

MONETARY BULLETIN 2005

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Data for the economic development of Latvia in January 2005 indicated that growth remained fairly robust and continued to be supported by the strong domestic demand. The external demand did not show signs of contracting either. The lats pegging to the euro in January did not bring about either tension or speculations.

With the one-off factor effects having ceased, in January consumer prices picked up 0.5% month-on-month, whereas annual inflation fell to 6.6%, its lowest level since June 2004. Prices on certain foodstuffs and fuel kept rising (by 1.3% and 1.5%, respectively), and also transport vehicles and services became more expensive. A substantial drop in clothing and footwear prices (5.5%) was a result of seasonal sales. Consumer price developments indicate that domestic inflationary pressures and inflation expectations would continue to abate also in the coming months.

In January, the market saw a notable appreciation of the US dollar and depreciation of the euro; consequently, the US dollar, the British pound sterling and the Japanese yen appreciated against the lats (by 4.5%, 2.4% and 4.6%, respectively).

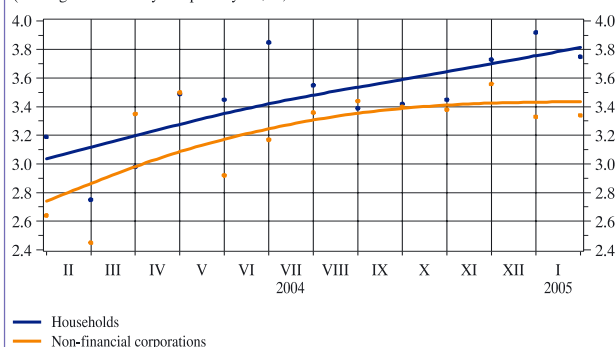
Following the trend of the previous years, in January a fiscal surplus of 27.8 million lats was recorded in the general government consolidated budget (30.6 million lats in January 2004), including a fiscal surplus of 31.3 million lats in the central government consolidated budget and 11.7 million lats in the local government consolidated budget. At the same time, a fiscal deficit (15.9 million lat) was recorded for the social security special budget. The increase in the general government consolidated budget revenue was faster than the increase in its expenditure (41.5% and 32.6%, respectively). A 38.3% increase in tax revenue (mainly the excise tax and VAT) ensured an overall strengthening of the budget revenue. With basic budget subsidies and grants to local governments as well as the special budget expenditure for pensions and benefits growing, the increase in regular expenditure (49.6%) underlay the overall pick-up in expenditure. Likewise, investment posted a sizable rise.

In January, 6-month Treasury bills were issued in the amount of 4.0 million lats at the average weighted discount rate of 3.12% (the lowest since March 2003), which was by 31 basis points lower than at the previous auction in December due to the high liquidity of banks.

Developments related to monetary aggregates in January were consistent with the trend observed almost every year. Broad money M³ shrank by 6.4 million lats, with its annual growth rate falling to 25.3% (26.8% in December). The demand for cash weakened under the impact of seasonal factors, the amount of deposits with agreed maturity of up to 2 years contracted, but the overnight deposits increased. The annual growth rate of deposits by resident financial institutions, non-financial corporations and households dropped 2.7 percentage points in January (to 31.4%), whereas the respective indicator for currency outside MFIs rose slightly (to 7.6%). As to deposits by households, a moderate increase was observed across all

INTEREST RATES ON RESIDENT DEPOSITS IN LATS

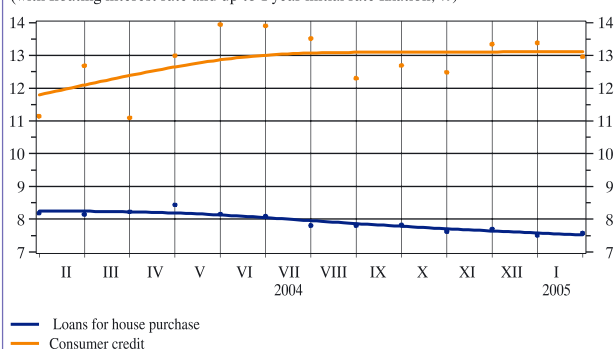
(with agreed maturity of up to 1 year; %)



¹ Currency outside MFIs + overnight deposits, deposits with agreed maturity of up to 2 years and deposits redeemable at notice of up to 3 months + debt securities with maturity of up to 2 years + repo transactions.

INTEREST RATES ON LOANS IN LATS TO RESIDENT HOUSEHOLDS

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



MACROECONOMIC INDICATORS

	2004	2005
	XII	I
Changes in the volume index of industrial output (year-on-year basis; %)	2.5	*
Changes in the CPI		
Month-on-month basis (%)	0.3	0.5
Year-on-year basis (%)	7.3	6.6
Annual rate of core inflation ¹ (%)	7.0	6.4
Number of registered unemployed persons (at end of period)	90 800	92 329
Unemployment rate (%)	8.5	8.6
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-79.0	27.8
Foreign trade (in millions of lats)		
Exports	201.2	*
Imports	364.5	*
Balance	-163.3	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

maturity and currency groups, whereas deposits of financial institutions and non-financial corporations contracted somewhat.

The expansion of lending to resident financial institutions, non-financial corporations and households posted a record in January (160.4 million lats), and its annual growth rate amounted to 50.4% (47.0% in December). Buoyancy was observed in lending to both financial institutions and non-financial corporations (an increase of 103.1 million lats) as well as to households (an increase of 57.3 million lats). The annual growth rate of lending to households notably outpaced that to financial institutions and non-financial corporations (76.6% and 39.0%, respectively).

Fiscal surplus in the general government consolidated budget triggered a decline in the banking system's net lending to the general government by 39.3 million lats.

The spread between interest rates on loans in lats and euros, which in January was 2.6 percentage points for short-term loans and loans with the floating interest rate, and 5.9 percentage points for long-term loans, determined the expansion of lending in foreign currencies, while lending in lats shrank somewhat (by 8.9 million lats) for the first time over few last years.

Foreign liabilities of the banking sector grew markedly (by 295.8 million lats, including an increase of 185.9 million lats in liabilities to non-MFIs), and the negative net foreign assets of the banking sector picked up 104.1 million lats.

Banks' profit was 13.7 million lats in January (1.4 times more than in the corresponding period of the previous year).

The average weighted interest rate on loans in lats to non-financial corporations and in foreign currencies to households increased moderately (by 0.2 percentage point or to 7.5%, and by 0.3 percentage point or to 5.6%, respectively), whereas the decline in the average weighted interest rate on loans in lats to households and in foreign currencies to non-financial corporations was more sizable (1.1 percentage points or to 8.5%, and 0.8 percentage point or to 4.5%, respectively).

The ample bank liquidity affected RIGIBOR, which declined (on overnight loans to 2.4% in mid-January; on loans with 6- and 12-month maturity from 4.28% and 4.26% at the beginning of the month, respectively, to 3.96% and 4.00% at the end of the month, respectively). Likewise, the average weighted interest rate on interbank market loans in lats was by 0.8 percentage point lower than in December (2.7%). Due to excessive liquidity, a decrease was observed in both interbank loans in lats (4.0%; to 660.9 million lats) and the bank demand for the Bank of Latvia's loans (the Bank of Latvia's repo loans to banks declined 5.8 times; to 15.9 million lats). No Lombard loans were granted, and foreign exchange swaps were not conducted either. In January, the Bank of Latvia bought net foreign currencies in the amount of 4.8 million lats.

Monetary base M0 shrank by 38.5 million lats in January. The decline in the monetary base of the central bank was primarily determined by a 31.0 million lats increase in the Government deposit with the Bank of Latvia and a decrease in the Bank of Latvia's lending to banks. The backing of the national currency with the Bank of Latvia's net foreign assets was 110.6% at the end of January.

In January, the volume of cargo transportation by rail increased by 4.7% year-on-year, whereas freight turnover at Latvian ports contracted by 6.5%, and oil product transportation by pipeline declined by 7.6%. In December, the industrial output index was 2.5% (including a 2.1% growth in manufacturing). The retail trade turnover at constant prices picked up 12.1%.

MONETARY INDICATORS (at end of period; in millions of lats)	2004	2005
	XII	I
MFIs¹		
M3	2 818.9	2 812.5
Repurchase agreements	0	0
Debt securities issued with maturity of up to 2 years	2.4	2.0
M2	2 816.5	2 810.5
Deposits with agreed maturity of up to 2 years	744.6	730.8
Deposits redeemable at notice of up to 3 months	71.8	73.1
M1	2 000.1	2 006.6
Currency outside MFIs	645.4	632.3
Overnight deposits	1 354.7	1 374.3
Net external assets	-231.0	-358.5
Credit to resident financial institutions, non-financial corporations and households	3 737.0	3 897.4
Credit to general government	407.0	415.5
Deposits of central government	171.8	219.2
Longer-term financial liabilities	924.8	929.2
Bank of Latvia		
M0	957.2	918.7
Currency in circulation	727.4	712.3
Deposits with the Bank of Latvia in lats	229.9	206.4
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 039.2	1 015.9
Net domestic assets	-82.0	-97.2
Credit	-1.1	-33.9
To MFIs	12.9	10.9
To central government (net)	-13.9	-44.8
Other items (net)	-80.9	-63.3
International reserves (at end of period; in millions of US dollars)	2 019.36	1 947.44
Gold	110.27	106.18
Special Drawing Rights	0.15	0.15
Reserve position in the IMF	0.09	0.08
Foreign convertible currencies	1 908.85	1 841.03

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	2005
	XII	I
Weighted average interest rate on domestic interbank loans in lats	3.5	2.7
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	7.3	7.5
Loans to households (in lats)	9.6	8.5
incl. for house purchase	7.5	7.4
Loans to non-financial corporations (in foreign currencies)	5.3	4.5
Loans to households (in foreign currencies)	5.3	5.6
incl. for house purchase	5.2	5.6
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	3.3	3.4
Demand deposits of non-financial corporations (in lats)	0.9	1.2
Time deposits of households (in lats)	4.2	3.8
Demand deposits of households (in lats)	0.6	0.6
Time deposits of non-financial corporations (in foreign currencies)	2.1	1.9
Demand deposits of non-financial corporations (in foreign currencies)	0.8	0.8
Time deposits of households (in foreign currencies)	2.4	2.3
Demand deposits of households (in foreign currencies)	1.0	1.3
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	0.5160	0.5390
LVL/GBP	0.9960	1.0200
LVL/100 JPY	0.4990	0.5220
LVL/EUR	0.7030	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)	2004	2005
	XII	I
MFI reserves	310.8	282.9
Vault cash in national currency	81.9	80.0
Deposits with the Bank of Latvia	228.9	202.9
Foreign assets	3 001.1	3 192.8
Vault cash in foreign currencies	51.8	51.5
Claims on MFIs	2 036.2	2 157.3
Claims on non-MFIs	892.8	955.1
Other assets	20.4	29.0
Claims on the central government	246.1	253.8
Claims on the local government	67.7	68.3
Claims on public non-financial corporations	87.7	87.6
Claims on financial institutions and private non-financial corporations	2 355.9	2 450.2
Claims on households	1 331.1	1 388.4
Unclassified assets	454.6	443.1
Fixed assets	129.1	127.4
Items in transit	3.9	12.4
Other assets	63.2	63.1
Claims on resident MFIs (incl. investments)	258.3	240.2
Total assets	7 855.0	8 167.2
<i>Memo item: Trust assets</i>	<i>616.4</i>	<i>674.6</i>
Overnight deposits in lats	804.9	803.0
Public non-financial corporations	37.6	45.5
Financial institutions and private non-financial corporations	390.6	382.9
Households	376.8	374.6
Time deposits and deposits redeemable at notice in lats	567.5	563.1
Public non-financial corporations	48.2	49.2
Financial institutions and private non-financial corporations	183.7	172.1
Households	335.7	341.8
Foreign currency deposits of residents	850.0	864.9
Public non-financial corporations	11.8	13.5
Financial institutions and private non-financial corporations	263.5	269.8
Households	574.7	581.6
Deposits of central government	64.6	81.0
Deposits of local government	61.8	62.2
Transit funds	5.4	5.4
Foreign liabilities	4 271.4	4 567.2
Liabilities to MFIs	1 410.7	1 427.0
Liabilities to non-MFIs	2 748.6	2 934.5
Other liabilities (incl. subordinated liabilities)	112.1	205.7
Liabilities to the Bank of Latvia	12.9	10.9
Debt securities issued	90.0	80.6
Capital and reserves	630.4	638.0
Residents	360.4	368.0
Non-residents	270.0	270.0
Provisions	88.5	90.3
Unclassified liabilities	407.5	400.6
Items in transit	91.4	110.0
Other liabilities (incl. subordinated liabilities)	67.0	59.9
Liabilities to resident MFIs	249.1	230.8
Total liabilities	7 855.0	8 167.2
<i>Memo item: Trust liabilities</i>	<i>616.4</i>	<i>674.6</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>).