

MONETARY BULLETIN 2005

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The economic growth in Latvia continued to be supported by strong domestic demand; the performance of transportation by rail improved and retail trade turnover expanded rapidly, whereas the pace of growth in manufacturing decelerated somewhat. In March, freight transportation by rail increased by 7.5%, but freight turnover at ports shrank slightly. Retail trade turnover, in turn, posted a notable year-on-year pickup of 16.6% in February. Compared with the corresponding period of the previous year, seasonally adjusted volume indices of manufacturing and industrial output decreased by 1.8% and 0.6%, respectively, in February. The shrinking of industrial output can be attributed to adverse effects of the January storm on manufacture of wood, the major exporting sector, and the exceptionally high base in a number of economic sectors at the beginning of the previous year. The unemployment rate went down to 8.6%.

Consumer prices in Latvia rose by 0.6% in March, whereas the respective annual growth rate slowed down to 6.4% (the lowest level over the last nine months) due, in part, to the high base. The food price rise eased, including a drop in vegetable, sugar and sweets prices, as well as those for some cereal and meat products; at the same time, prices for fish products and cheese continued to rise steeply. With high oil prices persisting in the global market, fuel became more costly, recording a 3.1% and 26.4% increase on a monthly and annual basis, respectively. The decrease in total inflation was due to a substantial 5.4% fall in annual core inflation not affected by fuel, unprocessed food and administratively regulated prices.

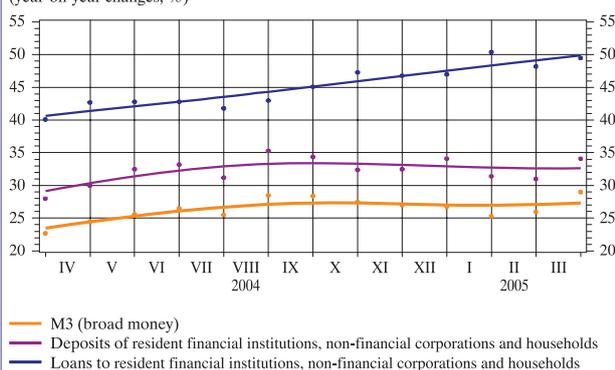
In the first three months of 2005, the general government consolidated budget recorded a fiscal surplus (61.0 million lats), which was 1.6 times larger than the fiscal surplus in the corresponding period of the previous year. In the same period, the financial surplus of the general government consolidated budget was 43.0 million lats due to a financial surplus at both budget levels, the local government consolidated budget (26.4 million lats) and the central government consolidated budget (20.6 million lats). A positive financial balance of the central government consolidated budget was a result of a financial surplus in the central government basic budget (29.9 million lats), whereas the social security budget continued to record a financial deficit. In March, the increase in the budget revenue, which exceeded the increase in the budget expenditure, was due to a pickup in the revenue from the excise and value added taxes as well larger amounts of the EU funding.

In March, the Government debt decreased by 42.3 million lats (to 953.1 million lats), primarily due to a decline in the Government domestic debt (to 405.0 million lats at the end of March) as a result of redemptions of government securities exceeding new issues. In March, 5-year Treasury bonds in the amount of 16.0 million lats were sold at a competitive multi-price auction of the primary market, and the weighted average yield rate was 3.30%. The demand for securities was strong; therefore the average weighted yield rate lost 20 basis points from the previous auction in February.

In March, the money supply increased substantially, with broad money M3 growing by 90.9 million lats and its annual growth rate accelerating to 29.0% (26.0% in February). This increase in M3 was triggered not only by the strong growth in M1 (a 2.5 percentage point increase in the annual growth rate, to 29.7%) under the impact of persisting high annual growth in overnight deposits (40.5%), but also by a pickup in M2 annual growth (28.7%), in line with a particularly pronounced annual rise for deposits with agreed maturity of up to 2 years (22.8% in February and 26.5% in

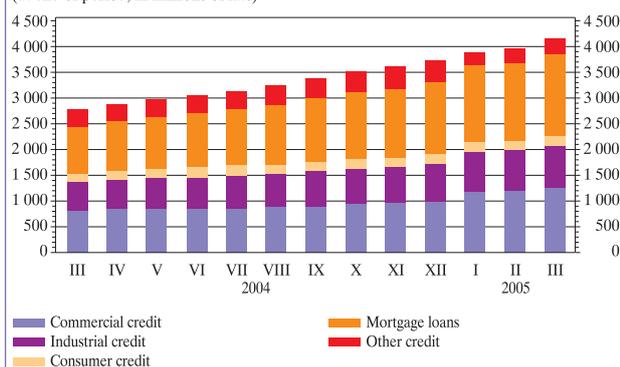
BROAD MONEY, DEPOSITS AND LOANS

(year-on-year changes; %)



LOANS TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS BY TYPE

(at end of period; in millions of lats)



March). The annual growth in deposits of resident financial institutions, non-financial corporations and households returned to the high December level (34.1%) in March. In contrast to January and February, the increase in deposits in the national currency was notably stronger (66.8 million lats or 4.8%), with deposits in foreign currency growing by 21.0 million lats or 2.4%.

The growth in loans to resident financial institutions, non-financial corporations and households reached a high (178.4 million lats), with the annual growth rate rising to 49.5%. While lending in lats remained almost unchanged, foreign currency loans increased by 179.0 million lats. Loans to financial institutions and non-financial corporations grew by 108.0 million lats, whereas those to households picked up 70.4 million lats. The aggressive advertising campaigns of banks notwithstanding, the annual growth in lending to households even decelerated slightly yet remained notably higher than that in lending to financial institutions and non-financial corporations (74.0% and 38.5%, respectively). Mortgage loans increased by 74.3 million lats, including a 49.5 million lats rise in those to households for house purchase. The rise was also steep for commercial credit but a little more balanced for industrial credit (59.1 million lats and 20.3 million lats, respectively).

Given the pickup in the budget surplus, lending to the general government decreased by 6.7% and recorded a year-on-year fall of 3.6% in March.

Along with domestic deposits, the expansion in lending was funded by bank external borrowing, with liabilities of domestic MFIs (excluding the Bank of Latvia) to foreign MFIs increasing by 104.9 million lats in March, including a rise of 87.9 million lats in liabilities to parent banks. The already negative net foreign assets of MFIs, in turn, worsened further by 47.2 million lats.

In the first three months of 2005, banks' profit amounted to 41.7 million lats, which represents a year-on-year increase of 1.7 times.

The average weighted interest rate on loans in foreign currency to households for house purchase went up slightly (by 0.2 percentage point; to 5.2%) in March, whereas that on the same type of loans in lats declined (by 0.1 percentage point; to 7.0%). The average weighted interest rates on loans to non-financial corporations also posted a moderate downside (to 7.0% for loans in lats and 5.1% for those in foreign currency).

In March, the Bank of Latvia proceeded with foreign exchange interventions and net purchases of foreign currency amounted to 10.9 million lats. As the Government increased deposits in foreign currency with the central bank, net foreign assets of the Bank of Latvia rose by 23.4 million lats. The demand for the Bank of Latvia's repo loans weakened, and they were granted in the amount of 12.4 million lats (2.6 times less than in February); however, the amount of interbank loans granted in lats increased by 31.8% (to 1.1 billion lats). The central bank's money supply was reduced by banks actively using the time deposit facility, resulting in a 100.9 million lats deposit with the Bank of Latvia and a 30.0 million lats increase in it in the course of one month. Money supply was pushed up by a decrease in the Government deposit in lats with the Bank of Latvia and the expansion of the Bank's government securities portfolio. Continuing growth of MFIs deposits with the Bank of Latvia resulted in an increase of 22.4 million lats in M0, the monetary base, in March.

The exchange rates of the US dollar and the Japanese yen against the lats depreciated (by 2.1% and 0.2%, respectively) in March, whereas the exchange rate of the British pound sterling remained unchanged.

MACROECONOMIC INDICATORS	2005	
	II	III
Changes in the volume index of industrial output (year-on-year basis; %)	-0.6	*
Changes in the CPI		
Month-on-month basis (%)	0.9	0.6
Year-on-year basis (%)	6.9	6.4
Annual rate of core inflation ¹ (%)	5.9	5.4
Number of registered unemployed persons (at end of period)	92 862	91 590
Unemployment rate (%)	8.7	8.6
General government consolidated budget fiscal deficit/surplus (in millions of lats)	30.8	61.0
Foreign trade (in millions of lats)		
Exports	201.9	*
Imports	312.9	*
Balance	-111.0	*

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)	2005	
	II	III
MFIs¹		
M3	2 882.9	2 973.8
Repurchase agreements	0	0
Debt securities issued with maturity of up to 2 years	4.6	9.6
M2	2 878.3	2 964.1
Deposits with agreed maturity of up to 2 years	768.8	800.4
Deposits redeemable at notice of up to 3 months	75.0	77.6
M1	2 034.5	2 086.1
Currency outside MFIs	639.8	640.0
Overnight deposits	1 394.7	1 446.2
Net external assets	-350.4	-397.6
Credit to resident financial institutions, non-financial corporations and households	3 972.3	4 150.7
Credit to general government	423.4	394.9
Deposits of central government	230.1	212.0
Longer-term financial liabilities	944.5	966.0
Bank of Latvia		
M0	975.3	997.7
Currency in circulation	718.7	717.8
Deposits with the Bank of Latvia in lats	256.6	279.9
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 097.2	1 120.6
Net domestic assets	-121.9	-122.9
Credit	-59.3	-32.3
To MFIs	8.3	8.5
To central government (net)	-67.6	-40.8
Other items (net)	-62.6	-90.6
International reserves (at end of period; in millions of US dollars)	2 077.78	2 088.46
Gold	107.75	105.93
Special Drawing Rights	0.15	0.15
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 969.80	1 982.30

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	II	III
Weighted average interest rate on domestic interbank loans in lats	3.5	2.2
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	7.5	7.0
Loans to households (in lats)	8.7	9.3
incl. for house purchase	7.1	7.0
Loans to non-financial corporations (in foreign currencies)	5.2	5.1
Loans to households (in foreign currencies)	5.1	5.1
incl. for house purchase	5.0	5.2
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	3.3	2.7
Demand deposits of non-financial corporations (in lats)	0.9	0.7
Time deposits of households (in lats)	3.4	3.5
Demand deposits of households (in lats)	0.6	0.5
Time deposits of non-financial corporations (in foreign currencies)	2.0	2.2
Demand deposits of non-financial corporations (in foreign currencies)	0.8	0.9
Time deposits of households (in foreign currencies)	2.6	2.4
Demand deposits of households (in foreign currencies)	1.3	1.4
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	0.5320	0.5430
LVL/GBP	1.0200	1.0200
LVL/100 JPY	0.5050	0.5060
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	
	II	III
MFI reserves	330.5	386.8
Vault cash in national currency	78.9	77.8
Deposits with the Bank of Latvia	251.6	309.0
Foreign assets	3 063.9	3 108.2
Vault cash in foreign currencies	51.6	57.6
Claims on MFIs	2 014.0	1 996.4
Claims on non-MFIs	969.3	1 019.4
Other assets	29.0	34.8
Claims on central government	263.0	220.8
Claims on local government	67.4	75.4
Claims on public non-financial corporations	117.8	109.1
Claims on financial institutions and private non-financial corporations	2 457.4	2 570.6
Claims on households	1 426.5	1 496.8
Unclassified assets	434.5	475.6
Fixed assets	129.9	129.3
Items in transit	11.3	12.5
Other assets	58.8	64.8
Claims on resident MFIs (incl. investments)	234.5	269.1
Total assets	8 161.1	8 443.2
<i>Memo item: Trust assets</i>	738.6	764.2
Overnight deposits in lats	797.4	826.6
Public non-financial corporations	42.8	46.7
Financial institutions and private non-financial corporations	370.7	382.1
Households	383.9	397.8
Time deposits and deposits redeemable at notice in lats	600.7	638.3
Public non-financial corporations	64.3	70.7
Financial institutions and private non-financial corporations	188.1	207.1
Households	348.3	360.5
Foreign currency deposits of residents	887.8	908.9
Public non-financial corporations	14.3	14.6
Financial institutions and private non-financial corporations	284.0	288.5
Households	589.5	605.7
Deposits of central government	69.5	72.5
Deposits of local government	67.2	74.4
Transit funds	5.4	5.4
Foreign liabilities	4 511.5	4 626.4
Liabilities to MFIs	1 499.6	1 604.5
Liabilities to non-MFIs	2 856.6	2 873.9
Other liabilities (incl. subordinated liabilities)	155.2	148.0
Liabilities to the Bank of Latvia	8.3	8.5
Debt securities issued	84.9	90.3
Capital and reserves	651.9	665.3
Residents	376.8	390.2
Non-residents	275.1	275.1
Provisions	90.5	93.1
Unclassified liabilities	386.0	433.4
Items in transit	103.0	112.5
Other liabilities (incl. subordinated liabilities)	61.6	64.0
Liabilities to resident MFIs	221.5	256.9
Total liabilities	8 161.1	8 443.2
<i>Memo item: Trust liabilities</i>	738.6	764.2

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>).