

MONETARY BULLETIN 2005

7

Further acceleration of the industrial and transport sector growth and expansion of retail trade turnover pointed to Latvia's economic growth. Lending and money supply increased rapidly, whereas the annual consumer price inflation shrank slightly. To facilitate the macroeconomic stability required for further economic growth, the Council of the Bank of Latvia resolved to raise the banks' minimum reserve ratio from 4% to 6% as of August 24, 2005.

In June, the seasonally adjusted volume index of industrial output in manufacturing increased by 10.3% year-on-year. The growth of the transport sector also picked up. In July, the volume of cargo transportation by rail expanded by 12.2% year-on-year, whereas the freight turnover at Latvian ports grew by 4.6%. Retail trade turnover at constant prices climbed 19.8% year-on-year in June. In July, unemployment continued to decrease (to 7.8%), and the number of unemployed registered with the State Employment Agency was 10.3% lower year-on-year.

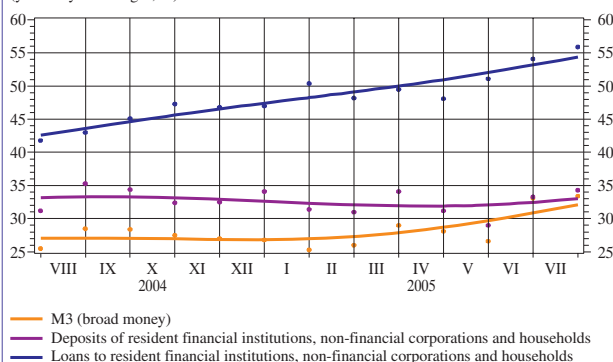
In July, consumer prices remained unchanged month-on-month, with the prices of goods declining by 0.3% and service prices growing by 0.8%. Consumer prices were significantly pushed up by the average rise of 5.0% in fuel prices, whereas the prices for vegetables, fruit, footwear and clothing declined by 16.1%, 8.1%, 6.9% and 4.5%, respectively. Hence, the annual consumer price inflation decreased by 0.2 percentage point (to 6.1%), whereas the annual core inflation stood at the lowest level since March 2004 (4.9%).

In July, the financial surplus of the general government consolidated budget was 22.5 million lats, resulting from a surplus in the central government budget (29.4 million lats; both the central government basic budget and the social security budget posted a surplus). The financial deficit of the local government consolidated budget amounted to 6.4 million lats. In July, the revenue of the general government consolidated budget increased by 12.5% year-on-year due to the persistent surge in tax revenue (32.8%; value added tax and excise tax revenue posted the highest rise). The amount of received EU funds was lower year-on-year. The expenditure of the general government consolidated budget went up 21.1% year-on-year in July. In the first seven months of 2005, the financial surplus of the general government consolidated budget reached 128.5 million lats, whereas the financial surplus of the central government consolidated budget amounted to 101.4 million lats. In July, Latvia's central and local government debt contracted by 10.1 million lats and was 1 002.9 million lats at the end of the month. External debt remained broadly unchanged, whereas domestic debt shrank as the amount of outstanding government securities decreased by 8.0 million lats. In a competitive multi-price auction on the primary market, 12-month Treasury bills were sold in the amount of 4.2 million lats at an all-time-low weighted average discount rate (2.30%), whereas the amount of maturing securities was even larger. This was the first auction held by a new financial agent, Riga Stock Exchange (previously auctions on the primary market were organised by the Bank of Latvia).

In July, broad money M3 grew by 71.3 million lats. The growth in money supply was underpinned by an increase in overnight deposits by 35.2 million lats, currency outside MFIs by 18.2 million lats and deposits with an agreed maturity of up to 2 years by 14.5 million lats. The annual growth rate of M3 thus climbed to 33.4% in July (33.1% in June).

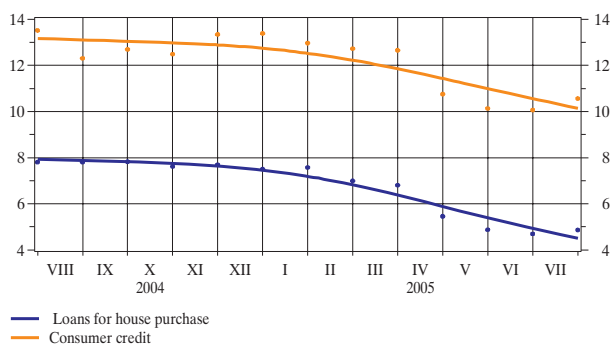
BROAD MONEY, DEPOSITS AND LOANS

(year-on-year changes; %)



INTEREST RATES ON LOANS IN LATS TO RESIDENT HOUSEHOLDS

(with floating interest rate and up to 1 year initial rate fixation; %)



MACROECONOMIC INDICATORS

	2005	
	VI	VII
Changes in the volume index of industrial output (year-on-year basis; %)	8.3	*
Changes in the CPI		
Month-on-month basis (%)	0.6	0.0
Year-on-year basis (%)	6.3	6.1
Annual rate of core inflation ¹ (%)	5.1	4.9
Number of registered unemployed persons (at end of period)	84 378	83 121
Unemployment rate (%)	7.9	7.8
General government consolidated budget fiscal deficit/surplus (in millions of lats)	128.2	150.8
Foreign trade (in millions of lats)		
Exports	227.0	*
Imports	379.7	*
Balance	-152.7	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

In July, the annual growth rate of deposits of resident financial institutions, non-financial corporations and households increased by 1.0 percentage point (to 34.3%), with the steepest growth displayed by the household deposits. Deposits increased by 58.2 million lats in July, including deposits in euro by 44.7 million lats.

The annual growth rate of loans granted to resident financial institutions, non-financial corporations and households increased to 55.9% in July; nevertheless, the monthly growth of outstanding loans (185.8 million lats) was lower month-on-month. The rise in outstanding loans was determined by an expansion in mortgage loans (by 131.2 million lats), including loans to households for house purchase (by 98.1 million lats). Commercial credit and industrial credit increased by 25.6 million lats and 16.6 million lats, respectively. Loan expansion was still driven by an increase of loans granted in euro (204.5 million lats), with loans in lats growing by 43.0 million lats and US dollar loans contracting. Loans granted to financial institutions and non-financial corporations grew by 99.6 million lats.

With the budgetary surplus expanding, net credit to the Government decreased by 23.3% in July, and was 1.8 times smaller year-on-year.

Interest rates on loans granted by banks remained broadly unchanged, with those on household loans for house purchase increasing by a mere 0.1 percentage point (to 5.1% and 4.3% on loans granted in lats and in foreign currency, respectively). Interest rates on loans granted to non-financial corporations displayed similar development. Interest rates on loans granted to households shrank to 6.1% for loans in lats and 4.5% for loans in foreign currency, including to 4.2% for loans granted in euro.

Interbank market rates declined insignificantly. RIGIBOR for overnight loans decreased from 2.47% at the beginning of the month to 2.38% at the end of the month. RIGIBOR for loans with a maturity of 6 and 12 months also declined by 0.1 percentage point (to 2.8% and 2.9%, respectively).

In the first seven months of 2005, banks' profit stood at 107.6 million lats (48.0 million lats or 1.8 times higher than in the corresponding period of 2004).

With currency in circulation growing and demand deposits with the Bank of Latvia decreasing, in July the monetary base M0 slightly shrank (by 6.7 million lats). The central bank's money supply was reduced by an increase in banks' time deposits with the Bank of Latvia by 18.3 million lats and a decrease in the Bank of Latvia's loans to banks by 5.0 million lats, and it was increased by a fall of Government deposits with the Bank of Latvia by 4.9 million lats and a rise in the central bank's net foreign assets by 10.5 million lats as a result of the central bank's foreign currency purchases. The backing of the national currency with the Bank of Latvia's net foreign assets was 117.4% at the end of July.

With the liquidity remaining high, time deposits placed by banks with the Bank of Latvia during the month amounted to 253.9 million lats. Thus, the banks' demand for the central bank's loans was low, and the amount of repo loans granted in July (5.0 million lats) was 1.7 smaller than in June.

With the persistent euro depreciation against other major currencies easing up, the US dollar, British pound sterling and Japanese yen depreciated against the lats (by 0.2%, 4.2% and 2.3%, respectively).

MONETARY INDICATORS (at end of period; in millions of lats)	2005	
	VI	VII
MFIs¹		
M3	3 320.2	3 391.5
Repurchase agreements	0	0
Money market fund shares and units	15.4	14.2
Debt securities issued with maturity of up to 2 years	80.0	80.1
M2	3 224.9	3 297.2
Deposits with agreed maturity of up to 2 years	784.4	798.9
Deposits redeemable at notice of up to 3 months	86.3	90.7
M1	2 354.2	2 407.6
Currency outside MFIs	689.6	707.8
Overnight deposits	1 664.6	1 699.8
Net external assets	-536.5	-631.3
Credit to resident financial institutions, non-financial corporations and households	4 717.0	4 902.8
Credit to general government	400.1	389.5
Deposits of central government	244.7	252.7
Longer-term financial liabilities	1 025.1	1 038.4
Bank of Latvia		
M0	1 075.2	1 068.5
Currency in circulation	766.7	788.6
Deposits with the Bank of Latvia in lats	308.5	279.8
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 244.4	1 254.8
Net domestic assets	-169.1	-186.3
Credit	-40.6	-41.9
To MFIs	8.5	3.5
To central government (net)	-49.1	-45.4
Other items (net)	-128.5	-144.5
International reserves (at end of period; in millions of US dollars)	2 167.30	2 181.97
Gold	108.19	105.71
Special Drawing Rights	0.14	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	2 058.89	2 076.04

¹In accordance with the methodology of the European Central Bank.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	VI	VII
Weighted average interest rate on domestic interbank loans in lats	2.2	2.2
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	5.8	5.9
Loans to households (in lats)	6.4	6.1
incl. for house purchase	5.0	5.1
Loans to non-financial corporations (in foreign currencies)	4.6	4.7
Loans to households (in foreign currencies)	4.6	4.5
incl. for house purchase	4.2	4.3
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	2.5	2.4
Demand deposits of non-financial corporations (in lats)	0.6	0.7
Time deposits of households (in lats)	3.2	3.0
Demand deposits of households (in lats)	0.5	0.5
Time deposits of non-financial corporations (in foreign currencies)	2.1	2.1
Demand deposits of non-financial corporations (in foreign currencies)	1.4	0.9
Time deposits of households (in foreign currencies)	2.7	2.6
Demand deposits of households (in foreign currencies)	1.1	1.2
The Bank of Latvia's refinancing rate (at end of period; %)	4.0	4.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5830	0.5820
LVL/GBP	1.0590	1.0150
LVL/100 JPY	0.5300	0.5180
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)

	2005	
	VI	VII
MFI reserves	441.5	432.6
Vault cash in national currency	77.1	80.8
Deposits with the Bank of Latvia	364.5	351.8
Foreign assets	3 166.4	3 158.6
Vault cash in foreign currencies	68.5	61.5
Claims on MFIs	1 963.9	1 972.6
Claims on non-MFIs	1 099.0	1 092.4
Other assets	35.0	32.1
Claims on central government	224.8	215.8
Claims on local government	75.7	75.3
Claims on public non-financial corporations	120.6	125.4
Claims on financial institutions and private non-financial corporations	2 832.3	2 927.2
Claims on households	1 789.0	1 875.3
Unclassified assets	446.2	414.4
Fixed assets	128.8	129.3
Items in transit	12.9	14.5
Other assets	68.8	69.5
Claims on resident MFIs (incl. investments)	235.7	201.1
Total assets	9 096.5	9 224.6
<i>Memo item: Trust assets</i>	682.7	495.5
Overnight deposits in lats	950.7	956.6
Public non-financial corporations	49.7	43.2
Financial institutions and private non-financial corporations	425.5	424.1
Households	475.6	489.3
Time deposits and deposits redeemable at notice in lats	601.8	603.9
Public non-financial corporations	78.0	65.9
Financial institutions and private non-financial corporations	154.0	165.6
Households	369.9	372.4
Foreign currency deposits of residents	1 030.6	1 080.8
Public non-financial corporations	15.3	18.8
Financial institutions and private non-financial corporations	324.8	338.8
Households	690.5	723.2
Deposits of central government	96.0	108.9
Deposits of local government	83.4	81.6
Transit funds	5.1	5.1
Foreign liabilities	4 947.2	5 044.7
Liabilities to MFIs	1 929.0	2 105.4
Liabilities to non-MFIs	2 870.2	2 787.5
Other liabilities (incl. subordinated liabilities)	148.1	151.8
Liabilities to the Bank of Latvia	8.5	3.5
Debt securities issued	162.3	162.3
Money market fund shares and units	15.4	14.2
Capital and reserves	706.5	720.0
Residents	396.6	413.6
Non-residents	309.9	306.4
Provisions	91.1	93.6
Unclassified liabilities	397.8	349.3
Items in transit	112.9	106.9
Other liabilities (incl. subordinated liabilities)	66.7	59.8
Liabilities to resident MFIs	218.3	182.6
Total liabilities	9 096.5	9 224.6
<i>Memo item: Trust liabilities</i>	682.7	495.5

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>).