

MONETARY BULLETIN 2004

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March was characterised by two significant events: a new Government was approved, and Latvia joined NATO. The growth of the Latvian economy retained the same pace.

The annual rate of consumer price inflation was 4.8% in March. The high exchange rate of the euro determined the prices of numerous goods (several prepared foodstuff products, clothing, footwear, medical products). In the first quarter of 2004, an increase in purchase prices for milk exceeded 20%, resulting in higher retail prices for dairy products as well. Latvia's forthcoming accession to the European Union caused an increase in the demand for and prices of several categories of goods, whereas the growing personal income was the driving force behind the price rise for several kinds of services (travel, financial, personal care). The annual inflation rate was pushed up by an increase in the administratively regulated prices (mostly a rise in electricity prices was observed) and a higher excise tax rate for the tobacco.

In March, the fiscal surplus of the general government consolidated budget was 12.7 million lats; in the first three months of 2004, it totalled 38.7 million lats (a year-on-year increase of 24.8 million lats). Moreover, fiscal surplus was observed in the central government basic budget, local government consolidated budget as well as the state social security special budget. Tax revenue posted a considerable year-on-year increase. Social security contributions, value added tax and personal income tax revenue recorded the highest growth (14.7%, 21.5% and 21.8%, respectively).

At the end of March, Latvian 10-year eurobonds were issued in the amount of 400 million euros. Since the demand for these securities three times exceeded their supply, the outcome of placement was favourable (with the yield of 4.288%; the spread to German government securities of the same maturity shrank to 43.7 basis points). On the last day of March, an auction of 10-year Treasury bonds was held where bonds in the amount of 5.5 million lats were sold, with the weighted average yield of 4.86% (24 basis points lower than at the previous auction of securities of the same maturity in October 2003). Receipts from the auctions of eurobonds and Treasury bonds were available to the Government in April.

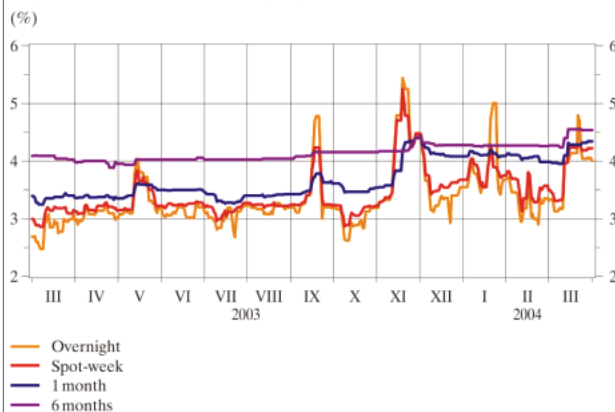
With the number of the registered unemployed increasing, unemployment rate reached 9.2%.

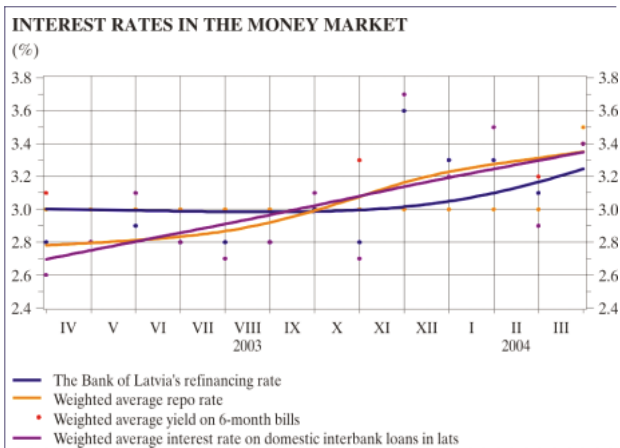
In March, the money supply increased by only 16.6 million lats, and deposits of domestic enterprises and private persons grew by 25.3 million lats. Hence, the annual growth rate of broad money M2X and deposits of enterprises and private persons fell to 22.7% and 28.0%, respectively. Currency outside banks shrank by 8.7 million lats and its annual growth rate dropped to 8.9% (a low since June 2002). As a result of a considerable increase in deposits in lats (49.0 million lats), the domestic money supply M2D grew by 40.2 million lats in March, its annual growth rate reaching 26.7%.

A higher month-on-month increase was observed in lending to domestic enterprises and private persons (96.6 million lats), and the annual growth rate of this indicator climbed to 40.1%. Loans to private persons and enterprises expanded by 41.4 million lats and 55.2 million lats, respectively. Mortgage loans (an increase of 56.4 million lats or 6.7%) continued to dominate in lending.

In January and February, the growth in lending was mostly

MONEY MARKET INDEX RIGIBOR





covered by a rise in residents' deposits, whereas funds received from non-residents dominated again in March. The negative balance of net foreign assets of the banking sector increased by 64.9 million lats, with the foreign liabilities and foreign assets of credit institutions expanding by 179.5 million lats and 114.6 million lats, respectively. The downward trend in banks' net foreign assets, observed already for several years, continued, resulting in a negative balance of the banking system's net foreign assets in March.

The banking sector's assets grew by 214.6 million lats (to 6.0 billion lats). In the first three months of 2004, banks' profit was 24.7 million lats (1.7 times higher year-on-year).

The increase in the Bank of Latvia's refinancing rate fostered a rise in the interbank market interest rates and also partly facilitated a pickup in interest rates on loans granted to domestic enterprises and private persons. Overnight RIGIBOR rose from 3.3% at the beginning of March to 4.1% at the end of March, whereas RIGIBOR for loans with 6- and 12-month maturity was up from 4.3% to 4.5% and from 4.5% to 4.6%, respectively. The interbank market weighted average interest rate for loans in lats increased from 2.9% in February to 3.4% in March. The weighted average interest rate on new loans to private persons posted a rise of 1.9 percentage points (to 8.7%) for loans in lats and that of 0.7 percentage points (to 5.6%) for loans in foreign currency. The weighted average interest rates on loans granted to enterprises in lats and in foreign currency reached 7.9% and 5.3%, respectively. An upward change in interest rates on loans was driven by the high demand for loans; an increase in RIGIBOR, resulting from a rise in the Bank of Latvia's refinancing rate, was another driving factor for the growth in the weighted average interest rate on loans in lats. The pickup in the weighted average interest rate on loans granted to private persons in lats was determined by changes in the loan portfolio structure, with the share of housing loans and consumer credit expanding. The inflation rate increased and the weighted average interest rate on deposits in lats rose by 0.3–1.0 percentage points, facilitated also by seasonal factors (attraction of holiday deposits offering higher interest rates) and a rise in money market interest rates.

Banks improved their liquidity mostly by borrowing in repo auctions organised by the Bank of Latvia. The amount of loans granted was 2.2 times higher than in February (231.0 million lats). Demand Lombard loans totalled 22.1 million lats. Banks borrowed smaller amounts on the domestic interbank market than in the previous month (lending in lats shrank by 5.6%, to 477.4 million lats).

Currency swaps were down by one third (to 19.5 million lats), and the amount of currency swaps outstanding also shrank. The Bank of Latvia's net foreign assets increased by 0.7%, with the central bank performing interventions and purchasing foreign currency in the net amount of 18.8 million lats. At the end of March, the backing of the national currency with the Bank of Latvia's net foreign assets was 107.5%.

Improvement in the US economic indicators facilitated the strengthening of the US dollar on the global market. The US dollar and the Japanese yen appreciated against the lats by 0.9% and 4.0%, respectively, whereas the euro and the British pound depreciated by 1.6% and 2.2%, respectively.

In March, rail freight grew by 6.5% year-on-year. Cargo turnover at Latvian ports and the amount of oil products transported by pipeline increased by 16.7% and 17.2%, respectively.

In February, the volume index of industrial output reached 9.6%. The seasonally adjusted volume indexes of industrial output in manufacturing and in electricity, gas and water supply improved by 11.2% and 3.4% year-on-year, respectively, and the retail trade turnover at constant prices increased by 12.6%.

| MACROECONOMIC INDICATORS | 2004 | |
|---|--------|--------|
| | II | III |
| Changes in the volume index of industrial output (year-on-year basis; %) | 9.6 | * |
| Changes in the CPI | | |
| Month-on-month basis (%) | 0.7 | 1.0 |
| Year-on-year basis (%) | 4.3 | 4.8 |
| Annual rate of core inflation ¹ (%) | 4.0 | 4.8 |
| Number of registered unemployed persons (at end of period) | 94 862 | 96 669 |
| Unemployment rate (%) | 9.0 | 9.2 |
| General government consolidated budget fiscal deficit/surplus (in millions of lats) | 26.0 | 38.7 |
| Foreign trade (in millions of lats) | | |
| Exports | 150.7 | * |
| Imports | 250.7 | * |
| Balance | -100.0 | * |

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

| MONETARY INDICATORS (at end of period; in millions of lats) | 2004 | |
|--|----------|----------|
| | II | III |
| Banking system | | |
| M2X | 2 332.4 | 2 349.0 |
| Currency outside banks | 587.1 | 578.4 |
| Deposits of domestic enterprises and private persons | 1 745.3 | 1 770.6 |
| Demand deposits | 970.7 | 984.0 |
| Time deposits | 774.6 | 786.7 |
| M2D | 1 663.0 | 1 703.2 |
| Net foreign assets | 23.3 | -35.7 |
| Net domestic assets | 2 309.1 | 2 384.7 |
| Loans to domestic enterprises and private persons | 2 680.2 | 2 776.8 |
| Short-term loans | 435.8 | 444.1 |
| Long-term loans | 2 244.4 | 2 332.7 |
| Credit to the Government (net) | 235.6 | 213.0 |
| Bank of Latvia | | |
| M0 | 764.1 | 756.1 |
| Currency in circulation | 659.7 | 649.6 |
| Deposits with the Bank of Latvia in lats | 104.4 | 106.5 |
| Net foreign assets | 806.7 | 812.5 |
| Net domestic assets | -42.5 | -56.4 |
| Credit | 22.2 | 5.9 |
| To banks | 48.9 | 49.4 |
| To the Government (net) | -26.7 | -43.5 |
| Other items (net) | -64.7 | -62.3 |
| International reserves (at end of period; in millions of US dollars) | 1 496.27 | 1 494.20 |
| Gold | 98.75 | 103.91 |
| Special Drawing Rights | 0.24 | 0.24 |
| Reserve position in the IMF | 0.08 | 0.08 |
| Foreign convertible currencies | 1 397.20 | 1 389.97 |

¹ Data have been revised.

| EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES | 2004 | |
|--|--------|--------|
| | II | III |
| Weighted average interest rate on domestic interbank loans in lats | 2.9 | 3.4 |
| Interest rates on loans to domestic enterprises and private persons | | |
| Loans to enterprises (in lats) | 7.8 | 7.9 |
| Loans to private persons (in lats) | 6.8 | 8.7 |
| Loans to enterprises (in foreign currencies) | 4.3 | 5.3 |
| Loans to private persons (in foreign currencies) | 4.9 | 5.6 |
| Interest rates on deposits of domestic enterprises and private persons | | |
| Time deposits of enterprises (in lats) | 2.5 | 3.4 |
| Demand deposits of enterprises (in lats) | 0.8 | 1.0 |
| Time deposits of private persons (in lats) | 2.9 | 3.2 |
| Demand deposits of private persons (in lats) | 0.9 | 0.9 |
| Time deposits of enterprises (in foreign currencies) | 1.2 | 1.5 |
| Demand deposits of enterprises (in foreign currencies) | 0.4 | 0.4 |
| Time deposits of private persons (in foreign currencies) | 1.6 | 1.7 |
| Demand deposits of private persons (in foreign currencies) | 2.0 | 1.9 |
| The Bank of Latvia's refinancing rate (at end of period; %) | 3.0 | 3.5 |
| Exchange rates of foreign currencies (at end of period) | | |
| LVL/USD | 0.5380 | 0.5430 |
| LVL/GBP | 1.0100 | 0.9880 |
| LVL/100 JPY | 0.4940 | 0.5140 |
| LVL/EUR | 0.6720 | 0.6610 |

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

| | 2004 | |
|--|----------------|----------------|
| | II | III |
| Bank reserves | 176.1 | 176.9 |
| Vault cash in national currency | 72.6 | 71.2 |
| Deposits with the Bank of Latvia | 103.5 | 105.7 |
| Foreign assets | 2 255.1 | 2 369.7 |
| Vault cash in foreign currency | 51.8 | 50.8 |
| Claims on foreign banks | 1 485.7 | 1 582.2 |
| Claims on foreign non-banks | 690.9 | 707.4 |
| Other assets | 26.7 | 29.3 |
| Claims on the central government (net) | 241.9 | 241.3 |
| Claims on local governments (net) | 20.4 | 15.2 |
| Claims on public enterprises | 85.0 | 85.3 |
| Claims on private enterprises | 1 807.0 | 1 861.4 |
| Claims on private persons | 818.7 | 860.2 |
| Unclassified assets | 361.1 | 370.0 |
| Fixed assets | 123.9 | 124.1 |
| Items in transit | 6.4 | 7.6 |
| Other assets | 56.4 | 55.0 |
| Claims on domestic credit institutions (incl. investments) | 174.4 | 183.3 |
| Total assets | 5 765.4 | 5 980.0 |
| <i>Memo item: Trust assets</i> | <i>442.5</i> | <i>771.6</i> |
| Demand deposits | 571.6 | 602.7 |
| Public enterprises | 30.4 | 30.8 |
| Private enterprises | 252.4 | 269.6 |
| Private persons | 288.8 | 302.2 |
| Time deposits | 504.3 | 522.2 |
| Public enterprises | 56.4 | 67.5 |
| Private enterprises | 169.3 | 174.7 |
| Private persons | 278.6 | 280.1 |
| Foreign currency deposits of residents | 669.5 | 645.8 |
| Public enterprises | 22.2 | 17.4 |
| Private enterprises | 242.3 | 218.4 |
| Private persons | 405.0 | 410.0 |
| Transit funds | 6.3 | 5.7 |
| Foreign liabilities | 3 038.4 | 3 217.9 |
| Liabilities to foreign banks | 864.1 | 925.2 |
| Liabilities to foreign non-banks | 2 038.4 | 2 136.9 |
| Other liabilities (incl. subordinated liabilities) | 135.7 | 155.8 |
| Liabilities to the Bank of Latvia | 48.9 | 49.4 |
| Debt securities | 52.0 | 52.1 |
| Equity | 497.4 | 498.9 |
| Residents | 299.9 | 300.0 |
| Non-residents | 197.6 | 198.9 |
| Provisions | 73.4 | 76.6 |
| Unclassified liabilities | 303.6 | 308.8 |
| Items in transit | 84.1 | 91.8 |
| Other liabilities (incl. subordinated liabilities) | 57.0 | 54.4 |
| Liabilities to domestic credit institutions | 162.5 | 162.6 |
| Total liabilities | 5 765.4 | 5 980.0 |
| <i>Memo item: Trust liabilities</i> | <i>442.5</i> | <i>771.6</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>).