

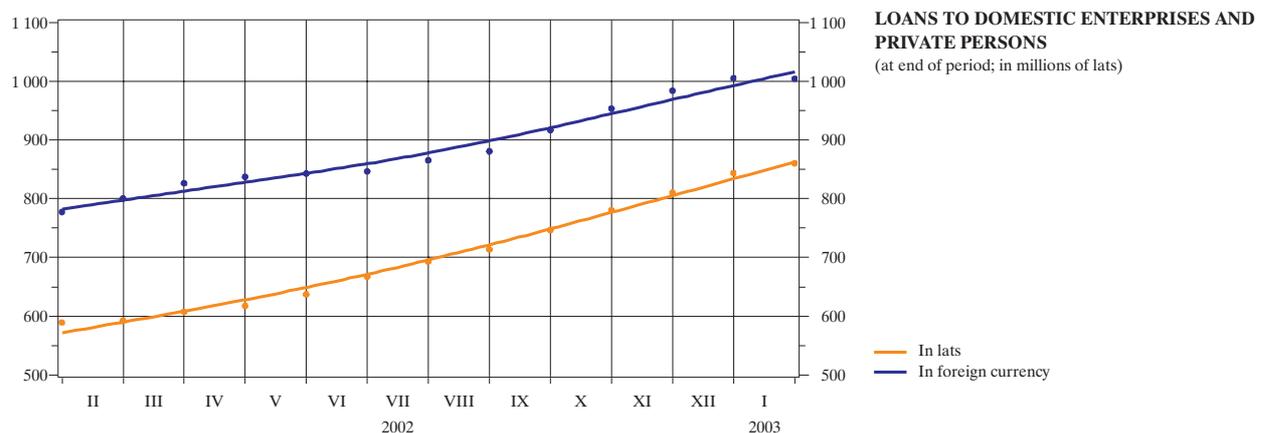
MONETARY BULLETIN

1
2003

In Latvia, economic growth continued in the first month of the year, accelerating in some areas of the service sector. Although inflation was 0.9% in January, annual inflation did not change, remaining at 1.4%. Consumer prices were mostly influenced by rising food prices and the increase in prices of some goods and services, which was a result of amendments to the Law "On the Value Added Tax". The unemployment rate slightly rose (by 0.1 percentage points; to 7.7%), owing to sales difficulties in the fishing industry. In January, both the general government consolidated budget and the central government basic budget posted fiscal surplus.

In January, after a seasonal rise at the end of 2002, broad money M2X declined by 17.1 million lats or 0.9% month-on-month, while increasing by 19.3% year-on-year (by 21.0% in December). The demand for cash fell: currency outside banks decreased by 14.8 million lats, while the stock of deposits by domestic enterprises and private persons with banks remained almost unchanged. Concurrently, changes could be observed in the maturity and currency profile of deposits. With demand deposits decreasing and time deposits increasing, the share of demand deposits declined by 2.4 percentage points in January (to 56.4% of total deposits). Deposits made in lats decreased by 11.5 million lats, whereas deposits made in foreign currencies increased by 9.2 million lats. Hence, the share of deposits in lats declined (to 58.4% of total deposits).

Lower money supply was determined by a decrease in the banking system's net foreign assets and domestic assets (by 15.1 million lats and 2.0 million lats, respectively). The January increase in loans granted to domestic enterprises and private persons (0.8%) was the lowest since June 2000. The annual growth rate of loans dropped slightly (to 36.4%), to reach its low since November 2000. Loans to enterprises showed a more pronounced increase than loans to private persons. Long-term loans grew (by 9.7 million lats), as did short-term loans (by 5.9 million lats). Increases recorded in industrial and commercial credit and mortgage loans ranged from 3 to 5 million lats.



Credit institutions' assets (4.3 billion lats) remained almost unchanged, but equity grew by 1.1% (to 388.5 million lats). Banks' profit for January totalled 5.2 million lats (a year-on-year increase of 10.6%).

With revenues substantially exceeding expenditures, fiscal surplus in the general government consolidated budget reached 22.1 million lats in January (5.0 million lats in January 2002). As the budget for 2003 was not yet adopted in January, maintenance expenditures were only covered in the amount of one-twelfth of the previous years' budget. Fiscal surpluses in the central government basic and special budgets amounted to 6.7 million lats and 11.9 million lats in January. Fiscal surplus, though lower, was also posted by the local government consolidated budget. In January, tax revenues were in the amount of 138.6 million lats, 15.0 million lats higher than projected and 14.6% higher than in January 2002. Revenues from all taxes, except customs duties, the natural resources tax, the lotteries and gambling tax, were substantially higher than in the corresponding period of the previous year. Increases were observed for revenues from the personal income tax (15.7%), social security contributions (14.2%), the corporate income tax (10.5%) and the value added tax (10.2%). The highest increase, 33.2%, was reported for revenues from the excise tax. In January, government debt declined by 1.4 million lats (to 754.8 million lats).

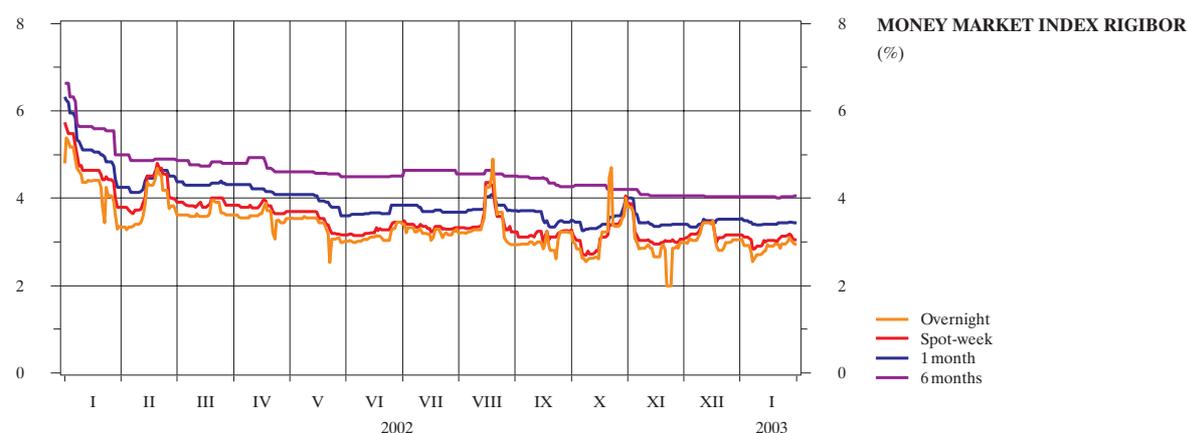
In January, an auction of government debt securities was held, supplying 5-year bonds in the amount of 20.0 million lats. With demand 1.5 times higher than supply, all bonds supplied were sold at the average yield of 4.65%, which was 0.73 percentage points lower than in the previous auction of such securities in September 2002. As previously issued government securities were redeemed, government domestic debt almost did not change.

Liquidity remained ample in the Latvian money market in January, owing to a seasonal decline in currency in circulation and the lowering of the reserve ratio to 3% as of January 24. In January, the Bank of Latvia's repo loans were issued in the amount of 42.9 million lats (a month-on-month decrease of 41.9%) at a weighted average interest rate of 2.81%. Funds allotted under short-term currency swap tenders were 13.7% lower in January than December. Turnover on the domestic interbank market rose considerably above the previous month's level, reaching its highest ever level of 704.9 million lats. Time deposits with the central bank amounted to 19.3 million lats, which is an increase of 2.9 times over funds received in December. In the interbank market, interest rates on loans in lats remained low. The overnight RIGIBOR fluctuated between 2.6% and 3.1%, while the 6-month RIGIBOR (interest rates on loans to domestic enterprises and private persons are usually linked to this rate) was within the range of 4.0%–4.1%.

The weighted average interest rates of short-term and long-term loans in lats granted to domestic enterprises and private persons slightly rose over the record low of December (to 5.5% and 7.6%, respectively), whereas those of short-term and long-term loans in the OECD currencies (3.6% and 5.4%, respectively) were substantially lower than in December. The weighted average interest rates of short-term and long-term deposits in lats did not change much compared with December (2.9% and 5.2%, respectively), whereas those of short-term and long-term deposits in the OECD currencies was 1.9% and 3.5%, respectively.

The Bank of Latvia's net foreign assets declined by 42.8 million lats in January, as the balance on currency swaps decreased. At the end of January, the backing of the national currency with the Bank's net foreign assets was 103.6%.

In January, the Bank of Latvia's exchange rates for the US dollar and the Japanese yen against the lats dropped (by 2.2% and 0.8%, respectively), while the euro and the British pound appreciated against the lats (by 3.1% and 1.1%, respectively).



	2002	2003
	XII	I
Changes in the volume index of industrial output (year-on-year basis; %)	11.9	*
Changes in the CPI		
Month-on-month basis (%)	0.2	0.9
Year-on-year basis (%)	1.4	1.4
Annual rate of core inflation (%)	1.1	0.8
Number of registered unemployed persons (at end of period)	89 735	91 580
Unemployment rate (%)	7.6	7.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-131.1	22.1
Foreign trade (in millions of lats)		
Exports	110.0	*
Imports	228.5	*
Balance	-118.5	*

MACROECONOMIC INDICATORS

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

MONETARY INDICATORS

(at end of period; in millions of lats)
(at end of period; in millions of US dollars)*

	2002	2003
	XII	I
Banking system		
M2X	1 864.9	1 847.8
Currency outside banks	543.1	528.3
Deposits of domestic enterprises and private persons	1 321.8	1 319.5
Demand deposits	776.8	744.3
Time deposits	545.1	575.2
M2D	1 324.6	1 298.3
Net foreign assets	351.9	336.8
Net domestic assets	1 513.0	1 511.0
Loans to domestic enterprises and private persons	1 849.5	1 865.1
Short-term loans	290.8	296.7
Long-term loans	1 558.7	1 568.4
Credit to the Government (net)	154.7	131.1
Bank of Latvia		
M0	755.1	709.2
Currency in circulation	622.6	597.8
Deposits with the Bank of Latvia in lats	132.4	111.4
Net foreign assets	777.6	734.8
Net domestic assets	-22.5	-25.6
Credit	44.7	40.6
To banks	30.7	27.9
To the Government (net)	14.1	12.6
Other items (net)	-67.3	-66.2
International reserves*	1 327.31	1 280.76
Gold	85.90	90.96
Special Drawing Rights	0.07	0.20
Reserve position in the IMF	0.07	0.08
Foreign convertible currencies	1 241.27	1 189.52

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2002	2003
	XII	I
Weighted average interest rate on domestic interbank loans in lats	2.7	2.6
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	5.4	5.5
Short-term loans (in the OECD countries' currencies)	4.1	3.6
Long-term loans (in lats)	7.4	7.6
Long-term loans (in the OECD countries' currencies)	5.8	5.4
Interest rates on deposits of domestic enterprises and private persons		
Demand deposits (in lats)	1.0	0.8
Demand deposits (in the OECD countries' currencies)	0.6	0.5
Short-term deposits (in lats)	3.1	2.9
Short-term deposits (in the OECD countries' currencies)	2.0	1.9
Long-term deposits (in lats)	5.2	5.2
Long-term deposits (in the OECD countries' currencies)	3.4	3.5
The Bank of Latvia's refinancing rate (at end of period; %)	3.0	3.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5940	0.5810
LVL/GBP	0.9460	0.9560
LVL/100 JPY	0.4940	0.4900
LVL/EUR	0.6100	0.6290

In January, a sharp year-on-year increase of 59.4% was recorded in transit by rail through the ports of Latvia. With imports and domestic cargo traffic rising, total cargo traffic by rail grew by 52.1%. In January, oil transit by the oil main to the port of Ventspils was terminated, and cargo turnover at this port declined by 23.7%. Nevertheless,

with cargoes loaded and unloaded at the ports of Riga and Liepāja increasing, total turnover at Latvia's ports fell by only 6.5% compared with the corresponding period of the previous year.

In January, the producer price index in industry increased by 0.9% month-on-month and by 1.1% year-on-year.

In December 2002, industrial output continued to grow. Year-on-year, output increased in manufacturing (by 14.8%), electricity, gas and water supply (by 5.7%), and mining and quarrying (even by 39.2%). Hence, the volume index of industrial output in industry rose by 11.9%. Retail trade turnover was 22.9% higher than in December 2001.

	2002	2003
	XII	I
Bank reserves	213.7	181.8
Vault cash in national currency	79.5	69.5
Deposits with the Bank of Latvia	134.2	112.3
Foreign assets	1 793.3	1 856.3
Vault cash in foreign currency	41.8	46.7
Claims on foreign banks	1 160.0	1 204.1
Claims on foreign non-banks	580.0	570.3
Other assets	11.5	35.1
Claims on the central government (net)	125.3	103.7
Claims on local governments (net)	15.4	14.8
Claims on public enterprises	112.5	108.4
Claims on private enterprises	1 329.5	1 344.2
Claims on private persons	432.0	437.4
Unclassified assets	321.2	288.5
Fixed assets	106.9	106.5
Items in transit	5.0	5.6
Other assets	52.4	50.8
Claims on domestic credit institutions (incl. investments)	156.9	125.6
TOTAL ASSETS	4 342.8	4 335.0
<i>Memo item: Trust assets</i>	<i>603.8</i>	<i>488.5</i>
Demand deposits	477.7	439.0
Public enterprises	45.1	29.3
Private enterprises	225.1	209.4
Private persons	207.5	200.3
Time deposits	303.8	331.0
Public enterprises	20.9	31.4
Private enterprises	85.2	95.2
Private persons	197.7	204.3
Foreign currency deposits of residents	540.3	549.5
Public enterprises	16.3	18.6
Private enterprises	178.7	187.0
Private persons	345.3	343.9
Transit funds	9.9	10.0
Foreign liabilities	2 219.0	2 254.2
Liabilities to foreign banks	492.2	510.1
Liabilities to foreign non-banks	1 667.9	1 656.0
Other liabilities (incl. subordinated liabilities)	58.9	88.2
Liabilities to the Bank of Latvia	30.7	27.9
Debt securities	48.2	47.7
Equity	384.3	388.5
Residents	201.5	205.6
Non-residents	182.8	182.8
Provisions	59.6	60.6
Unclassified liabilities	269.2	226.6
Items in transit	83.9	79.7
Other liabilities (incl. subordinated liabilities)	40.8	38.0
Liabilities to domestic credit institutions	144.5	108.9
TOTAL LIABILITIES	4 342.8	4 335.0
<i>Memo item: Trust liabilities</i>	<i>603.8</i>	<i>488.5</i>

**CONSOLIDATED BALANCE SHEET
OF CREDIT INSTITUTIONS**

(at end of period; in millions of lats)

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The IMF's Dissemination Standards Bulletin Board (<http://dsbb.imf.org>) disseminates the release dates for monetary indicators of the Latvian banking system, monetary indicators of the Bank of Latvia and international reserves. The data are first made available at the Bank of Latvia's Internet website (http://www.bank.lv/FinancialData/English/index_LB.html).