in October 2006 was 213.0 mln lats, which in comparison with September 2006 is 13.6 mln lats or 6.8% more. In comparison with September 2006, tax revenue was 2.5 mln lats or 1.5% more. Non-tax revenue increased by 3.7 mln lats or 34.2%, mainly due to the increase of interest payments by 1.0 mln lats and the increase of state duties and payments for the state provided guarantee and legal and other services by 0.9 mln lats. In October 2006, revenue from the paid services and self-earned revenue decreased by 0.3 mln lats or 2.3% in comparison with September 2006. In October 2006 in comparison with September 2006, revenue from the foreign financial assistance increased by 7.7 mln lats or 45.1%.

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



In October 2006, central government basic budget expenditure was 216.0 mln lats, which is 34.2 mln lats or 18.8% more than in September 2006. In October 2006, the central government basic budget non-capital expenditure was 187.4 mln lats or 86.8% of total basic budget expenditure. In comparison with September 2006, non-capital expenditure increased by 32.0 mln lats or 20.6%, mainly due to the increase of expenditure for subsidies and grants by 21.8 mln lats or 25.0%. The central government basic budget capital expenditure in October 2006 was 28.6 mln lats from which investment amounted to 16.2 mln lats or 56.5%. In October 2006, investment expenditure increased by 2.8 mln lats or 21.2% in comparison with September 2006. In October 2006, the fiscal deficit in amount of 8.1 mln lats was in the central government basic budget.

**Social security budget** revenue in October 2006 was 4.2 mln lats or 5.1% more than in September 2006. In October 2006, the social security budget expenditure was 26.4 mln lats or 49.0% more than in September 2006, mainly due to increase of grants to the population by 26.3 mln lats or 49.9%. In October 2006, the social security budget fiscal surplus was 4.9 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in October 2006 in comparison with September 2006 was 20.8 mln lats or 26.8% more. In comparison with September 2006, the tax revenue was 1.5 mln lats or 3.3% more. The local government basic budget non-tax revenue in October 2006 in comparison with September 2006 was 35.8 thsd lats or 0.8% more, but local government basic budget revenue from the paid services and other self-earned revenue was 0.2 mln lats or 4.7% more. The local government basic budget received payments in October 2006 was 19.6 mln lats or 90.8% more than in September 2006.

In October 2006, the local government basic budget expenditure in comparison with September 2006 was 14.3 mln lats or 17.1% more, mainly due to increase of expenditure for subsidies and grants by 6.4 mln lats or 39.8% and expenditure for wages by 5.6 mln lats or 23.6%. In October 2006, the fiscal deficit of 0.2 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	September of 2006	October of 2006	Jan - Oct of 2006	Jan - Oct of 2005	% changes (Jan - Oct) 2006/2005
<b>Revenue</b>	<b>80.0</b>	<b>91.0</b>	<b>804.3</b>	<b>655.9</b>	<b>22.6</b>
Basic budget tax revenue	45.2	46.7	449.8	352.4	27.6
Basic budget non-tax revenue	4.5	4.5	38.8	33.9	14.5
Basic budget received payments	21.6	41.3	317.9	280.8	13.2
-mutual payments*	-8.5	-13.7	-114.3	-96.7	18.2
Basic budget self-earned revenue	5.0	5.3	46.7	39.7	17.6
Special budget revenue**	10.2	6.1	56.2	41.1	36.6
Gifts and donations	0.6	0.2	3.2	2.3	37.4
Foreign financial assistance	1.3	0.7	6.2	2.4	162.4
<b>Expenditure</b>	<b>82.1</b>	<b>91.3</b>	<b>752.5</b>	<b>616.0</b>	<b>22.1</b>
Basic budget expenditure	83.7	98.1	813.1	666.3	22.0
-mutual payments*	-8.5	-13.7	-114.3	-96.7	18.2
Special budget expenditure**	6.4	6.7	50.9	44.1	15.5
Gifts and donations	0.4	0.3	2.7	2.3	19.2
<b>Financial balance</b>	<b>-2.1</b>	<b>-0.3</b>	<b>51.9</b>	<b>39.8</b>	<b>-</b>
<b>Net lending</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.8</b>	<b>0.1</b>	<b>-</b>
<b>Fiscal balance</b>	<b>-2.1</b>	<b>-0.2</b>	<b>52.7</b>	<b>39.8</b>	<b>-</b>

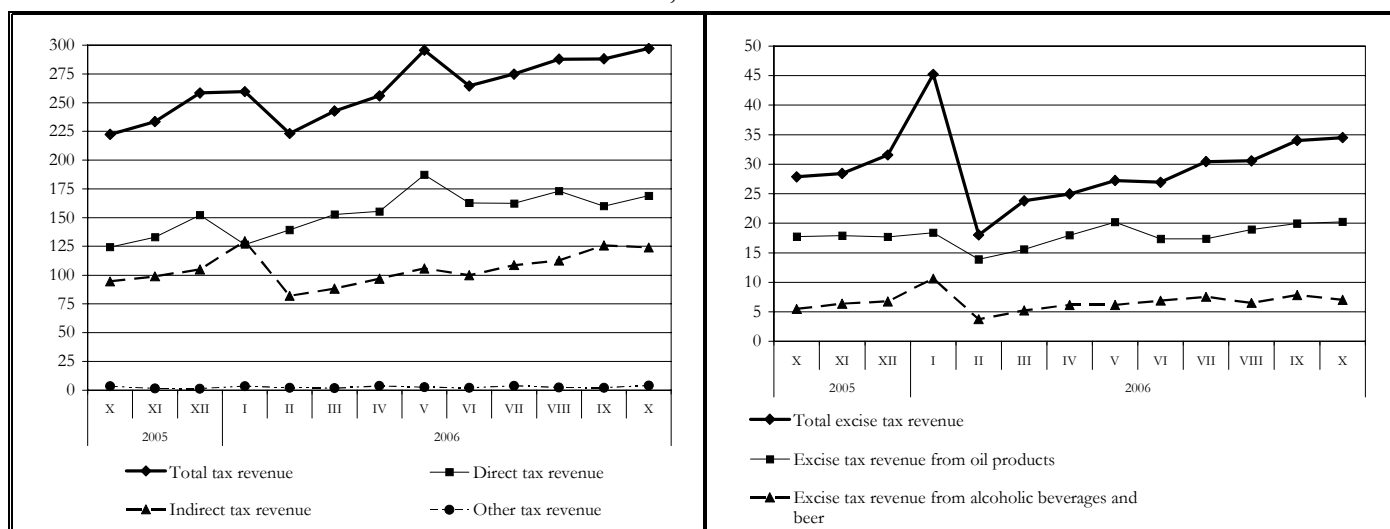
\* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

\*\* excluding revenue from privatisation.

**Value added tax** revenue in October 2006 in comparison with September 2006 was 2.6 mln lats or 2.9% less. In October 2006, the value added tax revenue collected on border was 0.4 mln lats or 2.2% more than in September 2006, but domestically net collected value added tax revenue was 3.0 mln lats or 4.3% less than in September 2006. In October 2006, value added tax repayments were 29.4 mln lats, which were 4.2 mln lats or 16.4% more than in September 2006.

Total **excise tax** revenue in October 2006 in comparison with September 2006 was 0.5 mln lats or 1.5% more. In October 2006, the excise tax revenue from oil products amounted to 20.3 mln lats, which is 0.3 mln lats or 1.6% more than in September 2006. Excise tax revenue from tobacco products in October 2006 was 6.7 mln lats and in comparison with September 2006 was 1.0 mln lats or 18.0% more, but excise tax revenue from alcoholic beverages was 6.3 mln lats and in comparison with September 2006 was 0.6 mln or 8.6% less. The excise tax revenue from beer in October 2006 was 0.8 mln lats, which is 0.2 mln lats or 23.0% less than in September 2006. The excise tax revenue from non-alcoholic beverages and coffee in October 2006 was 0.5 mln lats, which is 14.4 thsd lats or 2.6% less than in September 2006.

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



Total **natural resources tax** revenue in October 2006 was 2.0 mln. lats, which is 1.7 mln lats more than in September 2006. In October 2006, natural resources tax revenue in central government basic budget was 1.8 mln lats, which in comparison with September 2006 increased by 1.6 mln lats. 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.

## Tax Revenue, mln lats

	September of 2006	October of 2006	Jan - Oct of 2006	Jan - Oct of 2005	% changes (Jan - Oct) 2006/2005	% of annual plan
Corporate income tax	19.2	21.1	213.4	153.4	39.2	86.6
Value added tax	88.8	86.2	750.3	538.6	39.3	83.9
Excise tax	34.0	34.5	295.8	254.0	16.4	83.8
Cars and motorcycles tax	1.2	1.3	11.1	7.8	42.8	85.9
Social security contributions*	82.9	87.8	798.9	633.1	26.2	83.2
Custom duties	1.9	2.1	16.8	15.4	9.1	87.3
Personal income tax	54.3	56.2	521.2	409.4	27.3	80.5
Real estate tax	3.7	4.0	55.0	51.3	7.4	83.4
Natural resources tax	0.3	2.0	10.4	9.8	5.8	91.3

\* including the State Funded Pension Scheme financial means of 4.4 mln lats in October 2006 and 3.3 mln lats in September 2006.

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

	End of October 2005	End of October 2005	End of September 2005	End of October 2005
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	4.722	1.87	0.87	7 102.183
1 year T-bills	4.603	12.61	9.88	47 800.004
3 year bonds	4.110	0.00	0.00	0.00
5 year bonds	3.300	29.64	31.58	112 335.309
10 year bonds	4.728	55.87	57.66	211 746.079

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