

# MONETARY BULLETIN 2004

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Latvia's economic growth remains consistent with the trends observed already in the previous months: transport, storage and communication, as well as retail trade sectors advanced rapidly, and the real growth in industry was slightly slower. In August, the seasonally adjusted industrial output index increased by 4.8% year-on-year, while retail trade turnover picked up 10.5%. In September, freight turnover at Latvian ports grew by 13.0%, oil products transportation by pipeline posted an increase of 15.8%, and the volume of cargo transportation by rail grew by 19.3% year-on-year.

Annual inflation rate somewhat decelerated (to 7.7%); yet a moderate month-on-month rise of 0.4% in consumer prices was experienced. The price changes were mainly driven by seasonal factors, such as an increase in prices for clothing and footwear (by 8.1%), and education (mainly higher education and training courses for fee; by 7.8%), as well as a fall in food prices (by 1.5%). Annual inflation did not exceed previous projections and was affected by factors already observed: increasing administratively regulated prices, rising indirect taxes and energy prices, and the poor harvest. The impact of inflation expectations did not intensify. Unemployment rate soared at 8.7% for the fifth consecutive month.

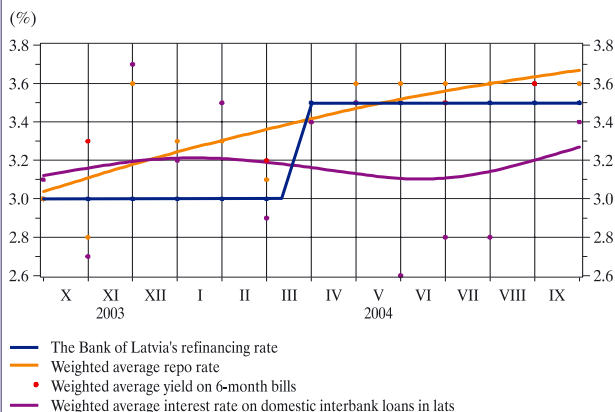
The general government consolidated budget recorded a substantially larger (by 24.2 million lats) fiscal surplus in September, bringing the nine-month total of 2004 to 93.8 million lats (9.2 million lats in the corresponding period of the previous year). Fiscal surpluses of the basic budget, the special budget and the local government consolidated budget were 37.9 million lats, 36.3 million lats and 16.6 million lats, respectively. The surplus of the general government consolidated budget stemmed from the budget revenue growing faster than expenditure (17.4% and 12.0%, respectively, since the beginning of the year; 24.4% and 10.3%, respectively, in September). The contribution to growth from tax revenue (particularly from personal and corporate income tax, and social security contributions) was most substantial. The growth in revenue was also driven by foreign financial aid (EU structural funds), whereas in September inflowing payments for state capital use (dividends) contributed to a marked pickup in non-tax revenue. With the government external debt increasing due to the exchange rate volatility, the government debt posted a pickup of 7.4 million lats, amounting to 943.3 million lats.

In September, a regular auction of 10-year Treasury bonds was held, at which all securities offered were sold for the total amount of 12.0 million lats. The average yield of the auction (4.86%) fell by 2 basis points below that of the previous auction of securities of the same maturity in May.

In September, the growth of broad money M2X (10.1 million lats) was facilitated by an increase in both cash and deposits. The annual growth rate of broad money remained broadly unchanged (27.7%). By contrast, the annual deposit growth rate decelerated to 34.4% under the impact of continuously expanding deposits in foreign currencies and somewhat moderating deposits in lats. The growth was primarily driven by expanding deposits of private persons.

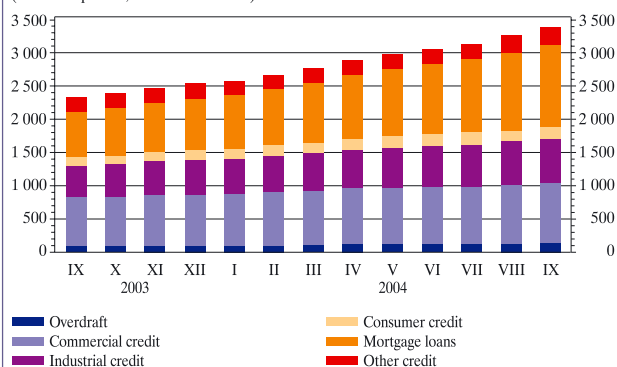
Rapidly strengthening mortgage lending to domestic private

INTEREST RATES IN THE MONEY MARKET



## LOANS TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS BY TYPE

(at end of period; in millions of lats)



## MACROECONOMIC INDICATORS

	2004	
	VIII	IX
Changes in the volume index of industrial output (year-on-year basis; %)	4.8	*
Changes in the CPI		
Month-on-month basis (%)	-0.1	0.4
Year-on-year basis (%)	7.8	7.7
Annual rate of core inflation <sup>1</sup> (%)	6.6	7.3
Number of registered unemployed persons (at end of period)	92 880	92 478
Unemployment rate (%)	8.7	8.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	69.6	69.6
Foreign trade (in millions of lats)		
Exports	177.7	*
Imports	307.1	*
Balance	-129.4	*

<sup>1</sup> Source: Bank of Latvia.

\* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

persons and enterprises contributed to acceleration of the annual growth rate of lending. It was also promoted by a pickup in industrial credit and commercial credit extended to enterprises. In September, lending to domestic enterprises and private persons expanded by 130.0 million lats, with the annual growth rate standing at 45.1%. It was the highest indicator recorded since November 2002, and mortgage lending accounted for more than a half of the pickup (including an increase of 43.1 million lats in lending to private persons for house purchase). Foreign currency loans sustained the highest growth rate. Corporate and household lending increased by 70.1 million lats and 59.9 million lats, respectively. Nevertheless, lending to households proceeded at a notably higher annual pace than corporate lending (79.3% and 31.7%, respectively).

In September, the expansion of lending was primarily financed with resources attracted from non-residents. Foreign liabilities of credit institutions grew by 295.3 million lats (including a 121.3 million lats increase in liabilities to foreign banks). Fund inflows from foreign parent banks ensured the bulk of financing needed for lending (an increase of 112.9 million lats), whereas non-resident non-bank deposits received (an increase of 167.5 million lats) were largely placed in foreign assets. Hence the outflow of the banking sector's net foreign assets increased by 67.2 million lats, while the banking sector's total assets added 316.4 million lats, amounting to 7.2 billion lats. In the first nine months of 2004, banks' profit stood at 82.6 million lats (1.6 times more than in the corresponding period of 2003).

The weighted average interest rate on loans to enterprises rose noticeably (by 0.6 percentage point to 7.7% on loans in lats, and by 0.7 percentage point to 5.2% on loans in foreign currencies) in September. The growth in the weighted average interest rate on loans to private persons was moderate (0.1–0.2 percentage point to 9.1% on loans in lats and to 5.4% on loans in foreign currencies). At the same time, interest rates on deposits remained broadly unchanged.

In September, RIGIBOR on overnight loans was within the 3.5%–4.1% margin, temporary falling to 3.1% at the end of the reserve maintenance period, while a longer-term RIGIBOR rose by 2–4 basis points (on 6-month loans and 12-month loans to 4.37% and 4.39%, respectively). The weighted average interest rate on interbank market loans in lats fell to 3.4%.

Growth of the Bank of Latvia's monetary base was driven by an increase in the central bank's net foreign assets (10.1 million lats), resulting from intervention in the foreign exchange market and currency swaps, as well as a 10.0 million lats increase in the Bank of Latvia's loans to banks. Overall, however, the money supply of the central bank shrank due to a more rapid increase (23.9 million lats) in the Government deposits with the central bank. The backing of the national currency with the Bank of Latvia's net foreign assets was 109.7% at the end of September.

In September, banks mainly used the interbank market to ensure their liquidity. Bank of Latvia's repo loans to banks (276.8 million lats) fell below the August level by 7.3%, as banks did not use the Lombard loan facility, while interbank market transactions in lats strengthened by 12.2% (to 623.4 million lats).

Exchange rates against the lats set by the Bank of Latvia in September changed in line with the exchange rate fluctuations against the SDR: the US dollar and the Japanese yen depreciated by 1.1% and 1.6%, respectively, whereas the euro and the British pound sterling appreciated by 1.7% and 0.4%, respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2004	
	VIII	IX
<b>Banking system</b>		
M2X	2 630.4	2 640.5
Currency outside banks	611.5	614.2
Deposits of domestic enterprises and private persons	2 018.9	2 026.3
Demand deposits	1 165.8	1 183.5
Time deposits	853.1	842.8
M2D	1 878.3	1 869.7
Net foreign assets	-19.6	-76.7
Net domestic assets	2 649.9	2 717.2
Loans to domestic enterprises and private persons	3 262.1	3 392.1
Short-term loans	467.1	497.3
Long-term loans	2 795.0	2 894.8
Credit to the Government (net)	80.9	49.7
<b>Bank of Latvia</b>		
M0	891.8	878.7
Currency in circulation	683.4	686.2
Deposits with the Bank of Latvia in lats	208.4	192.5
Net foreign assets	954.1	964.2
Net domestic assets	-62.3	-85.4
Credit	-2.2	-21.3
To banks	92.0	102.0
To the Government (net)	-94.2	-123.3
Other items (net)	-60.1	-64.1
International reserves (at end of period; in millions of US dollars)	1 738.19	1 777.87
Gold	100.37	102.50
Special Drawing Rights	0.14	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 637.60	1 675.15

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	VIII	IX
Weighted average interest rate on domestic interbank loans in lats	3.6	3.4
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	7.1	7.7
Loans to private persons (in lats)	8.9	9.1
Loans to enterprises (in foreign currencies)	4.5	5.2
Loans to private persons (in foreign currencies)	5.3	5.4
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.5	3.4
Demand deposits of enterprises (in lats)	1.2	1.2
Time deposits of private persons (in lats)	3.5	3.5
Demand deposits of private persons (in lats)	0.6	0.6
Time deposits of enterprises (in foreign currencies)	1.5	1.8
Demand deposits of enterprises (in foreign currencies)	0.6	0.7
Time deposits of private persons (in foreign currencies)	2.1	2.1
Demand deposits of private persons (in foreign currencies)	0.9	0.8
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	0.5500	0.5440
LVL/GBP	0.9820	0.9860
LVL/100 JPY	0.4980	0.4900
LVL/EUR	0.6600	0.6710

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

	2004	
	VIII	IX
Bank reserves	277.0	260.3
Vault cash in national currency	71.8	72.0
Deposits with the Bank of Latvia	205.2	188.3
Foreign assets	2 743.3	2 971.4
Vault cash in foreign currencies	52.3	52.4
Claims on foreign banks	1 788.9	1 961.5
Claims on foreign non-banks	877.1	928.0
Other assets	25.0	29.5
Claims on the central government (net)	174.0	170.8
Claims on local governments (net)	1.0	2.2
Claims on public enterprises	79.5	82.0
Claims on private enterprises	2 104.8	2 172.7
Claims on private persons	1 113.6	1 173.5
Unclassified assets	381.5	358.2
Fixed assets	123.7	124.0
Items in transit	8.1	8.7
Other assets	59.5	58.0
Claims on domestic credit institutions (incl. investments)	190.2	167.6
<b>Total assets</b>	<b>6 874.7</b>	<b>7 191.1</b>
<i>Memo item: Trust assets</i>	587.5	490.4
Demand deposits	718.8	718.1
Public enterprises	52.5	57.3
Private enterprises	321.9	317.4
Private persons	344.4	343.4
Time deposits	548.1	537.4
Public enterprises	57.4	44.0
Private enterprises	174.2	172.2
Private persons	316.5	321.2
Foreign currency deposits of residents	752.0	770.8
Public enterprises	27.7	28.2
Private enterprises	263.4	259.3
Private persons	460.9	483.4
Transit funds	5.5	5.4
Foreign liabilities	3 716.9	4 012.2
Liabilities to foreign banks	1 114.8	1 236.1
Liabilities to foreign non-banks	2 463.5	2 631.0
Other liabilities (incl. subordinated liabilities)	138.7	145.1
Liabilities to the Bank of Latvia	92.0	102.0
Debt securities	78.8	76.4
Equity	555.7	568.8
Residents	313.0	328.6
Non-residents	242.7	240.2
Provisions	80.3	81.0
Unclassified liabilities	326.6	318.9
Items in transit	99.1	112.3
Other liabilities (incl. subordinated liabilities)	55.3	55.1
Liabilities to domestic credit institutions	172.2	151.5
<b>Total liabilities</b>	<b>6 874.7</b>	<b>7 191.1</b>
<i>Memo item: Trust liabilities</i>	587.5	490.4

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>).