

MONETARY BULLETIN 2006

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In May and June, the development of Latvia's economy followed the same pattern as in the previous periods. Retail trade posted continuous fast pace of growth year-on-year (including transport vehicle sales and retailing of automotive fuel), with the turnover increasing by 29.5%. By contrast, the industrial growth was somewhat sluggish (2.3%, including output growth in manufacturing by 4.8%). In June, freight transportation by rail continued to shrink and lost 2.2% year-on-year, whereas freight turnover at Latvian ports expanded by 3.3%. Unemployment rate remained unchanged in June (7.0%).

Consumer prices rose by 0.3% in June due to a seasonal increase in fruit and berry prices by 8.1%, an increase in tobacco prices by 2.4%, and a 1.9% rise in telecommunication service prices. The annual consumer price inflation dropped to 6.3%.

In June 2006, the financial deficit of the general government consolidated budget stood at 23.3 million lats due to a 40.1 million lats financial deficit in the state basic budget, with the budget expenditure increasing at a faster pace than its revenue (an increase of 74.5 million lats or 27.5%, and 34.4 million lats or 11.9%, respectively; in June 2005, the general government consolidated budget recorded a 16.8 million lats financial surplus). The improvement of the budget revenue was on account of the growth in tax revenue (53.6 million lats or 25.8%), which was primarily driven by the growing VAT and personal income tax revenues as well as social security contributions (34.7%, 28.5% and 27.3%, respectively). The increase in the budget expenditure was on account of higher wages and salaries (by 21.1%) as well as larger budget transfers to institutions, organisations and enterprises (by 60.7%).

The financial surplus of the general government consolidated budget accrued in the first six months of 2006 declined to 207.2 million lats (106.0 million lats in the respective period of the previous year).

In a fixed rate (non-competitive) auction of 12-month Treasury bills, the entire supply in the amount of 2.0 million lats was sold at an average weighted discount rate of 3.842%.

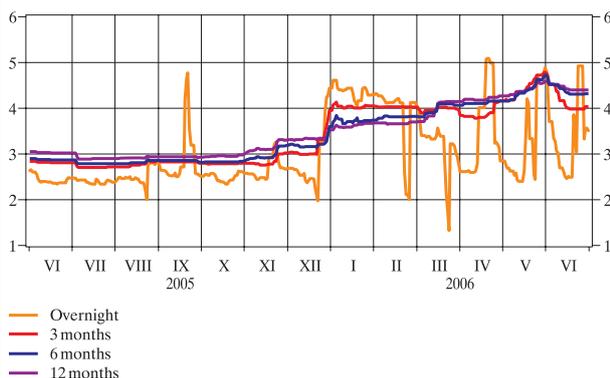
The growth in money supply gained momentum in June. Currency outside MFIs grew seasonally by 32.5 million lats or 4.0%. With overnight deposits also increasing by 125.6 million lats, M1 increased by 158.0 million lats or 5.0% (by 1.2% in the previous month). Consequently, the pickup in M2 was also steeper (169.4 million lats or 3.9%; 1.0% in May). M3 increased by 167.3 million lats or 3.8% (by 0.9% in May), whereas its annual growth rate decelerated to 39.7% due to the high base.

Deposits of resident financial institutions, non-financial corporations and households expanded by 143.2 million lats in June; however, given the high base, the annual growth rate of deposits dropped 2.6 percentage points (to 42.3%). Deposits made in lats and euro went up by 99.6 million lats and 46.4 million lats, respectively. The growth in household deposits was slightly above that in deposits of financial institutions and non-financial corporations (82.1 million lats and 61.1 million lats, respectively).

In June, the growth in loans granted to resident financial institutions, non-financial corporations and households was substan-

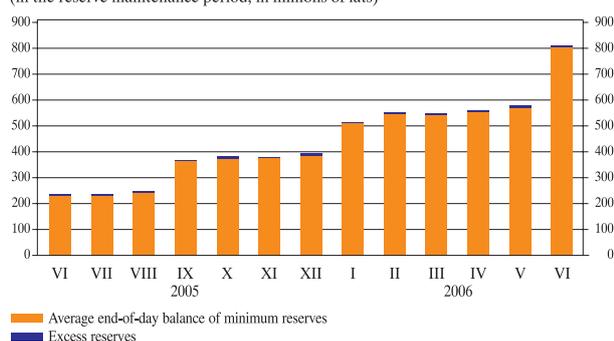
MONEY MARKET INDEX RIGIBOR

(%)



BANK RESERVES WITH THE BANK OF LATVIA

(in the reserve maintenance period; in millions of lats)



MACROECONOMIC INDICATORS	2006	
	V	VI
Changes in the volume index of industrial output (year-on-year basis; %)	2.3	*
Changes in the CPI		
Month-on-month basis (%)	1.2	0.3
Year-on-year basis (%)	6.6	6.3
Annual rate of core inflation ¹ (%)	4.9	4.7
Number of registered unemployed persons (at end of period)	74 789	74 387
Unemployment rate (%)	7.0	7.0
General government consolidated budget financial deficit/surplus (in millions of lats)	230.6	207.2
Foreign trade (in millions of lats)		
Exports	271.4	*
Imports	506.0	*
Balance	-234.6	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia and Ministry of Finance.

tial (255.4 million lats), albeit lagged behind the pace of the previous month. The annual growth rate of loans, for the first time in eight months, went below the 60% margin and stood at 59.5%. The growth in loans was determined by the expansion in mortgage lending by 258.4 million lats, with loans to households for house purchase going up by 126.4 million lats. Unchanged from the previous periods, the recorded increase was primarily on account of loans granted in euro (246.8 million lats), with a modest upward trend persisting also in loans granted in lats (28.9 million lats). Loans to households picked up 154.7 million lats. The annual growth rate of loans to households as well as financial institutions and non-financial corporations moderated in June (down to 78.3% and 48.1%, respectively).

In order to ensure credit resources and to meet the reserve requirement, banks attracted additional funding from abroad, therefore the negative net foreign assets of MFIs (excluding the Bank of Latvia) increased by 180.6 million lats in June. Given the declining general government consolidated budget surplus, the MFI net credit to the Government increased by 19.4 million lats.

Given the expanded reserve base, the funds needed for the compliance with the reserve requirement held in bank accounts with the Bank of Latvia were sizable; nevertheless, at the end of June, the bank demand deposits with the central bank shrank by 11.6 million lats. With the demand for cash growing seasonally (by 35.7 million lats), the monetary base M0 strengthened by 24.1 million lats. The central bank's money supply increased mainly on account of foreign currency purchases from banks, as a result of which net foreign assets of the Bank of Latvia increased by 72.6 million lats or 4.0%. The backing of the national currency with the Bank of Latvia's net foreign assets was 106.4% at the end of June. At the same time, money supply was reduced by the decline in the Bank of Latvia's repo transactions by 45.1 million lats and the interventions in the secondary market of government securities due to which the central government's securities portfolio held by the central bank shrank by 7.9 million lats.

In June, the Bank of Latvia granted repo loans in the amount of 7.1 million lats (11.2 times less than in May), foreign currency swaps were in the amount of 2.0 million lats (1.8 times less), whereas Lombard loans reached 11.0 million lats. The amount of time deposits attracted by the central bank was modest (15.4 million lats; 3.3 times less than in May).

Liquidity fluctuations were reflected in the changes of RIGIBOR, which for overnight loans declined from 4.5% at the beginning of the month to 2.5% in mid-June; at the end of the reserve maintenance period the index temporarily rose to 4.9% to drop again at the close of the month. RIGIBOR on 6- and 12-month maturities lost 0.2–0.4 percentage point and stood at 4.31% and 4.40%, respectively, at end-June.

Interest rates on loans in lats to households continued to go up (an overall rise of 0.5 percentage point to 9.8%, including a rise of 0.2 percentage point to 6.3% on loans for house purchase). Interest rates on loans in foreign currencies both to households and non-financial corporations remained broadly unchanged (at around 5%).

With the fall of the US dollar on the global exchange markets ceasing, it appreciated against the lats by 2.2%, while the Japanese yen and the British pound sterling depreciated by 1.8% and 0.7%, respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2006	
	V	VI
MFIs¹		
M3	4 357.8	4 525.1
Repurchase agreements	0	0
Money market fund shares and units	36.6	34.4
Debt securities issued with maturity of up to 2 years	2.6	2.6
M2	4 318.6	4 488.0
Deposits with agreed maturity of up to 2 years	1 039.7	1 046.8
Deposits redeemable at notice of up to 3 months	121.3	125.5
M1	3 157.7	3 315.7
Currency outside MFIs	807.0	839.5
Overnight deposits	2 350.6	2 476.2
Net external assets	-1 482.1	-1 590.1
Credit to resident financial institutions, non-financial corporations and households	7 270.5	7 525.9
Credit to general government	373.0	368.7
Deposits of central government	301.3	274.4
Longer-term financial liabilities	1 541.6	1 571.0
Bank of Latvia		
M0	1 741.9	1 766.0
Currency in circulation	892.2	927.9
Deposits with the Bank of Latvia in lats	849.7	838.1
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 807.3	1 879.9
Net domestic assets	-65.4	-113.9
Credit	-7.7	-58.9
To MFIs	46.3	1.2
To central government (net)	-54.0	-60.1
Other items (net)	-57.7	-55.0
International reserves (at end of period; in millions of US dollars)	3 266.23	3 374.16
Gold	161.88	144.50
Special Drawing Rights	0.15	0.15
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	3 104.12	3 229.43

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2006	
	V	VI
Weighted average interest rate on domestic interbank loans in lats	3.0	3.0
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	7.0	6.4
Loans to households (in lats)	9.3	9.8
incl. for house purchase	6.1	6.3
Loans to non-financial corporations (in foreign currencies)	5.1	5.2
Loans to households (in foreign currencies)	4.9	4.9
incl. for house purchase	4.6	4.7
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	4.0	3.3
Demand deposits of non-financial corporations (in lats)	1.2	1.0
Time deposits of households (in lats)	3.3	3.2
Demand deposits of households (in lats)	0.5	0.5
Time deposits of non-financial corporations (in foreign currencies)	3.1	3.4
Demand deposits of non-financial corporations (in foreign currencies)	1.4	1.5
Time deposits of households (in foreign currencies)	3.0	3.5
Demand deposits of households (in foreign currencies)	1.2	1.2
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	0.5480	0.5600
LVL/GBP	1.0250	1.0180
LVL/100 JPY	0.4900	0.4810
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)

	2006	
	V	VI
MFI reserves	928.5	924.4
Vault cash in national currency	85.1	88.4
Deposits with the Bank of Latvia	843.4	836.1
Foreign assets	3 411.2	3 509.5
Vault cash in foreign currencies	58.4	64.9
Claims on MFIs	2 021.3	2 046.1
Claims on non-MFIs	1 292.0	1 346.8
Other assets	39.5	51.7
Claims on central government	226.6	230.2
Claims on local government	88.7	88.6
Claims on public non-financial corporations	115.9	114.9
Claims on financial institutions and private non-financial corporations	4 158.2	4 260.6
Claims on households	3 035.9	3 190.6
Unclassified assets	757.1	737.5
Fixed assets	142.6	145.0
Items in transit	16.5	22.2
Other assets	80.8	87.8
Claims on resident MFIs (incl. investments)	517.3	482.4
Total assets	12 722.1	13 056.3
<i>Memo item: Trust assets</i>	430.5	453.0
Overnight deposits in lats	1 278.4	1 369.2
Public non-financial corporations	50.3	55.8
Financial institutions and private non-financial corporations	526.7	561.9
Households	701.4	751.5
Time deposits and deposits redeemable at notice in lats	726.1	734.8
Public non-financial corporations	102.0	100.0
Financial institutions and private non-financial corporations	177.7	179.8
Households	446.3	455.0
Foreign currency deposits of residents	1 528.2	1 571.8
Public non-financial corporations	18.4	17.3
Financial institutions and private non-financial corporations	472.7	494.1
Households	1 037.2	1 060.5
Deposits of central government	189.5	164.3
Deposits of local government	125.9	129.1
Transit funds	4.7	4.7
Foreign liabilities	6 700.6	6 979.5
Liabilities to MFIs	3 584.5	3 875.0
Liabilities to non-MFIs	2 871.7	2 870.2
Other liabilities (incl. subordinated liabilities)	244.4	234.3
Liabilities to the Bank of Latvia	46.3	1.2
Debt securities issued	304.5	319.0
Money market fund shares and units	36.6	34.4
Capital and reserves	997.4	1 010.4
Residents	584.1	597.0
Non-residents	413.3	413.3
Provisions	83.2	86.2
Unclassified liabilities	700.7	651.6
Items in transit	139.0	130.1
Other liabilities (incl. subordinated liabilities)	79.4	82.9
Liabilities to resident MFIs	482.4	438.6
Total liabilities	12 722.1	13 056.3
<i>Memo item: Trust liabilities</i>	430.5	453.0

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>).