

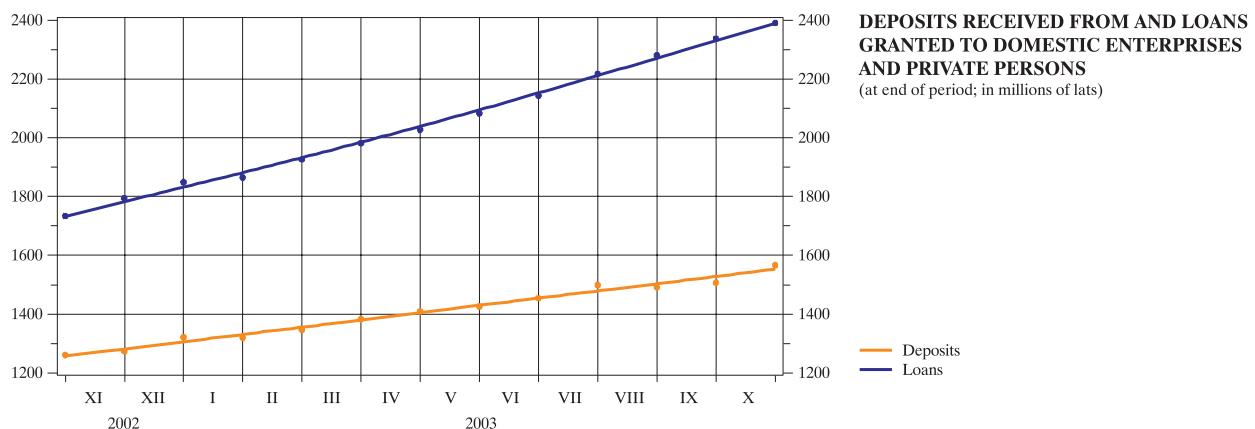
# MONETARY BULLETIN

10  
2003

In October, the Latvian economy continued its robust development. The data on the industrial and trade growth in September and an increase in the money supply in October indicated stability in the economy. A slight drop in the transit freight volume was observed in railway and port operation. Unemployment rate remained unchanged for the fourth consecutive month (8.5%). In October, the number of unemployed persons registered with the State Employment Service decreased year-on-year (by 1.8%). The general government consolidated budget maintained a fiscal surplus.

In October, consumer prices grew 0.9% month-on-month, including a rise in prices of goods and services of 0.9% and 0.7%, respectively. The annual inflation rate recorded a slight increase (to 3.3%). A price rise for vegetables (by 19.6%) and clothing and footwear (by 5.0%), as well as a pickup in several administratively regulated prices (tariffs for thermal energy and garbage collection increased by 4.0% and 25.6%, respectively) made a substantial impact on inflation in October.

Money supply in October recorded the highest monthly growth in 2003 (66.7 million lats or 3.2%), and the annual growth rate of M2X rose to 20.5%, whereas deposits of domestic enterprises and private persons (59.6 million lats or 4.0%) posted the highest increase since March 2002. The annual growth rate of deposits rose from 22.1% in September to 24.3% in October. By currency, deposits expanded as a result of a pickup in those granted in lats (34.3 million lats); by term, demand deposits recorded an increase (43.2 million lats), whereas by customer, enterprise deposits posted the highest rise (35.3 million lats). Cash outside banks increased slightly (by 7.2 million lats).



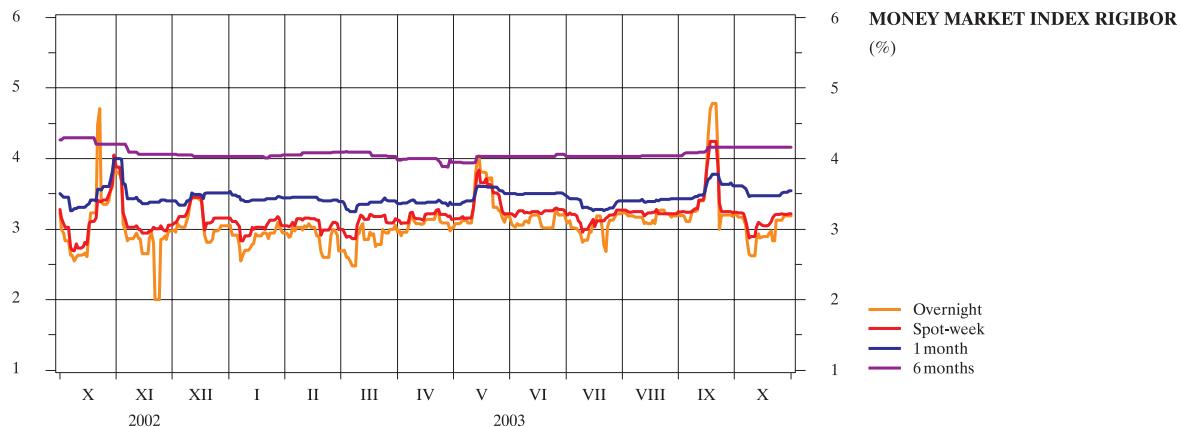
In October, the growth in loans to domestic enterprises and private persons (52.8 million lats) was at its low since April 2003, with the annual growth rate shrinking to 37.9%, the lowest level in the last nine months. Unlike the deposits received, a higher increase was reported for loans granted to private persons (32.8 million lats, including a pickup of 22.3 million lats in housing loans). Loans with maturity of over 5 years posted the highest growth (29.7 million lats), and so did mortgage loans (30.3 million lats).

Unlike several previous months, in October credit growth was funded by increased private sector deposits. Foreign liabilities of the banking sector decreased by 47.3 million lats, and its foreign assets increased by 16.0 million lats. The banking sector assets grew by 20.6 million lats. In the first ten months of 2003, banks' profit reached 60.0 million lats (a year-on-year increase of 35.1%).

In October, the demand for the Bank of Latvia's funds declined in comparison with September, since banks had built up excess liquidity actively making use of currency swaps at the end of the previous month. Repo loans were granted in the amount of 185.0 million lats only or 1.7 times less than in the previous month, and currency swaps also shrank 3.1 times (75.0 million lats only). Thus the Bank of Latvia's net foreign assets decreased by 8.9%, to 761.1 million lats. At the end of October, the backing of the national currency with the Bank of Latvia's net foreign assets was 100.4%.

Banks considerably decreased their borrowing on the domestic interbank market as well (its turnover of loans granted in lats dropped by 28.7%, reaching 398.3 million lats).

Banks' stable liquidity resulted in low and stable interest rates on the money market. Overnight RIGIBOR was within a range of 2.6% and 3.2%. RIGIBOR on loans with 3, 6 and 12-month maturity remained unchanged (3.8%, 4.2% and 4.5%, respectively). The weighted average interest rates on the Bank of Latvia's repo loans and interbank loans granted in lats shrank to 2.8% and 2.7%, respectively. The stable interest rates on the money market facilitated a slight decline in the interest rates on loans granted to domestic enterprises and private persons (0.1 percentage points; for short-term and long-term loans granted in lats to 5.2% and 7.4%, respectively). The weighted average interest rates on short-term and long-term loans granted in the OECD currencies were even lower (3.9% and 4.7%, respectively).



In October, the US dollar exchange rate against major world currencies remained low. The US dollar depreciated by 1.4% against the lats, whereas the euro, the British pound and the Japanese yen appreciated by 0.6%, 1.2% and 1.4%, respectively.

In the first ten months of 2003, the general government consolidated budget maintained the fiscal surplus (4.3 million lats; the fiscal deficit of the general government consolidated budget amounted to 32.1 million lats in the respective period last year), owing to the high level of the fiscal surplus of the social insurance budget (31.7 million lats) and the increasing tax revenue. Excise tax and value added tax revenue recorded the highest growth (in the first ten months of 2003, a year-on-year increase of approximately 20%).

An auction of 6-month Treasury bills was organised in October, where all securities supplied were sold (4.8 million lats), and the average discount rate was 20 basis points higher than in the previous auction in March 2003 (3.24%). An additional issue of 10-year Treasury bonds was held in October as well, where securities were sold in the amount of 1.5 million lats only, as the Government was not interested in accepting higher rates for borrowing under a balanced budget. The average yield on bonds was 5 basis points lower than in the previous auction in September (5.10%). In October, the government securities outstanding increased by 1.7%, reaching 414.2 million lats (5-year, 10-year and 3-year bonds accounted for 50.3%, 23.5% and 14.3%, respectively).

With transit through ports decreasing, the key transportation performance indicators slightly declined in October: the volume of rail freight dropped by 7.3% year-on-year, whereas cargo turnover at Latvian ports decreased by 4.0%.

In September, the data on industrial and trade development indicated a growth in the above sectors. The volume index of industrial output in manufacturing and in the energy sector grew 8.3% and 5.9% year-on-year,

	2003		MACROECONOMIC INDICATORS
	IX	X	
Changes in the volume index of industrial output (year-on-year basis; %)	7.4	*	
Changes in the CPI			
Month-on-month basis (%)	0.5	0.9	
Year-on-year basis (%)	3.1	3.3	
Annual rate of core inflation (%)	2.4	2.4	
Number of registered unemployed persons (at end of period)	89 849	89 366	
Unemployment rate (%)	8.5	8.5	
General government consolidated budget fiscal deficit/surplus (in millions of lats)	9.2	4.3	
Foreign trade (in millions of lats)			
Exports	143.6	*	
Imports	274.8	*	
Balance	-131.2	*	

\* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

**MONETARY INDICATORS**

(at end of period; in millions of lats)  
 (at end of period; in millions of US dollars)\*

	2003	
	IX	X
<b>Banking system</b>		
M2X	2 067.8	2 134.5
Currency outside banks	560.3	567.5
Deposits of domestic enterprises and private persons	1 507.5	1 567.1
Demand deposits	885.6	928.8
Time deposits	621.9	638.3
M2D	1 454.7	1 496.2
Net foreign assets	205.8	194.6
Net domestic assets	1 861.9	1 939.9
Loans to domestic enterprises and private persons	2 338.4	2 391.2
Short-term loans	338.5	350.6
Long-term loans	1 999.9	2 040.6
Credit to the Government (net)	105.1	117.1
<b>Bank of Latvia</b>		
M0	784.0	758.2
Currency in circulation	632.4	637.7
Deposits with the Bank of Latvia in lats	151.6	120.4
Net foreign assets	835.6	761.1
Net domestic assets	-51.6	-2.9
Credit	11.4	55.6
To banks	73.6	88.4
To the Government (net)	-62.2	-32.8
Other items (net)	-63.0	-58.5
International reserves*	1 490.45	1 373.13
Gold	94.66	96.15
Special Drawing Rights	0.04	0.04
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 395.67	1 276.86

**EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES**

	2003	
	IX	X
<b>Weighted average interest rate on domestic interbank loans in lats</b>		
	3.1	2.7
<b>Interest rates on loans to domestic enterprises and private persons</b>		
Short-term loans (in lats)	5.3	5.2
Short-term loans (in the OECD countries' currencies)	3.8	3.9
Long-term loans (in lats)	7.5	7.4
Long-term loans (in the OECD countries' currencies)	5.2	4.7
<b>Interest rates on deposits of domestic enterprises and private persons</b>		
Demand deposits (in lats)	0.9	0.9
Demand deposits (in the OECD countries' currencies)	0.7	0.5
Short-term deposits (in lats)	3.1	2.8
Short-term deposits (in the OECD countries' currencies)	1.4	1.4
Long-term deposits (in lats)	4.6	4.7
Long-term deposits (in the OECD countries' currencies)	2.9	2.8
The Bank of Latvia's refinancing rate (at end of period; %)	3.0	3.0
<b>Exchange rates of foreign currencies (at end of period)</b>		
LVL/USD	0.5650	0.5570
LVL/GBP	0.9360	0.9470
LVL/100 JPY	0.5080	0.5150
LVL/EUR	0.6460	0.6500

respectively, resulting in a 7.4% increase in the volume index of industrial output. Retail trade turnover posted a pickup of 15.4%.

In October, the producer price index in industry increased by 1.1% month-on-month. Producer prices for the goods sold on the domestic market grew by 1.2%, whereas those for exports rose by 1.0%. The price level was mostly affected by a price rise in electricity, gas, steam and hot water supply, as well as in the manufacturing of food and beverages (by 0.38 and 0.36 percentage points, respectively). In October, the producer price index in industry increased by 3.9% year-on-year.

	2003		<b>CONSOLIDATED BALANCE SHEET OF CREDIT INSTITUTIONS</b> (at end of period; in millions of lats)
	IX	X	
Bank reserves	222.9	189.6	
Vault cash in national currency	72.2	70.3	
Deposits with the Bank of Latvia	150.8	119.3	
Foreign assets	2 111.3	2 127.3	
Vault cash in foreign currency	50.6	48.1	
Claims on foreign banks	1 377.2	1 382.2	
Claims on foreign non-banks	659.3	675.2	
Other assets	24.3	21.8	
Claims on the central government (net)	163.8	132.2	
Claims on local governments (net)	3.5	17.7	
Claims on public enterprises	105.3	94.8	
Claims on private enterprises	1 607.3	1 638.2	
Claims on private persons	654.3	687.1	
Unclassified assets	330.1	332.3	
Fixed assets	114.3	114.6	
Items in transit	5.9	4.1	
Other assets	52.5	52.4	
Claims on domestic credit institutions (incl. investments)	157.4	161.2	
<b>TOTAL ASSETS</b>	<b>5 198.6</b>	<b>5 219.2</b>	
<i>Memo item: Trust assets</i>	744.6	558.8	
Demand deposits	525.6	547.6	
Public enterprises	33.5	32.9	
Private enterprises	241.0	252.6	
Private persons	251.0	262.0	
Time deposits	368.9	381.2	
Public enterprises	22.4	27.4	
Private enterprises	104.2	109.3	
Private persons	242.3	244.4	
Foreign currency deposits of residents	613.1	638.3	
Public enterprises	22.5	26.3	
Private enterprises	204.9	215.3	
Private persons	385.7	396.8	
Transit funds	9.3	7.5	
Foreign liabilities	2 741.1	2 693.8	
Liabilities to foreign banks	699.0	666.1	
Liabilities to foreign non-banks	1 929.8	1 917.7	
Other liabilities (incl. subordinated liabilities)	112.3	110.1	
Liabilities to the Bank of Latvia	73.6	88.4	
Debt securities	47.5	47.5	
Equity	455.3	459.7	
Residents	262.7	267.3	
Non-residents	192.5	192.4	
Provisions	67.5	65.7	
Unclassified liabilities	296.8	289.5	
Items in transit	104.3	95.8	
Other liabilities (incl. subordinated liabilities)	47.7	45.5	
Liabilities to domestic credit institutions	144.8	148.2	
<b>TOTAL LIABILITIES</b>	<b>5 198.6</b>	<b>5 219.2</b>	
<i>Memo item: Trust liabilities</i>	744.6	558.8	

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Bank of Latvia  
K. Valdemāra ielā 2a, Riga, LV-1050, Latvia  
Tel.: +371 702 2300 Fax: +371 702 2420  
<http://www.bank.lv>  
[info@bank.lv](mailto:info@bank.lv)

*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>).*