

MONETARY BULLETIN 2004

7

In July, the international rating agencies *Fitch Ratings* and *Standard & Poor's* acknowledged the economic stability and the favourable investment environment in Latvia, upgrading its long-term foreign currency debt rating from BBB+ to A- and retaining a positive future outlook. The increase in money supply and the growth rate of lending was lower than in June, and the annual growth rate of the above indicators dropped slightly (to 25.2% and 41.8%, respectively).

The consumer price annual inflation rate rose to 6.7%. In addition to the factors affecting consumer prices on the supply side in previous months – tax rate changes related to the accession to the EU and an increase in the administratively regulated prices – the rise in the consumer price annual inflation was driven by an increase in the unprocessed food prices and gas tariffs (total impact of these factors was 0.7 percentage point). Fuel prices fell slightly month-on-month, and their annual growth rate slowed down as well. A considerable month-on-month drop (4.1%) was recorded in clothing and footwear prices, and it was a key factor restricting inflation growth in July.

The rapid pace of lending ensured a continuously high domestic demand. In order to ensure steady economic growth and diminish macroeconomic risks in Latvia, the Bank of Latvia increased the bank reserve requirement from 3% to 4% as of July 24, 2004.

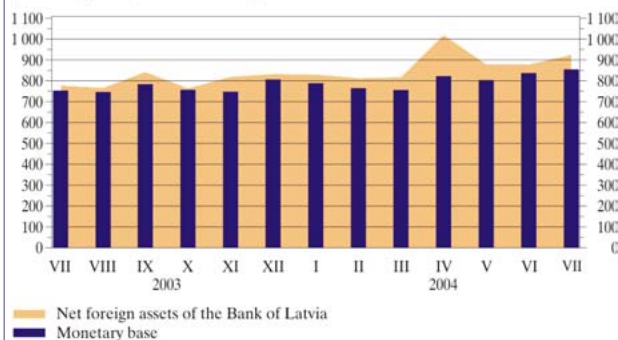
In July, a considerable increase (34.7 million lats) was recorded in the fiscal surplus of the general government consolidated budget (46.7 million lats in the first seven months of 2004, including the surplus of the central government special budget and the local government consolidated budget which reached 41.3 million lats and 19.6 million lats, respectively; the central government basic budget retained a minor deficit). Tax revenue continued to grow; yet it was the large amount (39.4 million lats) of foreign financial assistance (structural funds) that determined the excess of revenue vis-à-vis expenditure. Hence, in July the budget revenue grew by 26.4% year-on-year, whereas expenditure increased only by 6.0%.

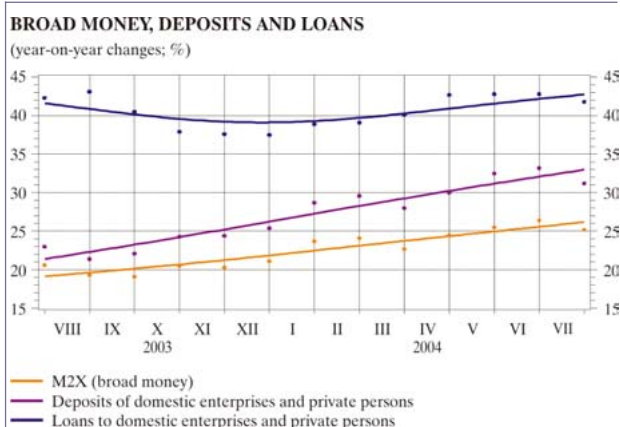
In July, the Government debt increased by 8.7 million lats, reaching 935.4 million lats at the end of the month. An auction of 12-month Treasury bills was held, where all securities supplied in the amount of 8.0 million lats were sold, with the average discount rate of 3.46% (2 basis points lower than at the previous securities auction of the same maturity in June).

The increase in broad money (46.0 million lats) was at a low since March, resulting from a more moderate growth (28.5 million lats) in domestic enterprise and private person deposits, with the annual growth rate of deposits shrinking to 31.2%. The deposit growth was determined by an increase in foreign currency deposits (41.6 million lats). The domestic money supply M2D increased by only 4.4 million lats, with the demand for cash recording a major seasonal growth. In July, cash outside banks increased by 17.5 million lats, its annual growth rate reaching 9.3%.

The monthly growth rate of lending to domestic enterprises and private persons (2.7%) reached a low since January, thus slightly reducing the annual growth rate of such loans. The

BACKING OF THE NATIONAL CURRENCY
(at end of period; in millions of lats)





increase in lending was driven by a rise in long-term loans, with the pickup in mortgage loans (50.1 million lats) accounting for more than half of the monthly growth. Industrial and commercial credit grew more moderately. The growth in lending in foreign currencies maintained its dominance (72.7 million lats). In July, its annual growth rate rose to 53.1%, whereas that of loans in lats shrank to 28.4%. An increasingly larger share of loans was granted to households: in July, loans to domestic private persons increased by 56.5 million lats (loans to domestic enterprises grew by 27.6 million lats), with their annual growth rate reaching 78.0% (28.6%).

In July, the weighted average interest rates on loans granted to domestic enterprises and private persons in foreign currencies rose somewhat (to 4.9% and 5.5%, respectively). The weighted average interest rate on loans granted to domestic enterprises in lats increased to 7.5%, whereas that on loans granted to domestic private persons dropped by 1.0 percentage point (to 7.3%).

Both an increase in domestic deposits and a decrease in the net foreign assets of the banking sector (by 50.6 million lats) underlay the growth in lending. In July, the banking sector assets expanded by 284.8 million lats (to 6.6 billion lats). In the first seven months of 2004, bank profit was 59.6 million lats (1.5 times higher year-on-year).

The growth in the Bank of Latvia's money supply was determined by an increase in the central bank's net foreign assets (45.3 million lats), with the Bank of Latvia purchasing foreign currency on the spot market in the net amount of 20.8 million lats and the demand for currency swaps again on the rise. At the end of July, the backing of the national currency with the Bank of Latvia's net foreign assets was 107.4%. The Bank of Latvia's credit to banks also posted a significant pickup (23.6 million lats), which was offset by a rise in the Government deposit with the central bank (48.3 million lats), resulting in a decrease in the Bank of Latvia's net domestic assets. The amount of repo loans granted was 2.2 times higher than in June (89.7 million lats), whereas currency swaps surged 12 times (to 12.0 million lats). On the interbank market, loans in lats and foreign currencies were granted in the amount of 666.8 million lats and 382.6 million lats, respectively (9.4% and 9.1% higher month-on-month, respectively).

Foreign currency exchange rates against the lats as set by the Bank of Latvia changed in line with the fluctuations of currency exchange rates against the SDR: in July, the US dollar and the British pound sterling appreciated by 0.7% and 0.5%, respectively, whereas the euro and the Japanese yen depreciated by 0.3% and 2.2%.

Interbank market interest rates remained low for the most part of the month: for overnight loans they were 2.6%–2.9%, rising to 3.8% at the end of the month when the demand for lats expanded after increasing the bank reserve requirement. RIGIBOR for loans with 6-month maturity was up from 4.15% at the beginning of July to 4.26% at the end of the month (from 4.19% to 4.33% for loans with 12-month maturity). The weighted average interest rate for loans in lats on the interbank market remained unchanged (2.8%).

In July, freight transported by rail shrank slightly (by 0.3%), whereas oil products transported by pipeline grew by 40.4%. The cargo turnover in Latvian ports increased by 2.1% year-on-year.

In June, the volume index of industrial output reached 6.0%. The seasonally adjusted volume index of industrial output in manufacturing and electricity, gas and water supply improved by 5.6% and 7.4% year-on-year, respectively. Retail trade turnover in constant prices expanded by 10.9%.

MACROECONOMIC INDICATORS	2004	
	VI	VII
Changes in the volume index of industrial output (year-on-year basis; %)	6.0	*
Changes in the CPI		
Month-on-month basis (%)	0.6	0.2
Year-on-year basis (%)	6.1	6.7
Annual rate of core inflation ¹ (%)	5.8	6.3
Number of registered unemployed persons (at end of period)	93 042	92 628
Unemployment rate (%)	8.7	8.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	12.0	46.7
Foreign trade (in millions of lats)		
Exports	182.7	*
Imports	281.8	*
Balance	-99.1	*

¹ 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)	2004	
	VI	VII
Banking system		
M2X	2 534.8	2 580.8
Currency outside banks	596.5	614.0
Deposits of domestic enterprises and private persons	1 938.3	1 966.8
Demand deposits	1 153.4	1 147.4
Time deposits	784.9	819.4
M2D	1 843.4	1 847.8
Net foreign assets	13.0	7.7
Net domestic assets	2 521.8	2 573.1
Loans to domestic enterprises and private persons	3 061.4	3 145.4
Short-term loans	455.4	458.3
Long-term loans	2 606.0	2 687.1
Credit to the Government (net)	128.3	101.3
Bank of Latvia		
M0	836.2	853.9
Currency in circulation	667.9	685.8
Deposits with the Bank of Latvia in lats	168.3	168.2
Net foreign assets	871.4	916.7
Net domestic assets	-35.2	-62.7
Credit	19.8	-7.0
To banks	28.7	52.3
To the Government (net)	-8.9	-59.3
Other items (net)	-55.0	-55.7
International reserves (at end of period; in millions of US dollars)	1 608.92	1 689.78
Gold	99.52	96.96
Special Drawing Rights	0.02	0.16
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 509.30	1 592.58

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	VI	VII
Weighted average interest rate on domestic interbank loans in lats	2.8	2.8
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	6.9	7.5
Loans to private persons (in lats)	8.3	7.3
Loans to enterprises (in foreign currencies)	4.7	4.9
Loans to private persons (in foreign currencies)	5.2	5.5
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.2	3.4
Demand deposits of enterprises (in lats)	1.0	1.1
Time deposits of private persons (in lats)	3.9	3.6
Demand deposits of private persons (in lats)	0.9	0.7
Time deposits of enterprises (in foreign currencies)	1.4	1.5
Demand deposits of enterprises (in foreign currencies)	0.4	0.6
Time deposits of private persons (in foreign currencies)	2.0	1.9
Demand deposits of private persons (in foreign currencies)	1.2	0.8
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	0.5440	0.5480
LVL/GBP	0.9950	1.0000
LVL/100 JPY	0.5020	0.4910
LVL/EUR	0.6630	0.6610

CONSOLIDATED BALANCE SHEET OF CREDIT INSTITUTIONS (at end of period; in millions of lats)

	2004	
	VI	VII
Bank reserves	238.8	236.8
Vault cash in national currency	71.4	71.8
Deposits with the Bank of Latvia	167.4	165.0
Foreign assets	2 487.8	2 675.7
Vault cash in foreign currencies	48.6	47.2
Claims on foreign banks	1 613.2	1 761.4
Claims on foreign non-banks	797.8	845.3
Other assets	28.2	21.9
Claims on the central government (net)	131.8	148.3
Claims on local governments (net)	5.5	12.3
Claims on public enterprises	84.3	78.5
Claims on private enterprises	2 014.4	2 047.9
Claims on private persons	998.2	1 054.7
Unclassified assets	389.6	381.0
Fixed assets	123.1	124.0
Items in transit	7.9	12.7
Other assets	58.6	59.4
Claims on domestic credit institutions (incl. investments)	200.0	184.9
Total assets	6 350.3	6 635.1
<i>Memo item: Trust assets</i>	568.2	526.8
Demand deposits	728.6	708.0
Public enterprises	59.7	56.2
Private enterprises	317.5	304.2
Private persons	351.4	347.6
Time deposits	518.3	525.8
Public enterprises	56.3	51.1
Private enterprises	162.3	163.4
Private persons	299.8	311.3
Foreign currency deposits of residents	691.4	732.9
Public enterprises	21.1	25.6
Private enterprises	236.0	252.8
Private persons	434.3	454.5
Transit funds	5.5	5.5
Foreign liabilities	3 346.1	3 584.7
Liabilities to foreign banks	933.8	1 047.5
Liabilities to foreign non-banks	2 245.6	2 384.1
Other liabilities (incl. subordinated liabilities)	166.8	153.0
Liabilities to the Bank of Latvia	28.7	52.3
Debt securities	72.2	77.4
Equity	530.9	540.3
Residents	286.4	297.6
Non-residents	244.5	242.7
Provisions	77.2	78.3
Unclassified liabilities	351.4	329.8
Items in transit	107.7	106.6
Other liabilities (incl. subordinated liabilities)	58.1	56.6
Liabilities to domestic credit institutions	185.6	166.6
Total liabilities	6 350.3	6 635.1
<i>Memo item: Trust liabilities</i>	568.2	526.8

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>).