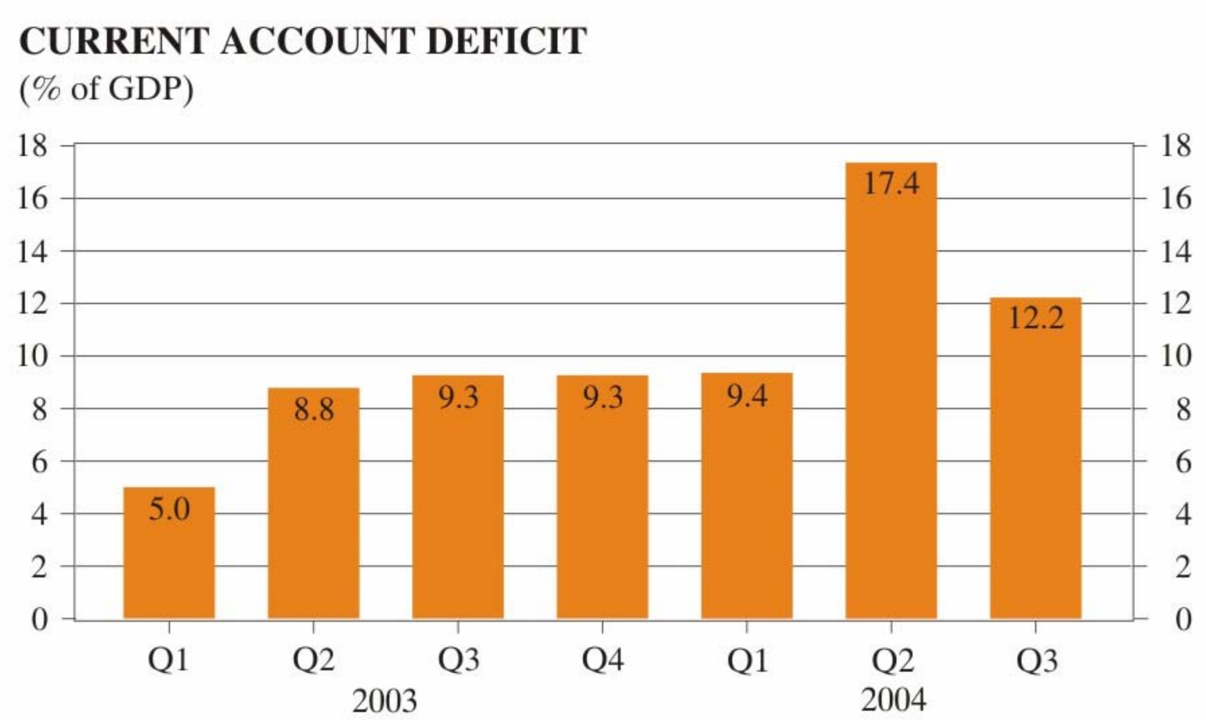
LATVIJAS BANKA

Press Release of December 30, 2004
Latvia's Balance of Payments in the Third Quarter of 2004

In the third quarter of 2004, the current account deficit of the balance of payments reached 232.7 million lats or 12.2% of gross domestic product (GDP; 9.3% in the corresponding period of 2003). With exports growing at a much higher pace than imports, the share of goods deficit against GDP decreased (from 20.1% to 18.6% of GDP). The third quarter growth in the current account deficit was determined by a decrease in the share of services and current transfers surplus against GDP, and an essential increase in income deficit.



Evaluation and outlook

In the third quarter of 2004, the trend of the previous quarters continued, with the year-on-year growth in both imports and exports of goods reporting a very high level at around 30%. It should be noted, however, that such growth rate was largely triggered by notable changes in import and export prices, which, in turn, were driven by a price rise for certain products in the global markets and consolidation of the euro against the lats. The impact of the price changes excluded, the growth of imports and exports in real terms was 13%-14% and should be regarded as relatively high. It indicates that, on the one hand, Latvian producers remain competitive on the main markets, while, on the other, a strong domestic demand is persisting.

Latvia's robust domestic demand, expanding formation of stocks and imports of capital goods under a number of investment projects are the main causes underlying the all time high level of the current account deficit in the balance of payments of Latvia in the first three quarters of the current year on the whole and also in each quarter separately. The growth in inflow of direct investment, which in the first three quarters of the year almost doubled year-on-year, is a positive development. However, as also the current account deficit almost doubled under the impact of the above causes, its share covered by foreign direct investment has remained broadly unchanged at around 30%.

It is most likely that in the coming year the impact on the current account deficit of some factors referred to above will diminish or even stop to exist. The stock formation of durable goods experienced this spring and the volume of capital goods imports observed this year are not to be expected. Nonetheless, a number of other investment projects using the EU structural funds will be implemented. In addition, the domestic demand is expected to be relatively high. Hence no substantial change in the current account deficit could be expected. In order to ease macroeconomic-stability-related risks and to prevent a further rise in the current account deficit, the fiscal policy of the country should be oriented towards a balanced budget. It implies the setting of an even lower fiscal deficit target than currently projected.

Notes to Latvia's Balance of Payments for the Third Quarter and First Nine Months of 2004

Foreign trade of Latvia continued its dynamic growth in the third quarter. With both external and internal demand being sustained and even expanding, exports of goods grew by 28.8%, while imports of goods expanded by 20.8% year-on-year. The global economic activity became more buoyant, the volume of export orders expanded, and the economy of Latvia continued to grow rapidly.

Year-on-year, the largest increase was recorded for exports of mineral products, base metals and articles of base metals, agricultural products and foodstuffs, machinery and mechanical appliances, electrical equipment, and wood and articles of wood. The growth in exports was determined by a rise in both the prices and the volume of these goods.

Latvia's major export partners were the United Kingdom (13.9% of total exports), Germany (11.4%), Sweden (10.5%), Lithuania (9.3%), Estonia (7.7%) and Russia (7.0%).

Compared with the corresponding period of the previous year, the growth in imports of goods was mostly ensured by mineral products, machinery and mechanical appliances, electrical equipment, base metals and articles of base metals, and agricultural products and foodstuffs. The growth in imports was primarily determined by an expanding volume of imported goods, although prices also somewhat increased.

In the third quarter, Latvia's major import partners were Lithuania (14.9% of total imports), Germany (13.6%), Sweden (8.0%), Estonia (7.4%) and Russia (7.4%).

Services surplus recorded a slight year-on-year decrease in the third quarter as a result of an increase in the volume of transportation services (particularly freight transportation) and other services received. Travel services deficit continued to improve along with an increase in the services rendered to non-residents.

Income deficit grew by 37.8 million lats year-on-year due to a sizable increase in non-residents' income in Latvia from direct investment.

Net inflow of the capital and financial account was 231.5 million lats. The inflow of financial funds was mainly in the form of foreign direct investment and other investment.

In line with the growing foreign direct investment in Latvia, foreign direct investment inflow amounted to 68.8 million lats. The bulk of investment in Latvia (in manufacturing, construction, trade and financial intermediation) was made in the form of re-invested earnings.

Portfolio investment balance of the third quarter was negative (112.5 million lats).

Other investment balance was positive (313.0 million lats). Other investment of residents abroad increased, primarily with banks pushing up their demand deposits with foreign credit institutions and expanding short-term lending to foreign credit institutions. Liabilities to non-residents grew mainly as a result of banks receiving non-residents' time deposits and demand deposits.

Reserve assets increased by 77.9 million lats in the third quarter, and the rise was mainly a result of the Bank of Latvia's interventions in the foreign exchange market.

In the first nine months of 2004, the current account deficit in the balance of payments of Latvia accounted for 13.1% of GDP (7.8% in the corresponding period of the previous year). With imports growing at a faster pace than exports, the share of goods deficit against GDP increased. Services surplus declined as a result of a more rapid growth in services (mainly transportation services) received. Income deficit increased substantially, while current transfers surplus remained broadly unchanged.

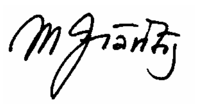
Despite the rapid growth in exports of goods in the third quarter, imports of goods recorded a more notable overall increase in the first nine months of 2004. In terms of exports, the largest increase was recorded for wood and articles of wood, base metals and articles of base metals, mineral products, and machinery and mechanical appliances, electrical equipment, whereas in terms of imports, the expansion of the volume of machinery and mechanical appliances, electrical equipment, mineral products, transport vehicles and base metals and articles of base metals contributed to the rise.
In the first nine months of 2004, services surplus dropped 24.6 million lats year-on-year in line with a decrease in transportation services surplus and an improvement in travel services deficit as well as an increase in other services surplus.
Income deficit grew year-on-year (by 102.2 million lats) mainly as a result of a sizable rise in non-residents' income in Latvia from direct investment.
Net inflow of the capital and financial account was 652.0 million lats in the first nine months of 2004. The inflow of financial funds was mainly in the form of foreign direct investment and other investment.
Foreign direct investment net inflow was in the amount of 210.6 million lats. Re-invested earnings formed the bulk of foreign direct investment in Latvia.
With portfolio assets abroad slightly increasing and the Government of Latvia redeeming eurobonds issued in 1999, portfolio investment recorded an inflow of 49.4 million lats in the first nine months of 2004.
Inflow of other investment was 471.3 million lats. Liabilities to non-residents recorded a larger increase than did residents' other investment abroad.
In the first nine months of 2004, reserve assets increased by 134.1 million lats.

LATVIA'S BALANCE OF PAYMENTS
(in thousands of lats)

	2003				2004		
	I	II	III	IV	I	II	III
CURRENT ACCOUNT	**-70,518**	**-136,694**	**-149,144**	**-164,286**	**-151,137**	**-308,535**	**-232,704**
GOODS	-224,993	-268,411	-322,982	-324,614	-296,795	-402,149	-354,199
Credit (exports)	403,861	465,480	452,129	486,946	481,544	558,346	582,236
Debit (imports)	-628,854	-733,891	-775,111	-811,560	-778,339	-960,495	-936,435
Services	93,901	86,244	85,774	64,241	78,825	85,156	77,308
Credit (exports)	201,968	219,626	235,323	207,845	201,263	241,745	262,977
Debit (imports)	-108,068	-133,382	-149,549	-143,604	-122,438	-156,589	-185,669
Income	4,569	-22,583	-9,138	14,736	-9,936	-72,538	-46,925
Credit	49,775	50,484	55,160	55,063	54,352	57,408	68,726
Debit	-45,206	-73,067	-64,298	-40,327	-64,288	-129,945	-115,650
Current transfers	56,006	68,056	97,203	81,350	76,769	80,996	91,111
Credit	98,187	119,548	147,893	160,274	143,032	148,652	154,001
Debit	-42,181	-51,492	-50,690	-78,924	-66,263	-67,656	-62,890
CAPITAL ACCOUNT	**7,355**	**11,500**	**11,318**	**13,151**	**13,906**	**12,596**	**38,028**
Credit	7,932	12,118	11,832	13,518	14,344	13,841	38,857
Debit	-577	-617	-514	-367	-439	-1,245	-830
FINANCIAL ACCOUNT	**58,522**	**98,912**	**137,870**	**168,520**	**169,128**	**224,872**	**193,430**
Direct investment	60,063	51,103	6,353	33,861	61,463	80,364	68,757
Abroad	-4,343	-1,974	-9,564	-4,758	-16,668	-20,936	-9,636
In Latvia [1]	64,407	53,077	15,917	38,619	78,130	101,300	78,393
Portfolio investment	-33,561	-24,781	-89,671	21,413	49,506	112,364	-112,454
Assets (investment in foreign securities)	-41,799	-33,175	-100,625	9,460	35,631	-18,119	-105,574

Equity securities	375	-678	1,796	2,043	-1,223	-49	-1,848
Debt securities	-42,174	-32,497	-102,421	7,416	36,854	-18,069	-103,726
Bonds and notes	-41,646	-26,266	-105,924	5,780	36,397	18,354	-105,768
Money market instruments	-527	-6,231	3,503	1,636	457	-36,424	2,042
Liabilities (foreign investment in Latvian securities)	8,238	8,394	10,954	11,953	13,875	130,483	-6,880
Equity securities	1,266	6,150	1,436	13,038	14,443	-1,851	433
Debt securities	6,972	2,244	9,518	-1,085	-567	132,334	-7,313
Bonds and bills	6,962	2,340	9,518	-1,032	-960	132,727	-7,313
Money market instruments	10	-95	0	-53	392	-392	0
Financial derivatives	-5,090	4,429	1,236	2,945	-7,802	-3,979	2,005
Assets	-1,946	-2,153	1,545	-74	-521	-1,267	1,465
Monetary authorities	-1,908	135	-138	577	-561	-1,993	565
General government	0	0	0	0	0	0	0
Banks	-463	-2,348	1,685	-653	39	733	1,085
Other sectors	425	61	-1	1	0	-7	-185
Liabilities	-3,144	6,581	-309	3,019	-7,281	-2,712	540
Monetary authorities	-2,973	4,227	305	926	-5,335	-1,102	1,515
General government	0	0	0	0	0	0	0
Banks	-157	2,354	-614	2,093	-1,946	-1,714	-978
Other sectors	-14	0	0	0	0	105	3
Other investment	-52,188	141,461	287,360	97,344	46,795	111,449	313,046
Assets (Latvia's loans to foreign countries etc.)	-27,953	-95,510	-114,519	-149,017	-225,630	-96,686	-395,795
Monetary authorities	61	88	-17	147	-60	-808	59
General government	-724	-155	147	817	174	-4	199
Banks	-2,777	-83,987	-118,971	-151,926	-195,256	-98,369	-376,383
Other sectors	-24,514	-11,456	4,322	1,945	-30,488	2,495	-19,670
Liabilities (foreign loans to Latvia etc.)	-24,235	236,971	401,878	246,361	272,425	208,134	708,841
Monetary authorities	-1,663	-1,341	-1,231	-1,614	-1,687	8,505	-3,028
General government	-10,348	-2,356	294	-23,897	41	-2,872	738
Banks	-5,408	209,696	377,734	256,905	264,327	118,249	653,506
Other sectors	-6,816	30,973	25,081	14,967	9,745	84,252	57,625
RESERVE ASSETS	**89,298**	**-73,300**	**-67,408**	**12,958**	**19,166**	**-75,326**	**-77,925**
NET ERRORS AND OMISSIONS	**4,641**	**26,281**	**-44**	**-17,385**	**-31,896**	**71,066**	**1,247**

[1] As of year 2004, equity capital data of direct investment in Latvia are reported possibly closer to the market value. In assessing the value of listed enterprises, the Riga Stock Exchange data are used, while the value of non-listed enterprises is obtained using the equity capital method (own funds at book value) recommended by the European Central Bank.



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