

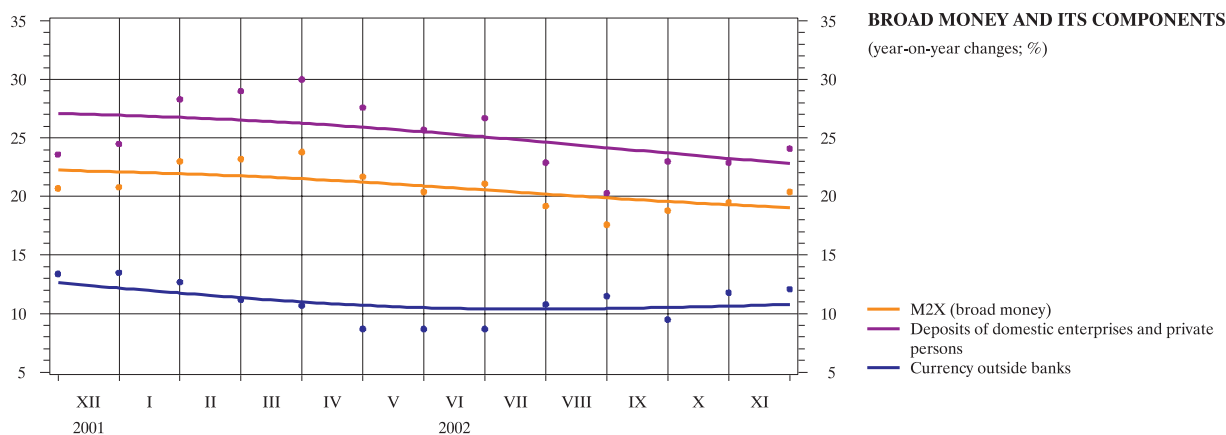
# MONETARY BULLETIN

**11•2002**

Stable economic growth, along with events essential for Latvia's future, continued in November. The invitation to join NATO, a fact of major political significance, acknowledged Latvia's place among the secure and stable states of the world, and is certain to be a positive impetus for economic development. The international rating agency *Moody's Investors Service* emphasized that the integration in the European Union of the accession countries, including Latvia, is an irreversible process that considerably reduces eventual risks, and upgraded Latvia's credit rating (for the first time since 1997) from Baa2 to A2 for government bonds in foreign currencies and Latvia's foreign currency ceilings for long-term bonds and notes, and from Prime2 to Prime1 for short-term bonds and notes and bank deposits. In its autumn report on the economic development of the accession countries, the European Commission continued to project the greatest annual GDP growth for Latvia among the EU accession countries. This was confirmed by the data released on the rapid growth of the GDP in the third quarter (7.4%).

Inflation remained low in Latvia. Consumer prices rose by 1.6% year-on-year, while their month-on-month increase was 0.2%. Changes in prices were mostly caused by seasonal growth in food prices (by 1.0%, including 11.1% for potatoes and 8.5% for vegetables), as well as by a decline in prices of passenger traffic by rail. The unemployment rate remained unchanged, whereas the number of unemployed persons decreased year-on-year. In the first eleven months of 2002, fiscal deficit in the general government consolidated budget (43.6 million lats) indicated a year-on-year decrease of 24.4%.

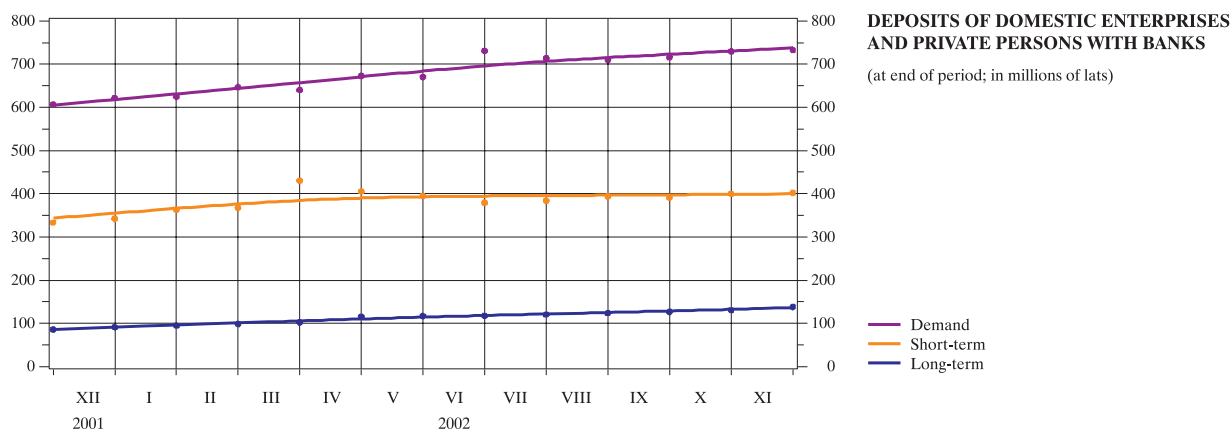
In November, broad money M2X increased by 23.7 million lats or 1.3% month-on-month, and by 20.4% year-on-year. This growth was determined by the rise in net domestic assets of the banking system, while net foreign assets dropped slightly.



In November, growth in loans granted to domestic enterprises and private persons (60.2 million lats) was by approximately 10 million lats lower than in September and October; however, year-on-year growth in such loans reached 47.5% (46.4% in October). The November growth in loans was determined, as usual, by a rise in long-term loans (by 41.0 million lats or 2.8%, including 26.0 million lats or 4.0% for maturity of over 5 years); nevertheless, growth in short-term loans also showed the highest monthly increase in 2002 (19.2 million lats). Loans granted in lats and in foreign currencies grew by 29.7 million lats and 30.5 million lats, respectively. The low lending rates, as well as the economic activity of Latvia, accounted for the considerable increase of industrial credit and commercial credit (22.8 million lats and 15.2 million lats, respectively). Due to seasonal factors, a less marked increase was observed in mortgage loans (4.1 million lats).

Growth in loans was partly funded by growth in deposits held with banks by domestic enterprises and private persons (12.7 million lats). Banks' funds also expanded due to the rapid growth in government deposits (43.2 million lats). Currency outside banks increased by 11.0 million lats, owing to seasonal factors.

Credit institutions' assets grew by 1.5% in November, amounting to 4.1 billion lats, while banks' equity increased by 2.6%, amounting to 378.7 million lats. Banks' profit for the first eleven months of 2002 totalled 50.3 million lats (year-on-year growth of 11.7%).



In November, fiscal deficit in the general government consolidated budget increased by 11.5 million lats. A considerable rise was recorded in the expenditure of the central government basic budget, mostly due to interest payment to foreign institutions. In the first eleven months of 2002, year-on-year growth was recorded in revenue from all taxes, except customs duty. Revenue from the personal income tax, the social security tax and the excise tax increased by 11.9%, 8.4% and 7.9%, respectively. In the first eleven months of 2002, the fiscal surplus of the general government special budget amounted to 1.9 million lats. The social security budget was successfully fulfilled, as its deficit decreased by 2.4 million lats in November, totalling only 2.3 million lats in the first eleven months of 2002.

Government debt rose by 2.0 million lats in November, amounting to 752.0 million lats at the end of November 2002.

The interbank money market interest rates on the lats loans of longer maturity continued to decline in November, dropping to record low levels. At the end of November, the overnight RIGIBOR was 3.0%, while that of 6-month loans was 4.1%.

The weighted average interest rates on loans in lats and in the currencies of the OECD countries, granted to domestic enterprises and private persons, did not show substantial changes. A slight decline was observed for short-term loans in lats and long-term loans in the currencies of the OECD countries (to 6.3% and 5.8%, respectively), while the rates on long-term loans in lats and short-term loans in the currencies of the OECD countries increased (to 7.8% and 5.9%, respectively). The weighted average interest rates on short-term and long-term deposits in lats dropped to 2.8% and 5.2%, respectively, whereas the weighted average interest rate on short-term deposits in the currencies of the OECD countries dropped to 2.0%. Only the weighted average interest rate on long-term deposits in the currencies of the OECD countries indicated a slight increase (to 3.9%).

Liquidity of the banking sector was sufficient, and banks' demand for the Bank of Latvia's credit decreased, as did the volume of the domestic interbank market borrowing in national currency. Loans granted by the Bank of Latvia under repurchase agreement declined by 28.4% (to 47.9 million lats), and Lombard loans were not used. Turnover of loans in lats in the domestic interbank market (303.3 million lats) decreased for the third consecutive month. Currency swap deals declined by 18.9%.

Due to repayment of currency swaps of the previous months, net foreign assets of the Bank of Latvia decreased by 20.5 million lats. At the end of November, the backing of the national currency with the Bank's net foreign assets was 99.9%.

|   | 2002   |        |
|---|--------|--------|
|   | X      | XI     |
| Changes in the volume index of industrial output (year-on-year basis; %)            | 12.4   | *      |
| Changes in the CPI  |        |        |
| Month-on-month basis (%)  | 0.8    | 0.2    |
| Year-on-year basis (%)  | 1.6    | 1.6    |
| Annual rate of core inflation (%)   | 1.3    | 1.3    |
| Number of registered unemployed persons (at end of period)                          | 90 988 | 90 787 |
| Unemployment rate (%)   | 7.7    | 7.7    |
| General government consolidated budget fiscal deficit/surplus (in millions of lats) | -32.1  | -43.6  |
| Foreign trade (in millions of lats)   |        |        |
| Exports   | 133.7  | *      |
| Imports   | 255.7  | *      |
| Balance   | -122.0 | *      |

#### 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     |          |
|--|----------|----------|
|  | X        | XI       |
| <b>Banking system</b>                                |          |          |
| M2X  | 1 771.4  | 1 795.1  |
| Currency outside banks                               | 510.2    | 521.2    |
| Deposits of domestic enterprises and private persons | 1 261.2  | 1 273.9  |
| Demand deposits                                      | 730.0    | 733.1    |
| Time deposits  | 531.1    | 540.8    |
| M2D  | 1 221.0  | 1 239.9  |
| Net foreign assets                                   | 404.1    | 387.6    |
| Net domestic assets                                  | 1 367.3  | 1 407.5  |
| Loans to domestic enterprises and private persons    | 1 734.3  | 1 794.5  |
| Short-term loans                                     | 262.7    | 281.9    |
| Long-term loans                                      | 1 471.6  | 1 512.6  |
| Credit to the Government (net)                       | 76.0     | 90.8     |
| <b>Bank of Latvia</b>                                |          |          |
| M0   | 665.5    | 713.2    |
| Currency in circulation                              | 576.2    | 585.8    |
| Deposits with the Bank of Latvia in lats             | 89.2     | 127.4    |
| Net foreign assets                                   | 733.3    | 712.8    |
| Net domestic assets                                  | -67.8    | 0.4      |
| Credit   | -4.8     | 62.7     |
| To banks   | 29.2     | 35.7     |
| To the Government (net)                              | -34.1    | 27.1     |
| Other items (net)                                    | -63.0    | -62.3    |
| International reserves*                              | 1 227.26 | 1 193.54 |
| Gold   | 78.76    | 78.70    |
| Special Drawing Rights                               | 0.20     | 0.08     |
| Reserve position in the IMF                          | 0.07     | 0.07     |
| Foreign convertible currencies                       | 1 148.23 | 1 114.69 |

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

|   | 2002   |        |
|---|--------|--------|
|   | X      | XI     |
| Weighted average interest rate on domestic interbank loans in lats            | 3.0    | 2.6    |
| <b>Interest rates on loans to domestic enterprises and private persons</b>    |        |        |
| Short-term loans (in lats)  | 6.4    | 6.3    |
| Short-term loans (in the OECD countries' currencies)                          | 5.6    | 5.9    |
| Long-term loans (in lats)   | 7.4    | 7.8    |
| Long-term loans (in the OECD countries' currencies)                           | 6.2    | 5.8    |
| <b>Interest rates on deposits of domestic enterprises and private persons</b> |        |        |
| Demand deposits (in lats)   | 1.0    | 0.9    |
| Demand deposits (in the OECD countries' currencies)                           | 1.0    | 0.8    |
| Short-term deposits (in lats)   | 3.0    | 2.8    |
| Short-term deposits (in the OECD countries' currencies)                       | 2.2    | 2.0    |
| Long-term deposits (in lats)  | 5.4    | 5.2    |
| Long-term deposits (in the OECD countries' currencies)                        | 3.2    | 3.9    |
| 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   | 0.6060 | 0.6050 |
| LVL/GBP   | 0.9430 | 0.9350 |
| LVL/100 JPY   | 0.4920 | 0.4950 |
| LVL/EUR   | 0.5950 | 0.5990 |

In November, the Bank of Latvia's exchange rate of the US dollar against the lats dropped by 0.2%, while that of the euro rose by 0.7%. The exchange rate for the Japanese yen against the lats rose by 0.6%, whereas that of the British pound dropped by 0.8%.

In November, a year-on-year increase of 24.2% was recorded in cargo traffic by rail. As oil transit transportation by the oil main continued to decline, cargo turnover at the Ventspils port dropped by 33.7%, while total cargo turnover at the ports of Latvia declined by 9.0%.

According to the October data on the development of the industrial sector, released by the Central Statistical Bureau of Latvia, rapid growth continued in this sector. The volume index of manufacturing increased by 8.9% year-on-year, while those of electricity, gas and water supply rose by 25.5%, owing to considerable growth in heat production. The volume index of industrial output increased by 12.4%. In October, the retail trade turnover rose by 24.7% year-on-year.

|  | 2002           |                |
|--|----------------|----------------|
|  | X              | XI             |
| Bank reserves  | 154.1          | 191.0          |
| Vault cash in national currency                            | 66.0           | 64.7           |
| Deposits with the Bank of Latvia                           | 88.0           | 126.3          |
| Foreign assets   | 1 729.2        | 1 723.8        |
| Vault cash in foreign currency                             | 38.0           | 44.4           |
| Claims on foreign banks                                    | 1 102.0        | 1 096.7        |
| Claims on foreign non-banks                                | 565.2          | 564.6          |
| Other assets   | 23.9           | 18.1           |
| Claims on the central government (net)                     | 91.4           | 47.1           |
| Claims on local governments (net)                          | 18.7           | 16.6           |
| Claims on public enterprises                               | 92.6           | 98.0           |
| Claims on private enterprises                              | 1 274.6        | 1 302.7        |
| Claims on private persons                                  | 389.9          | 417.0          |
| Unclassified assets  | 282.5          | 295.5          |
| Fixed assets   | 107.4          | 107.0          |
| Items in transit   | 4.0            | 4.0            |
| Other assets   | 49.6           | 47.2           |
| Claims on domestic credit institutions (incl. investments) | 121.6          | 137.3          |
| <b>TOTAL ASSETS</b>  | <b>4 032.9</b> | <b>4 091.7</b> |
| <i>Memo item: Trust assets</i>                             | <i>390.6</i>   | <i>405.8</i>   |
| Demand deposits  | 434.9          | 427.1          |
| Public enterprises   | 38.2           | 32.5           |
| Private enterprises  | 209.8          | 204.1          |
| Private persons  | 186.9          | 190.6          |
| Time deposits  | 275.9          | 291.6          |
| Public enterprises   | 29.3           | 28.2           |
| Private enterprises  | 73.8           | 77.7           |
| Private persons  | 172.9          | 185.6          |
| Foreign currency deposits of residents                     | 550.4          | 555.2          |
| Public enterprises   | 15.7           | 16.8           |
| Private enterprises  | 199.0          | 199.8          |
| Private persons  | 335.6          | 338.5          |
| Transit funds  | 10.2           | 10.1           |
| Foreign liabilities  | 2 058.3        | 2 049.0        |
| Liabilities to foreign banks                               | 410.3          | 432.8          |
| Liabilities to foreign non-banks                           | 1 572.3        | 1 533.6        |
| Other liabilities (incl. subordinated liabilities)         | 75.8           | 82.7           |
| Liabilities to the Bank of Latvia                          | 29.2           | 35.7           |
| Debt securities  | 28.6           | 31.7           |
| Equity   | 369.1          | 378.7          |
| Residents  | 170.9          | 195.8          |
| Non-residents  | 198.2          | 182.9          |
| Provisions   | 57.6           | 58.8           |
| Unclassified liabilities                                   | 218.7          | 253.8          |
| Items in transit   | 75.4           | 94.6           |
| Other liabilities (incl. subordinated liabilities)         | 36.2           | 36.8           |
| Liabilities to domestic credit institutions                | 107.1          | 122.3          |
| <b>TOTAL LIABILITIES</b>                                   | <b>4 032.9</b> | <b>4 091.7</b> |
| <i>Memo item: Trust liabilities</i>                        | <i>390.6</i>   | <i>405.8</i>   |

**CONSOLIDATED BALANCE SHEET  
OF CREDIT INSTITUTIONS**

(at end of period; in millions of lats)

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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>).