

MONETARY BULLETIN

8 • 2002

Although no significant signs of recovery seemed to be present in the global economic environment, Latvia's economic situation was stable. In August, the credit rating agency *Standard & Poor's* confirmed its positive outlook by upgrading Latvia's credit rating (for the first time since 1997) for long-term loans in foreign currencies up to BBB+, and for short-term loans, up to A-2. Inflation remained low in Latvia: for the third consecutive month consumer prices kept falling, and the annual inflation was only 0.9%. Deflation was determined by a decline in food prices (2.3%) in August, with a particularly sharp fall in vegetable and potato prices (24.0%). The data reported regarding the GDP year-on-year growth of 4.9% in the second quarter (3.8% in the first quarter) confirmed more intensive economic growth. The value added of the services and goods-producing sector rose by 4.6% and 5.7%, respectively. The marked growth of the industry and retail sector continued in July. In August, the unemployment rate dropped slightly (to 7.9%). The fiscal deficit of the general government consolidated budget decreased, totalling only 14.7 million lats in the first eight months of 2002 (a year-on-year decrease of 2.5 times).

The producer price index in industry showed a month-on-month increase of 0.3%, while its year-on-year increase was 0.5%.

At the end of August, broad money totalled 1 728.1 million lats, and its annual growth slowed to 17.6%. Changes in M2X were prompted by a slight increase in deposits of domestic enterprises and private persons (9.1 million lats), with deposits in foreign currencies growing. The month-on-month increase of currency outside banks (10.0 million lats) exceeded the July level. Loans granted to domestic enterprises and private persons grew by 35.9 million lats. The loans in lats increased at a more rapid pace also in August (by 20.6 million lats), while the loans in foreign currencies grew by 15.3 million lats. Lending growth was slower than during the same period of the previous year (40.2% in August).

Assets of credit institutions increased by 87.0 million lats, while banks' equity grew by 9.8 million lats. In the first eight months of 2002, the profit of credit institutions amounted to 33.4 million lats (a year-on-year increase of 22.8%).

In August, the fiscal deficit in the general government consolidated budget decreased by 1.8 million lats. In the first eight months of 2002, the general government consolidated budget revenue and expenditure (including net loans) increased by 9.2% and 7.1% year-on-year, respectively. Furthermore, growth was recorded in revenue from all taxes, except customs duty. In August, both the central government basic budget and the central government special budget posted fiscal surplus, but deficit in the local government basic budget rose by 1.3 million lats (to 11.8 million lats).

After a longer interval, an auction of government 6-month Treasury bills was held in August, and all the securities offered were sold at the primary market auction in the Bank of Latvia (3.6 million lats) and at a single-price (non-competitive) auction in the Latvian Central Depository (0.9 million lats). The demand for the bills was high, and their weighted average discount rate dropped to 3.59% (5.1% at the previous auction in December 2001). The stock of government securities outstanding grew by 3.7% (to 276.6 million lats).

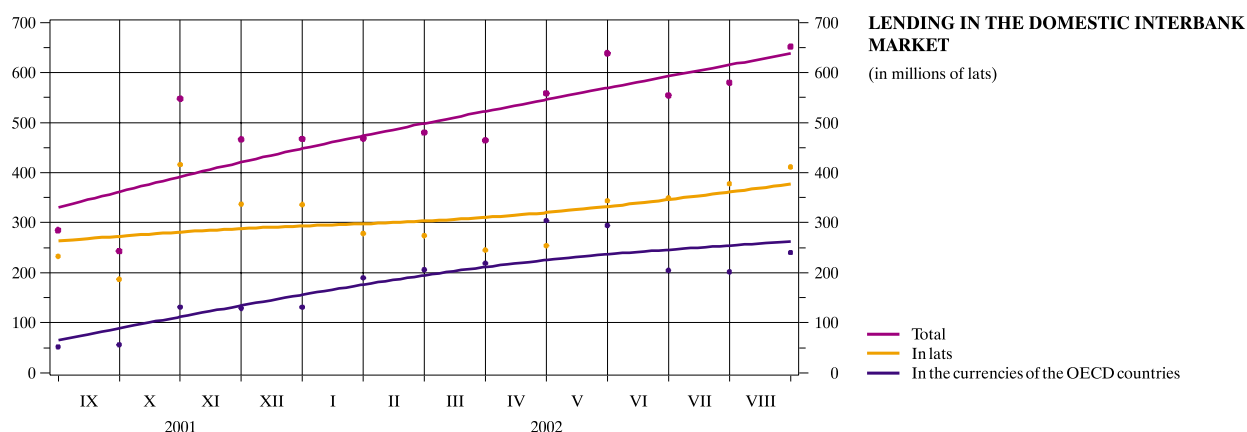
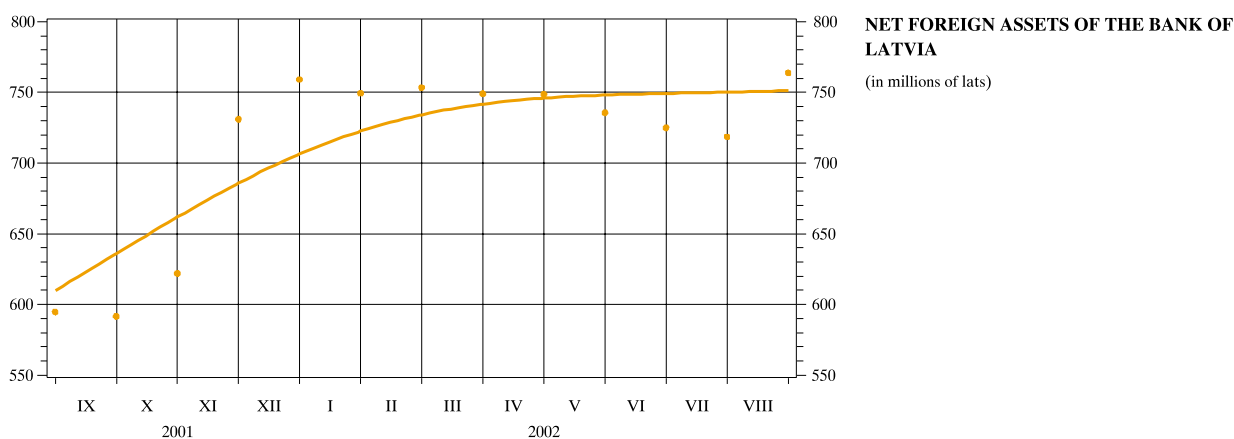
Liquidity of banks declined slightly; however, the interbank market interest rates remained low for nearly the whole month. At the end of August, the money market index RIGIBOR for overnight loans dropped to 2.9%, and for 6-month RIGIBOR (an index on which the interest rates on loans in lats granted to domestic enterprises and private persons are generally based) – to 4.5% (the lowest level in the RIGIBOR quotation record), thus ensuring low interest rates on loans in lats. The weighted average interest rate of short-term loans in lats granted to domestic enterprises and private persons dropped to 6.8% and was considerably lower than the weighted average interest rate of short-term loans in the currencies of the OECD countries (8.4%). The weighted average interest rate of long-term loans in lats (8.5%) did not show significant changes and remained higher than the weighted average interest rate of long-term loans in the currencies of the OECD countries (6.2%).

In order to improve short-term liquidity, banks frequently used borrowing in the interbank market, and its turnover increased by 12.2%, amounting to 652.3 million lats. Banks also entered into short-term currency swap deals, offered by the Bank of Latvia (71.8 million lats; of this amount, deals totalling 30.0 million lats were repaid by the end of the month), and used the Bank's loans under repurchase agreements (50.2 million lats) and demand Lombard loans (6.6 million lats). Nevertheless, Bank of Latvia's credit to banks at the end of the month (27.7

million lats) was lower than at the end of July. Banks' time deposits held with the Bank of Latvia remained nearly unchanged (13.6 million lats).

The Government's deposit with the Bank of Latvia increased considerably (by 24.2 million lats). The Bank's net foreign assets rose by 45.2 million lats or 6.3%, mostly owing to currency swap deals, and reached a record high at the end of August (763.9 million lats). The backing of the national currency with the Bank's net foreign assets was 111.9%. As the amount of currency in circulation and deposits with the Bank of Latvia increased, the monetary base M0 grew by 17.8 million lats or 2.7%.

After the rise in the US stock markets, the exchange rate of the US dollar against other major currencies stabilized in August. The exchange rate of the US dollar and the euro against the lats fluctuated within a narrow range and did not change at the end of August compared to the end of July. The Bank of Latvia's exchange rate for the Japanese yen against the lats rose (by 1.8%), whereas that of the British pound dropped (by 1.8%).



	2002	
	VII	VIII
Changes in the volume index of industrial output (year-on-year basis; %)	7.5	*
Changes in the CPI		
Month-on-month basis (%)	-0.4	-0.8
Year-on-year basis (%)	1.0	0.9
Annual rate of core inflation (%)	0.8	0.7
Number of registered unemployed persons (at end of period)	94 485	94 116
Unemployment rate (%)	8.0	7.9
General government consolidated budget fiscal deficit/surplus (in millions of lats)	-16.5	-14.7
Foreign trade (in millions of lats)		
Exports	118.6	*
Imports	214.0	*
Balance	-95.4	*

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)*

	2002	
	VII	VIII
Banking system		
M2X	1 709.0	1 728.1
Currency outside banks	489.5	499.5
Deposits of domestic enterprises and private persons	1 219.5	1 228.6
Demand deposits	714.5	710.1
Time deposits	505.1	518.5
M2D	1 163.5	1 170.8
Net foreign assets	466.7	489.8
Net domestic assets	1 242.4	1 238.3
Loans to domestic enterprises and private persons	1 559.1	1 595.0
Short-term loans	263.7	259.2
Long-term loans	1 295.4	1 335.8
Credit to the Government (net)	87.4	72.7
Bank of Latvia		
M0	664.6	682.4
Currency in circulation	551.6	562.5
Deposits with the Bank of Latvia in lats	113.0	119.8
Net foreign assets	718.7	763.9
Net domestic assets	-54.2	-81.6
Credit	3.9	-21.6
To banks	29.3	27.7
To the Government (net)	-25.4	-49.4
Other items (net)	-58.1	-60.0
International reserves*	1 205.01	1 280.70
Gold	75.57	77.33
Special Drawing Rights	0.30	0.21
Reserve position in the IMF	0.07	0.07
Foreign convertible currencies	1 129.07	1 203.09

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2002	
	VII	VIII
Weighted average interest rate on domestic interbank loans in lats	2.9	3.1
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	7.7	6.8
Short-term loans (in the OECD countries' currencies)	9.0	8.4
Long-term loans (in lats)	8.4	8.5
Long-term loans (in the OECD countries' currencies)	6.8	6.2
Interest rates on deposits of domestic enterprises and private persons		
Demand deposits (in lats)	1.0	1.0
Demand deposits (in the OECD countries' currencies)	0.9	0.9
Short-term deposits (in lats)	2.9	3.0
Short-term deposits (in the OECD countries' currencies)	1.9	2.1
Long-term deposits (in lats)	5.4	5.1
Long-term deposits (in the OECD countries' currencies)	4.7	3.3
The Bank of Latvia's refinancing rate (at end of period; %)	3.5	3.5
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.6040	0.6040
LVL/GBP	0.9450	0.9280
LVL/100 JPY	0.5030	0.5120
LVL/EUR	0.5930	0.5930

Oil transit traffic to the Ventspils port continued to decline. Decrease was recorded in both transportation of oil by pipeline and transit traffic by rail. Cargo turnover at the Ventspils port declined by 36.4%, and total cargoes loaded and unloaded at Latvian ports decreased by 12.9%. At the same time, a significant increase was observed in

cargoes reloaded at other ports of Latvia (the Riga port – 28.1%, the Liepāja port – 1.7 times, and the small ports – 1.8 times).

According to the July data released by the Central Statistical Bureau of Latvia, the volume index of industrial output showed a year-on-year rise of 7.5% (including an increase of 8.1% in manufacturing, 4.8% in electricity, gas and water supply, and 12.7% in mining and quarrying). The retail trade turnover rose 18.9% above the previous year's level.

	2002	
	VII	VIII
Bank reserves	176.2	182.5
Vault cash in national currency	62.1	63.0
Deposits with the Bank of Latvia	114.1	119.5
Foreign assets	1 605.6	1 652.7
Vault cash in foreign currency	49.6	41.7
Claims on foreign banks	966.1	1 058.6
Claims on foreign non-banks	571.7	535.1
Other assets	18.1	17.3
Claims on the central government (net)	93.1	102.1
Claims on local governments (net)	19.7	20.0
Claims on public enterprises	79.4	82.2
Claims on private enterprises	1 182.4	1 196.4
Claims on private persons	319.8	338.8
Unclassified assets	281.5	270.1
Fixed assets	107.6	107.5
Items in transit	4.9	5.2
Other assets	51.2	52.7
Claims on domestic credit institutions (incl. investments)	117.8	104.7
TOTAL ASSETS	3 757.7	3 844.7
<i>Memo item: Trust assets</i>	<i>392.8</i>	<i>380.2</i>
Demand deposits	408.2	403.6
Public enterprises	43.2	40.6
Private enterprises	181.9	182.6
Private persons	183.2	180.4
Time deposits	265.8	267.7
Public enterprises	35.2	33.3
Private enterprises	69.3	69.2
Private persons	161.3	165.2
Foreign currency deposits of residents	545.5	557.3
Public enterprises	22.4	23.0
Private enterprises	203.0	199.8
Private persons	320.1	334.5
Transit funds	10.5	10.4
Foreign liabilities	1 857.7	1 926.9
Liabilities to foreign banks	431.0	405.2
Liabilities to foreign non-banks	1 354.9	1 455.1
Other liabilities (incl. subordinated liabilities)	71.8	66.6
Liabilities to the Bank of Latvia	29.3	27.7
Debt securities	19.9	23.3
Equity	349.7	359.5
Residents	151.5	161.3
Non-residents	198.2	198.2
Provisions	56.4	56.0
Unclassified liabilities	214.6	212.3
Items in transit	69.7	77.1
Other liabilities (incl. subordinated liabilities)	38.3	40.0
Liabilities to domestic credit institutions	106.6	95.2
TOTAL LIABILITIES	3 757.7	3 844.7
<i>Memo item: Trust liabilities</i>	<i>392.8</i>	<i>380.2</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 at the Bank of Latvia's Internet website (http://www.bank.lv/FinancialData/English/index_LB.html).