

# MONETARY BULLETIN 2005

## 12

According to preliminary information, Latvia's economy continued to develop buoyantly in the fourth quarter, and the high growth rate achieved in the third quarter remained broadly unchanged. As in October, a substantial rise in all key economic sectors was recorded in November and December. An especially high annual growth was reported in trade, and the working day adjusted retail trade turnover at constant prices increased by 20.6% in November. The seasonally adjusted volume index of industrial output in manufacturing picked up 10.1% year-on-year in November, while the total industrial output increased by 7.0%. In December, freight carried by rail grew by 14.6% year-on-year, whereas the growth in cargo turnover at Latvian ports (22.0%) was even more notable. Unemployment declined to 7.4%.

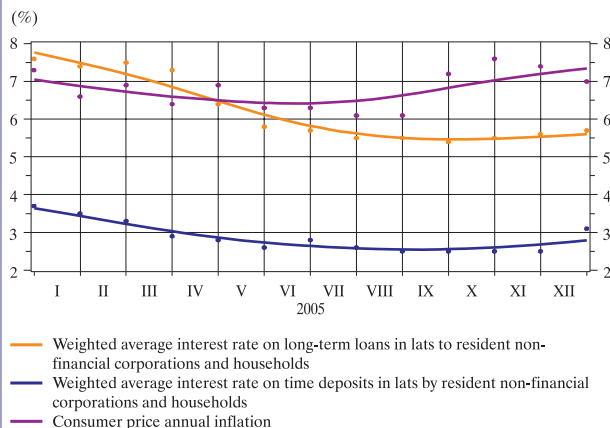
In December, consumer prices dropped 0.1% month-on-month, with the annual growth rate decelerating to 7.0%. The changes primarily resulted from the easing effects of fuel prices and the sustained tight competition in the communications market. The pressure of unprocessed food prices on inflation also eased. However, prices of some services continued to rise (catering by 0.7%, kindergarten charges by 1.4% and tourism services by 2.9%). In 2005, the average annual inflation stood at 6.7% (0.5 percentage point over 2004), while the average annual core inflation rose to 5.5%.

The rapid rise in bank lending facilitated strengthening of the domestic demand. In December, the annual growth in loans granted to resident financial institutions, non-financial corporations and households accelerated by 2.2 percentage points, mounting to 64.3%. The annual growth in mortgage lending in December exceeded 100%, including an 89.7% rise in loans to households for house purchase. Growth in industrial credit was considerably slower (39.5%). In December, total loans grew by 264.2 million lats (slightly less than in November). Loans in both the euro and lats increased (by 252.9 million lats and 60.2 million lats, respectively), whereas lending in other currencies shrank. Slightly more than a half of total loans went to resident financial institutions and non-financial corporations; in December, the amount of loans granted to these customers expanded by 141.8 million lats, but loans to households grew by 122.4 million lats. The annual growth rate of lending to resident financial institutions and non-financial corporations, as well as households accelerated and in December stood at 53.3% and 84.2%, respectively.

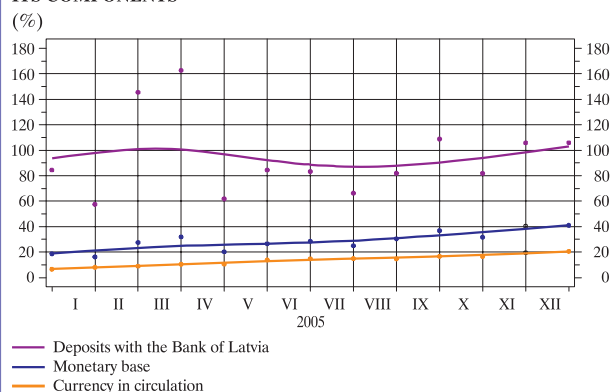
In December, the financial deficit of the general government consolidated budget was 211.9 million lats (with the financial deficit of the central government budget in the amount of 149.0 million lats and that of the local government consolidated budget in the amount of 52.0 million lats). The financial deficit of the general government consolidated budget for 2005 stood at 113.3 million lats. In December, the general government consolidated budget revenue increased by 17.3% and expenditure by 24.3% year-on-year. The rise in the total budget revenue was triggered by a pick-up in revenues from the value added tax, which grew particularly robustly by 56.2% due to the strong private demand, excise tax, personal income tax and social security contributions. An increase in the central government consolidated budget expenditure was a result of a rise in wages and salaries and budget transfers as well as investments in the government sector.

Latvian central government and local government debt rose

**CONSUMER PRICE ANNUAL INFLATION AND WEIGHTED AVERAGE INTEREST RATES OF LOANS AND DEPOSITS**



**THE ANNUAL GROWTH RATE OF MONETARY BASE AND ITS COMPONENTS**



by 52.5 million lats (at end of period, 1 046.3 million lats) in December. A rise in debt was mainly determined by the issue of the Latvian government securities.

In the same month, all offered 12-month Treasury bills in the amount of 8.0 million lats at the weighted average discount rate of 2.610% (0.3 percentage point higher than at the previous auction in October) were sold at a competitive multi-price auction on the primary market. The entire supply of 12-month Treasury bills (2.0 million lats) was also sold at fixed rate (non-competitive) auction.

In December, currency outside MFIs posted a vigorous upsurge (41.3 million lats or 5.5%) due to seasonal factors. The deposits of resident financial institutions, non-financial corporations and households reported a more notable expansion (6.9%; the annual growth rate was 43.9%). Broad money M3 increased by 215.5 million lats as a result of a rise in overnight deposits (125.1 million lats) and currency outside MFIs as well as a substantial expansion of the deposits with an agreed maturity of up to 2 years (40.7 million lats). The annual growth rate of all monetary aggregates (M1, M2 and M3) thus increased significantly in December (to 43.5%, 38.7% and 39.3%, respectively).

The lending expansion was also fostered by rising foreign liabilities of banks. The banks increased both borrowing from foreign MFIs and non-resident non-MFI deposits. In December, the negative net foreign assets of MFIs grew by 168.5 million lats. In the same month, MFI (excluding the Bank of Latvia) assets expanded by 619.1 million lats and profit amounted to 193.0 million lats in 2005 (1.7 times higher than in 2004).

On December 24, 2005, the raised reserve ratio for banks (8%) took effect, hence bank demand deposits with the Bank of Latvia recorded an increase. As the demand for cash rose, the monetary base M0 increased buoyantly (by 66.4 million lats). In December, the central bank's money supply was moderately affected by the rise in its net foreign assets as the Bank of Latvia's foreign currency buying transactions were insignificant, whereas its net foreign assets grew by 16.8 million lats primarily with the changing valuation of financial derivatives as well as a pick-up in gold price. Money supply was mostly pushed up by a decline in the Government deposits with the Bank of Latvia (33.0 million lats) and increasing repo loans (20.4 million lats) granted to banks. To ensure compliance with the reserve requirements, banks used the central bank's lending facility more actively than in the preceding months. The Bank of Latvia granted repo loans in the amount of 32.2 million lats. Time deposits received from banks remained high (183.7 million lats).

At the end of December, with the beginning of a new minimum reserve maintenance period, RIGIBOR on overnight loans posted a substantial rise (to 4.4%; in the first half of December it had diminished to 2.0%). RIGIBOR on loans with 6- and 12-month maturity grew by 0.2–0.4 percentage point (3.6% and 3.5% at the end of December, respectively). Interest rates on loans granted to households for house purchase and those on the majority of other loans remained broadly unchanged. The weighted average interest rate on loans granted to resident non-financial corporations posted a more substantial rise (0.3 percentage point; to 5.8%). The weighted average interest rate on time deposits grew by 0.1–0.6 percentage point for almost all currency and depositor groups.

In December, the US dollar and British pound sterling depreciated against the lats (by 0.2% and 0.3%, respectively), whereas the Japanese yen appreciated (by 1.0%).

MACROECONOMIC INDICATORS	2005	
	XI	XII
Changes in the volume index of industrial output (year-on-year basis; %)	7.0	*
Changes in the CPI		
Month-on-month basis (%)	0.3	-0.1
Year-on-year basis (%)	7.4	7.0
Annual rate of core inflation <sup>1</sup> (%)	5.8	5.9
Number of registered unemployed persons (at end of period)	79 392	78 482
Unemployment rate (%)	7.5	7.4
General government consolidated budget fiscal deficit/surplus (in millions of lats)	119.6	-91.6
Foreign trade (in millions of lats)		
Exports	262.3	*
Imports	465.8	*
Balance	-203.5	*

<sup>1</sup> Source: Bank of Latvia.

\* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

MONETARY INDICATORS (at end of period; in millions of lats)	2005	
	XI	XII
<b>MFIs<sup>1</sup></b>		
<b>M3</b>	3 709.9	3 925.4
Repurchase agreements	0	0
Money market fund shares and units	14.4	16.1
Debt securities issued with maturity of up to 2 years	3.5	3.4
<b>M2</b>	3 692.0	3 905.8
Deposits with agreed maturity of up to 2 years	888.4	929.1
Deposits redeemable at notice of up to 3 months	99.8	106.6
<b>M1</b>	2 703.8	2 870.2
Currency outside MFIs	745.1	786.4
Overnight deposits	1 958.7	2 083.8
Net external assets	-1 158.1	-1 326.6
Credit to resident financial institutions, non-financial corporations and households	5 875.5	6 139.7
Credit to general government	378.8	416.0
Deposits of central government	194.8	81.7
Longer-term financial liabilities	1 197.2	1 241.7
<b>Bank of Latvia</b>		
<b>M0</b>	1 284.3	1 350.7
Currency in circulation	830.8	877.3
Deposits with the Bank of Latvia in lats	453.5	473.4
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 373.4	1 390.2
Net domestic assets	-89.1	-39.5
Credit	-0.3	53.7
To MFIs	2.9	23.3
To central government (net)	-3.2	30.4
Other items (net)	-88.8	-93.2
International reserves (at end of period; in millions of US dollars)	2 356.60	2 355.43
Gold	124.38	128.45
Special Drawing Rights	0.14	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	2 232.00	2 226.76

<sup>1</sup>In accordance with the methodology of the European Central Bank.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	XI	XII
Weighted average interest rate on domestic interbank loans in lats	2.5	2.7
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	5.5	5.8
Loans to households (in lats)	6.8	6.6
incl. for house purchase	5.1	5.1
Loans to non-financial corporations (in foreign currencies)	4.9	4.8
Loans to households (in foreign currencies)	4.7	4.8
incl. for house purchase	4.3	4.4
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	2.4	3.0
Demand deposits of non-financial corporations (in lats)	0.7	1.0
Time deposits of households (in lats)	2.8	3.1
Demand deposits of households (in lats)	0.4	0.4
Time deposits of non-financial corporations (in foreign currencies)	2.6	2.8
Demand deposits of non-financial corporations (in foreign currencies)	0.9	1.0
Time deposits of households (in foreign currencies)	2.8	2.9
Demand deposits of households (in foreign currencies)	1.3	1.0
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	0.5940	0.5930
LVL/GBP	1.0240	1.0210
LVL/100 JPY	0.4990	0.5040
LVL/EUR	0.7028	0.7028

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

	2005	
	XI	XII
MFI reserves	562.5	593.6
Vault cash in national currency	85.6	90.9
Deposits with the Bank of Latvia	476.9	502.7
Foreign assets	3 151.4	3 366.6
Vault cash in foreign currencies	63.1	66.1
Claims on MFIs	1 811.7	2 139.9
Claims on non-MFIs	1 191.5	1 133.0
Other assets	85.2	27.5
Claims on central government	204.6	227.4
Claims on local government	76.0	89.8
Claims on public non-financial corporations	115.3	107.5
Claims on financial institutions and private non-financial corporations	3 466.2	3 615.8
Claims on households	2 329.4	2 451.7
Unclassified assets	441.0	513.2
Fixed assets	130.8	137.8
Items in transit	17.2	10.4
Other assets	71.8	71.6
Claims on resident MFIs (incl. investments)	221.3	293.3
<b>Total assets</b>	<b>10 346.4</b>	<b>10 965.5</b>
<i>Memo item: Trust assets</i>	<i>473.1</i>	<i>375.7</i>
Overnight deposits in lats	1 109.5	1 210.5
Public non-financial corporations	54.7	54.5
Financial institutions and private non-financial corporations	497.8	551.5
Households	557.0	604.4
Time deposits and deposits redeemable at notice in lats	657.7	688.6
Public non-financial corporations	57.0	52.0
Financial institutions and private non-financial corporations	207.4	229.5
Households	393.3	407.1
Foreign currency deposits of residents	1 223.4	1 299.2
Public non-financial corporations	17.7	17.0
Financial institutions and private non-financial corporations	414.8	431.0
Households	790.9	851.3
Deposits of central government	93.4	13.3
Deposits of local government	98.6	67.9
Transit funds	4.9	4.9
Foreign liabilities	5 682.9	6 083.4
Liabilities to MFIs	2 817.7	3 005.1
Liabilities to non-MFIs	2 656.3	2 925.2
Other liabilities (incl. subordinated liabilities)	208.8	153.1
Liabilities to the Bank of Latvia	2.9	23.3
Debt securities issued	174.3	173.9
Money market fund shares and units	14.4	16.1
Capital and reserves	792.9	835.0
Residents	476.6	518.6
Non-residents	316.3	316.4
Provisions	99.1	89.0
Unclassified liabilities	392.3	460.4
Items in transit	119.1	114.9
Other liabilities (incl. subordinated liabilities)	76.2	83.5
Liabilities to resident MFIs	197.0	262.0
<b>Total liabilities</b>	<b>10 346.4</b>	<b>10 965.5</b>
<i>Memo item: Trust liabilities</i>	<i>473.1</i>	<i>375.7</i>

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>).