

MONETARY BULLETIN 2004

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The latest macroeconomic data indicate that the strong domestic demand continues to persist as a driving force of Latvia's economic growth – presently the fastest in the European Union (EU); at the same time, the current account deficit is soaring among the highest in the EU. Though the rate of consumer price growth has decelerated, inflation remained high in Latvia. The pace of lending continued to accelerate. In order to enhance a balanced long-term development of the economy and to press down the domestic demand, the Bank of Latvia increased the refinancing rate by 0.5 percentage point (to 4.0%) as of November 12, 2004. For the purpose of unifying the terms for bank competition and slowing the rapidly expanding foreign borrowing of the domestic banks, liabilities of the Latvian banks to foreign banks with the agreed maturity or with the notice period of up to 2 years will be included in the reserve base as of January 24, 2005.

The consumer price inflation fell to 7.2%, including a slightly diminishing impact of food prices and administratively regulated prices (the growth of heat tariffs decelerated). Consumer prices increased by 0.4% month-on-month, including a substantial rise in fuel prices (3.8%) and an increase in prices for clothing and footwear (2.9%).

The general government consolidated budget recorded a 10-month fiscal surplus of 119.4 million lats. In October, the accumulated fiscal surplus of the general government consolidated budget increased by 25.6 million lats. In the first ten months of 2004, the general government consolidated budget revenue grew faster than expenditure (increases of 19.5% and 12.8%, respectively); in October, the budget revenue exceeded the level of the corresponding period of the previous year by 37.2% due to the inflow of foreign financial aid and the high tax revenue.

In October, the government debt increased by 22.2 million lats (to 965.6 million lats) basically as a result of Treasury bill issuance. The average discount rate on 6-month bills was by 17 basis points higher than at the previous auction of debt securities of the same maturity in August (3.70%), while the average discount rate on 12-month bills dropped 5 basis points (to 3.59%).

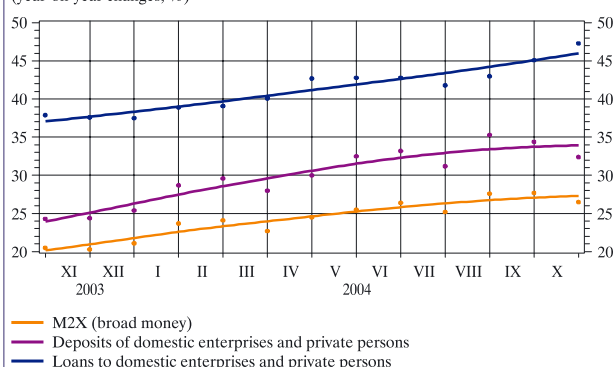
Unemployment rate recorded a 0.2 percentage point fall (to 8.5%) in October.

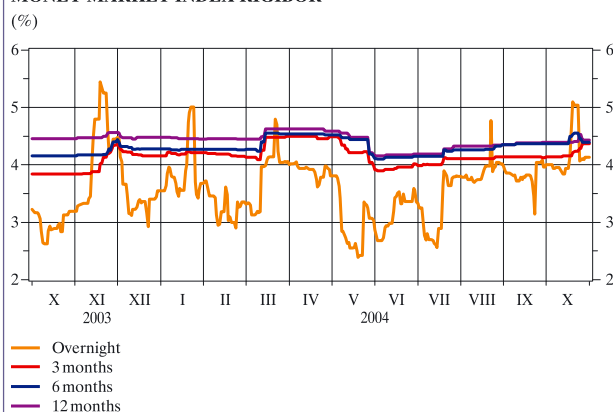
In October, the growth of broad money M2X (59.4 million lats) was facilitated by an increase in both currency outside banks and deposits. The annual growth rate of broad money decelerated and due to the high base stood at 26.5%. Similarly, the annual deposit growth rate fell (to 32.4%) despite a month-on-month increase in deposits in both foreign currencies and lats (by 32.4 million lats and 16.6 million lats, respectively).

The annual growth rate of lending to domestic enterprises and private persons strengthened at 47.3% (a month-on-month increase of 130.9 million lats). Although mortgage lending still recorded the largest pick-up (55.0 million lats), its growth decelerated in October as compared with September, and, in contrast to several previous months, it accounted for less than a half of the total increase in lending. The growth of commercial credit and industrial credit to domestic enterprises posted a

BROAD MONEY, DEPOSITS AND LOANS

(year-on-year changes; %)



MONEY MARKET INDEX RIGIBOR

MACROECONOMIC INDICATORS

	2004	
	IX	X
Changes in the volume index of industrial output (year-on-year basis; %)	3.4	*
Changes in the CPI		
Month-on-month basis (%)	0.4	0.4
Year-on-year basis (%)	7.7	7.2
Annual rate of core inflation ¹ (%)	7.3	7.2
Number of registered unemployed persons (at end of period)	92 478	91 252
Unemployment rate (%)	8.7	8.5
General government consolidated budget fiscal deficit/surplus (in millions of lats)	93.8	119.4
Foreign trade (in millions of lats)		
Exports	180.3	*
Imports	361.6	*
Balance	-181.3	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

pickup (41.4 million lats and 15.4 million lats, respectively). Similar to deposits, foreign currency loans accounted for the largest share of the observed growth. More than a half of total loans was channelled into domestic enterprises, and the amount of loans to domestic enterprises increased by 75.2 million lats.

In October, the expansion of lending was driven by growing resident deposits and use of funds placed with foreign banks. Foreign assets of credit institutions shrank by 74.8 million lats (including claims on foreign banks by 66.2 million lats), and the outflow of net foreign assets of the banking sector rose by 82.0 million lats. However, as a result of domestic activity, total assets of the banking sector continued to increase (7.3 billion lats at the end of October). In the first ten months of 2004, banks earned a record high profit of 93.5 million lats.

In October, the weighted average interest rate on loans to enterprises declined, with a 1.0 percentage point drop (to 6.7%) in the weighted average interest rate on loans in lats and a 0.2 percentage point drop (to 5.0%) in the weighted average interest rate on loans in foreign currencies. The weighted average interest rate on loans in foreign currencies to domestic private persons declined by 0.1 percentage point (to 5.3%), while that on loans in lats to this category of customers soared to the highest level of 2004 (9.6%). Weighted average interest rates on deposits remained broadly unchanged.

In October, RIGIBOR on interbank overnight loans was within the 3.8%–5.1% margin, reaching the high at the end of the reserve maintenance period. A longer term RIGIBOR rose by 14–18 basis points in mid-month (to 4.55% and 4.53% on 6-month and 12-month loans, respectively), yet at the end of October they decreased and exceeded the beginning-of-the-month level by only 2–4 basis points.

The demand for currency strengthened in October (currency in circulation grew by 11.7 million lats), but, to meet the reserve requirement, the banks increased their deposits with the Bank of Latvia. Consequently, the money base M0 expanded by 30.7 million lats. An increase in the Bank of Latvia's money supply was ensured by a 68.4 million lats rise in the central bank's net foreign assets resulting from a net purchase of foreign currency in the amount of 28.1 million lats, foreign currency swaps and the European Commission funds received by the Government. The backing of the national currency in circulation with the Bank of Latvia's net foreign assets was 113.5% at the end of October. The Government deposit with the central bank was growing at a faster pace than the portfolio of the government securities held by the Bank of Latvia (in October the central bank purchased securities in the amount of 16.8 million lats in the secondary market).

Although the Bank of Latvia's lending to banks fell by 13.2 million lats, the latter made a more extensive use of the inter-bank market (an increase of 3.2%; to 643.5 million lats), Bank of Latvia's repo loans (an increase of 31.7%; to 364.6 million lats) and the Lombard loans (69.5 million lats) than in September to ensure their lats liquidity. Currency swaps amounted to 22.5 million lats.

In October, Bank of Latvia's exchange rates of the US dollar and the British pound sterling against the lats depreciated by 1.8% and 0.7%, respectively, while the exchange rates of the euro and the Japanese yen appreciated by 1.3% and 2.7%, respectively.

In October, cargo transportation by rail increased by 28.3% year-on-year. Freight turnover at Latvian ports expanded by 20.2%, and transportation of oil products by pipeline grew 1.6 times. In September, the volume of industrial output expanded by 3.4% year-on-year, whereas retail trade turnover at constant prices went up by 11.6%.

MONETARY INDICATORS (at end of period; in millions of lats)	2004	
	IX	X
Banking system		
M2X	2 640.5	2 699.9
Currency outside banks	614.2	624.6
Deposits of domestic enterprises and private persons	2 026.3	2 075.3
Demand deposits	1 183.5	1 217.7
Time deposits	842.8	857.6
M2D	1 869.7	1 896.7
Net foreign assets	-76.7	-90.2
Net domestic assets	2 717.2	2 790.1
Loans to domestic enterprises and private persons	3 392.1	3 523.0
Short-term loans	497.3	527.4
Long-term loans	2 894.8	2 995.6
Credit to the Government (net)	49.7	25.9
Bank of Latvia		
M0	878.7	909.4
Currency in circulation	686.2	697.9
Deposits with the Bank of Latvia in lats	192.5	211.5
Net foreign assets	964.2	1 032.6
Net domestic assets	-85.4	-123.2
Credit	-21.3	-51.8
To banks	102.0	88.8
To the Government (net)	-123.3	-140.6
Other items (net)	-64.1	-71.5
International reserves (at end of period; in millions of US dollars)	1 777.87	1 936.43
Gold	102.50	105.20
Special Drawing Rights	0.14	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 675.15	1 831.01

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	IX	X
Weighted average interest rate on domestic interbank loans in lats	3.4	3.8
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	7.7	6.7
Loans to private persons (in lats)	9.1	9.6
Loans to enterprises (in foreign currencies)	5.2	5.0
Loans to private persons (in foreign currencies)	5.4	5.3
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.4	3.4
Demand deposits of enterprises (in lats)	1.2	1.1
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)	1.8	1.8
Demand deposits of enterprises (in foreign currencies)	0.7	0.7
Time deposits of private persons (in foreign currencies)	2.1	2.1
Demand deposits of private persons (in foreign currencies)	0.8	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	0.5440	0.5340
LVL/GBP	0.9860	0.9790
LVL/100 JPY	0.4900	0.5030
LVL/EUR	0.6710	0.6800

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

	2004	
	IX	X
Bank reserves	260.3	283.4
Vault cash in national currency	72.0	73.3
Deposits with the Bank of Latvia	188.3	210.1
Foreign assets	2 971.4	2 896.6
Vault cash in foreign currencies	52.4	47.3
Claims on foreign banks	1 961.5	1 895.3
Claims on foreign non-banks	928.0	929.7
Other assets	29.5	24.3
Claims on the central government (net)	170.8	172.6
Claims on local governments (net)	2.2	-6.1
Claims on public enterprises	82.0	85.1
Claims on private enterprises	2 172.7	2 246.1
Claims on private persons	1 173.5	1 229.2
Unclassified assets	358.2	407.8
Fixed assets	124.0	124.5
Items in transit	8.7	11.3
Other assets	58.0	61.4
Claims on domestic credit institutions (incl. investments)	167.6	210.6
Total assets	7 191.1	7 314.7
<i>Memo item: Trust assets</i>	<i>490.4</i>	<i>567.5</i>
Demand deposits	718.1	730.4
Public enterprises	57.3	58.0
Private enterprises	317.4	319.5
Private persons	343.4	353.0
Time deposits	537.4	541.7
Public enterprises	44.0	47.9
Private enterprises	172.2	177.9
Private persons	321.2	315.9
Foreign currency deposits of residents	770.8	803.2
Public enterprises	28.2	24.4
Private enterprises	259.3	275.7
Private persons	483.4	503.1
Transit funds	5.4	5.5
Foreign liabilities	4 012.2	4 019.5
Liabilities to foreign banks	1 236.1	1 250.2
Liabilities to foreign non-banks	2 631.0	2 614.9
Other liabilities (incl. subordinated liabilities)	145.1	154.4
Liabilities to the Bank of Latvia	102.0	88.8
Debt securities	76.4	76.6
Equity	568.8	602.3
Residents	328.6	341.1
Non-residents	240.2	261.1
Provisions	81.0	82.1
Unclassified liabilities	318.9	364.6
Items in transit	112.3	112.2
Other liabilities (incl. subordinated liabilities)	55.1	55.1
Liabilities to domestic credit institutions	151.5	197.4
Total liabilities	7 191.1	7 314.7
<i>Memo item: Trust liabilities</i>	<i>490.4</i>	<i>567.5</i>

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>).