

MONETARY BULLETIN 2004

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On April 29, *Fitch Ratings*, the international rating agency, assigned to Latvia a new Country Ceiling rating A, which is two notches above the sovereign's Long-term foreign currency rating. The available economic indicators signalled continuous robust growth. The fiscal surplus of the general government consolidated budget posted an increase. Unemployment fell by 0.2 percentage point (to 9.0%). The annual growth rate in lending rose to 42.7%, and the year-on-year increase in money supply (24.5%) was the highest monthly indicator in 2004.

The annual inflation rate increased slightly, reaching 5.0% in April. Alongside the effects of administratively regulated, food-stuff and some services prices, inflationary expectations also contributed to total inflation. A pickup of 2.0% in clothing and footwear prices, a 0.6% rise in food prices and a 1.2% increase in fuel prices accounted for the major inflationary effects.

The general government consolidated budget recorded a fiscal surplus (11.3 million lats) in April as well, totalling 50.0 million lats in the first four months of 2004 (2.4 million lats in the corresponding period of the previous year), including fiscal surplus of the central government consolidated budget in the amount of 38.8 million lats and that of the central government social security special budget in the amount of 12.2 million lats. In the first four months of 2004, the general government consolidated budget revenue posted a higher year-on-year growth than the expenditure (19.1% and 11.7%, respectively). Tax revenue rose by 17.7% (including a pickup in personal income tax and value added tax revenue of 21.1% and 22.7%, respectively).

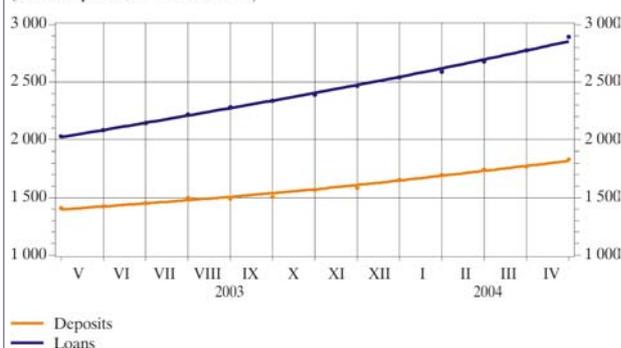
Following the issue of Latvian eurobonds in March, the government debt recorded a rapid but short-term increase (by the time when eurobonds issued in 1999 are redeemed in May), amounting to 1 055.5 million lats at the end of April. External debt expanded by 256.9 million lats (to 668.6 million lats), while the domestic debt shrank by 44.3 million lats.

In April, an auction of government securities was held where 12-month Treasury bills were sold in the amount of 4.3 million lats, with the average discount rate of 3.73% (24 basis points higher than at the previous securities auction of the same maturity in December).

Money supply increased by 71.9 million lats in April, reflecting the highest monthly growth in deposits of domestic enterprises and private persons since December (62.7 million lats; a year-on-year increase of 30.0%), and the resumed demand for cash. Currency outside banks increased by 9.2 million lats (by 10.0% year-on-year). The growth in deposits was determined by a pickup of 51.5 million lats in deposits made in lats. The domestic money supply M2D expanded by 60.7 million lats (by 29.4% year-on-year).

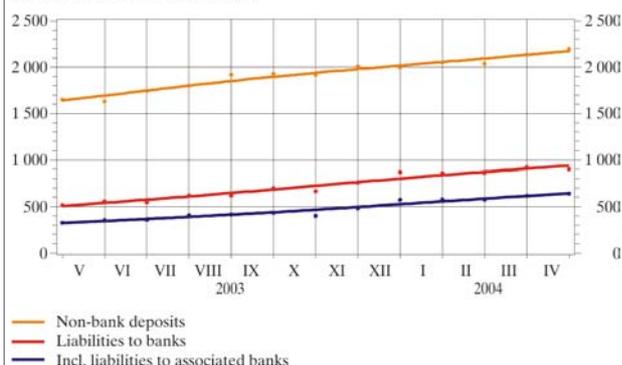
The increase in lending to domestic enterprises and private persons continued to accelerate. In April, loans grew by 117.8 million lats, including an increase in mortgage loans and commercial credit of 59.6 million lats and 37.5 million lats, respectively. An almost equal level of growth was observed in loans granted to domestic private persons and domestic enterprises (55.5 million lats and 62.3 million lats, respectively), whereas a higher year-on-year increase was posted for loans to domestic private persons (81.5%), the annual growth rate of lending to enterprises being 29.9%. Lower (by 2-3 percentage points) interest rates on loans and a higher stability of the rates facilitated a more pronounced growth in loans granted in foreign

DEPOSITS RECEIVED FROM AND LOANS GRANTED TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS
(at end of period; in millions of lats)



FUNDS RECEIVED FROM NON-RESIDENTS

(at end of period; in millions of lats)



MACROECONOMIC INDICATORS

	2004	
	III	IV
Changes in the volume index of industrial output (year-on-year basis; %)	11.8	*
Changes in the CPI		
Month-on-month basis (%)	1.0	0.6
Year-on-year basis (%)	4.8	5.0
Annual rate of core inflation ¹ (%)	4.8	5.1
Number of registered unemployed persons (at end of period)	96 669	95 964
Unemployment rate (%)	9.2	9.0
General government consolidated budget fiscal deficit/surplus (in millions of lats)	38.7	50.0
Foreign trade (in millions of lats)		
Exports	169.5	*
Imports	319.4	*
Balance	-149.9	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

currency in comparison with those granted in lats. The annual growth rate of loans granted in lats was the same as in March (35.3%), while for loans in foreign currency it increased by 4.8 percentage points (to 49.0%).

The considerable rise in interest rates on loans in March was followed by a substantial slowdown in April, and interest rates on loans granted to domestic enterprises in lats even posted a decrease. The weighted average interest rates on loans granted to domestic enterprises in lats and in foreign currency were 7.2% and 5.3%, respectively (the same rates on loans to domestic private persons were 9.0% and 5.6%, respectively).

In April, along an increase in deposits attracted from residents, a significant inflow of government receipts from the issue of Latvian eurobonds into the banking system was observed. The banking system's net credit to the Government and the same indicator of the banking sector shrank by 245.8 million lats and 90.8 million lats, respectively. Net foreign assets of the banking sector even increased by 11.9 million lats.

The banking sector's assets grew by 95.9 million lats (to 6.1 billion lats). In the first four months of 2004, banks' profit was 31.7 million lats (1.6 times higher year-on-year).

The inflow of funds from abroad and the high demand for lats stimulated banks to improve their lats liquidity by selling foreign currency to the Bank of Latvia. As the lats and the SDR spread widened and the exchange rates of the US dollar and the euro against the lats quoted by banks approached the lower limit of the intervention band set by the Bank of Latvia, foreign currency interventions were conducted. Foreign currency was purchased in spot market in the net amount of 47.2 million lats. The Bank of Latvia's net foreign assets grew by 24.4%, as the receipts from the issue of Latvian eurobonds were placed with the Bank of Latvia. Since the currency interventions offset the decrease in the lats liquidity stemming from the increase in the cash demand and the reserve requirements, banks' borrowing from the Bank of Latvia declined. Hence, repo loans granted by the Bank of Latvia (177.4 million lats) posted a 23.2% drop month-on-month. At the end of April, the backing of the national currency with the Bank of Latvia's net foreign assets was 123.0%.

The exchange rate of the US dollar against the lats as set by the Bank of Latvia rose by 1.8%. The euro and the British pound depreciated against the lats by 0.9%, whereas the Japanese yen weakened by 2.3%.

The sufficient liquidity ensured interest rate stability on the interbank market. Overnight RIGIBOR slightly declined (from 4.0% at the beginning of April to 3.8% at the end of the month), whereas RIGIBOR for loans with 6- and 12-month maturity remained unchanged (4.5% and 4.6%, respectively). The interbank market weighted average interest rate for loans was also almost the same (3.5%).

In April, rail freight grew by 10.4% year-on-year. Cargo turnover at Latvian ports and the amount of oil products transported by pipeline increased by 5.4% and 7.0%, respectively.

In March, the volume index of industrial output rose by 11.8%. The seasonally adjusted volume indexes of industrial output in manufacturing and in electricity, gas and water supply improved by 12.5% and 8.7% year-on-year, respectively. The retail trade turnover, at constant prices, increased by 13.8%.

MONETARY INDICATORS (at end of period; in millions of lats)	2004	
	III	IV
Banking system		
M2X	2 349.0	2 420.9
Currency outside banks	578.4	587.6
Deposits of domestic enterprises and private persons	1 770.6	1 833.3
Demand deposits	984.0	1 010.0
Time deposits	786.7	823.3
M2D	1 703.2	1 763.9
Net foreign assets	-35.7	174.5
Net domestic assets	2 384.7	2 246.3
Loans to domestic enterprises and private persons	2 776.8	2 894.6
Short-term loans	444.1	449.2
Long-term loans	2 332.7	2 445.4
Credit to the Government (net)	213.0	-32.8
Bank of Latvia		
M0	756.1	821.8
Currency in circulation	649.6	666.3
Deposits with the Bank of Latvia in lats	106.5	155.4
Net foreign assets	812.5	1 010.8
Net domestic assets	-56.4	-189.0
Credit	5.9	-134.9
To banks	49.4	63.5
To the Government (net)	-43.5	-198.4
Other items (net)	-62.3	-54.1
International reserves (at end of period; in millions of US dollars)	1 494.20	1 825.62
Gold	103.91	95.50
Special Drawing Rights	0.24	0.03
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 389.97	1 730.01

¹ Data have been revised.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	III	IV
Weighted average interest rate on domestic interbank loans in lats	3.4	3.5
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	7.9	7.2
Loans to private persons (in lats)	8.7	9.0
Loans to enterprises (in foreign currencies)	5.3	5.3
Loans to private persons (in foreign currencies)	5.6	5.6
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.4	3.5
Demand deposits of enterprises (in lats)	1.0	0.8
Time deposits of private persons (in lats)	3.2	3.7
Demand deposits of private persons (in lats)	0.9	1.0
Time deposits of enterprises (in foreign currencies)	1.5	1.4
Demand deposits of enterprises (in foreign currencies)	0.4	0.4
Time deposits of private persons (in foreign currencies)	1.7	2.2
Demand deposits of private persons (in foreign currencies)	1.9	1.6
The Bank of Latvia's refinancing rate (at end of period; %)	3.5	3.5
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5430	0.5530
LVL/GBP	0.9880	0.9790
LVL/100 JPY	0.5140	0.5020
LVL/EUR	0.6610	0.6550

CONSOLIDATED BALANCE SHEET OF CREDIT INSTITUTIONS (at end of period; in millions of lats)

	2004	
	III	IV
Bank reserves	176.9	233.0
Vault cash in national currency	71.2	78.7
Deposits with the Bank of Latvia	105.7	154.3
Foreign assets	2 369.7	2 406.5
Vault cash in foreign currency	50.8	48.0
Claims on foreign banks	1 582.2	1 582.9
Claims on foreign non-banks	707.4	746.0
Other assets	29.3	29.6
Claims on the central government (net)	241.3	152.5
Claims on local governments (net)	15.2	13.2
Claims on public enterprises	85.3	82.2
Claims on private enterprises	1 861.4	1 927.9
Claims on private persons	860.2	915.7
Unclassified assets	370.0	344.8
Fixed assets	124.1	124.2
Items in transit	7.6	7.5
Other assets	55.0	57.6
Claims on domestic credit institutions (incl. investments)	183.3	155.6
Total assets	5 980.0	6 075.9
<i>Memo item: Trust assets</i>	771.6	537.1
Demand deposits	602.7	621.2
Public enterprises	30.8	31.0
Private enterprises	269.6	271.9
Private persons	302.2	318.4
Time deposits	522.2	555.1
Public enterprises	67.5	74.6
Private enterprises	174.7	194.6
Private persons	280.1	286.0
Foreign currency deposits of residents	645.8	656.9
Public enterprises	17.4	15.9
Private enterprises	218.4	225.3
Private persons	410.0	415.7
Transit funds	5.7	5.6
Foreign liabilities	3 217.9	3 242.8
Liabilities to foreign banks	925.2	903.2
Liabilities to foreign non-banks	2 136.9	2 198.9
Other liabilities (incl. subordinated liabilities)	155.8	140.7
Liabilities to the Bank of Latvia	49.4	63.5
Debt securities	52.1	52.2
Equity	498.9	515.1
Residents	300.0	270.5
Non-residents	198.9	244.5
Provisions	76.6	76.7
Unclassified liabilities	308.8	286.7
Items in transit	91.8	94.2
Other liabilities (incl. subordinated liabilities)	54.4	52.8
Liabilities to domestic credit institutions	162.6	139.7
Total liabilities	5 980.0	6 075.9
<i>Memo item: Trust liabilities</i>	771.6	537.1

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>).