

MONETARY BULLETIN 2004

6

The major economic indicators show no downward trend in domestic demand. In view of the high indicators for the first quarter of 2004 and provisional data for the second quarter, in June the Bank of Latvia increased the forecast for GDP growth in 2004 from 7.0% to 7.5%. The increase in money supply continued on its upward trend, alongside a high growth rate in lending.

In May, the seasonally adjusted volume index of industrial output grew by 3.6% year-on-year, with the above indicator in manufacturing improving by 2.6% and that in electricity, gas and water supply being higher by 5.9%. Retail trade turnover in constant prices expanded by 13.1%.

Freight transported by rail increased by 1.8% year-on-year, whereas oil products transported by pipeline grew by 19.4%. The cargo turnover in Latvian ports declined by 5.2%.

The consumer price index was up 0.6% month-on-month, whereas the annual consumer price inflation shrank to 6.1%. A decline in the annual inflation rate was recorded for the first time since September 2003. The persistence of high annual inflation was mostly driven by indirect taxes (on tobacco, fuel, medicine), as well as the level of administratively regulated prices and a price rise for certain food products.

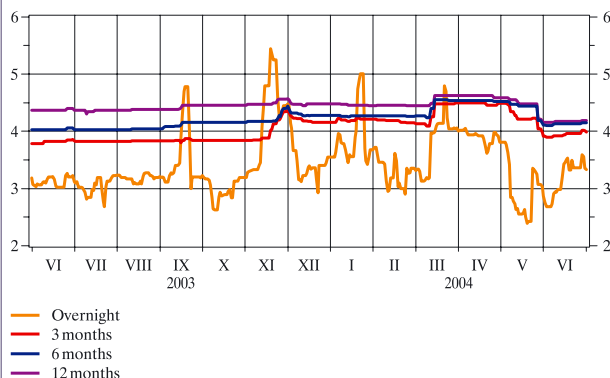
In June, the deficit of the general government consolidated budget was 23.9 million lats (incl. a 27.9 million lats deficit in the central government consolidated budget and a 3.3 million lats surplus in the local government consolidated budget). In the first six months of 2004, the surplus of the general government consolidated budget was 12.0 million lats (a minor deficit of 0.2 million lats was recorded in the corresponding period of the previous year). In the first six months of 2004, the central government consolidated budget deficit amounted to 8.8 million lats (the central government basic budget reached a deficit of 41.0 million lats, whereas the surplus of the central government special budget was 32.2 million lats). The local government consolidated budget also was in surplus (22.6 million lats).

In the first six months of 2004, the growth in the general government consolidated budget revenue (13.0%) exceeded that in expenditure (including net loans; 11.8%). Nevertheless, in June, just as in May, the year-on-year pickup in expenditure (including net loans) was more pronounced than that in revenue (13.6% and 6.9%, respectively). Slower revenue growth in June was mostly a result of low VAT and excise tax revenue year-on-year due to changes in the tax payment procedure after Latvia's accession to the EU, whereas the increase in expenditure was driven by a rise in expenditure for wages and salaries and subsidies to the population.

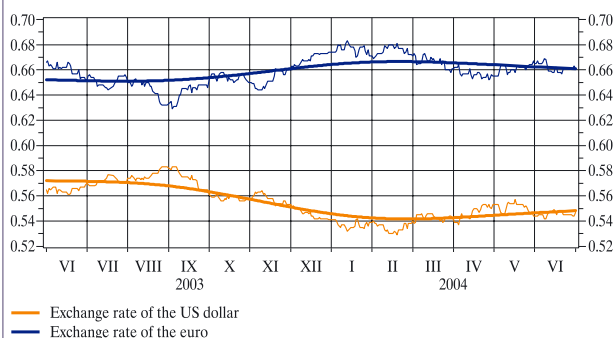
The Government debt increased by 13.0 million lats, reaching 926.8 million lats at the end of June. The external debt shrank by 2.9 million lats month-on-month (to 527.2 million lats), and the Government domestic debt increased by 15.9 million lats (to 399.5 million lats), mostly short-term debt. An auction of 6-month Treasury bills and that of 12-month Treasury bills were held in June, where securities in the amount of 10.2 million lats were sold, with the average discount rates of 3.42% and 3.48%, respectively. The discount rate on 6-month bills was 23 basis points higher than at the securities auction of the same

MONEY MARKET INDEX RIGIBOR

(%)



EXCHANGE RATES OF THE US DOLLAR AND THE EURO SET BY THE BANK OF LATVIA



MACROECONOMIC INDICATORS	2004	
	V	VI
Changes in the volume index of industrial output (year-on-year basis; %)	3.6	*
Changes in the CPI		
Month-on-month basis (%)	1.3	0.6
Year-on-year basis (%)	6.2	6.1
Annual rate of core inflation ¹ (%)	6.0	5.8
Number of registered unemployed persons (at end of period)	93 366	93 042
Unemployment rate (%)	8.7	8.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	35.9	12.0
Foreign trade (in millions of lats)		
Exports	169.5	*
Imports	300.0	*
Balance	-130.5	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

maturity in February, while that on 12-month bills was 25 basis points lower in comparison with the auction in April.

In June, broad money M2X grew by 59.5 million lats, at a slightly faster pace than in May, with the annual growth rate reaching 26.4% (a four-year high). Demand for cash improved somewhat: in June, currency outside banks increased by 11.1 million lats, and its annual growth rate was 8.2%. Domestic money supply M2D expanded by 40.5 million lats, with its annual growth rate increasing to 30.0%.

The money supply dynamics were mostly driven by lending to the private sector, financed primarily from the funds of domestic deposits (an increase of 48.4 million lats). In June, total deposits grew as a result of an 85.4 million lats rise in demand deposits. The annual growth rate of deposits continued its upward trend, reaching 33.2%, a high since the beginning of 2000. The increase in lending to domestic enterprises and private persons (85.2 million lats) was almost the same as in May, with the annual growth rate remaining at 42.8%. A pickup in long-term loans underlay the expanding lending, and the growth in mortgage loans accounted for more than a half of it (48.8 million lats), with industrial credit also increasing considerably (by 22.4 million lats). As before, lending in foreign currency posted a more pronounced increase (57.6 million lats): in June its annual growth rate rose to 52.2%, while that in lats shrank to 31.6%.

In June, the weighted average interest rates on loans granted to domestic enterprises and private persons in foreign currencies posted a more rapid decline (to 4.7% and 5.2%, respectively); the same rates on the corresponding transactions in lats were higher, dropping to 6.9% and 8.3%, respectively.

The banking system's net credit to the Government expanded by 22.5 million lats, as the Government deposits with the banking sector decreased and banks purchased Government securities. After a lapse of two months, foreign financing increased again: the negative balance of net foreign assets of the banking sector grew by 38.1 million lats, with bank foreign assets shrinking and foreign liabilities posting a slight rise.

In June, the banking sector's assets grew by 128.1 million lats, reaching 6.4 billion lats. In the first six months of 2004, bank profit was 49.6 million lats (1.5 times higher year-on-year).

At the beginning of June, the banking sector's liquidity remained high; additional funds were requested from the central bank only in the second half of the month, when liquidity dropped somewhat due to an increasing demand for cash and a higher minimum reserve requirement. As a result, repo loans recorded a 38.7% rise month-on-month (to 40.5 million lats), and the Bank of Latvia's credit to banks grew by 22.8 million lats, while bank time deposits with the central bank fell by 7.0 million lats. The Bank of Latvia's net foreign assets increased by 1.7 million lats, with the Bank of Latvia purchasing foreign currency in the spot market in the net amount of 10.8 million lats and the stock of currency swaps decreasing. At the end of June, the backing of the national currency with the Bank of Latvia's net foreign assets was 104.2%.

The exchange rates of the euro and the British pound sterling against the lats as set by the Bank of Latvia were down 0.6% and 0.5%, respectively. The Japanese yen appreciated by 2.0%, and the US dollar remained unchanged.

Liquidity fluctuations pushed interest rates slightly up on the interbank market: overnight RIGIBOR increased from 2.9% at the beginning of June to 3.4% at the end of the month. RIGIBOR for loans with 6- and 12-month maturity posted insignificant upward changes of 4 and 3 basis points, respectively (to 4.15% and 4.19%).

MONETARY INDICATORS (at end of period; in millions of lats)	2004	
	V	VI
Banking system		
M2X	2 475.3	2 534.8
Currency outside banks	585.4	596.5
Deposits of domestic enterprises and private persons	1 889.9	1 938.3
Demand deposits	1 068.0	1 153.4
Time deposits	821.9	784.9
M2D	1 802.9	1 843.4
Net foreign assets	49.4	13.0
Net domestic assets	2 425.8	2 521.8
Loans to domestic enterprises and private persons	2 976.2	3 061.4
Short-term loans	457.0	455.4
Long-term loans	2 519.2	2 606.0
Credit to the Government (net)	105.8	128.3
Bank of Latvia		
M0	802.7	836.2
Currency in circulation	657.9	667.9
Deposits with the Bank of Latvia in lats	144.7	168.3
Net foreign assets	869.7	871.4
Net domestic assets	-67.1	-35.2
Credit	-2.2	19.8
To banks	5.9	28.7
To the Government (net)	-8.0	-8.9
Other items (net)	-64.9	-55.0
International reserves (at end of period; in millions of US dollars)	1 597.26	1 608.92
Gold	98.36	99.52
Special Drawing Rights	0.02	0.02
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 498.80	1 509.30

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	V	VI
Weighted average interest rate on domestic interbank loans in lats	2.6	2.8
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	7.2	6.9
Loans to private persons (in lats)	8.4	8.3
Loans to enterprises (in foreign currencies)	5.8	4.7
Loans to private persons (in foreign currencies)	5.8	5.2
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	2.9	3.2
Demand deposits of enterprises (in lats)	0.7	1.0
Time deposits of private persons (in lats)	3.7	3.9
Demand deposits of private persons (in lats)	1.0	0.9
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)	1.9	2.0
Demand deposits of private persons (in foreign currencies)	1.7	1.2
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	0.5440	0.5440
LVL/GBP	1.0000	0.9950
LVL/100 JPY	0.4920	0.5020
LVL/EUR	0.6670	0.6630

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

	2004	
	V	VI
Bank reserves	220.1	238.8
Vault cash in national currency	72.5	71.4
Deposits with the Bank of Latvia	147.6	167.4
Foreign assets	2 518.7	2 487.8
Vault cash in foreign currencies	49.8	48.6
Claims on foreign banks	1 665.0	1 613.2
Claims on foreign non-banks	771.6	797.8
Other assets	32.4	28.2
Claims on the central government (net)	104.5	131.8
Claims on local governments (net)	9.3	5.5
Claims on public enterprises	83.3	84.3
Claims on private enterprises	1 971.1	2 014.4
Claims on private persons	953.8	998.2
Unclassified assets	361.3	389.6
Fixed assets	122.6	123.1
Items in transit	6.8	7.9
Other assets	59.4	58.6
Claims on domestic credit institutions (incl. investments)	172.4	200.0
Total assets	6 222.2	6 350.3
<i>Memo item: Trust assets</i>	566.8	568.2
Demand deposits	665.2	728.6
Public enterprises	29.8	59.7
Private enterprises	301.8	317.5
Private persons	333.6	351.4
Time deposits	552.3	518.3
Public enterprises	66.3	56.3
Private enterprises	196.8	162.3
Private persons	289.2	299.8
Foreign currency deposits of residents	672.4	691.4
Public enterprises	22.6	21.1
Private enterprises	224.9	236.0
Private persons	425.0	434.3
Transit funds	5.6	5.5
Foreign liabilities	3 339.0	3 346.1
Liabilities to foreign banks	934.8	933.8
Liabilities to foreign non-banks	2 263.8	2 245.6
Other liabilities (incl. subordinated liabilities)	140.5	166.8
Liabilities to the Bank of Latvia	5.9	28.7
Debt securities	72.3	72.2
Equity	520.3	530.9
Residents	275.7	286.4
Non-residents	244.5	244.5
Provisions	76.7	77.2
Unclassified liabilities	312.6	351.4
Items in transit	98.4	107.7
Other liabilities (incl. subordinated liabilities)	56.0	58.1
Liabilities to domestic credit institutions	158.2	185.6
Total liabilities	6 222.2	6 350.3
<i>Memo item: Trust liabilities</i>	566.8	568.2

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>).