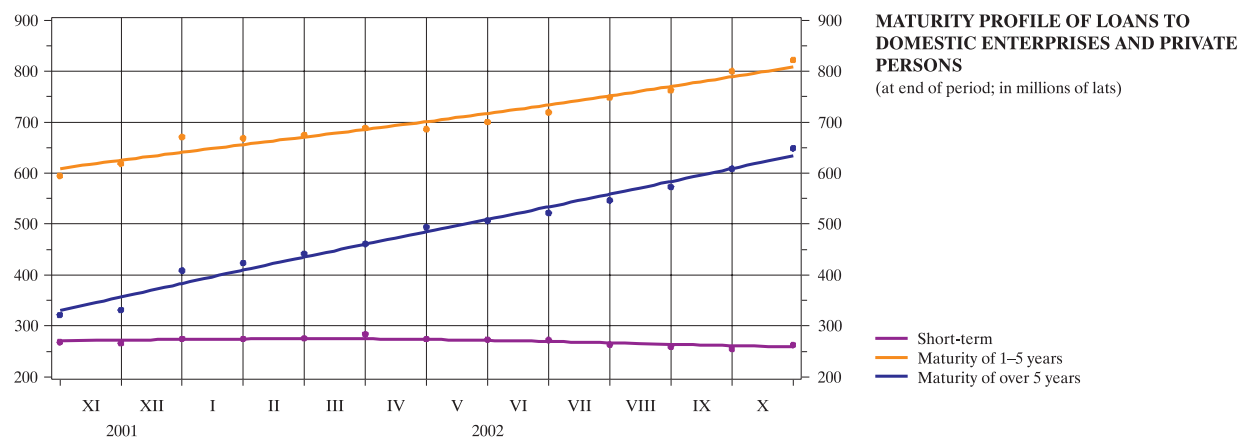


MONETARY BULLETIN

10•2002

Latvia's economic indicators for October confirm sustained stability in the national economy, and economic growth is expected to remain balanced. Although the outlook for the global economy is not overoptimistic, Latvia enjoys economic growth that is largely driven by domestic demand. Inflation remained low in October. Consumer prices were 1.6% higher than in October 2001 and 0.8% higher than in September. The pick-up in consumer prices was mostly a result of a seasonal rise in food, and clothing and footwear prices. The unemployment rate dropped to 7.7%. An increase notwithstanding, the fiscal deficit of the general government consolidated budget, which totalled 32.1 million lats, was 30.2% lower in the first ten months of 2002 than in the corresponding period of 2001. A notable continued increase in loans granted to domestic enterprises and private persons was facilitated by rising deposits.

In October, broad money M2X showed a month-on-month increase of 35.2 million lats and a year-on-year increase of 19.5%. The changes in broad money were determined by an increase of 26.6 million lats in deposits of domestic enterprises and private persons, which was the high of the last four months, and a rise of 8.6 million lats in currency outside banks.



Loans to domestic enterprises and private persons grew by 4.2% (year-on-year growth of 46.4%), reaching 1 734.3 million lats. The increase in loans granted to enterprises was slightly more pronounced than in loans granted to private persons (38.5 million lats and 31.6 million lats, respectively). The largest increase was observed in long-term loans (62.5 million lats or 4.4%, including 40.2 million lats or 6.6% for loans with maturity of over 5 years). At the same time, short-term loans rose by only 7.6 million lats. Mortgage loans rose by 25.1 million lats, owing to a number of factors, such as rather low lending rates, growing income, and people's wish for improved housing conditions. Commercial credit and industrial credit, which are related with the development of the trade and industrial sectors, also increased considerably (by 21.5 million lats and 13.3 million lats, respectively). The highest year-on-year growth was reported for mortgage loans (81.9%). Loans in lats and foreign currencies rose by 33.8 million lats and 36.3 million lats, respectively.

Credit institutions' assets grew by 3.2% (to 4.0 billion lats), whereas banks' equity increased by 0.9% (to 369.1 million lats). Banks' profit for the first ten months of 2002 amounted to 44.4 million lats (a year-on-year increase of 34.1%).

In October, the fiscal deficit of the general government consolidated budget increased by 12.2 million lats, while that of the central government basic budget rose by 4.6 million lats. Monthly revenues in the central government basic budget reached this year's high in October, owing largely to a month-on-month increase of 7.2 million lats in revenues from indirect taxes. Growth in tax revenues could largely be attributed to the value added tax, whose October revenues reached a record high. At the same time, an increase in expenditures in the central government basic budget was determined by higher target subsidies to local government budgets (a fiscal deficit of 5.7 million lats in October) and lending to the central government special budget (a fiscal deficit of 8.0 million lats). The indexation of pensions that was carried out in October accounted for a significant month-on-month increase of 10.1 million lats in the social security budget revenues.

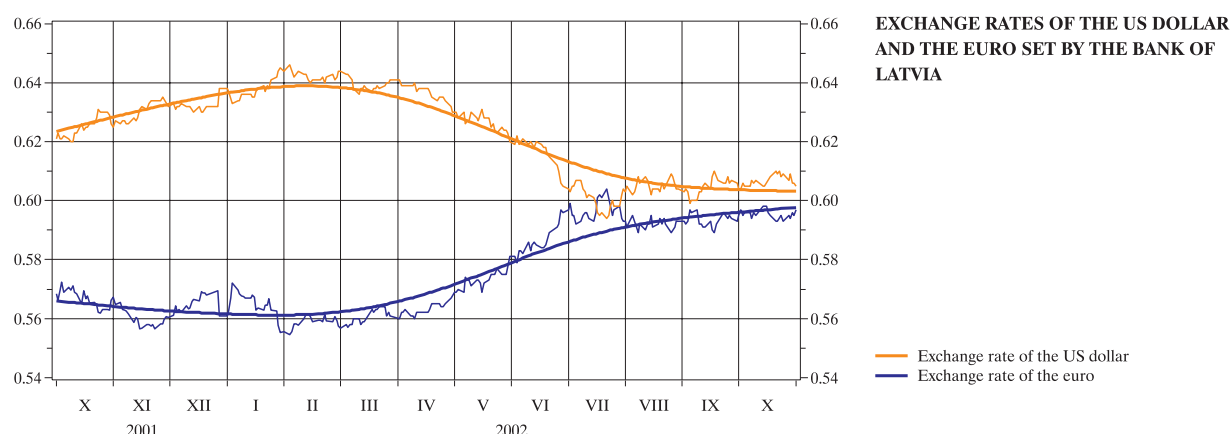
Government debt increased by 7.7 million lats, reaching 750.1 million lats. In October, an auction of 12-month Treasury bills was held, selling securities in the amount of 4.5 million lats (56.3% of the supply). Although the demand for securities was high (19.0 million lats), the securities supplied were not bought in full as yields were low—the weighted average discount rate dropped to 3.59% (down by 0.81 percentage points compared with the previous auction of such securities, which was held in April). In an auction with non-competitive bidding that was held at the Latvian Central Depository, all government securities supplied were sold.

Liquidity conditions in the Latvian money market slightly tightened, leading to a rise in interbank market interest rates on loans of shorter maturity (up to three months). The tightening of liquidity conditions, however, was temporary. Evidence to this was a further decline in interest rates on loans of longer maturity (over 6 months). At the end of October, the overnight RIGIBOR rose to 4.0%, whereas the 6-month RIGIBOR (interest rates on loans to domestic enterprises and private persons are usually linked to this rate) dropped to 4.2%.

Tightening liquidity was the reason why banks increasingly used the Bank of Latvia's lending facilities. At the same time, no major month-on-month changes were observed in loans granted on the domestic interbank market. The monthly amount of loans granted by the Bank of Latvia under repurchase agreements rose 1.6 times (to 66.9 million lats), and the monthly amount of Lombard loans, 28.7 million lats, was the largest since December 2001. The currency swap balance declined by 17.0%, as the value of the new deals was lower than the value of the deals redeemed. The Bank of Latvia received banks' time deposits in the amount of 10.5 million lats, and this amount was much lower than in the previous month.

Bank competition fostered a decline in interest rates on loans to domestic enterprises and private persons. Moreover, interest rates on loans in lats dropped to a record low in October. The weighted average interest rate of short-term loans in lats was 6.4%, but that of long-term loans in lats was 7.4%. The weighted average interest rates of short-term and long-term loans in the OECD currencies decreased (to 5.6% and 6.2%, respectively). The weighted average interest rates of both short-term and long-term deposits in lats rose (to 3.0% and 5.4%, respectively). The weighted average interest rate of short-term deposits in the OECD currencies increased to 2.2%, while that of such long-term deposits declined to 3.2%.

Since sizeable repayments were made under the currency swap arrangement, and the government made payments, using its foreign currency funds held as part in the central bank's foreign assets, the Bank of Latvia's net foreign assets declined by 47.0 million lats in October. The backing of the national currency with the Bank of Latvia's net foreign assets was 110.2% at the end of October. At the end of October, the Bank of Latvia's exchange



	2002	
	IX	X
Changes in the volume index of industrial output (year-on-year basis; %)	9.6	*
Changes in the CPI		
Month-on-month basis (%)	0.8	0.8
Year-on-year basis (%)	1.0	1.6
Annual rate of core inflation (%)	0.7	1.3
Number of registered unemployed persons (at end of period)	92 063	90 988
Unemployment rate (%)	7.8	7.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-19.9	-32.1
Foreign trade (in millions of lats)		
Exports	121.5	*
Imports	221.6	*
Balance	-100.1	*

MACROECONOMIC INDICATORS

* 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)*

	2002	
	IX	X
Banking system		
M2X	1 736.2	1 771.4
Currency outside banks	501.6	510.2
Deposits of domestic enterprises and private persons	1 234.6	1 261.2
Demand deposits	716.2	730.0
Time deposits	518.4	531.1
M2D	1 187.8	1 221.0
Net foreign assets	454.1	404.1
Net domestic assets	1 282.1	1 367.3
Loans to domestic enterprises and private persons	1 664.2	1 734.3
Short-term loans	255.1	262.7
Long-term loans	1 409.1	1 471.6
Credit to the Government (net)	68.9	76.0
Bank of Latvia		
M0	657.8	665.5
Currency in circulation	569.0	576.2
Deposits with the Bank of Latvia in lats	88.8	89.2
Net foreign assets	780.3	733.3
Net domestic assets	-122.5	-67.8
Credit	-55.6	-4.8
To banks	40.1	29.2
To the Government (net)	-95.7	-34.1
Other items (net)	-66.9	-63.0
International reserves*	1 308.71	1 227.26
Gold	79.75	78.76
Special Drawing Rights	0.20	0.20
Reserve position in the IMF	0.07	0.07
Foreign convertible currencies	1 228.69	1 148.23

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2002	
	IX	X
Weighted average interest rate on domestic interbank loans in lats	2.7	3.0
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	6.5	6.4
Short-term loans (in the OECD countries' currencies)	7.9	5.6
Long-term loans (in lats)	8.1	7.4
Long-term loans (in the OECD countries' currencies)	6.3	6.2
Interest rates on deposits of domestic enterprises and private persons		
Demand deposits (in lats)	0.9	1.0
Demand deposits (in the OECD countries' currencies)	0.9	1.0
Short-term deposits (in lats)	2.7	3.0
Short-term deposits (in the OECD countries' currencies)	2.1	2.2
Long-term deposits (in lats)	4.5	5.4
Long-term deposits (in the OECD countries' currencies)	5.2	3.2
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	0.6060	0.6060
LVL/GBP	0.9460	0.9430
LVL/100 JPY	0.4960	0.4920
LVL/EUR	0.5930	0.5950

rate for the US dollar against the lats was unchanged from the end of September. At the same time, the euro appreciated against the lats (by 0.3%), while the Japanese yen and the British pound depreciated (by 0.8% and 0.3%, respectively).

In October, cargo transit and import by rail grew rapidly. Cargo traffic by rail recorded one of the highest levels since the beginning of the year, rising 23.3% over October 2001. The transportation of oil by the oil main to the Ventspils port reached only a fourth of the turnover recorded the year before; therefore, cargo turnover fell 28.7% at the Ventspils port. At the same time the other ports of Latvia reported a high cargo turnover. Hence, total cargo turnover declined by only 6.5%.

The September data on the industrial sector, released by the Central Statistical Bureau of Latvia, confirmed a marked increase in output. Year-on-year, the volume index of industrial output rose by 9.6%, including 10.5% in manufacturing, 5.6% in electricity, gas and water supply and 24.8% in mining and quarrying. Retail trade turnover was 21.1% higher than in September 2001.

	2002	
	IX	X
Bank reserves	155.9	154.1
Vault cash in national currency	67.4	66.0
Deposits with the Bank of Latvia	88.6	88.0
Foreign assets	1 604.5	1 729.2
Vault cash in foreign currency	42.5	38.0
Claims on foreign banks	995.4	1 102.0
Claims on foreign non-banks	543.7	565.2
Other assets	23.0	23.9
Claims on the central government (net)	148.3	91.4
Claims on local governments (net)	16.2	18.7
Claims on public enterprises	93.2	92.6
Claims on private enterprises	1 235.1	1 274.6
Claims on private persons	358.3	389.9
Unclassified assets	295.9	282.5
Fixed assets	107.4	107.4
Items in transit	9.1	4.0
Other assets	52.5	49.6
Claims on domestic credit institutions (incl. investments)	126.9	121.6
TOTAL ASSETS	3 907.5	4 032.9
<i>Memo item: Trust assets</i>	<i>431.7</i>	<i>390.6</i>
Demand deposits	415.4	434.9
Public enterprises	39.3	38.2
Private enterprises	195.0	209.8
Private persons	181.1	186.9
Time deposits	270.8	275.9
Public enterprises	33.7	29.3
Private enterprises	69.1	73.8
Private persons	168.0	172.9
Foreign currency deposits of residents	548.4	550.4
Public enterprises	21.7	15.7
Private enterprises	195.8	199.0
Private persons	330.9	335.6
Transit funds	10.3	10.2
Foreign liabilities	1 930.7	2 058.3
Liabilities to foreign banks	446.8	410.3
Liabilities to foreign non-banks	1 411.5	1 572.3
Other liabilities (incl. subordinated liabilities)	72.3	75.8
Liabilities to the Bank of Latvia	40.1	29.2
Debt securities	25.5	28.6
Equity	365.9	369.1
Residents	167.8	170.9
Non-residents	198.2	198.2
Provisions	56.6	57.6
Unclassified liabilities	243.8	218.7
Items in transit	87.3	75.4
Other liabilities (incl. subordinated liabilities)	39.2	36.2
Liabilities to domestic credit institutions	117.3	107.1
TOTAL LIABILITIES	3 907.5	4 032.9
<i>Memo item: Trust liabilities</i>	<i>431.7</i>	<i>390.6</i>

**CONSOLIDATED BALANCE SHEET
OF CREDIT INSTITUTIONS**

(at end of period; in millions of lats)

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Bank of Latvia
K. Valdemāra ielā 2a, Rīga, LV-1050, Latvia
Tel.: +371 702 2300 Fax: +371 702 2420
<http://www.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 at the Bank of Latvia's Internet website (http://www.bank.lv/FinancialData/English/index_LB.html).