

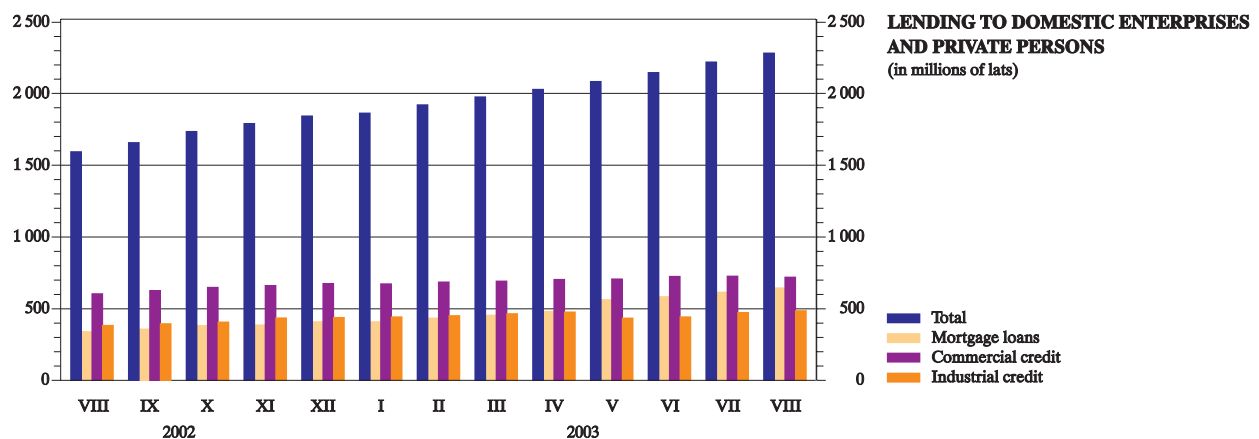
In August, the Latvian national economy maintained its previous growth rate. Along a robust development in the industrial, trade and financial sectors, a marked increase of cargo turnover was reported in transportation by rail and at ports. The GDP growth in the second quarter of 2003 confirmed strong economic expansion. With a continuous rapid development in all major sectors of the national economy, the real GDP posted a 6.2% increase year-on-year (7.5% in the first half of 2003). In view of Latvia's good macroeconomic indicators, the international rating agency *Moody's Investors Service* reaffirmed Latvia's rating, which was upgraded at the end of 2002.

Unemployment rate remained unchanged (8.5%), and at the end of August the number of unemployed persons registered with the State Employment Service decreased by 4.2% year-on-year.

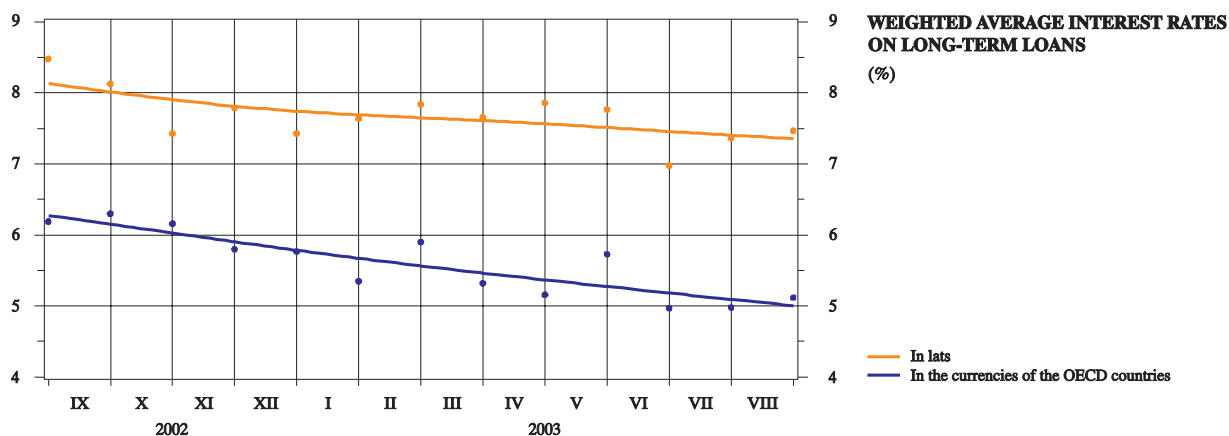
Typically for the month of August, consumer prices dropped (by 1.1% month-on-month, posting the most rapid monthly price decline in the last ten years), causing a decrease also in the consumer price annual inflation (from 3.8% in July to 3.5% in August). Prices of goods dropped 1.5%, primarily as a result of a decrease in prices of food (3.4%, including a drop of 39.6%, 13.5% and 11.9% in vegetable, fruit and potato prices, respectively), as well as clothing and footwear (1.9%).

In August, broad money M2X recorded minor changes (an increase of 0.5 million lats), and its annual growth rate declined to 19.3%. Cash outside banks posted an increase (8.1 million lats), whereas deposits of domestic enterprises and private persons declined slightly. Enterprise demand deposits in foreign currency shrank by 30.6 million lats, and at the same time deposits by private persons posted an increase (17.8 million lats), including a rise in deposits made in the national currency and time deposits (8.5 million lats and 5.3 million lats, respectively). The year-on-year growth in deposits declined from 23.0% in July to 21.4% in August.

The dynamics of the banking system assets followed the trends of the previous months (domestic loans expanded and net foreign assets decreased). Nevertheless, loans granted to domestic enterprises and private persons recorded a smaller pickup than in the previous month (63.8 million lats), and net domestic assets rose by 49.0 million lats as a result of a decline in net credit to the Government. In August, loans to enterprises increased by 26.8 million lats and those granted to private persons grew by 37.0 million lats, including a rise of 26.1 million lats in housing loans. The highest pickup was reported for loans with maturity of over 5 years (37.4 million lats), but those with maturity of 1–5 years and short-term loans expanded by 20.9 million lats and 5.5 million lats, respectively. By type of loan, the increase resulted primarily from a pickup in mortgage loans (30.5 million lats or 5.0%), while industrial and consumer credit grew by 11.5 million lats and 6.1 million lats, respectively.



Foreign liabilities of the banking sector rose by 119.3 million lats (including a rise of 118.2 million lats in liabilities against foreign non-banks), and foreign assets grew by 82.9 million lats. In August, assets of the banking sector recorded a pickup of 168.8 million lats, amounting to 5.1 billion lats. In the first eight months of 2003, banks' profit was 46.1 million lats (a year-on-year growth of 38.0%).



With the demand for lats remaining high, banks' borrowing from the central bank increased. Repo loans granted by the Bank of Latvia to the banking sector increased 1.6 times (to 326.5 million lats), and at the end of August the stock of repos increased by 29.6%. Currency swap arrangements (99.0 million lats) declined by 8.3% in comparison with July. The monetary base, with the Government deposit with the central bank increasing by 20.6 million lats, decreased by 7.9 million lats. Domestic interbank loans also expanded considerably (10.2%, to 929.2 million lats).

A rise in the money market liquidity ensured stable and low interest rates. RIGIBOR for overnight loans fluctuated within the range of 3.1%–3.3%, remaining almost unchanged for loans with longer maturity. The weighted average interest rate on repo loans granted by the Bank of Latvia and interbank loans issued in lats was the same (2.8%). Changes recorded for interest rates on loans to domestic enterprises and private persons were also slight. The weighted average interest rate on long-term loans in lats and the OECD currencies dropped by 0.6 percentage points and 1.0 percentage points, respectively.

In August, the US dollar and the Japanese yen appreciated, whereas the euro and the British pound depreciated on the global foreign exchange market. The US dollar and the Japanese yen appreciated against the lats by 2.1% and 4.0%, respectively, whereas the euro and the British pound depreciated by 3.4% and 1.5%, respectively. With the currency swap balance decreasing by 11.0 million lats, the Bank of Latvia's net foreign assets shrank by 1.6%. At the end of August, the backing of the national currency with the Bank of Latvia's net foreign assets was 102.1%.

In August, the general government consolidated budget posted a fiscal surplus (13.0 million lats), determining a fiscal surplus also in the first eight months of 2003 (10.7 million lats; a fiscal deficit of 14.7 million lats was recorded in the general government consolidated budget in the corresponding period last year). The social security fiscal surplus increased to 32.1 million lats.

At the beginning of August, a 12-month Treasury bill auction was organised at the Bank of Latvia, where securities in the amount of 9.6 million lats were offered. Although the demand was high (23.2 million lats), securities were sold in the amount of 6.4 million lats, with the weighted average discount rate of 3.06% (3 base points lower than at the auction of 12-month bills in May). At the end of August, after a lapse of over two years, a 3-year Treasury bond auction was held. The entire stock of securities, offered in the amount of 12.0 million lats, was sold with the weighted average yield of 4.0%. Thus, at the end of August, the amount of government securities outstanding reached 389.6 million lats, recording a monthly increase of 6.6%. The Government debt posted a lower rise in August, since the external debt decreased by 9.4 million lats (to 455.5 million lats) due to exchange rate fluctuations.

	2003	
	VII	VIII
Changes in the volume index of industrial output (year-on-year basis; %)	10.1	*
Changes in the CPI		
Month-on-month basis (%)	-0.3	-1.1
Year-on-year basis (%)	3.8	3.5
Annual rate of core inflation (%)	3.1	2.8
Number of registered unemployed persons (at end of period)	90 064	90 199
Unemployment rate (%)	8.5	8.5
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-2.3	10.7
Foreign trade (in millions of lats)		
Exports	144.0	*
Imports	257.0	*
Balance	-113.0	*

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)*

	2003	
	VII	VIII
Banking system		
M2X	2 061.4	2 061.9
Currency outside banks	561.9	570.0
Deposits of domestic enterprises and private persons	1 499.5	1 491.9
Demand deposits	883.7	870.7
Time deposits	615.9	621.2
M2D	1 433.2	1 449.7
Net foreign assets	242.0	193.5
Net domestic assets	1 819.4	1 868.4
Loans to domestic enterprises and private persons	2 217.9	2 281.7
Short-term loans	317.9	323.4
Long-term loans	1 900.0	1 958.3
Credit to the Government (net)	130.6	120.6
Bank of Latvia		
M0	754.6	746.7
Currency in circulation	633.4	639.4
Deposits with the Bank of Latvia in lats	121.2	107.3
Net foreign assets	774.7	762.6
Net domestic assets	-20.1	-15.9
Credit	41.4	44.7
To banks	80.2	103.9
To the Government (net)	-38.8	-59.2
Other items (net)	-61.5	-60.6
International reserves*	1 367.72	1 318.89
Gold	89.78	92.08
Special Drawing Rights	0.11	0.04
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 277.75	1 226.69

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2003	
	VII	VIII
Weighted average interest rate on domestic interbank loans in lats	2.7	2.8
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	5.1	5.4
Short-term loans (in the OECD countries' currencies)	4.2	4.1
Long-term loans (in lats)	7.4	7.5
Long-term loans (in the OECD countries' currencies)	5.0	5.1
Interest rates on deposits of domestic enterprises and private persons		
Demand deposits (in lats)	0.9	0.9
Demand deposits (in the OECD countries' currencies)	0.4	0.5
Short-term deposits (in lats)	2.9	3.0
Short-term deposits (in the OECD countries' currencies)	1.6	1.4
Long-term deposits (in lats)	5.2	4.6
Long-term deposits (in the OECD countries' currencies)	2.9	1.9
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	0.5710	0.5830
LVL/GBP	0.9280	0.9140
LVL/100 JPY	0.4770	0.4960
LVL/EUR	0.6540	0.6320

The performance indicators of the transport sector continued to improve year-on-year. With transit expanding, the volume of freight transported by rail grew 38.7% in comparison with the corresponding period of the previous year. The volume of freight handled at the ports of Ventspils and Riga rose by 3.9% and 28.6% year-on-year,

respectively, and the overall turnover at ports increased by 11.5%.

In July, the volume index of industrial output in manufacturing grew 10.9% year-on-year. Also mining and quarrying, as well as electricity, gas and water supply recorded an increase (7.7% and 4.8%, respectively), but the volume index of industrial output rose by 10.1%. Retail trade turnover posted a pickup of 12.7%.

In August, the producer price index decreased by 0.7% month-on-month, but increased by 2.7% year-on-year.

	2003	
	VII	VIII
Bank reserves	190.1	175.8
Vault cash in national currency	71.5	69.4
Deposits with the Bank of Latvia	118.7	106.4
Foreign assets	2 001.6	2 084.5
Vault cash in foreign currency	52.0	44.8
Claims on foreign banks	1 301.1	1 378.7
Claims on foreign non-banks	600.3	609.7
Other assets	48.2	51.4
Claims on the central government (net)	165.5	176.0
Claims on local governments (net)	3.9	3.7
Claims on public enterprises	99.8	102.7
Claims on private enterprises	1 555.0	1 578.4
Claims on private persons	592.6	629.6
Unclassified assets	332.3	358.9
Fixed assets	110.5	113.8
Items in transit	5.2	10.8
Other assets	52.0	83.3
Claims on domestic credit institutions (incl. investments)	164.7	150.9
TOTAL ASSETS	4 940.9	5 109.7
<i>Memo item: Trust assets</i>	<i>667.1</i>	<i>512.2</i>
Demand deposits	508.7	515.0
Public enterprises	27.8	25.7
Private enterprises	229.2	236.5
Private persons	251.7	252.8
Time deposits	362.7	364.8
Public enterprises	31.8	26.6
Private enterprises	95.8	101.0
Private persons	235.1	237.2
Foreign currency deposits of residents	628.2	612.1
Public enterprises	29.4	28.5
Private enterprises	226.6	196.8
Private persons	372.3	386.8
Transit funds	9.4	9.2
Foreign liabilities	2 534.3	2 653.6
Liabilities to foreign banks	619.6	620.7
Liabilities to foreign non-banks	1 801.6	1 919.8
Other liabilities (incl. subordinated liabilities)	113.1	113.2
Liabilities to the Bank of Latvia	80.2	103.9
Debt securities	46.6	47.5
Equity	433.0	444.8
Residents	245.3	254.5
Non-residents	187.7	190.3
Provisions	63.7	66.2
Unclassified liabilities	274.1	292.5
Items in transit	85.7	110.8
Other liabilities (incl. subordinated liabilities)	39.3	43.9
Liabilities to domestic credit institutions	149.1	137.9
TOTAL LIABILITIES	4 940.9	5 109.7
<i>Memo item: Trust liabilities</i>	<i>667.1</i>	<i>512.2</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>).