

# MONETARY BULLETIN

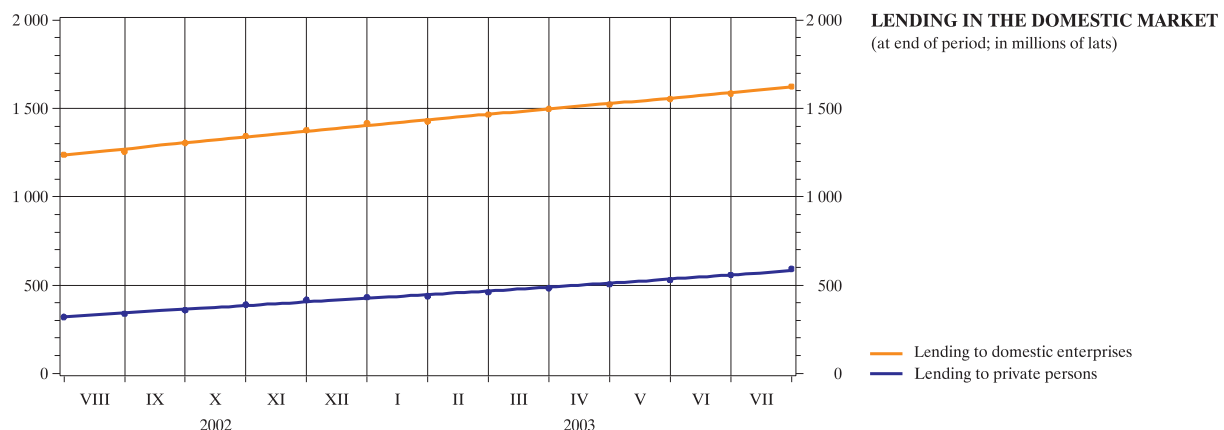
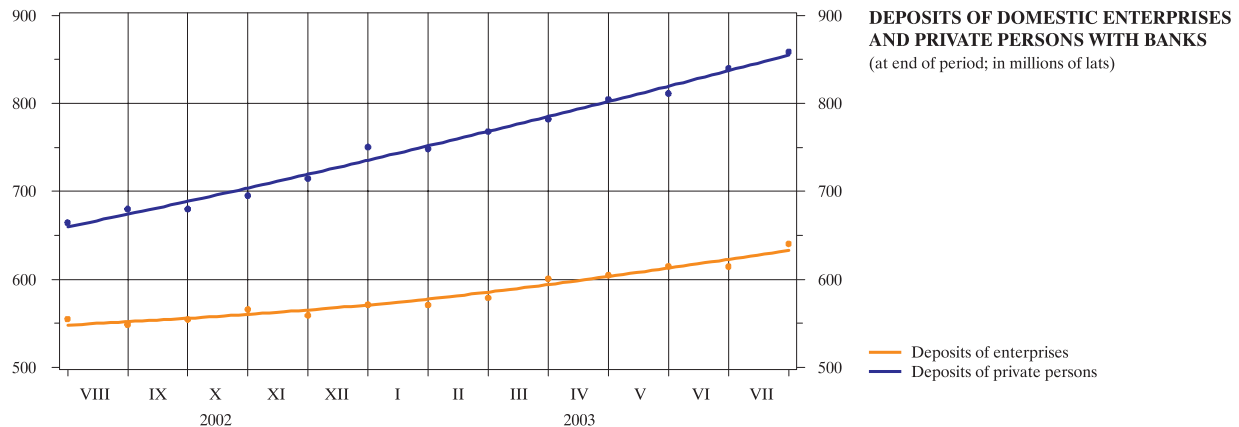
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2003

The growth in the financial sector and the data on the dynamics of the transportation, industrial and trade sectors indicated that the Latvian national economy was developing rapidly in July. The international rating agency *Fitch Ratings* gave a positive evaluation of the economic developments in Latvia, increasing Latvia's rating with respect to long-term liabilities in foreign currency from BBB to BBB+, and the international rating agency *Standard & Poor's* revised its foreign currency outlook on the Republic of Latvia to positive from stable.

Unemployment rate declined to 8.5%, and the number of the registered unemployed persons decreased by 4.7% year-on-year.

In July, the consumer prices dropped as usual (by 0.3%, including a 0.4% and 0.2% decline in the prices of goods and services, respectively), but the annual rate of consumer price inflation remained unchanged (3.8%). Consumer prices were mostly affected by a drop in vegetable and potato prices (by 15.3% on the average), resulting in a decrease in the prices of food (1.3%); a decline was observed in the prices of clothing and footwear as well (3.0%). The decline in consumer prices was slowed down by growing prices of tobacco products as a result of increasing excise tax and growing gas prices effected by administrative decisions.

In July, the money supply posted the highest monthly growth in 2003 (55.5 million lats or 2.8%), and its annual growth rate reached 20.6%. The increase and growth rate of deposits and loans of domestic enterprises and private persons was the highest in 2003 (the annual growth rate was 23.0% and 42.3%, respectively). Deposits of domestic enterprises and private persons attracted by the banking sector expanded by 44.7 million lats, resulting from increasing deposits in foreign currency (a rise of 40.9 million lats). The rapid growth in deposits was determined by an increase in demand deposits (46.1 million lats, including a rise of 34.1 million lats in enterprise demand deposits).



A growth in broad money M2X resulted from an increase in net domestic assets of the banking system (111.0 million lats), mostly due to continuously expanding loans granted by the banking system to the private sector (in July, domestic loans grew by 80.8 million lats). Loans granted to domestic enterprises and private persons rose by 74.2 million lats, including a rise of 33.7 million lats in loans issued in lats. Although loans granted to domestic private persons recorded a considerable pickup, that of loans to domestic enterprises exceeded it, posting a rise of 39.9 million lats. Short-term loans slightly decreased, whereas loans with maturity of 1–5 years and over 5 years rose by 37.2 million lats and 37.4 million lats, respectively. Mortgage loans and industrial credit posted an almost equal growth (29.5 million lats and 29.3 million lats, respectively), with the consumer credit recording a considerably smaller rise (5.6 million lats). With net claims on the central government remaining almost unchanged, and the Government deposit with the Bank of Latvia shrinking, the banking system's net credit to the Government increased (by 6.2 million lats).

Along a rise in domestic loans, attraction of foreign funds continued to facilitate growth in lending. In July, the banking sector's foreign liabilities increased (by 149.4 million lats, including a rise of 72.4 million lats and 56.7 million lats in liabilities to foreign banks and non-banks, respectively), whereas foreign assets grew by 90.2 million lats. Assets of credit institutions recorded a pickup of 166.5 million lats (to 4.9 billion lats). In the first seven months of 2003, banks' profit reached 39.1 million lats (a year-on-year increase of 36.2%).

A comparatively moderate rise (10.8 million lats) was recorded in cash outside banks, and its share in the broad money dropped to 27.3%.

In July, the fiscal deficit of the general government consolidated budget increased and totalled 2.3 million in the first seven months of 2003 (16.5 million lats in the corresponding period of the previous year). The social insurance fiscal surplus of the central government special budget reached 23.0 million lats. A surplus was recorded in the local government consolidated budget, whereas the central government basic budget posted a deficit.

At the auction of 6-month Treasury bills planned for July, the securities offered were not sold, with the State Treasury setting a lower hidden rate, although banks' demand (9.0 million lats) exceeded the supply (3.6 million lats). As a result, the fixed rate (non-competitive) auction at the Latvian Central Depository did not take place. At the end of July, the government securities outstanding amounted to 365.4 million lats. The Government debt remained almost unchanged in July, totalling 829.1 million lats, including the external debt of 464.9 million lats, at the end of the period.

In July, both the US dollar and the euro slightly appreciated on the global foreign exchange market. The US dollar and the euro appreciated against the lats by 0.4% and 0.3%, respectively. The Japanese yen was steady against the lats, whereas the British pound depreciated by 2.0%. With the currency swap balance increasing by 6.0 million lats, the Bank of Latvia's net foreign assets grew 0.5%. Under currency swaps, 108.0 million lats were sold during the month (a month-on-month drop of 9.3%). At the end of July, the backing of the national currency with the Bank of Latvia's net foreign assets was 102.7%.

The Bank of Latvia's credit granted to banks declined by 22.1 million lats; still, as the Government deposit with the central bank also decreased, the monetary base shrank by 8.7 million lats only. The level of repo loans issued by the Bank of Latvia in July (202.5 million lats) declined by 21.7% month-on-month. Domestic interbank loans granted in lats grew 4.0% (to 518.6 million lats), but their weighted average interest rate posted a minor drop (to 2.7%).

Interest rates on the money markets remained low and stable. The weighted average interest rates on short-term loans granted to domestic enterprises and private persons in lats and the OECD currencies increased (to 5.1% and 4.2%, respectively), but the weighted average interest rates on short-term deposits attracted from the same group of customers declined (to 2.9% and 1.6%, respectively). At the same time, the weighted average interest rates

	2003	
	VI	VII
Changes in the volume index of industrial output (year-on-year basis; %)	8.6	*
Changes in the CPI		
Month-on-month basis (%)	0.7	-0.3
Year-on-year basis (%)	3.7	3.8
Annual rate of core inflation (%)	3.2	3.1
Number of registered unemployed persons (at end of period)	90 612	90 064
Unemployment rate (%)	8.6	8.5
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-0.2	-2.3
Foreign trade (in millions of lats)		
Exports	152.2	*
Imports	269.6	*
Balance	-117.4	*

#### 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)\*

	2003	
	VI	VII
<b>Banking system</b>		
M2X	2 005.9	2 061.4
Currency outside banks	551.1	561.9
Deposits of domestic enterprises and private persons	1 454.8	1 499.5
Demand deposits	837.6	883.7
Time deposits	617.2	615.9
M2D	1 418.5	1 433.2
Net foreign assets	297.4	242.0
Net domestic assets	1 708.4	1 819.4
Loans to domestic enterprises and private persons	2 143.7	2 217.9
Short-term loans	318.3	317.9
Long-term loans	1 825.4	1 900.0
Credit to the Government (net)	124.4	130.6
<b>Bank of Latvia</b>		
M0	763.3	754.6
Currency in circulation	628.8	633.4
Deposits with the Bank of Latvia in lats	134.4	121.2
Net foreign assets	771.0	774.7
Net domestic assets	-7.8	-20.1
Credit	59.3	41.4
To banks	102.3	80.2
To the Government (net)	-43.0	-38.8
Other items (net)	-67.0	-61.5
International reserves*	1 368.33	1 367.72
Gold	85.77	89.78
Special Drawing Rights	0.10	0.11
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 282.38	1 277.75

**EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES**

	2003	
	VI	VII
Weighted average interest rate on domestic interbank loans in lats	2.8	2.7
<b>Interest rates on loans to domestic enterprises and private persons</b>		
Short-term loans (in lats)	5.6	5.1
Short-term loans (in the OECD countries' currencies)	4.7	4.2
Long-term loans (in lats)	7.0	7.4
Long-term loans (in the OECD countries' currencies)	5.0	5.0
<b>Interest rates on deposits of domestic enterprises and private persons</b>		
Demand deposits (in lats)	0.8	0.9
Demand deposits (in the OECD countries' currencies)	0.6	0.4
Short-term deposits (in lats)	3.0	2.9
Short-term deposits (in the OECD countries' currencies)	1.7	1.6
Long-term deposits (in lats)	5.0	5.2
Long-term deposits (in the OECD countries' currencies)	3.6	2.9
The Bank of Latvia's refinancing rate (at end of period; %)	3.0	3.0
<b>Exchange rates of foreign currencies (at end of period)</b>		
LVL/USD	0.5690	0.5710
LVL/GBP	0.9470	0.9280
LVL/100 JPY	0.4770	0.4770
LVL/EUR	0.6520	0.6540

on long-term loans and deposits in lats recorded a slight pickup (to 7.4% and 5.2%, respectively). The weighted average interest rate on long-term loans granted in the OECD currencies remained unchanged (5.0%), but that on long-term deposits in these currencies shrank to 2.9%.

With a considerable increase in the level of transit, the performance data of railway and all Latvian ports indicated a rapid growth in the transport sector. The volume of freight transported by rail grew 46.6% year-on-year. The volume of cargos handled at the ports of Ventspils and Riga increased by 12.3% and 49.2% year-on-year, and the turnover at Latvian ports increased by 24.9%.

In June, the volume index of industrial output rose by 8.6% year-on-year (including a 9.4% increase in manufacturing), while retail trade turnover grew 13.3%.

In July, the producer price index decreased by 0.6% month-on-month, but increased by 3.9% year-on-year.

	2003	
	VI	VII
Bank reserves	211.8	190.1
Vault cash in national currency	77.7	71.5
Deposits with the Bank of Latvia	134.1	118.7
Foreign assets	1 911.4	2 001.6
Vault cash in foreign currency	48.6	52.0
Claims on foreign banks	1 245.3	1 301.1
Claims on foreign non-banks	581.9	600.3
Other assets	35.5	48.2
Claims on the central government (net)	164.2	165.5
Claims on local governments (net)	3.2	3.9
Claims on public enterprises	100.5	99.8
Claims on private enterprises	1 514.0	1 555.0
Claims on private persons	558.3	592.6
Unclassified assets	310.9	332.3
Fixed assets	109.8	110.5
Items in transit	6.1	5.2
Other assets	52.6	52.0
Claims on domestic credit institutions (incl. investments)	142.5	164.7
<b>TOTAL ASSETS</b>	<b>4 774.4</b>	<b>4 940.9</b>
<i>Memo item: Trust assets</i>	<i>914.0</i>	<i>667.1</i>
Demand deposits	497.7	508.7
Public enterprises	27.5	27.8
Private enterprises	222.8	229.2
Private persons	247.5	251.7
Time deposits	369.7	362.7
Public enterprises	40.3	31.8
Private enterprises	100.3	95.8
Private persons	229.0	235.1
Foreign currency deposits of residents	587.4	628.2
Public enterprises	31.6	29.4
Private enterprises	192.0	226.6
Private persons	363.7	372.3
Transit funds	9.4	9.4
Foreign liabilities	2 384.9	2 534.3
Liabilities to foreign banks	547.2	619.6
Liabilities to foreign non-banks	1 744.9	1 801.6
Other liabilities (incl. subordinated liabilities)	92.8	113.1
Liabilities to the Bank of Latvia	102.3	80.2
Debt securities	46.9	46.6
Equity	431.7	433.0
Residents	245.2	245.3
Non-residents	186.5	187.7
Provisions	63.3	63.7
Unclassified liabilities	281.1	274.1
Items in transit	110.0	85.7
Other liabilities (incl. subordinated liabilities)	40.3	39.3
Liabilities to domestic credit institutions	130.8	149.1
<b>TOTAL LIABILITIES</b>	<b>4 774.4</b>	<b>4 940.9</b>
<i>Memo item: Trust liabilities</i>	<i>914.0</i>	<i>667.1</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 on the Bank of Latvia's website (<http://www.bank.lv>).