

MONETARY BULLETIN 2004

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Although the economic activity is seasonally lower and the money supply also typically declines in the first month of the year, in January 2004, the national economy recorded a continuous growth. Unlike January 2003, the money supply as well as deposits of domestic enterprises and private persons continued to increase (by 26.4 million lats and 39.9 million lats, respectively), with only cash outside banks recording a decline. A pickup in loans granted to domestic enterprises and private persons was high (48.9 million lats), though lower than in December.

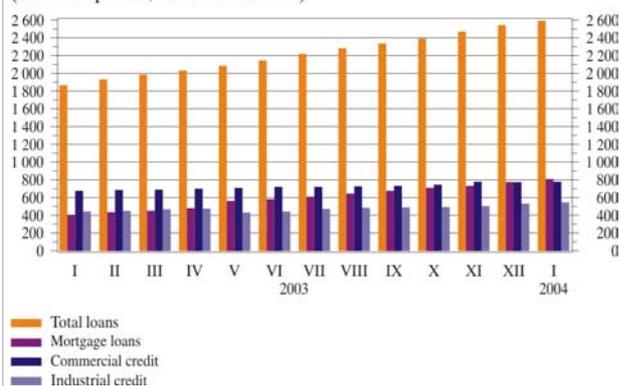
In January, consumer prices in Latvia grew 1.2% month-on-month, and the annual inflation rate reached 3.9%. An increase in both the monthly and the annual inflation rate mostly resulted from a rise in administratively regulated prices (electricity tariffs grew 15.4%). A price rise for unprocessed food (food prices rose 2.1%, including a pickup of 6.4% and 5.5% in milk and dairy products, as well as in vegetable prices, respectively) also underlay the increase in the monthly inflation; however, a drop in clothing and footwear prices reduced the effect of the above increase.

In January 2004, a fiscal surplus was reported in the general government consolidated budget (30.6 million lats; a year-on-year pickup of 8.5 million lats). The budgets of the central government and the local governments were in surplus, resulting from the low level of expenditure typical for the beginning of a year, with tax revenue remaining high. In January, the general government consolidated budget revenue grew 4.8% year-on-year, whereas expenditure dropped by 0.3%. The fiscal surplus of the central government basic budget and the central government social security budget totalled 18.2 million lats and 8.5 million lats, respectively. The local government consolidated budget also recorded a small surplus. In January, total tax revenue increased by 12.1% year-on-year. The public debt decreased by 3.6 million lats (to 842.7 million lats) in January. The stock of government debt securities outstanding recorded almost no changes, amounting to 375.4 million lats at the end of the month (5-year and 10-year bonds and 12-month bills accounted for 55.5%, 25.9% and 12.2%, respectively).

The number of the unemployed registering with the State Revenue Service increased; hence, in January the unemployment rate in Latvia rose to 8.8%. At the end of January, the number of the unemployed registered with the State Revenue Service posted a pickup of 2.6% and 1.4% month-on-month and year-on-year, respectively.

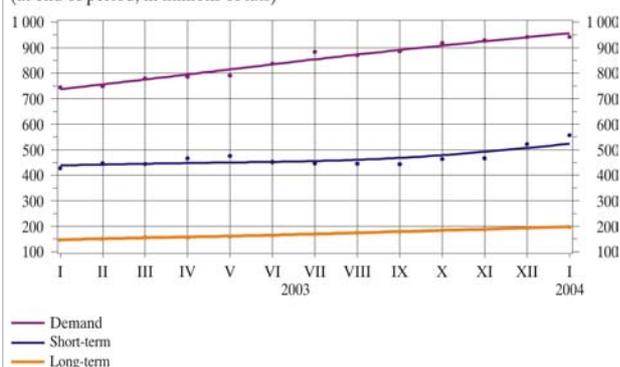
Broad money M2X grew a mere 1.2%, considerably slower than in December; nevertheless, the annual growth rate of the aggregate reached 23.7% due to a low base level (in January 2003, broad money recorded a month-on-month decrease). In January, deposits of domestic enterprises and private persons rose 2.4%, whereas cash outside banks shrank by 2.3%; however, the annual growth rate of the above indicators increased by 3.3 percentage points (to 28.7%) and 0.5 percentage points (to 11.2%), respectively, also owing to a lower base. The dynamics of cash in circulation underlay a moderate increase in the domestic money supply M2D (4.9 million lats or 0.3%;

**LOANS TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS
BY TYPE**
(at end of period; in millions of lats)



DEPOSITS OF DOMESTIC ENTERPRISES AND PRIVATE PERSONS WITH BANKS

(at end of period; in millions of lats)



its annual growth rate was 26.3%). With the demand deposits remaining almost unchanged and the time deposits (mostly with 1–6 month maturity) posting a pickup of 39.0 million lats or 5.4%, the share of demand deposits in total deposits shrank to 55.5%.

In January, the monthly growth rate of loans granted to domestic enterprises and private persons recorded a low since January 2003 (1.9%), whereas their annual growth rate rose to 38.9%. Loans granted to domestic private persons and to domestic enterprises increased by 3.2% and 1.4%, respectively. Mortgage loans retained their dominant share (a pickup of 35.0 million lats or 4.5%), while industrial loans also recorded a considerable growth (15.6 million lats or 3.0%).

In January, a rise in resident deposits covered most of the increase in loans granted to domestic enterprises and private persons, whereas funds attracted from non-residents were mostly placed in foreign assets of the banking sector (the banking sector's foreign liabilities and assets grew by 69.5 million lats and 64.6 million lats, respectively). With no essential changes in the Bank of Latvia's net foreign assets, net foreign assets of the banking system shrank by 6.0 million lats.

Assets of the banking sector expanded by 68.8 million lats (to 5.7 billion lats) in January. Banks' profit reached 9.5 million lats (1.8 times exceeding the level of January 2003).

In January, banks enjoyed stable liquidity, slightly declining only at the end of the reserve compliance period when money market interest rates temporarily recorded a rise. In January, the interbank market weighted average interest rate for loans granted in lats was 3.5%; for the most part of the month, overnight RIGIBOR fluctuated between 3.5% and 4.0%, rising to 5.0% only at the beginning of the third ten-day period. RIGIBOR for loans with 6 and 12 month maturity was stable (4.3% and 4.5%, respectively).

Banks improved their liquidity mainly via the repo auctions organised by the Bank of Latvia (loans in the amount of 215.0 million lats were granted, posting a 2.2% growth month-on-month), as well as using demand Lombard loans in the amount of 10.0 million lats. Currency swaps shrank 1.9 times, totalling 72.7 million lats. Hence, at the end of January, repo agreements outstanding increased (to 77.2 million lats), whereas currency swaps outstanding decreased (to 65.5 million lats) in comparison with the end of December. Banks' borrowings on the domestic interbank market declined month-on-month (loans granted in lats shrank by 5.8%, to 442.4 million lats). At the end of January, the backing of the national currency with the Bank of Latvia's net foreign assets (822.9 million lats) was 104.2%.

The US dollar continued to depreciate on the global foreign exchange market. In January, both the US dollar and the euro depreciated against the lats (by 0.4%), whereas the British pound and the Japanese yen appreciated by 1.9% and 0.4%, respectively.

In January, freight transported by rail grew 2.4% year-on-year. Cargo turnover at Latvian ports and the amount of oil products transported by pipeline increased by 8.5% and 42.8% year-on-year, respectively.

In December, the production growth in industry accelerated rapidly: the seasonally adjusted volume index of industrial output in manufacturing improved by 9.5% year-on-year. The pickup in mining and quarrying was even higher (15.7%); however, with the production volume in the energy sector shrinking by 4.7%, the volume index of industrial output improved by 5.5%. The retail trade turnover in constant prices grew 14.0%.

MACROECONOMIC INDICATORS	2003	2004
	XII	I
Changes in the volume index of industrial output (year-on-year basis; %)	5.5	*
Changes in the CPI		
Month-on-month basis (%)	0.2	1.2
Year-on-year basis (%)	3.6	3.9
Annual rate of core inflation ¹ (%)	2.8	2.4
Number of registered unemployed persons (at end of period)	90 551	92 874
Unemployment rate (%)	8.6	8.8
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-103.2	30.6
Foreign trade (in millions of lats)		
Exports	139.8	*
Imports	280.6	*
Balance	-140.8	*

¹ Unprocessed food prices excluded.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

MONETARY INDICATORS (at end of period; in millions of lats)	2003	2004
	XII	I
Banking system		
M2X	2 258.7	2 285.1
Currency outside banks	601.1	587.5
Deposits of domestic enterprises and private persons	1 657.7	1 697.6
Demand deposits	941.7	942.6
Time deposits	716.0	755.0
M2D	1 634.9	1 639.8
Net foreign assets	75.4	69.4
Net domestic assets	2 183.4	2 215.7
Loans to domestic enterprises and private persons	2 542.6	2 591.5
Short-term loans	405.2	419.9
Long-term loans	2 137.4	2 171.6
Credit to the Government (net)	250.2	224.0
Bank of Latvia		
M0	806.8	789.9
Currency in circulation	682.1	659.0
Deposits with the Bank of Latvia in lats	124.6	131.0
Net foreign assets	824.0	822.9
Net domestic assets	-17.2	-33.0
Credit	44.4	29.4
To banks	59.3	77.2
To the Government (net)	-15.0	-47.8
Other items (net)	-61.6	-62.3
International reserves (at end of period; in millions of US dollars)	1 535.11	1 527.00
Gold	102.67	101.76
Special Drawing Rights	0.14	0.28
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 432.22	1 424.88

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2003	2004
	XII	I
Weighted average interest rate on domestic interbank loans in lats	3.2	3.5
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	6.4	6.8
Loans to private persons (in lats)	6.7	6.9
Loans to enterprises (in foreign currencies)	4.0 ¹	4.9
Loans to private persons (in foreign currencies)	4.8 ¹	5.3
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.3	2.7
Demand deposits of enterprises (in lats)	0.9	0.8
Time deposits of private persons (in lats)	4.1	3.4
Demand deposits of private persons (in lats)	0.6	0.5
Time deposits of enterprises (in foreign currencies)	1.6 ¹	1.4
Demand deposits of enterprises (in foreign currencies)	0.5 ¹	0.6
Time deposits of private persons (in foreign currencies)	2.1 ¹	2.1
Demand deposits of private persons (in foreign currencies)	0.8 ¹	2.1
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	0.5410	0.5390
LVL/GBP	0.9600	0.9780
LVL/100 JPY	0.5060	0.5080
LVL/EUR	0.6740	0.6710

¹ In the currencies of the OECD countries.

As of January 2004, the Bank of Latvia has introduced new interest rate reports with respect to domestic deposits and loans, to be submitted by credit institutions and credit unions registered in the Republic of Latvia. Due to changes in the methodology, the interest rate time series of loans and deposits published to date may not be directly compared with the January data. The interest rate time series of loans and deposits will be published in the Monetary Review for the first quarter of 2004.

CONSOLIDATED BALANCE SHEET OF CREDIT INSTITUTIONS (at end of period; in millions of lats)	2003	2004
	XII	I
Bank reserves	204.9	199.6
Vault cash in national currency	81.1	71.5
Deposits with the Bank of Latvia	123.8	128.2
Foreign assets	2 202.4	2 267.0
Vault cash in foreign currency	52.5	53.0
Claims on foreign banks	1 464.8	1 513.7
Claims on foreign non-banks	666.3	677.1
Other assets	18.7	23.2
Claims on the central government (net)	250.8	252.7
Claims on local governments (net)	14.3	19.1
Claims on public enterprises	87.4	84.2
Claims on private enterprises	1 722.8	1 751.3
Claims on private persons	761.6	786.3
Unclassified assets	400.0	352.8
Fixed assets	116.2	115.7
Items in transit	7.7	4.2
Other assets	56.0	57.7
Claims on domestic credit institutions (incl. investments)	220.0	175.2
Total assets	5 644.2	5 713.0
<i>Memo item: Trust assets</i>	<i>658.6</i>	<i>448.0</i>
Demand deposits	584.7	574.5
Public enterprises	36.5	35.1
Private enterprises	261.4	255.5
Private persons	286.7	283.9
Time deposits	449.1	477.9
Public enterprises	42.6	52.6
Private enterprises	141.6	152.3
Private persons	264.9	272.9
Foreign currency deposits of residents	623.9	645.3
Public enterprises	25.6	19.5
Private enterprises	202.1	230.3
Private persons	396.2	395.4
Transit funds	6.8	6.7
Foreign liabilities	2 951.0	3 020.5
Liabilities to foreign banks	871.1	860.6
Liabilities to foreign non-banks	1 999.1	2 052.0
Other liabilities (incl. subordinated liabilities)	80.8	107.9
Liabilities to the Bank of Latvia	59.3	77.2
Debt securities	52.2	52.0
Equity	482.9	492.2
Residents	281.1	294.6
Non-residents	201.8	197.5
Provisions	68.8	68.8
Unclassified liabilities	365.5	298.0
Items in transit	105.4	74.8
Other liabilities (incl. subordinated liabilities)	51.8	60.9
Liabilities to domestic credit institutions	208.3	162.3
Total liabilities	5 644.2	5 713.0
<i>Memo item: Trust liabilities</i>	<i>658.6</i>	<i>448.0</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>).