

MONETARY BULLETIN

6
2003

The released data on the industrial output and retail sales in May and the economic situation in June indicated that the national economy was growing rapidly. In May, the seasonally adjusted volume index of industrial output increased by 6.6% year-on-year, and the retail trade turnover also continued to grow. In the first six months of 2003, the general government consolidated budget was close to balance. Unemployment rate declined by 0.1 percentage points (to 8.6%).

In June, the pickup in broad money M2X was slightly higher than in May, mostly due to an increase in deposits attracted by banks. Nevertheless, the annual growth rates of cash outside banks, deposits and hence also broad money decreased (to 14.1%, 18.4% and 17.2%, respectively).

Deposits of domestic enterprises and private persons attracted by the banking sector in June rose by 28.3 million lats, mostly due to a rise in deposits in lats (20.8 million lats). The growth resulted from an increase of 28.7 million lats in deposits of private persons. With demand deposits of private persons as well as enterprises expanding, demand deposits grew by 46.9 million lats. Time deposits decreased by 18.6 million lats, although long-term deposits rose slightly (by 5.4 million lats).

In June, loans to domestic enterprises and private persons increased by 59.9 million lats or 2.9%, with those granted in lats and foreign currencies growing at the same pace. Loans granted to domestic enterprises rose by 31.0 million lats, and those granted to domestic private persons also increased considerably.

The banking system's net credit to the Government shrank by 1.7 million lats, as the Government deposits with the banking sector increased more rapidly than credit received, and the deposit of the Government with the Bank of Latvia decreased. The banking system's net credit to local governments also declined. Unlike the two previous months, the banking system's net foreign assets posted an increase. Thus, a rise in the money supply was determined by higher level of both net domestic and foreign assets of the banking system (an increase of 17.8 million lats and 15.8 million lats, respectively).

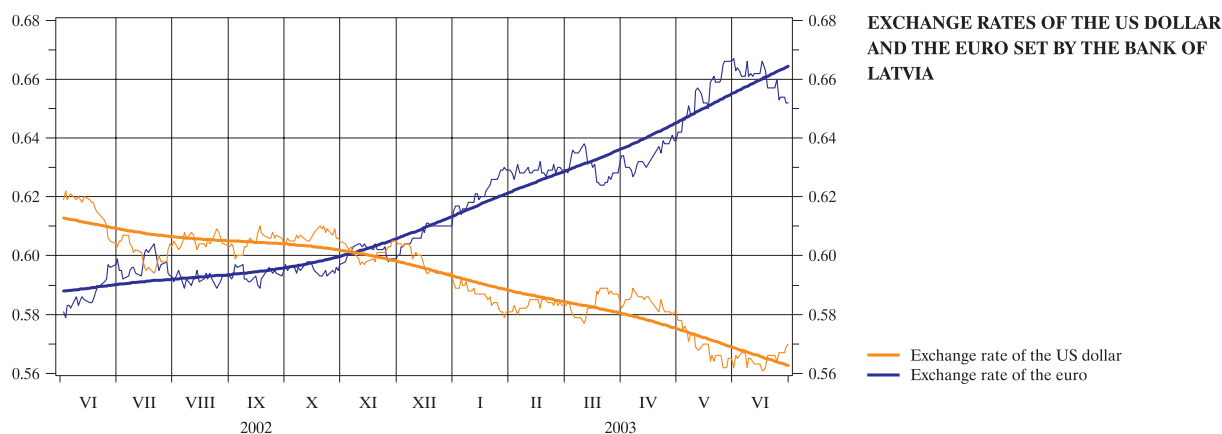
In June, assets of the banking sector grew by 209.6 million lats (reaching 4.8 billion lats). In the first six months of 2003, banks' profit totalled 33.0 million lats (a year-on-year increase of 40.4%).

In the first six months of 2003, the year-on-year growth in revenue of the general government consolidated budget slightly exceeded that of expenditure (8.8% and 8.4%, respectively), attributing to an almost balanced budget (a deficit of 0.2 million lats). In June, the fiscal deficit of the general government consolidated budget was 10.6 million lats, resulting from a fiscal deficit of the central government basic budget (22.3 million lats) and a fiscal surplus of the central government special budget (8.7 million lats). Tax revenue amounted to 153.0 million lats in June and 852.4 million lats in the first six months of 2003 (a year-on-year increase of 9.8%, exceeding the estimates by 3.7%). Expenditure of the central government basic budget in June grew 24.8% year-on-year due to higher regular expenditure, whereas revenue growth was not so pronounced (6.4%). Capital expenditure rose only 4.4%.

The current auction of 10-year Treasury bonds was held in June where banks' demand (23.0 million lats) exceeded the supply (16.0 million lats). The State Treasury set a lower hidden rate, and bonds in the amount of 6.1 million lats were sold. In comparison with the previous auction in April, the average yield rate decreased by 8 basis points to 4.89%. In the fixed rate (non-competitive) auction at the Latvian Central Depository, all securities offered were sold in the amount of 4.0 million lats. The Government debt totalled 829.0 million lats, increasing by only 3.0 million lats in June. The Government domestic debt rose by 10.1 million lats as a result of the issue of Treasury bonds, whereas the Government external debt decreased by 7.1 million lats due to changes in foreign exchange rates.

On the global foreign exchange market, the dynamics of the exchange rates of the US dollar and the euro was affected by a reduction in the base rate (by 25 basis points to 1.0%) as set by the US Federal Reserve Systems and an improvement of several indicators of the US national economy, as well as a reduction in the base rate by 50 basis points (to 2.0%) set by the European Central Bank and stagnation in the euro area. In June, the US dollar, the Japanese yen and the British pound appreciated against the lats (by 0.7%, 0.2% and 2.4%, respectively), whereas the euro depreciated (by 1.8%).

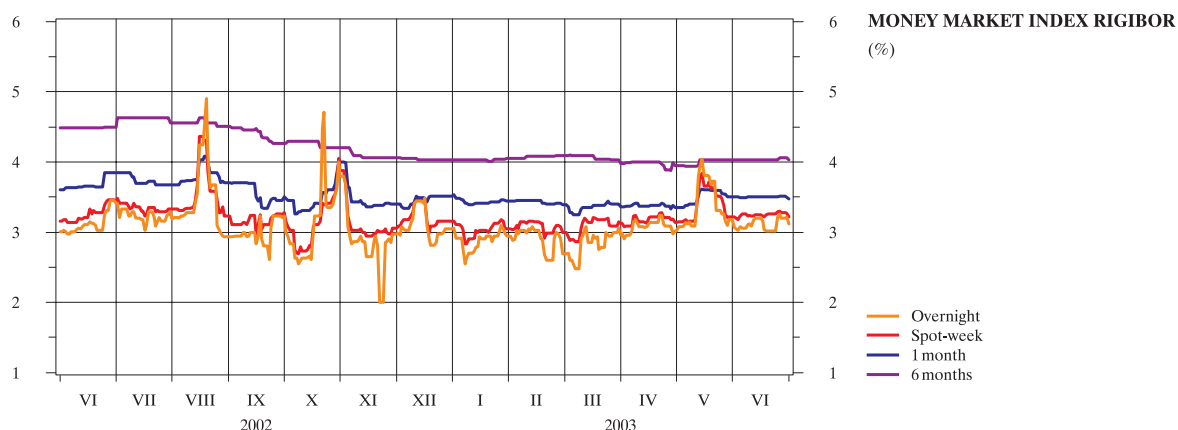
In June, the monetary base grew by 32.7 million lats or 4.5%, with currency in circulation increasing by 15.5 million lats or 2.5%. As a result of currency swaps, net foreign assets of the central bank decreased by 13.3 million



lats, and the backing of the national currency with the Bank of Latvia's net foreign assets was 101.0% at the end of June. The outstanding loans granted to banks by the Bank of Latvia increased by 38.8 million lats. With the Government's deposit with the central bank decreasing by 7.7 million lats, net credit to the Government slightly increased as well.

Under currency swaps, 119.1 million lats were sold during the month (a month-on-month drop of 41.5%). Repo loans issued by the Bank of Latvia in June also recorded a minor decline (6.6%; to 258.7 million lats). Domestic interbank credit issued in lats rose by 1.9% (to 498.8 million lats), whereas its weighted average interest rate shrank to 2.8%. Overnight RIGIBOR was lower than in May and did not exceed 3.2%, but RIGIBOR for loans with maturity of 3, 6 and 12 months remained almost the same.

With comparatively stable interest rates on the money market, the weighted average interest rates on short-term loans granted to domestic enterprises and private persons in lats and the OECD currencies recorded only slight changes and were 5.6% and 4.7%, respectively, whereas those on long-term loans decreased considerably (to 7.0% and 5.0%, respectively), due to lower interest rates on foreign money markets. As a result of several transactions,



	2003	
	V	VI
Changes in the volume index of industrial output (year-on-year basis; %)	6.6	*
Changes in the CPI		
Month-on-month basis (%)	0.2	0.7
Year-on-year basis (%)	2.5	3.7
Annual rate of core inflation (%)	1.9	3.2
Number of registered unemployed persons (at end of period)	91 617	90 612
Unemployment rate (%)	8.7	8.6
General government consolidated budget fiscal deficit/surplus (in millions of lats)	10.4	-0.2
Foreign trade (in millions of lats)		
Exports	131.3	*
Imports	231.7	*
Balance	-100.4	*

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	
	V	VI
Banking system		
M2X	1 972.3	2 005.9
Currency outside banks	545.8	551.1
Deposits of domestic enterprises and private persons	1 426.5	1 454.8
Demand deposits	790.7	837.6
Time deposits	635.9	617.2
M2D	1 392.4	1 418.5
Net foreign assets	281.6	297.4
Net domestic assets	1 690.7	1 708.4
Loans to domestic enterprises and private persons	2 083.7	2 143.7
Short-term loans	309.2	318.3
Long-term loans	1 774.5	1 825.4
Credit to the Government (net)	126.1	124.4
Bank of Latvia		
M0	730.6	763.3
Currency in circulation	613.3	628.8
Deposits with the Bank of Latvia in lats	117.2	134.4
Net foreign assets	784.3	771.0
Net domestic assets	-53.7	-7.8
Credit	13.6	59.3
To banks	63.5	102.3
To the Government (net)	-49.8	-43.0
Other items (net)	-67.3	-67.0
International reserves*	1 406.47	1 368.33
Gold	90.14	85.77
Special Drawing Rights	0.10	0.10
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 316.15	1 282.38

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2003	
	V	VI
Weighted average interest rate on domestic interbank loans in lats	3.1	2.8
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	5.5	5.6
Short-term loans (in the OECD countries' currencies)	4.5	4.7
Long-term loans (in lats)	7.8	7.0
Long-term loans (in the OECD countries' currencies)	5.7	5.0
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)	0.6	0.6
Short-term deposits (in lats)	3.1	3.0
Short-term deposits (in the OECD countries' currencies)	1.6	1.7
Long-term deposits (in lats)	4.9	5.0
Long-term deposits (in the OECD countries' currencies)	2.8	3.6
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	0.5650	0.5690
LVL/GBP	0.9250	0.9470
LVL/100 JPY	0.4760	0.4770
LVL/EUR	0.6640	0.6520

the weighted average interest rate on long-term deposits in the OECD currencies grew considerably (to 3.6%), whereas that in lats, as well as those on short-term deposits in lats and the OECD currencies were almost the same (5.0%, 3.0% and 1.7%, respectively).

In June, CPI grew 0.7%, resulting in the annual rate of inflation of 3.7%. The price rise was mostly determined by growing prices of non-processed food (fruit, potatoes and sugar). Prices of goods increased by 0.9%, including a 1.9% rise in food prices.

Although exports of crude oil from Russia by oil main to the port of Ventspils had not been resumed, the volume of freight transported by rail as well as cargos loaded and unloaded at Latvian ports increased, indicating a rapid pickup in the growth of the transport sector. The turnover of freight transported by rail increased by 28.3% year-on-year, whereas cargo turnover at Latvian ports rose 16.6% (higher growth rate was recorded in the ports of Riga and Liepāja).

	2003	
	V	VI
Bank reserves	183.9	211.8
Vault cash in national currency	67.5	77.7
Deposits with the Bank of Latvia	116.4	134.1
Foreign assets	1 780.6	1 911.4
Vault cash in foreign currency	51.2	48.6
Claims on foreign banks	1 125.9	1 245.3
Claims on foreign non-banks	585.7	581.9
Other assets	17.8	35.5
Claims on the central government (net)	167.9	164.2
Claims on local governments (net)	8.0	3.2
Claims on public enterprises	101.0	100.5
Claims on private enterprises	1 480.5	1 514.0
Claims on private persons	529.3	558.3
Unclassified assets	313.5	310.9
Fixed assets	109.4	109.8
Items in transit	8.2	6.1
Other assets	54.1	52.6
Claims on domestic credit institutions (incl. investments)	141.8	142.5
TOTAL ASSETS	4 564.7	4 774.4
<i>Memo item: Trust assets</i>	<i>546.3</i>	<i>914.0</i>
Demand deposits	467.8	497.7
Public enterprises	30.5	27.5
Private enterprises	204.7	222.8
Private persons	232.6	247.5
Time deposits	378.8	369.7
Public enterprises	35.6	40.3
Private enterprises	118.7	100.3
Private persons	224.5	229.0
Foreign currency deposits of residents	579.9	587.4
Public enterprises	29.9	31.6
Private enterprises	195.6	192.0
Private persons	354.4	363.7
Transit funds	9.6	9.4
Foreign liabilities	2 283.2	2 384.9
Liabilities to foreign banks	558.3	547.2
Liabilities to foreign non-banks	1 630.8	1 744.9
Other liabilities (incl. subordinated liabilities)	94.1	92.8
Liabilities to the Bank of Latvia	63.5	102.3
Debt securities	43.9	46.9
Equity	420.1	431.7
Residents	236.4	245.2
Non-residents	183.6	186.5
Provisions	64.5	63.3
Unclassified liabilities	253.5	281.1
Items in transit	86.5	110.0
Other liabilities (incl. subordinated liabilities)	40.2	40.3
Liabilities to domestic credit institutions	126.7	130.8
TOTAL LIABILITIES	4 564.7	4 774.4
<i>Memo item: Trust liabilities</i>	<i>546.3</i>	<i>914.0</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 on the Bank of Latvia's website (<http://www.bank.lv>).