

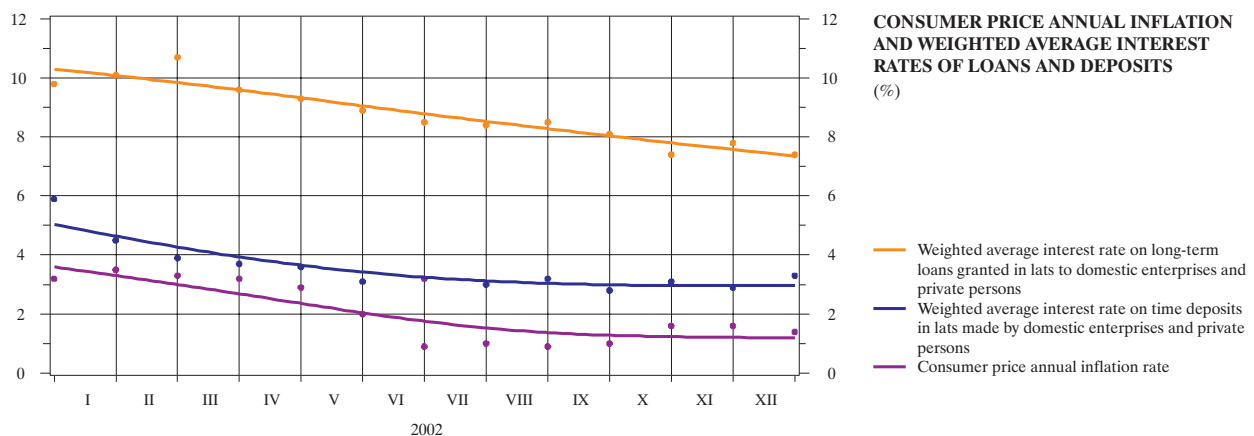
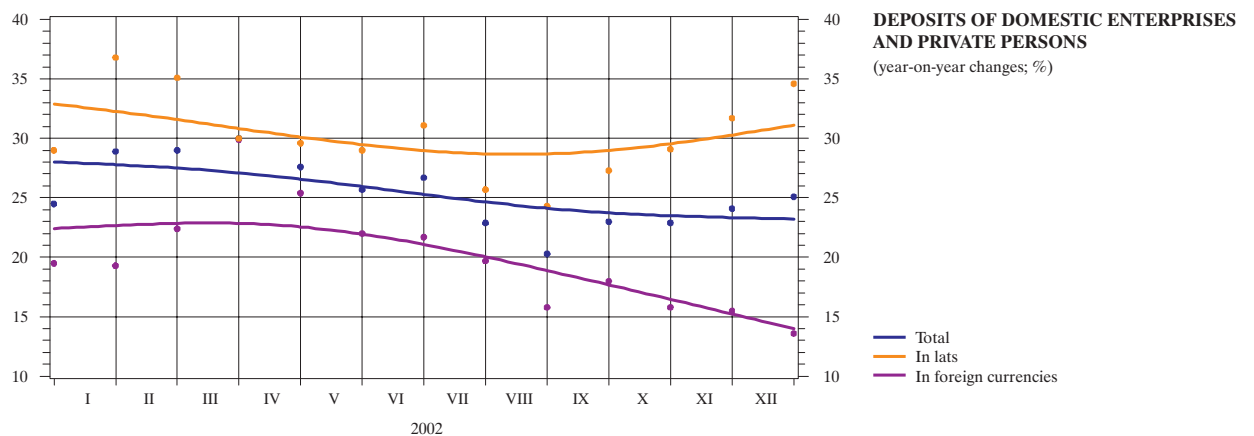
MONETARY BULLETIN

12 • 2002

In December, Latvia was officially invited to join the European Union (EU). EU integration is seen as a positive stimulus for long-term growth in the Latvian economy that will foster a benign investment climate and strong output.

Inflation remained low: consumer prices were 1.4% higher than in December 2001 and 0.2% higher than in November 2002. The December pick-up in consumer prices was mostly a result of a seasonal rise of 1.2% in food prices, predominantly those of vegetables and milk. Seasonally lower prices on clothing and footwear, household appliances and postal services forced down the consumer price level. In December, the annual rate of core inflation was 1.1%. The unemployment rate dropped to 7.6%, reaching the year's low, whereas the number of unemployed persons showed a year-on-year decline of 2.1%. The fiscal deficit of the general government consolidated budget increased considerably, totalling 131.1 million lats in 2002.

Broad money M2X increased by 69.8 million lats or 3.9% month-on-month and by 21.0% year-on-year (an increase of 20.4% in November). Currency outside banks showed a sharp seasonal rise of 21.9 million lats. A still more sizeable increase, 47.9 million lats, was reported for deposits of domestic enterprises and private persons. This increase to a large extent was effected by the largest Latvian banks, which during the Christmas season offered favourable terms and conditions on deposits. As these campaigns were successful, deposits made in the national currency grew notably.



Growth in the money supply could be attributed to an increase in the banking system's net domestic assets, with net foreign assets declining. The monthly growth rate of loans granted to domestic enterprises and private persons was lower in December, when it reached 3.1%, than in September–November. At the same time, their

annual growth rate declined by 11 percentage points, to 36.5%, owing to base effects. Loans to enterprises rose in excess of loans to private persons (increases of 40.0 million lats and 15.0 million lats, respectively). Long-term loans showed the largest growth (46.1 million lats), while short-term loans rose by only 8.9 million lats. Overdraft, commercial credit and industrial credit increased markedly (by 13.7 million lats, 10.3 million lats and 5.7 million lats, respectively). With the growth rate accelerating compared with November, the stock of mortgage loans grew by 21.2 million lats.

Funds were also attracted from foreign banks (an increase of 59.4 million lats). Deposits received from the non-resident non-bank sector rose (by 134.3 million lats). Credit institutions' foreign assets grew by 69.5 million lats. Part of the attracted funds was used to extend domestic loans.

In December, credit institutions' assets grew by 6.1% (to 4.3 billion lats). Banks' equity rose by 1.5%, reaching 384.3 million lats. Banks' profit for 2002 amounted to 56.4 million lats (a year-on-year increase of 13.7%).

With expenditures rising rapidly, the fiscal deficit of the general government consolidated budget increased by 87.5 million lats in December, to about 2.5% of GDP projected for 2002. In December, the high level of deficit was partly a result of seasonal factors; yet the Government's expenditures increased more than in the previous years. Expenditure in the central government basic budget rose significantly, as increases were observed for nearly all principal expenditure items, such as current expenditure, grants and subsidies, and capital expenditure. The marked December increase in expenditures could partly be attributed to the fact that the amendments to the Law on the State Budget for 2002 took effect in November, only; and therefore, all additional expenditures envisaged by the amendments were actually incurred in December (in the amount of 17.4 million lats). The fiscal balance of the general government consolidated budget was impaired by fiscal deficit in the local government consolidated budget, which increased by 17.2 million lats in December, totalling 45.3 million lats in 2002. (Deficit in the Riga local government basic budget accounted for the largest part of the local government consolidated budget deficit.) The central government special budget posted fiscal surplus both in December and the year 2002 (0.4 million lats and 2.4 million lats, respectively). In the general government consolidated budget, expenditures were only partly covered by the record high revenues, which amounted to 180.5 million lats in December. Government debt rose by only 4.2 million lats in December (to 756.2 million lats), as fiscal deficit was financed mainly from the Government's deposits held with banks (a decrease of 79.9 million lats).

The growing demand for lats (increases in currency in circulation and the reserve requirement) fostered higher interbank market rates on shorter maturity loans in lats at the beginning of December. Nevertheless, as the Bank of Latvia's lending facilities were available to banks, interest rates reverted. Interbank market rates on longer maturity loans in lats continued to follow a downward trend. At the end of December, the overnight RIGIBOR was at 3.1%, while the six-month RIGIBOR at 4.0%. The weighted average interest rates of loans granted in lats and the OECD currencies to domestic enterprises and private persons continued to fall.

Although banks' demand for loans under repurchase agreements offered by the Bank of Latvia rose and the repo loans were issued in the amount of 73.9 million lats, the stock of such loans declined at the end of the month. Short-term currency swaps reached a still higher monthly turnover of 171.5 million lats. Turnover of lats loans granted on the interbank market remained nearly unchanged, at 301.5 million lats. The balance on banks' time deposits held with the Bank of Latvia reached the year's low, 6.7 million lats.

Owing to the large monthly demand for currency swaps, the Bank of Latvia's net foreign assets increased by 64.8 million lats in December. At the end of December, the backing of the national currency with the central bank's net foreign assets was 103.0%.

In December, the Bank of Latvia's exchange rate for the US dollar against the lats dropped (by 1.8%), while those for the euro and the British pound rose (by 1.8% and 1.2%, respectively).

	2002		MACROECONOMIC INDICATORS
	XI	XII	
Changes in the volume index of industrial output (year-on-year basis; %)	8.3	*	
Changes in the CPI			
Month-on-month basis (%)	0.2	0.2	
Year-on-year basis (%)	1.6	1.4	
Annual rate of core inflation (%)	1.3	1.1	
Number of registered unemployed persons (at end of period)	90 787	89 735	
Unemployment rate (%)	7.7	7.6	
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-43.6	-131.1	
Foreign trade (in millions of lats)			
Exports	127.7	*	
Imports	226.6	*	
Balance	-98.9	*	

* 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	
	XI	XII
Banking system		
M2X	1 795.1	1 864.9
Currency outside banks	521.2	543.1
Deposits of domestic enterprises and private persons	1 273.9	1 321.8
Demand deposits	733.1	776.8
Time deposits	540.8	545.1
M2D	1 239.9	1 324.6
Net foreign assets	387.6	351.9
Net domestic assets	1 407.5	1 513.0
Loans to domestic enterprises and private persons	1 794.5	1 849.5
Short-term loans	281.9	290.8
Long-term loans	1 512.6	1 558.7
Credit to the Government (net)	90.8	154.7
Bank of Latvia		
M0	713.2	755.1
Currency in circulation	585.8	622.6
Deposits with the Bank of Latvia in lats	127.4	132.4
Net foreign assets	712.8	777.6
Net domestic assets	0.4	-22.5
Credit	62.7	44.7
To banks	35.7	30.7
To the Government (net)	27.1	14.1
Other items (net)	-62.3	-67.3
International reserves*	1 193.54	1 327.31
Gold	78.70	85.90
Special Drawing Rights	0.08	0.07
Reserve position in the IMF	0.07	0.07
Foreign convertible currencies	1 114.69	1 241.27

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2002	
	IX	XII
Weighted average interest rate on domestic interbank loans in lats	2.6	2.7
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	6.3	5.4
Short-term loans (in the OECD countries' currencies)	5.9	4.1
Long-term loans (in lats)	7.8	7.4
Long-term loans (in the OECD countries' currencies)	5.8	5.8
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)	0.8	0.6
Short-term deposits (in lats)	2.8	3.1
Short-term deposits (in the OECD countries' currencies)	2.0	2.0
Long-term deposits (in lats)	5.2	5.2
Long-term deposits (in the OECD countries' currencies)	3.9	3.4
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	0.6050	0.5940
LVL/GBP	0.9350	0.9460
LVL/100 JPY	0.4950	0.4940
LVL/EUR	0.5990	0.6100

Indicators for transportation by rail remained strong. Transit by rail via ports increased 42.0% over the level the year before. With import and domestic cargo traffic by rail also growing, total cargo traffic by rail rose by 34.2%. Cargo turnover at the Ventspils port decreased (by 33.6%), owing to a continued decline in oil transit. Nevertheless,

robust growth in cargo turnover reported by the ports of Riga and Liepāja (56.0% and 44.9%, respectively) restrained the decrease in the total indicator, to only 2.0%.

The November data on the industrial sector confirmed rapid year-on-year growth. Output rose in manufacturing (by 7.2%) and electricity, gas and water supply (by 11.1%). The total volume index of industrial output increased by 8.3%. Retail trade turnover rose 19.4%.

The producer price index was 0.1% lower than in November 2002, but 0.8% higher than in December 2001.

	2002	
	XI	XII
Bank reserves	191.0	213.7
Vault cash in national currency	64.7	79.5
Deposits with the Bank of Latvia	126.3	134.2
Foreign assets	1 723.8	1 793.3
Vault cash in foreign currency	44.4	41.8
Claims on foreign banks	1 096.7	1 160.0
Claims on foreign non-banks	564.6	580.0
Other assets	18.1	11.5
Claims on the central government (net)	47.1	125.3
Claims on local governments (net)	16.6	15.4
Claims on public enterprises	98.0	112.5
Claims on private enterprises	1 302.7	1 329.5
Claims on private persons	417.0	432.0
Unclassified assets	295.5	321.2
Fixed assets	107.0	106.9
Items in transit	4.0	5.0
Other assets	47.2	52.4
Claims on domestic credit institutions (incl. investments)	137.3	156.9
TOTAL ASSETS	4 091.7	4 342.8
<i>Memo item: Trust assets</i>	<i>405.8</i>	<i>603.8</i>
Demand deposits	427.1	477.7
Public enterprises	32.5	45.1
Private enterprises	204.1	225.1
Private persons	190.6	207.5
Time deposits	291.6	303.8
Public enterprises	28.2	20.9
Private enterprises	77.7	85.2
Private persons	185.6	197.7
Foreign currency deposits of residents	555.2	540.3
Public enterprises	16.8	16.3
Private enterprises	199.8	178.7
Private persons	338.5	345.3
Transit funds	10.1	9.9
Foreign liabilities	2 049.0	2 219.0
Liabilities to foreign banks	432.8	492.2
Liabilities to foreign non-banks	1 533.6	1 667.9
Other liabilities (incl. subordinated liabilities)	82.7	58.9
Liabilities to the Bank of Latvia	35.7	30.7
Debt securities	31.7	48.2
Equity	378.7	384.3
Residents	195.8	201.5
Non-residents	182.9	182.8
Provisions	58.8	59.6
Unclassified liabilities	253.8	269.2
Items in transit	94.6	83.9
Other liabilities (incl. subordinated liabilities)	36.8	40.8
Liabilities to domestic credit institutions	122.3	144.5
TOTAL LIABILITIES	4 091.7	4 342.8
<i>Memo item: Trust liabilities</i>	<i>405.8</i>	<i>603.8</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
Tēl.: +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).