

MONETARY BULLETIN 2004

5

In May, the first month after Latvia's accession to the EU, dynamic growth of the economy continued. The unemployment rate recorded the considerable decrease of 0.3 percentage points (to 8.7%). The growth in money supply and lending was slower than in April; nevertheless, the annual growth rate of the above indicators continued to increase due to a lower base, reaching 25.5% and 42.8%, respectively.

In the first quarter of 2004, the growth of the Latvian economy accelerated. The data released by the Central Statistical Bureau of Latvia indicated that GDP had grown by 8.8% year-on-year, with the value added increasing by 9.8% in the goods sector (including a pickup in construction and manufacturing of 13.0% and 10.6%, respectively) and by 8.4% in the services sector (a rise of 11.3% in trade and 8.3% in transport, storage and communication).

In April, the industrial output increased by 9.1%, with the seasonally adjusted volume index of industrial output in manufacturing improving by 9.7% year-on-year and the corresponding indicator in electricity, gas and water supply being higher by 6.0%. Retail trade turnover in constant prices expanded by 17.7%.

Freight transported by rail increased by 3.5% year-on-year, whereas oil products transported by pipeline grew by 5.0%. The cargo turnover in Latvian ports declined by 8.6%.

The consumer price index was up 1.3% month-on-month, whereas the annual rate of consumer price inflation rose to 6.2%. The increase in inflation levels was mostly attributed to extraordinary factors, *inter alia*, the change in regulatory requirements as Latvia acceded to the EU. In May, the influence of the factors driving the price rises already at the beginning of the year, e.g. an increase in administratively regulated prices and those of several food products, continued. The rise of inflation was no longer associated with the appreciation of the euro, since the average exchange rate of the euro in May did not differ significantly from the one recorded a year ago. A rise in oil prices, as well as an increase in the excise tax resulted in a substantial rise in fuel prices (11.9%). In May, it pushed up the overall consumer price level in Latvia by 0.4 percentage points, whereas the upward trend in insurance service prices raised the overall inflation by 0.2 percentage points.

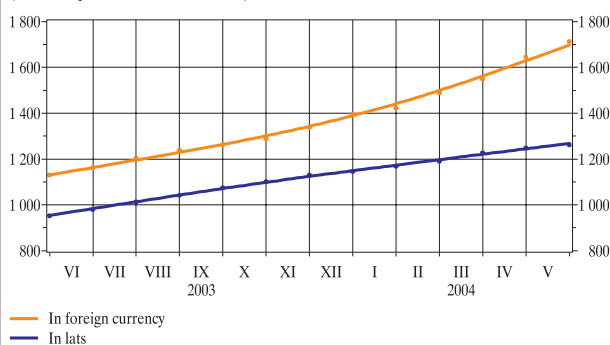
The general government consolidated budget expenditure exceeded revenue by 15.3 million lats, and in the first five months of 2004, the fiscal surplus shrank to 35.9 million lats. Nevertheless, the budget outcome was a considerable improvement year-on-year (10.4 million lats in the corresponding period of 2003). In the first five months of 2004, a fiscal deficit of 6.5 million lats was observed in the central government basic budget; the central government social security budget and the local government consolidated budget were in surplus (25.7 million lats and 19.5 million lats, respectively).

As the eurobonds issued in 1999 were redeemed, the Government debt decreased considerably in May: down to 913.8 million lats at the end of the month. The external debt contracted by 138.5 million lats (to 530.1 million lats). With the stock of the government securities redeemed exceeding that of the newly issued securities, the domestic debt also slightly decreased. In May, 10-year Treasury bonds were sold at auction in the amount of 3.9 million lats, with the average yield of 4.88%.

The growth in broad money (54.4 million lats) was determined by an increase in deposits of domestic enterprises and private

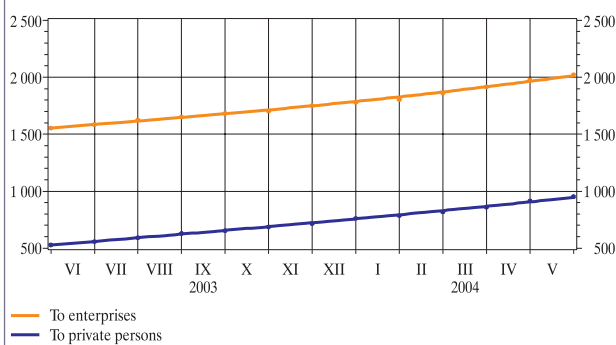
LOANS TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS

(at end of period; in millions of lats)



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MACROECONOMIC INDICATORS	2004	
	IV	V
Changes in the volume index of industrial output (year-on-year basis; %)	9.1	*
Changes in the CPI		
Month-on-month basis (%)	0.6	1.3
Year-on-year basis (%)	5.0	6.2
Annual rate of core inflation ¹ (%)	5.1	6.0
Number of registered unemployed persons (at end of period)	95 964	93 366
Unemployment rate (%)	9.0	8.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	50.0	35.9
Foreign trade (in millions of lats)		
Exports	176.6	*
Imports	364.1	*
Balance	-187.5	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

persons (56.6 million lats), with the deposits' annual growth rate reaching 32.5%, a high since spring 2001. Cash outside banks decreased by 2.2 million lats, and the annual growth rate of this indicator shrank to 7.3%. An increase in deposits was determined by the pickup in the lats deposits. Domestic money supply M2D grew by 39.0 million lats month-on-month, and its annual growth rate was 29.5%.

Lending to domestic enterprises and private persons expanded by 81.6 million lats. The month-on-month growth in lending was at a low since January, primarily as a result of an increase in mortgage loans and industrial credit (36.5 million lats and 23.3 million lats, respectively). The lower level of interest rates on loans promoted a notably higher amount of loans being granted in foreign currency than in lats. The growth rate of loans in lats fell to 32.5% year-on-year (35.3% in April), whereas that of foreign currency loans increased by 2.5 percentage points (to 51.5%). Loans in lats grew by mere 13.2 million lats, whereas those in foreign currency posted a pickup of 68.3 million lats.

Although interest rates in May remained higher on lending in lats than on loans in foreign currency, the interest rate spread narrowed by 0.4-0.9 percentage points. The weighted average interest rate on loans granted in foreign currency to domestic enterprises as well as private persons rose to 5.8%. The weighted average interest rate on loans in lats granted to domestic enterprises remained unchanged (7.2%), whereas that on loans granted to private persons fell to 8.4%.

The growth in lending was mostly financed from domestic deposits. The Government funds available temporarily in the banking sector and bank liabilities to non-residents also increased. The banking sector's net credit to the Government decreased by 51.8 million lats. Net foreign assets of the banking sector slightly increased (by 16.0 million lats).

The banking sector's assets expanded by 146.3 million lats (to 6.2 billion lats) in May. In the first five months of 2004, banks' profit was 39.0 million lats (1.5 times higher year-on-year).

In May, the banking sector enjoyed high liquidity; hence, the amount of repo loans granted by the Bank of Latvia shrank six times month-on-month (to 29.2 million lats), and the currency swap turnover decreased 2.6 times (to 10.9 million lats). The high liquidity was ensured by the inflow of foreign currency in Latvia (in May as well the Bank of Latvia purchased foreign currency in spot market in the net amount of 18.2 million lats).

Although the Bank of Latvia purchased foreign currency in May, the central bank's net foreign assets shrank by 141.1 million lats due to the redemption of the Government eurobonds. Nevertheless, the backing of the national currency with the Bank of Latvia's net foreign assets was 108.3% at the end of May.

The exchange rates of the euro and the British pound against the lats, as set by the Bank of Latvia, grew by 1.8% and 2.1%, respectively, whereas those of the US dollar and the Japanese yen dropped by 1.6% and 2.0%, respectively.

The high bank liquidity resulted in a drop in money market interest rates. Overnight RIGIBOR fell from 3.8% at the beginning of May to 3.0% at the end of the month. RIGIBOR for loans with 6- and 12-month maturity was down by 0.4 percentage points (to 4.1% and 4.2%, respectively). The interbank market weighted average interest rate on loans in lats decreased by 0.9 percentage points (to 2.6%).

MONETARY INDICATORS (at end of period; in millions of lats)	2004	
	IV	V
Banking system		
M2X	2 420.9	2 475.3
Currency outside banks	587.6	585.4
Deposits of domestic enterprises and private persons	1 833.3	1 889.9
Demand deposits	1 010.0	1 068.0
Time deposits	823.3	821.9
M2D	1 763.9	1 802.9
Net foreign assets	174.5	49.4
Net domestic assets	2 246.3	2 425.8
Loans to domestic enterprises and private persons	2 894.6	2 976.2
Short-term loans	449.2	457.0
Long-term loans	2 445.4	2 519.2
Credit to the Government (net)	-32.8	105.8
Bank of Latvia		
M0	821.8	802.7
Currency in circulation	666.3	657.9
Deposits with the Bank of Latvia in lats	155.4	144.7
Net foreign assets	1 010.8	869.7
Net domestic assets	-189.0	-67.1
Credit	-134.9	-2.2
To banks	63.5	5.9
To the Government (net)	-198.4	-8.0
Other items (net)	-54.1	-64.9
International reserves (at end of period; in millions of US dollars)	1 825.62	1 597.26
Gold	95.50	98.36
Special Drawing Rights	0.03	0.02
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 730.01	1 498.80

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	IV	V
Weighted average interest rate on domestic interbank loans in lats	3.5	2.6
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	7.2	7.2
Loans to private persons (in lats)	9.0	8.4
Loans to enterprises (in foreign currencies)	5.3	5.8
Loans to private persons (in foreign currencies)	5.6	5.8
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.5	2.9
Demand deposits of enterprises (in lats)	0.8	0.7
Time deposits of private persons (in lats)	3.7	3.7
Demand deposits of private persons (in lats)	1.0	1.0
Time deposits of enterprises (in foreign currencies)	1.4	1.4
Demand deposits of enterprises (in foreign currencies)	0.4	0.4
Time deposits of private persons (in foreign currencies)	2.2	1.9
Demand deposits of private persons (in foreign currencies)	1.6	1.7
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	0.5530	0.5440
LVL/GBP	0.9790	1.0000
LVL/100 JPY	0.5020	0.4920
LVL/EUR	0.6550	0.6670

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

	2004	
	IV	V
Bank reserves	233.0	220.1
Vault cash in national currency	78.7	72.5
Deposits with the Bank of Latvia	154.3	147.6
Foreign assets	2 406.5	2 518.7
Vault cash in foreign currency	48.0	49.8
Claims on foreign banks	1 582.9	1 665.0
Claims on foreign non-banks	746.0	771.6
Other assets	29.6	32.4
Claims on the central government (net)	152.5	104.5
Claims on local governments (net)	13.2	9.3
Claims on public enterprises	82.2	83.3
Claims on private enterprises	1 927.9	1 971.1
Claims on private persons	915.7	953.8
Unclassified assets	344.8	361.3
Fixed assets	124.2	122.6
Items in transit	7.5	6.8
Other assets	57.6	59.4
Claims on domestic credit institutions (incl. investments)	155.6	172.4
Total assets	6 075.9	6 222.2
<i>Memo item: Trust assets</i>	537.1	566.8
Demand deposits	621.2	665.2
Public enterprises	31.0	29.8
Private enterprises	271.9	301.8
Private persons	318.4	333.6
Time deposits	555.1	552.3
Public enterprises	74.6	66.3
Private enterprises	194.6	196.8
Private persons	286.0	289.2
Foreign currency deposits of residents	656.9	672.4
Public enterprises	15.9	22.6
Private enterprises	225.3	224.9
Private persons	415.7	425.0
Transit funds	5.6	5.6
Foreign liabilities	3 242.8	3 339.0
Liabilities to foreign banks	903.2	934.8
Liabilities to foreign non-banks	2 198.9	2 263.8
Other liabilities (incl. subordinated liabilities)	140.7	140.5
Liabilities to the Bank of Latvia	63.5	5.9
Debt securities	52.2	72.3
Equity	515.1	520.3
Residents	270.5	275.7
Non-residents	244.5	244.5
Provisions	76.7	76.7
Unclassified liabilities	286.7	312.6
Items in transit	94.2	98.4
Other liabilities (incl. subordinated liabilities)	52.8	56.0
Liabilities to domestic credit institutions	139.7	158.2
Total liabilities	6 075.9	6 222.2
<i>Memo item: Trust liabilities</i>	537.1	566.8

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>).