

MONETARY BULLETIN

12
2003

In December 2003, the indicators of the Latvian economic development suggested that its growth rate remained high. A pickup in the money supply was particularly rapid, with deposits of domestic enterprises and private persons as well as cash outside banks increasing (by 73.3 million lats and 26.3 million lats, respectively). Loans granted to domestic enterprises and private persons grew at a stable rate.

At the end of 2003, the fiscal deficit of the general government consolidated budget was 103.2 million lats (1.8% of estimated GDP, a low in the last five years).

In 2003, the revenue and the expenditure of the general government consolidated budget grew 11.3% and 9.2% year-on-year, respectively. In December, the fiscal deficit of the general government consolidated budget rose by 97.9 million lats. With the expenditure increasing sharply, the fiscal deficit of both the central government basic budget (41.2 million lats; 110.9 million lats in 2003) and the special budget (34.6 million lats; but a surplus of 18.8 million lats in this budget in 2003) was recorded in December. A fiscal deficit was reported in the local government consolidated budget as well. Tax revenue continued to grow, in December exceeding their last year's level by 5.8% (by 11.3% in 2003).

With the expenditure and the fiscal deficit of the general government budget increasing at the end of 2003, the banking sector's lending to the central government expanded, while the central government deposits with banks and the Bank of Latvia shrank at the same time. In December, the banking system's net credit to the Government rose by 109.9 million lats.

In December, the increase in consumer prices declined month-on-month (to 0.2%), whereas the annual consumer price inflation remained unchanged (3.6%). The price rise in December resulted from higher prices for food products (1.1%, mostly for vegetables, fruit, bread and cereal products), whereas price discounts underlay a drop in the prices of clothing, footwear, as well as household goods. In 2003, the average price level rose 2.9% year-on-year.

With the number of seasonally employed persons declining as compared to the previous months, the level of registered unemployment rate slightly increased (to 8.6%). At the end of December, the number of unemployed persons registered with the State Employment Service grew 0.4% month-on-month and 0.9% year-on-year.

With broad money M2X increasing by 4.6%, its annual growth rate reached 21.1% in December (a high since the middle of 2002). A 4.6% rise was recorded also for cash outside banks and for deposits of domestic enterprises and private persons, and the annual growth rate of these indicators reached 10.7% and 25.4%, respectively or 0.4 percentage points and 1.0 percentage points higher month-on-month, respectively. The pickup in deposits attracted in lats was particularly marked (83.8 million lats or 8.8%), therefore in December domestic money supply M2D rose 7.2% (the annual growth rate was 23.4%). A rapid increase of 60.6 million lats or 9.2% in time deposits (mostly with 1–6 month maturity) underlay a decline (1.8 percentage points, to 56.8%) in the share of demand deposits in total deposits.

Loans granted to domestic enterprises and private persons grew somewhat slower than in November (by 73.6 million lats or 3.0%), with their annual growth rate shrinking by 0.1 percentage points, to 37.5%. Loans granted to private persons recorded a higher pickup (45.5 million lats or 6.4%, including a rise of 37.4 million lats or 8.3% in housing loans). Thus, mortgage loans continued to dominate (an increase of 40.6 million lats or 5.5%). A pickup in industrial credit was more pronounced than usually (25.5 million lats or 5.1%).

In December, with funds attracted from residents growing, the share of liabilities to foreign banks also continued to increase (by 110.8 million lats or 14.6%) in the foreign liabilities of the banking sector, whereas net foreign assets of the banking system decreased by 63.2 million lats (foreign assets of the banking sector shrank by 23.6 million lats).

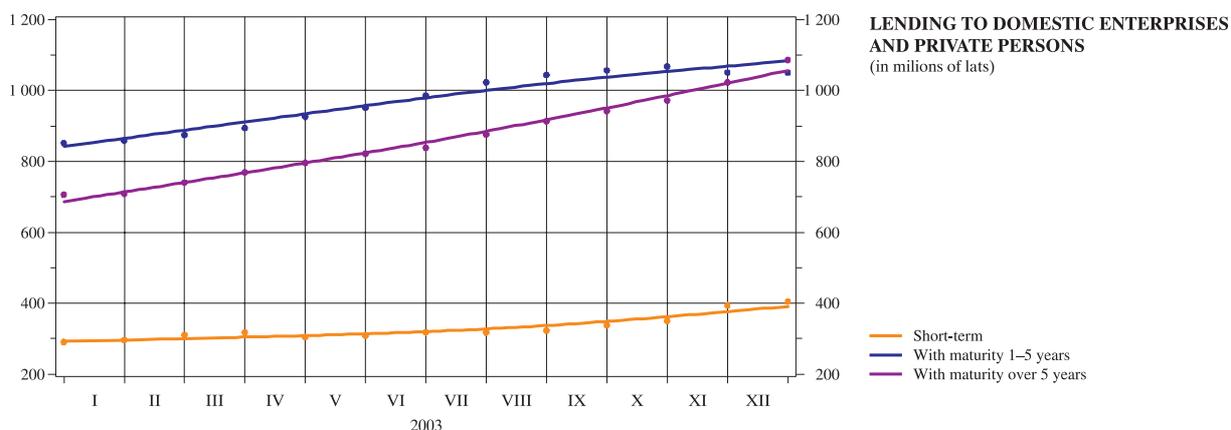
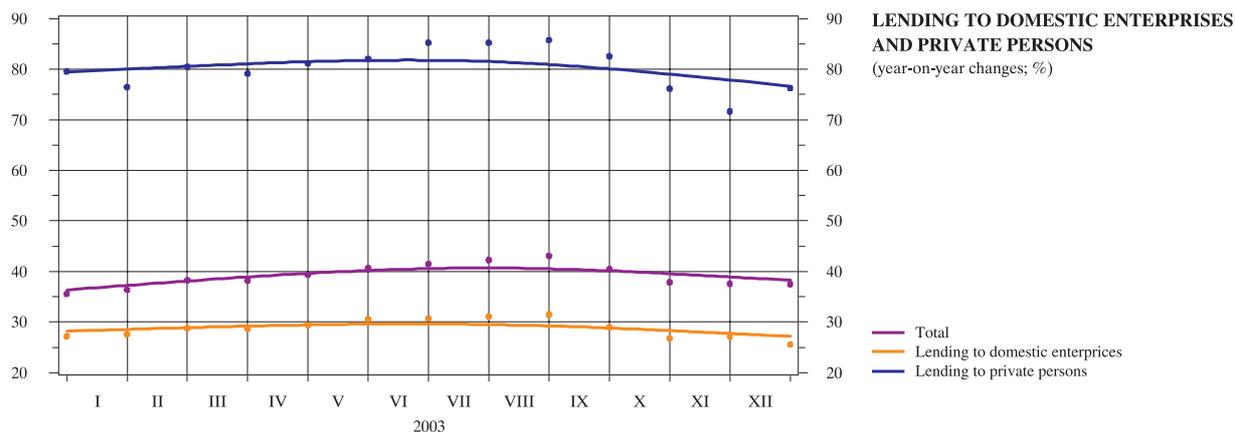
The banking sector's assets grew by 210.3 million lats (to 5.6 billion lats) in December. In 2003, banks' profit reached 71.6 million lats (27.0% higher than in 2002).

The banking sector's liquidity improved considerably in December, and interest rates shrank on the money market. On the interbank market, the weighted average interest rate decreased to 3.2%, and in mid-December overnight RIGIBOR dropped to 2.9–3.2% (from 4.5% at the beginning of the month). For longer-term loans (with 3, 6 and 12-month maturity), RIGIBOR declined slightly (by 0.1 percentage points), not affecting the weighted average interest rates on loans granted to domestic enterprises and private persons yet. In December, they rose by 0.2 percentage points, reaching 5.8% and 7.4% for short-term and long-term loans, respectively.

In December, banks improved the lats liquidity by selling foreign currency in the amount of 55.2 million lats to the Bank of Latvia. The amount of loans granted at the repo tenders organised by the Bank of Latvia was smaller than in November (210.4 million lats), but currency swaps increased to 137.7 million lats. Nevertheless, as a result of the diverse maturity profile, at the end of December the amount of repo loans was larger, and that of currency swaps was smaller than in November. The level of banks' borrowing on the domestic interbank market was higher month-on-month (loans in lats increased 1.6 times, to 469.6 million lats). In December, the Bank of Latvia's net foreign assets grew 1.4% (to 824.0 million lats). At the end of December, the backing of the national currency with the Bank of Latvia's net foreign assets was 102.1%.

On the global foreign exchange market, the US dollar continued to depreciate. In December, the US dollar and the Japanese yen depreciated against the lats by 2.2% and 0.2%, respectively, whereas the euro and the British pound appreciated by 2.1% and 1.5%, respectively.

One auction of 12-month Treasury bills was held in December. Of the stock supplied in the amount of 9.6 million lats, Treasury bills totalling 4.5 million lats were sold. The average discount rate of the bills was 12 basis



	2003	
	XI	XII
Changes in the volume index of industrial output (year-on-year basis; %)	2.9	*
Changes in the CPI		
Month-on-month basis (%)	0.5	0.2
Year-on-year basis (%)	3.6	3.6
Annual rate of core inflation (%)	2.6	2.6
Number of registered unemployed persons (at end of period)	90 214	90 551
Unemployment rate (%)	8.5	8.6
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-5.3	-103.2
Foreign trade (in millions of lats)		
Exports	142.2	*
Imports	256.8	*
Balance	-114.6	*

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)*

	2003	
	XI	XII
Banking system		
M2X	2 159.3	2 258.7
Currency outside banks	574.8	601.1
Deposits of domestic enterprises and private persons	1 584.4	1 657.7
Demand deposits	929.0	941.7
Time deposits	655.4	716.0
M2D	1 524.9	1 634.9
Net foreign assets	138.6	75.4
Net domestic assets	2 020.6	2 183.4
Loans to domestic enterprises and private persons	2 469.0	2 542.6
Short-term loans	394.4	405.2
Long-term loans	2 074.6	2 137.4
Credit to the Government (net)	140.3	250.2
Bank of Latvia		
M0	749.7	806.8
Currency in circulation	646.3	682.1
Deposits with the Bank of Latvia in lats	103.4	124.6
Net foreign assets	813.0	824.0
Net domestic assets	-63.3	-17.2
Credit	-2.8	44.4
To banks	50.0	59.3
To the Government (net)	-52.8	-15.0
Other items (net)	-60.6	-61.6
International reserves*	1 482.24	1 535.11
Gold	98.41	102.67
Special Drawing Rights	0	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 383.75	1 432.22

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2003	
	XI	XII
Weighted average interest rate on domestic interbank loans in lats	3.7	3.2
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	5.6	5.8
Short-term loans (in the OECD countries' currencies)	3.9	4.5
Long-term loans (in lats)	7.2	7.4
Long-term loans (in the OECD countries' currencies)	4.7	4.2
Interest rates on deposits of domestic enterprises and private persons		
Demand deposits (in lats)	0.9	0.8
Demand deposits (in the OECD countries' currencies)	0.7	0.6
Short-term deposits (in lats)	3.7	3.4
Short-term deposits (in the OECD countries' currencies)	1.5	1.7
Long-term deposits (in lats)	4.7	4.6
Long-term deposits (in the OECD countries' currencies)	3.3	2.8
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	0.5530	0.5410
LVL/GBP	0.9460	0.9600
LVL/100 JPY	0.5070	0.5060
LVL/EUR	0.6600	0.6740

points higher than in the previous auction in September, reaching 3.49%. In December, the stock of government securities outstanding grew 1.3%, reaching 375.8 million lats at the end of period (5-year bonds and 10-year bonds accounted for 55.4% and 25.9% of them, and the share of 12-month bills was 12.2%).

With transportation by rail continuing intensively in December, the freight transported increased by 22.1% year-on-year. Cargo turnover at Latvian ports expanded 4.4% year-on-year, and the amount of oil products transported by pipeline increased by 8.3%.

The production growth rate in industry declined in November: the seasonally adjusted volume index of industrial output in manufacturing improved only by 3.1%. The pickup in mining and quarrying and the energy sector was even smaller (1.8% and 1.6%, respectively). Whereas the retail trade turnover in constant prices grew 10.4%.

In December, the producer price index remained unchanged month-on-month, but recorded a year-on-year rise of 4.1%.

	2003	
	XI	XII
Bank reserves	173.8	204.9
Vault cash in national currency	71.4	81.1
Deposits with the Bank of Latvia	102.4	123.8
Foreign assets	2 226.0	2 202.4
Vault cash in foreign currency	49.5	52.5
Claims on foreign banks	1 458.0	1 464.8
Claims on foreign non-banks	689.5	666.3
Other assets	29.0	18.7
Claims on the central government (net)	171.3	250.8
Claims on local governments (net)	21.8	14.3
Claims on public enterprises	95.2	87.4
Claims on private enterprises	1 686.7	1 722.8
Claims on private persons	716.1	761.6
Unclassified assets	343.1	400.0
Fixed assets	115.1	116.2
Items in transit	9.5	7.7
Other assets	54.8	56.0
Claims on domestic credit institutions (incl. investments)	163.6	220.0
TOTAL ASSETS	5 433.9	5 644.2
<i>Memo item: Trust assets</i>	<i>521.6</i>	<i>658.6</i>
Demand deposits	551.5	584.7
Public enterprises	34.1	36.5
Private enterprises	243.9	261.4
Private persons	273.5	286.7
Time deposits	398.5	449.1
Public enterprises	33.0	42.6
Private enterprises	119.3	141.6
Private persons	246.2	264.9
Foreign currency deposits of residents	634.4	623.9
Public enterprises	24.4	25.6
Private enterprises	208.1	202.1
Private persons	402.0	396.2
Transit funds	7.4	6.8
Foreign liabilities	2 900.4	2 951.0
Liabilities to foreign banks	760.3	871.1
Liabilities to foreign non-banks	2 008.7	1 999.1
Other liabilities (incl. subordinated liabilities)	131.5	80.8
Liabilities to the Bank of Latvia	50.0	59.3
Debt securities	48.0	52.2
Equity	465.0	482.9
Residents	272.0	281.0
Non-residents	193.1	201.1
Provisions	68.7	68.8
Unclassified liabilities	310.1	365.5
Items in transit	108.6	105.4
Other liabilities (incl. subordinated liabilities)	50.8	51.8
Liabilities to domestic credit institutions	150.6	208.3
TOTAL LIABILITIES	5 433.9	5 644.2
<i>Memo item: Trust liabilities</i>	<i>521.6</i>	<i>658.6</i>

**CONSOLIDATED BALANCE SHEET
OF CREDIT INSTITUTIONS**

(at end of period; in millions of lats)

© Latvijas Banka, 2004

The source is to be indicated when reproduced.
Certificate of Registration No. 1720

Bank of Latvia
K. Valdemāra ielā 2a, Rīga, LV-1050, Latvia
Tēl.: +371 702 2300 Fax: +371 702 2420
<http://www.bank.lv>
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>).