

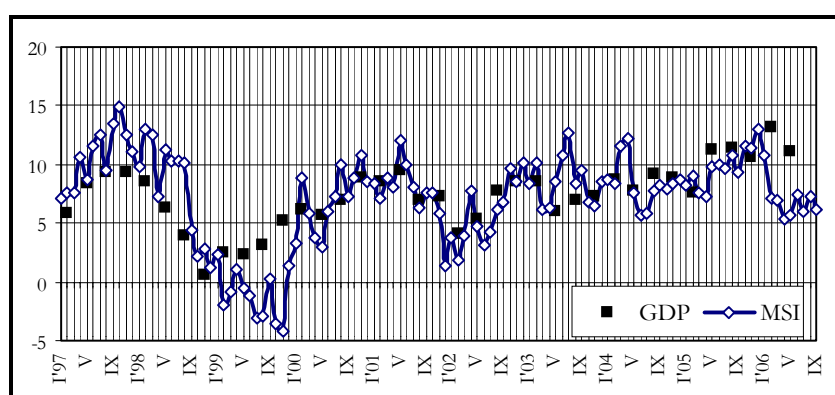
# STATE BUDGET

September '06

According to the estimations of the Ministry of Finance, growth of the **Composite Index of Macroeconomic Indicators (MSI)** in September amounted to 6.1% in constant prices. The increase of index was restricted by the increase in industry producer prices by 11.8%. 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 by 22.7% and 26.7% respectively. 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 2Q	2006 2Q	2006		
				August	September	September <sup>2</sup>
Industrial output index <sup>3</sup>	% <sup>1</sup>	4.9	1.0	2.1	*	*
Consumer price index	% <sup>1</sup>	2.4	1.8	-0.2	0.7	5.9
Producer price index	% <sup>1</sup>	0.8	2.7	0.9	1.1	11.8
Cash in circulation (net of vault balances)	mln. Ls	766.7	927.9	961.4	983.5	22.8
Bank of Latvia net foreign assets (end-of-period)	mln. Ls	1 244.4	1 879.9	2 201.5	2 218.3	60.5
Average short-term interest rates for credits (in lats)	%	5.7	7.0	7.8	8.1	-
Unemployment rate (end of the period)	%	7.9	7.0	6.9	6.8	-
Exports	mln. Ls	725.1	818.4	284.3	*	*
Imports	mln. Ls	1 175.9	1 468.5	552.9	*	*

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 September amounted to 4.5 mln t, down by 0.1% from the corresponding month of 2005. However the volume of cargo transhipped in ports in the first nine months of 2005 totalled 45.3 mln t, which was 1.0% more than in the same period of the previous year.

Officially registered **unemployment rate** in September decreased by 0.1 percentage points month-on-month and amounted to 6.8% of the economically active population at the end of the month. The number of the registered unemployed decreased by 1.4 thsd people from the previous month and amounted to 71.7 thsd people. As compared with September 2005, the unemployment rate decreased by 0.9 percentage points, but the number of the registered unemployed falls by 10.2 thsd people. The highest unemployment rate in September was registered in the district of Ludza, 25.9% (27.9% in September of 2005); in the district of

Rēzekne, 24.3% (25.8%); and in the district of Krāslava, 19.2% (21.9%). The lowest unemployment rate was registered in Rīga, 3.9% (4.5%); in the district of Rīga, 4.8% (5.2%); and in the district of Saldus, 5.0% (5.5%).

The **Consumer Price Index (CPI)** in September grew by 0.7% from the previous month, of that prices for goods grew by 0.3%, but for services grew by 1.6%.

The strongest effect on the consumer prices in September was produced by a rise in the prices for wearing apparel, footwear, catering and educational services as well as the fall in fuel prices.

With the termination of special offers and the appearance of new season's goods, prices rose for clothing by 7.4% and footwear by 15.5%.

Educational services in the new school year became more expensive by 10.3%.

The prices of catering services continued to go up – by 3.3%, mainly in enterprise and school canteens. There were price increases for several food products such as bread, confectionery, meat and meat products, dairy products, cheese, eggs, margarine and sugar. There has been a substantial rise in the prices of solid fuel – by 7.4%.

Automotive fuel in September became cheaper – by 7.2%. Prices have fallen for fruit, vegetables, potatoes and fresh fish.

Computer equipment, household appliances, telephones as well as air tickets and travelling services have also become cheaper.

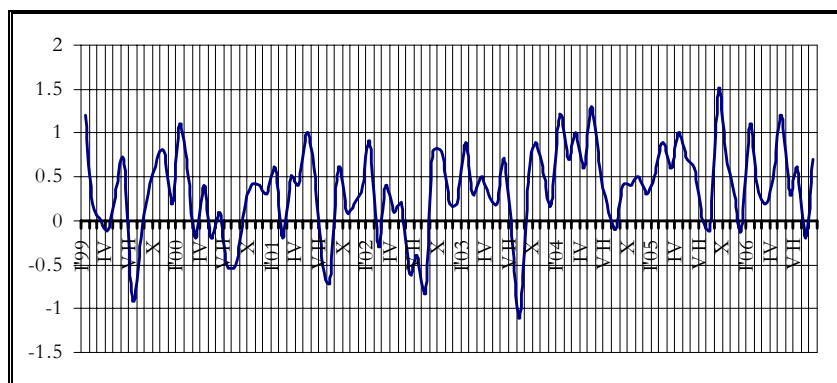
As compared with September 2005, the CPI increased by 5.9%, of which prices for goods grew by 5.8% and for services by 6.4%.

In **Estonia**, the CPI in September decreased by 0.4% from the previous month. Year-on-year growth of the CPI in Estonia was 3.8%.

In **Lithuania**, the CPI decreased by 0.1% from the previous month. As compared with September 2005, the consumer prices in Lithuania increased by 3.2%.

### Consumer price index

% over the previous period



In the first eight month of 2006, **exports and imports of goods** amounted to 5 963.9 mln lats and up by 23.8% from the same period last year. As compared with the first eight month of 2005, export of goods grew by 14.0% and amounted to 2 090,0 mln lats, while import increased by 28.4%, reaching the value of 3 831.3 mln lats.

In August 2006, as compared to the August 2005, the trade balance deficit grew by 89.6 mln lats and amounted to 268.6 mln lats.

Exports to the EU increased by 10.4% as compared with August of the previous year and amounted to 208.1 mln lats. The share of the EU in total value of exports was 73.2%. Exports to the CIS grew by 20.5% as compared with August of the previous year and amounted to 42.2 mln lats, and the share of exports to the CIS was 14.8%.

The value of imports from the EU in August of the 2006 grew by 16.7% year-on-year and reached 430.1 mln lats, but the share of EU imports amounted to 77.8%. The value of imports from the CIS in August of the

2006 increased by 31.0% year-on-year and reached 78.9 mln lats, but the share of CIS imports amounted to 14.3%.

Latvia's main export partners in August of 2006 were Lithuania, accounting for 14.6% of total exports; Estonia, 11.6%; Germany, 10.4%; Russia, 8.7%; Great Britain, 8.4%. Main import partners were Germany, 16.6%; Lithuania, 14.9%; Estonia, 8.7%; Russia, 7.1%; and Poland, 6.9%.

### 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 August increased by 115.6 mln lats year-on-year and amounted to 220.5 mln lats. The growth of the current account deficit was mainly due to an increase in the goods deficit, as compared with the August of 2005, the goods deficit rose by 91.0 mln lats and stood at 245.3 mln lats. The negative income balance increased – in the August of 2006, up by 5.2 mln lats from the corresponding period last year and was 15.1 mln lats. Surplus of the services balance in the August of 2006 amounted to 29.5 mln lats, which was 6.6 mln lats less than in the August of 2005. The surplus of current transfers decreased by 12.8 mln lats year-on-year and in August of 2006 amounted to 10.4 mln lats. The surplus of the capital and financial account in August of 2006 was 167.8.8 mln lats. Net inflow of direct investment in the August totalled 73.7 mln lats, which was 51.2 mln lats more than in the August last year. The portfolio investment account in the August was negative and amounted to 20.0 mln lats. The Bank of Latvia's reserve assets in the August rose by 219.3 mln lats.

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

	August of 2006	September of 2006	Jan-Sept of 2006	Jan - Sept of 2005	% changes (Jan - Sept) 2006/2005	% of annual plan
<b>Revenue</b>	<b>277.7</b>	<b>280.0</b>	<b>2386.6</b>	<b>1925.2</b>	<b>24.0</b>	<b>73.7</b>
Basic budget tax revenue	151.1	160.0	1276.9	974.4	31.0	78.6
Taxes to be distributed among other budgets	0.0	0.0	0.0	0.0	-	-
Basic budget non-tax revenue	23.3	10.8	148.8	138.2	7.6	71.7
Self-earned revenue	11.0	11.6	80.6	75.9	6.2	78.5
Social security budget revenue	84.0	80.9	695.0	558.4	24.5	80.9
– transfers from central government basic budget	-1.3	-0.9	-10.3	-11.3	-8.8	65.7
Gifts and donations	0.5	0.6	3.3	3.6	-9.4	-
Foreign financial assistance	9.2	17.0	192.3	185.9	3.4	41.8
<b>Expenditure</b>	<b>248.0</b>	<b>235.0</b>	<b>2135.6</b>	<b>1781.1</b>	<b>19.9</b>	<b>63.5</b>
Basic budget	177.1	181.8	1568.1	1280.0	22.5	60.1
– transfers to social security budget	-1.3	-0.9	-10.3	-11.3	-8.8	65.7
Social security budget	72.0	53.8	574.3	508.5	12.9	74.6
Gifts and donations	0.2	0.3	3.5	3.8	-7.9	-
<b>Financial balance</b>	<b>29.7</b>	<b>44.9</b>	<b>251.0</b>	<b>144.2</b>	<b>-</b>	<b>-</b>
<b>Net lending</b>	<b>7.1</b>	<b>-0.8</b>	<b>8.9</b>	<b>-10.2</b>	<b>-</b>	<b>-</b>
<b>Fiscal balance</b>	<b>22.5</b>	<b>45.7</b>	<b>242.1</b>	<b>154.4</b>	<b>-</b>	<b>-</b>

\* including transfers to local government budgets.

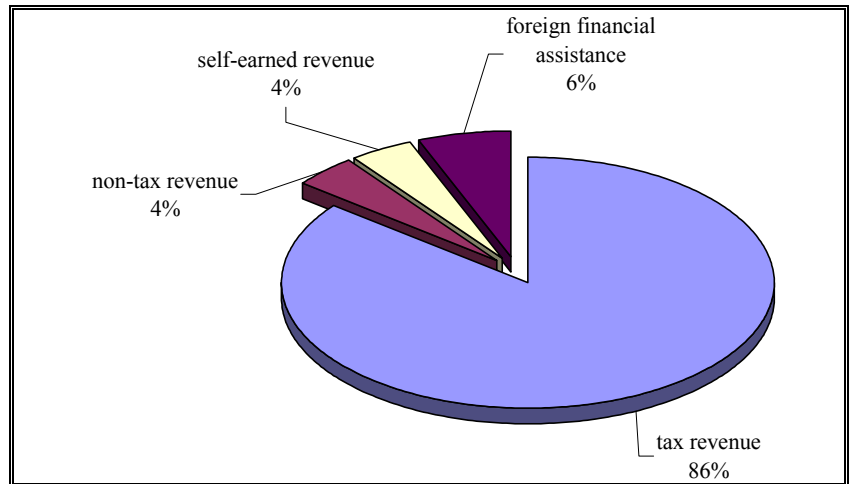
12.1      17.2      202.0      156.4      29.2

In accordance with the State Treasury's official monthly report's (January-September 2006) data, in September 2006 the **central government consolidated budget** revenue (including gifts and donations) increased by 2.3 mln lats or 0.8%, in comparison with August 2006. The central government consolidated budget revenue in nine months of 2006 was 2386.6 mln lats, which is 461.4 mln lats or 24.0% more than in

the same period of 2005. The most significant increase in comparison with nine months of 2005 was in the revenue from value added tax, social security contributions, corporate income tax and excise tax. In September 2006, the central government budget expenditure (including gifts and donations) was 235.0 mln lats and in comparison with August decreased by 13.0 mln lats or 5.2%. The government budget total expenditure in nine months of 2006 was 2135.6 mln lats. In comparison with the same period of 2005, expenditure increased by 354.5 mln lats or 19.9%. In September 2006, the central government consolidated budget fiscal surplus was 45.7 mln lats.

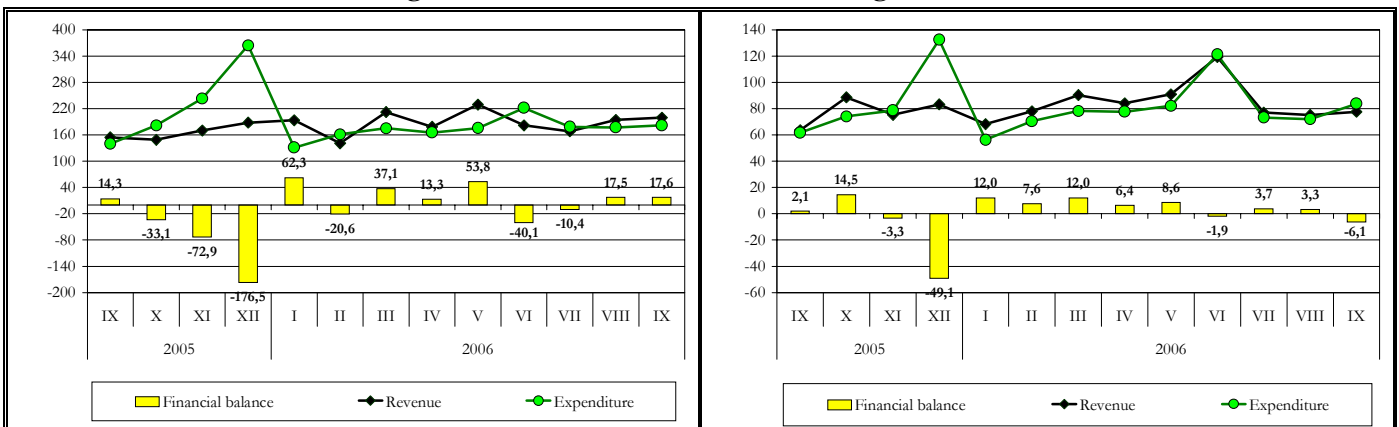
**Structure of Central Government Basic Budget and Special Budget Revenue in September 2006**

percentage



**Central government basic budget revenue** in September 2006 was 199,4 mln lats, which in comparison with August 2006 is 4.8 mln lats or 2.5% more. In comparison with August 2006, tax revenue was 8.9 mln lats or 5.9% more. Non-tax revenue decreased by 12.5 mln lats or 53.6%, mainly due to the decrease of payments for using the state capital by 10.7 mln lats. Payments for using the state capital decreased due to payment in August 2006 made by JSC “Latvijas Valsts radio un televīzijas centrs” in amount of 10.0 mln lats. In September 2006, revenue from the paid services and self-earned revenue increased by 0.5 mln lats or 4.9% in comparison with August 2006. In September 2006 in comparison with August 2006, revenue from the foreign financial assistance increased by 7.9 mln lats.

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



In September 2006, central government basic budget expenditure was 181.8 mln lats, which is 4.7 mln lats more than in August 2006. In September 2006, the central government basic budget non-capital expenditure was 155.5 mln lats or 85.5% of total basic budget expenditure. In comparison with August 2006, non-capital expenditure increased by 12.3 mln lats or 8.6%, mainly due to the increase of expenditure for subsidies and grants by 15.1 mln lats or 21.0%. The central government basic budget capital expenditure in September 2006 was 26.4 mln lats from which investment amounted to 13.3 mln lats or 50.6%. In September 2006, investment expenditure decreased by 11.4 mln lats in comparison with August 2006. In September 2006, the fiscal surplus in amount of 18.3 mln lats was in the central government basic budget.

**Social security budget** revenue in September 2006 was 3.1 mln lats or 3.6% less than in August 2006. In September 2006, the social security budget expenditure was 18.2 mln lats or 25.3% less than in August 2006, mainly due to decrease of grants to the population by 17.8 mln lats or 25.2%. In September 2006, the social security budget fiscal surplus was 27.1 mln lats.

**Local government basic budget** revenue, including local government mutual payments and payments from financial equalisation fund, in September 2006 in comparison with August 2006 was 2.3 mln lats or 3.1% more. In comparison with August 2006, the tax revenue was 4.3 mln lats or 8.7% less, mainly due to decrease of real estate tax revenue by 3.8 mln lats. The local government basic budget non-tax revenue in September 2006 in comparison with August 2006 was 0.6 mln lats or 14.2% more, but local government basic budget revenue from the paid services and other self-earned revenue was 0.8 mln lats or 19.5% more. The local government basic budget received payments in September 2006 was 4.8 mln lats or 28.7% more than in August 2006.

In September 2006, the local government basic budget expenditure in comparison with August 2006 was 11.7 mln lats or 16.3% more, mainly due to increase of expenditure for wages by 6.8 mln lats or 39,8%. In September 2006, the fiscal deficit of 2.1 mln lats was in the local government consolidated budget (including gifts and donations).

#### Local Government Budget, mln lats

	August of 2006	September of 2006	Jan - Sept of 2006	Jan - Sept of 2005	% changes (Jan - Sept) 2006/2005
<b>Revenue</b>	<b>74.6</b>	<b>80.0</b>	<b>713.3</b>	<b>573.1</b>	<b>24.5</b>
Basic budget tax revenue	49.5	45.2	403.1	317.5	27.0
Basic budget non-tax revenue	3.9	4.5	34.3	30.2	13.5
Basic budget received payments	16.8	21.6	276.6	235.9	17.3
-mutual payments*	-7.1	-8.5	-100.6	-86.7	16.1
Basic budget self-earned revenue	4.2	5.0	41.5	35.1	18.0
Special budget revenue**	6.2	10.2	50.1	37.5	33.7
Gifts and donations	0.3	0.6	3.0	1.9	57.5
Foreign financial assistance	0.8	1.3	5.5	1.8	211.3
<b>Expenditure</b>	<b>71.3</b>	<b>82.1</b>	<b>661.1</b>	<b>546.7</b>	<b>20.9</b>
Basic budget expenditure	72.0	83.7	715.0	592.2	20.7
-mutual payments*	-7.1	-8.5	-100.6	-86.7	16.1
Special budget expenditure**	6.1	6.4	44.3	39.1	13.2
Gifts and donations	0.3	0.4	2.4	2.0	17.8
<b>Financial balance</b>	<b>3.3</b>	<b>-2.1</b>	<b>52.2</b>	<b>26.4</b>	<b>-</b>
<b>Net lending</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.7</b>	<b>0.4</b>	<b>-</b>
<b>Fiscal balance</b>	<b>3.3</b>	<b>-2.1</b>	<b>52.9</b>	<b>26.0</b>	<b>-</b>

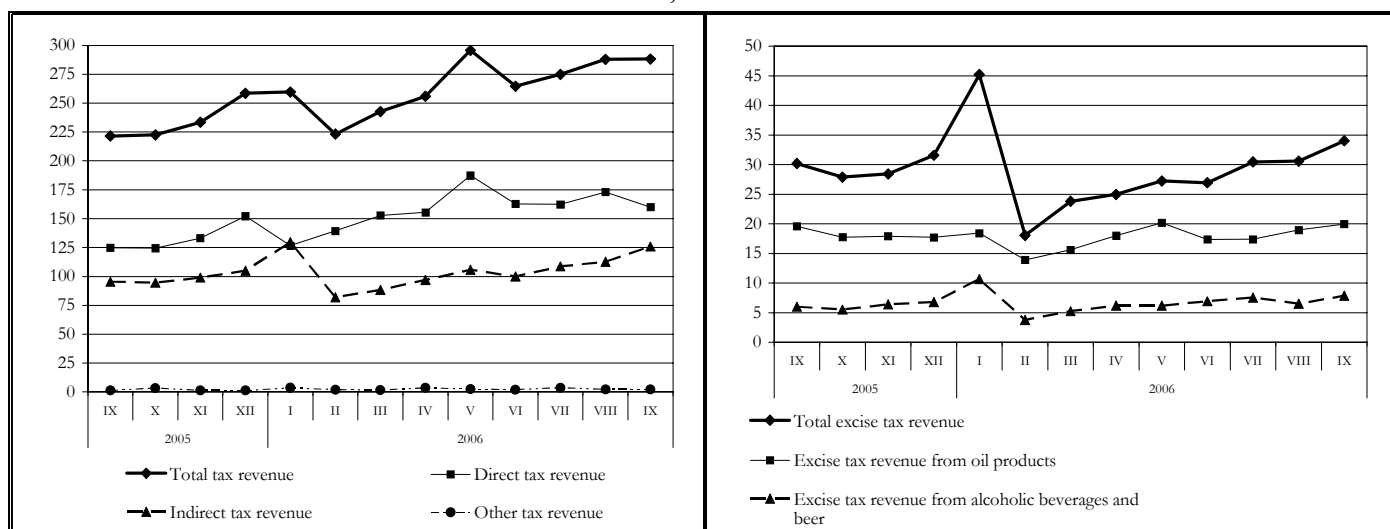
\* local government mutual payments and payments from financial equalisation fund, paid from other local governments.

\*\* excluding revenue from privatisation.

**Value added tax** revenue in September 2006 in comparison with August 2006 was 9.5 mln lats or 12.0% more. In September 2006, the value added tax revenue collected on border was 1.6 mln lats or 8.9% more than in August 2006, but domestically net collected value added tax revenue was 7.9 mln lats or 12.9% more than in August 2006. In September 2006, value added tax repayments were 25.2 mln lats, which were 3.6 mln lats or 12.5% less than in August 2006.

Total **excise tax** revenue in September 2006 in comparison with August 2006 was 3.5 mln lats or 11.3% more. In September 2006, the excise tax revenue from oil products amounted to 20.0 mln lats, which is 1.0 mln lats or 5.4% more than in August 2006. Excise tax revenue from tobacco products in September 2006 was 5.7 mln lats and in comparison with August 2006 was 1.1 mln lats or 24.1% more, but excise tax revenue from alcoholic beverages was 6.9 mln lats and in comparison with August 2006 was 1.5 mln or 28.9% more. The excise tax revenue from beer in September 2006 was 1.0 mln lats, which is 0.2 mln lats or 15.3% less than in August 2006. The excise tax revenue from non-alcoholic beverages and coffee in September 2006 was 0.5 mln lats, which is 22.1 thsd lats or 3.9% less than in August 2006.

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



## Tax Revenue, mln lats

	August of 2006	September of 2006	Jan - Sept of 2006	Jan - Sept of 2005	% changes (Jan - Sept) 2006/2005	% of annual plan
Corporate income tax	23.2	19.2	192.4	140.4	37.0	80.6
Value added tax	79.3	88.8	664.1	474.3	40.0	80.0
Excise tax	30.6	34.0	261.2	226.2	15.5	70.5
Cars and motorcycles tax	1.3	1.2	9.8	6.9	41.0	94.3
Social security contributions*	86.8	82.9	711.1	567.9	25.2	81.0
Custom duties	1.5	1.9	14.8	13.8	6.8	77.5
Personal income tax	55.6	54.3	465.0	366.8	26.8	84.5
Real estate tax	7.5	3.7	51.1	47.6	7.3	83.2
Natural resources tax	0.4	0.3	8.4	7.6	10.0	98.2

\* including the State Funded Pension Scheme financial means of 3.3 mln lats in September 2006 and 4.6 mln lats in August 2006.

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

	End of August 2006	End of July 2006	End of August 2006	End of September 2006
	Average annual selling rate, (%)	Shares of bonds, %		Amount in circulation, thsd. LVL
6 month T-bills	3.842	0.87	0.59	3 103.590
1 year T-bills	3.842	9.88	11.71	35 153.998
3 year bonds	4.110	0.00	4.21	0.00
5 year bonds	3.300	31.58	29.69	112 335.309
10 year bonds	4.728	57.66	53.79	205 116.581

Smilšu street 1. Rīga. phone 7095539. fax 7095541.  
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