

MONETARY BULLETIN 2004

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The domestic demand, the main growth factor stimulating the national economy, remained high as a result of both the sustained increase in wages and salaries, which recorded a particularly marked acceleration at the end of 2003, and the continuously expanding lending. In addition to fostering the domestic demand, the rapid growth in lending promotes an increase in the foreign trade deficit as well. Although the current rise in the inflation rate is determined by several factors on the supply side, such as the exchange rate and changes in the administered prices, in recent months the continuously high and still growing domestic demand has also partly affected the inflation rate in Latvia. Therefore, to foster a steady long-term development of the Latvian economy and prevent expansion of the current macroeconomic risks and formation of new additional risks, the Bank of Latvia has resolved to increase the refinancing rate by 0.5 percentage points as of March 11, leaving the interest rates on Lombard loans and time deposits unchanged. The relevance of such a decision has also been supported by the data released by the Central Statistical Bureau of Latvia on the growth rate of GDP (7.5%) in 2003: the increase in the contribution of the goods and the services sectors (8.4% and 7.0%, respectively) to the real growth in the overall value added has been substantial.

In February, consumer prices in Latvia rose 0.7% month-on-month, and the annual rate of consumer price inflation reached 4.3%. The increase in the inflation rate was mostly determined by a rise in prices of food and medical products; however, a drop in clothing and footwear prices reduced the effect of the above increase.

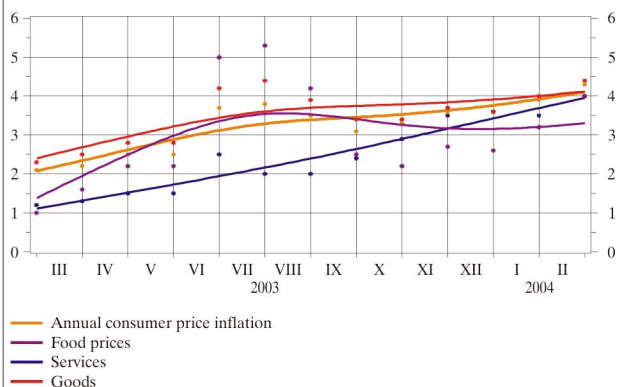
In the first two months of 2004, a fiscal surplus was retained in the general government consolidated budget (26.0 million lats; a year-on-year increase of 11.3 million lats). As a result of high tax revenue, both the central government consolidated budget and the local government budgets were in surplus. Rises in the value added tax and personal income tax revenue were particularly pronounced, in the first two months of 2004 posting an almost 20% growth year-on-year. In February, the public debt expanded by 7.2 million lats (the domestic debt recording most of the growth), totalling 849.9 million lats at the end of the month. In February, the stock of government debt securities outstanding grew 1.9%, amounting to 382.4 million lats at the end of the month (5-year and 10-year bonds and 12-month bills accounted for 54.5%, 25.4% and 12.0%, respectively). The increase was determined by an auction of 6-month Treasury bills held in February where all the stock supplied was sold in the amount of 4.0 million lats, with the weighted average discount rate of 3.19% (5 basis points lower than in the previous auction of securities of the same maturity held in October).

The unemployment rate rose to 9.0%.

In February, the money supply expanded by 47.3 million lats, including an increase of 47.7 million lats in deposits of domestic enterprises and private persons, whereas cash outside banks remained almost unchanged. The annual growth rate of broad money M2X reached 24.1%, and domestic enterprise and private person deposits posted a year-on-year pickup of 29.6% (both indicators reaching monthly highs in the last two years). The annual growth rate of cash outside banks dropped to 10.4%. Domestic money supply M2D increased by 23.2 million lats, with the annual growth rate shrinking by 1.3 percentage points

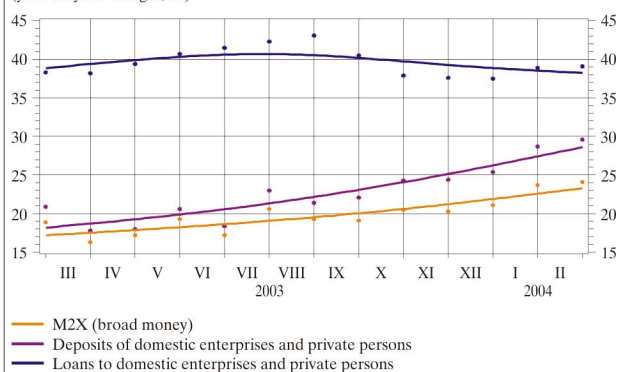
ANNUAL CONSUMER PRICE INFLATION

(year-on-year changes; %)



BROAD MONEY, DEPOSITS AND LOANS

(year-on-year changes; %)



MACROECONOMIC INDICATORS

	2004	
	I	II
Changes in the volume index of industrial output (year-on-year basis; %)	6.3	*
Changes in the CPI		
Month-on-month basis (%)	1.2	0.7
Year-on-year basis (%)	3.9	4.3
Annual rate of core inflation ¹ (%)	3.0 ²	4.0
Number of registered unemployed persons (at end of period)	92 874	94 862
Unemployment rate (%)	8.8	9.0
General government consolidated budget fiscal deficit/surplus (in millions of lats)	30.6	26.0
Foreign trade (in millions of lats)		
Exports	137.1	*
Imports	222.0	*
Balance	-84.9	*

¹ Unprocessed food prices excluded. Source: Bank of Latvia.

² Data have been revised.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

(to 25.0%). Demand deposits posted a higher pickup than time deposits (28.1 million lats and 19.6 million lats, respectively), whereas the growth in deposits of domestic enterprises was more pronounced than that in private person deposits (27.7 million lats and 20.0 million lats, respectively).

In February, lending to domestic enterprises and private persons increased by 88.7 million lats, with the annual growth rate of the above indicator reaching 39.1%. Unlike several previous months when loans were mostly granted to private persons, the majority of loans was granted to enterprises (an increase of 56.4 million lats). Mortgage loans, industrial credit and commercial credit were the major types of loans granted (a growth of 37.2 million lats or 4.6%, 17.2 million lats or 3.2% and 16.9 million lats or 2.2%, respectively).

An increase in resident deposits, as well as funds attracted from non-residents covered the growing lending. Credit institutions' foreign liabilities expanded by 8.5 million lats, and foreign assets shrank by 11.9 million lats.

In February, the banking sector's assets increased by 52.4 million lats (to 5.8 billion lats). In the first two months of 2004, banks' profit was 15.9 million lats (1.7 times higher than in the corresponding period of the previous year).

Banks enjoyed high liquidity; unlike the previous month, no essential money market interest rate fluctuations were observed at the end of the reserve compliance period. The interbank market weighted average interest rate for loans in lats dropped from 3.5% in January to 2.9% in February, whereas overnight RIGIBOR fluctuated between 2.9% and 3.7% in February. RIGIBOR for loans with 6 and 12 month maturity remained unchanged (4.3% and 4.5%, respectively).

Banks borrowed larger amounts on the domestic interbank market than in the previous month (lending in lats grew 14.3%, to 505.6 million lats), considerably reducing their participation in lending facilities offered by the central bank: the amount of loans granted at the repo tenders organised by the Bank of Latvia dropped 2.1 times in comparison with January (102.9 million lats), and the amount of currency swaps shrank 2.5 times (to 29.0 million lats). The Bank of Latvia increased the lats liquidity via interventions, purchasing securities in the amount of 20.4 million lats on the government debt securities' secondary market. In February, banks' time deposits with the Bank of Latvia amounted to 22.1 million lats.

With a drop in currency swaps, the Bank of Latvia's net foreign assets shrank 2.0% (to 806.7 million lats). At the end of February, the backing of the national currency with the Bank of Latvia's net foreign assets was 105.6%.

Due to the contradictory information on the economic growth in the US and the euro area, the mutual fluctuations of the exchange rates of the US dollar and the euro did not have a distinct trend. Hence, changes in exchange rates of the above currencies against the lats were minor, with the US dollar depreciating by 0.2% and the euro appreciating by 0.1%. The British pound appreciated against the lats by 3.3%, whereas the Japanese yen depreciated by 2.8%.

In February, freight transported by rail grew 7.7% year-on-year, whereas cargo turnover at Latvian ports remained unchanged. The amount of oil products transported by pipeline increased by 7.7%.

In January, the volume index of industrial output improved by 6.3%, including a year-on-year increase of 5.6% in the seasonally adjusted volume index of industrial output in manufacturing. The retail trade turnover in constant prices grew 10.0%.

MONETARY INDICATORS (at end of period; in millions of lats)	2004	
	I	II
Banking system		
M2X	2 285.1	2 332.4
Currency outside banks	587.5	587.1
Deposits of domestic enterprises and private persons	1 697.6	1 745.3
Demand deposits	942.6	970.7
Time deposits	755.0	774.6
M2D	1 639.8	1 663.0
Net foreign assets	60.0 ¹	23.3
Net domestic assets	2 225.1 ¹	2 309.1
Loans to domestic enterprises and private persons	2 591.5	2 680.2
Short-term loans	419.9	435.8
Long-term loans	2 171.6	2 244.4
Credit to the Government (net)	224.0	235.6
Bank of Latvia		
M0	789.9	764.1
Currency in circulation	659.0	659.7
Deposits with the Bank of Latvia in lats	131.0	104.4
Net foreign assets	822.9	806.7
Net domestic assets	-33.0	-42.5
Credit	29.4	22.2
To banks	77.2	48.9
To the Government (net)	-47.8	-26.7
Other items (net)	-62.3	-64.7
International reserves (at end of period; in millions of US dollars)	1 527.00	1 496.27
Gold	101.76	98.75
Special Drawing Rights	0.28	0.24
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 424.88	1 397.20

¹ Data have been revised.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	I	II
Weighted average interest rate on domestic interbank loans in lats	3.5	2.9
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	6.8	7.8
Loans to private persons (in lats)	6.9	6.8
Loans to enterprises (in foreign currencies)	4.9	4.3
Loans to private persons (in foreign currencies)	5.3	4.9
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	2.7	2.5
Demand deposits of enterprises (in lats)	0.8	0.8
Time deposits of private persons (in lats)	3.4	2.9
Demand deposits of private persons (in lats)	0.5	0.9
Time deposits of enterprises (in foreign currencies)	1.4	1.2
Demand deposits of enterprises (in foreign currencies)	0.6	0.4
Time deposits of private persons (in foreign currencies)	2.1	1.6
Demand deposits of private persons (in foreign currencies)	2.1	2.0
The Bank of Latvia's refinancing rate (at end of period; %)	3.0	3.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5390	0.5380
LVL/GBP	0.9780	1.0100
LVL/100 JPY	0.5080	0.4940
LVL/EUR	0.6710	0.6720

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

	2004	
	I	II
Bank reserves	199.6	176.1
Vault cash in national currency	71.5	72.6
Deposits with the Bank of Latvia	128.2	103.5
Foreign assets	2 267.0	2 255.1
Vault cash in foreign currency	53.0	51.8
Claims on foreign banks	1 513.7	1 485.7
Claims on foreign non-banks	677.1	690.9
Other assets	23.2	26.7
Claims on the central government (net)	252.7	241.9
Claims on local governments (net)	19.1	20.4
Claims on public enterprises	84.2	85.0
Claims on private enterprises	1 751.3	1 807.0
Claims on private persons	786.3	818.7
Unclassified assets	352.8	361.1
Fixed assets	115.7	123.9
Items in transit	4.2	6.4
Other assets	57.7	56.4
Claims on domestic credit institutions (incl. investments)	175.2	174.4
Total assets	5 713.0	5 765.4
<i>Memo item: Trust assets</i>	<i>448.0</i>	<i>442.5</i>
Demand deposits	574.5	571.6
Public enterprises	35.1	30.4
Private enterprises	255.5	252.4
Private persons	283.9	288.8
Time deposits	477.9	504.3
Public enterprises	52.6	56.4
Private enterprises	152.3	169.3
Private persons	272.9	278.6
Foreign currency deposits of residents	645.3	669.5
Public enterprises	19.5	22.2
Private enterprises	230.3	242.3
Private persons	395.4	405.0
Transit funds	6.7	6.3
Foreign liabilities	3 029.9 ¹	3 038.4
Liabilities to foreign banks	860.6	864.1
Liabilities to foreign non-banks	2 052.0	2 038.4
Other liabilities (incl. subordinated liabilities)	117.3 ¹	135.7
Liabilities to the Bank of Latvia	77.2	48.9
Debt securities	52.0	52.0
Equity	492.2	497.4
Residents	294.6	299.9
Non-residents	197.5	197.6
Provisions	68.8	73.4
Unclassified liabilities	288.6 ¹	303.6
Items in transit	74.8	84.1
Other liabilities (incl. subordinated liabilities)	51.5 ¹	57.0
Liabilities to domestic credit institutions	162.3	162.5
Total liabilities	5 713.0	5 765.4
<i>Memo item: Trust liabilities</i>	<i>448.0</i>	<i>442.5</i>

¹ Data have been revised.

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>).