

MONETARY BULLETIN 2005

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In May, Standard & Poor's, the international rating agency, acknowledged Latvia's stable macroeconomic situation, reassigning rating "A-" for Latvia's long-term liabilities in foreign currencies and maintaining an overall positive outlook.

Data on the GDP growth in the first quarter of 2005 suggested the highest increase (7.4%) in the Baltic States, though it was somewhat lower year-on-year. The overall increase resulted from a 11%–16% rise in construction and branches of the services sector: mostly in trade and transport, storage and communication. A slight narrowing of manufacturing output was observed. The energy sector output also recorded a minor decline.

In April and May, data on the growth of major sectors of the economy indicated moderate development in the national economy. In April, the seasonally adjusted volume index of industrial output in manufacturing improved by 2.4% year-on-year. In May, the volume of cargo transportation by rail decreased by 2.2% year-on-year, whereas oil product transportation by pipeline posted a drop of 0.7%. Freight turnover at Latvian ports increased by 0.7%. In April, retail trade turnover at constant prices was up 19.4% year-on-year. The unemployment rate declined by 0.3 percentage point (to 8.1%), with the number of the unemployed persons reaching a low since May 1998.

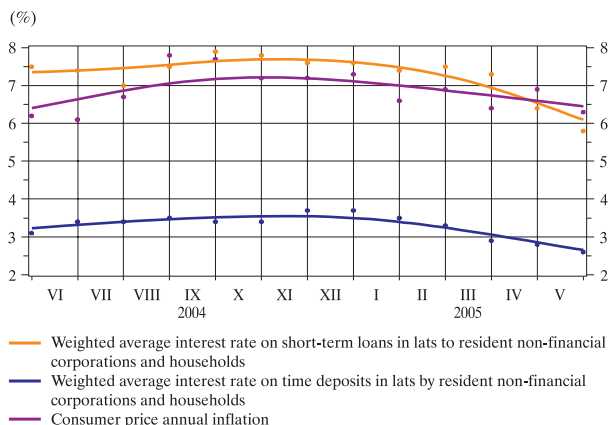
In May, the rate of increase of consumer prices slightly declined both month-on-month and year-on-year (by 0.7% and 6.3%, respectively). Inflation declined primarily due to a rapid rise in its base level in the corresponding period of the previous year, with prices increasing notably as a result of tax changes and higher oil prices. Inflation still remained fairly high. It was partly due to a rise in costs (an increase in purchase prices and cost of energy), including an upturn in food prices (those of milk and dairy products increased by 3.9%, the price of bread was up 1.7%, and the prices of vegetables and fruit were 14.5% and 3.0% higher month-on-month, respectively). However, prices of some food products posted a slight decline (0.5% for cereal products). A drop was recorded also in the prices of fuel (1.5%) and communication services.

In May 2005, the financial surplus of the general government consolidated budget was 51.6 million lats, resulting from a surplus in the central government budget (47.8 million lats; both the central government basic budget and the social security budget posted a surplus) and in the local government budget (5.2 million lats). In May, the revenue of the general government consolidated budget surged by 56.5% year-on-year due to a rapidly accelerating increase in the indirect tax and non-tax revenue, with value added tax revenue as well as one-off payments for the usage of state capital received in May contributing to it. In May, expenditure of the general government consolidated budget went up 18.7% year-on-year.

In the first five months of 2005, the financial surplus of the general government consolidated budget was 89.2 million lats (the financial surplus of the central government consolidated budget and the local government consolidated budget stood at 62.0 million lats and 31.6 million lats, respectively).

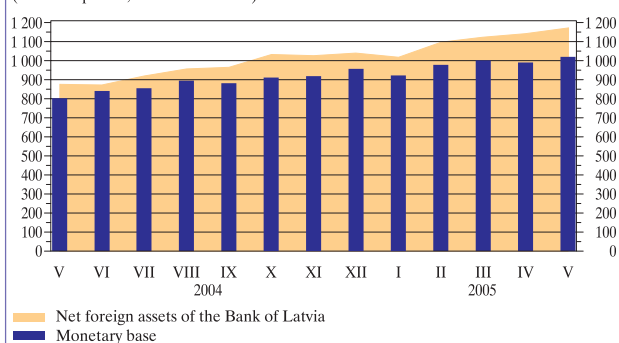
In May, central and local government debt shrank by 19.2 million lats (to 1 018.1 million lats at the end of the month). The external debt contracted by 21.8 million lats as a result of repayment of

CONSUMER PRICE ANNUAL INFLATION AND WEIGHTED AVERAGE INTEREST RATES OF LOANS AND DEPOSITS



BACKING OF THE NATIONAL CURRENCY

(at end of period; in millions of lats)



MACROECONOMIC INDICATORS

	2005	
	IV	V
Changes in the volume index of industrial output (year-on-year basis; %)	2.1	*
Changes in the CPI		
Month-on-month basis (%)	1.0	0.7
Year-on-year basis (%)	6.9	6.3
Annual rate of core inflation ¹ (%)	5.4	5.0
Number of registered unemployed persons (at end of period)	89 375	86 179
Unemployment rate (%)	8.4	8.1
General government consolidated budget fiscal deficit/surplus (in millions of lats)	56.8	110.9
Foreign trade (in millions of lats)		
Exports	243.9	*
Imports	375.5	*
Balance	-131.6	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

World Bank loans. The domestic debt edged up slightly, with the government securities outstanding recording a moderate increase in May. In competitive multi-price auctions in the primary market, 6-month Treasury bills were sold in the amount of 1.2 million lats with a low weighted average discount rate (2.40%). As compared with the previous 6-month Treasury bill auction in January 2005, the weighted average discount rate dropped by 0.7 percentage point.

In May, broad money M3 grew by 39.6 million lats. The increase in overnight deposits (79.3 million lats) and in currency in circulation (8.5 million lats) contributed to the growth in money supply. The annual growth rate of M3 shrank to 26.6% (28.1% in April), affected by a decline in its less liquid components.

The overall annual growth rate of deposits received from resident financial institutions, non-financial corporations and households dropped to 29.0% in May, although a robust increase in deposits made by households both in lats and foreign currency persisted. However, deposits made by financial institutions and non-financial corporations with MFIs slightly contracted.

In May, the annual growth rate of loans granted to resident financial institutions, non-financial corporations and households increased by 3.0 percentage points (to 51.1%). The growth in lending was mostly underpinned by the expanding mortgage lending (by 123.3 million lats). Commercial credit and industrial credit posted a more moderate rise (44.0 million lats and 25.8 million lats, respectively). Loans granted in euros (an increase of 199.7 million lats) still accounted for almost the entire growth in lending. Loans granted in lats grew by 39.4 million lats while those granted in US dollars decreased. Lending to households increased by 95.5 million lats and that granted to financial institutions and non-financial corporations expanded by 115.7 million lats. The annual growth rate of lending to households remained notably higher than that to financial institutions and non-financial corporations (75.2% and 39.7%, respectively).

With the budgetary surplus widening, net credit to the Government decreased by 28.9% in May, shrinking by 15.8% year-on-year.

In the first five months of 2005, banks' profit stood at 76.0 million lats (1.9 times higher than in the corresponding period of 2004).

As competition among banks sharpened, the lending supply continued to expand, pushing down interest rates on loans considerably. They shrank by 1.2 percentage points on loans granted to households in lats (to 6.5%), including a drop of 0.7 percentage point (to 5.0%) on lending for house purchase. Interest rates on the same types of loans granted in foreign currency also declined (to 4.7% and 4.4%, respectively), and so did interest rates on loans to non-financial corporations.

With the demand for cash strengthening and banks' demand deposits with the central bank increasing, the monetary base M0 grew by 27.9 million lats in May. The rise in the Bank of Latvia's money supply was underpinned by an increase of 29.6 million lats in its net foreign assets resulting from the Bank of Latvia's foreign currency purchases. In the Bank of Latvia's net domestic assets the growth in the Government deposits offset a decrease in the bank time deposits.

In May, the US dollar and the Japanese yen appreciated against the lats (by 3.3% and 1.4%, respectively), while the British pound sterling depreciated against the lats by 1.9%.

MONETARY INDICATORS (at end of period; in millions of lats)	2005	
	IV	V
MFIs		
M3	3 043.6	3 083.2
Repurchase agreements	0	0
Money market fund shares and units	14.1	12.0
Debt securities issued with maturity of up to 2 years	9.6 ¹	9.7
M2	3 019.8	3 061.5
Deposits with agreed maturity of up to 2 years	801.3	752.3
Deposits redeemable at notice of up to 3 months	80.8	83.9
M1	2 137.6	2 225.3
Currency outside MFIs	661.2	669.7
Overnight deposits	1 476.4	1 555.7
Net external assets	-485.2	-572.8
Credit to resident financial institutions, non-financial corporations and households	4 285.6	4 496.8
Credit to general government	410.1	407.5
Deposits of central government	203.4	235.6
Longer-term financial liabilities	989.0	1 011.7
Bank of Latvia		
M0	988.4	1 016.3
Currency in circulation	736.7	749.3
Deposits with the Bank of Latvia in lats	251.7	267.0
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 140.2	1 169.8
Net domestic assets	-151.9	-153.5
Credit	-26.9	-67.3
To MFIs	8.5	8.2
To central government (net)	-35.4	-75.5
Other items (net)	-124.9	-86.1
International reserves (at end of period; in millions of US dollars)	2 123.74	2 128.82
Gold	107.63	104.26
Special Drawing Rights	0.15	0.15
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	2 015.88	2 024.33

¹ Data have been revised.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	IV	V
Weighted average interest rate on domestic interbank loans in lats	2.3	2.5
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	6.5	6.0
Loans to households (in lats)	7.7	6.5
incl. for house purchase	5.7	5.0
Loans to non-financial corporations (in foreign currencies)	5.2	4.8
Loans to households (in foreign currencies)	4.9	4.7
incl. for house purchase	4.7	4.4
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	2.6	2.5
Demand deposits of non-financial corporations (in lats)	0.7	0.7
Time deposits of households (in lats)	3.4	3.0
Demand deposits of households (in lats)	0.5	0.5
Time deposits of non-financial corporations (in foreign currencies)	1.9	2.2
Demand deposits of non-financial corporations (in foreign currencies)	0.9	0.8
Time deposits of households (in foreign currencies)	2.4	2.5
Demand deposits of households (in foreign currencies)	1.1	1.2
The Bank of Latvia's refinancing rate (at end of period; %)	4.0	4.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5430	0.5610
LVL/GBP	1.0400	1.0200
LVL/100 JPY	0.5130	0.5200
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)

	2005	
	IV	V
MFI reserves	385.0	363.7
Vault cash in national currency	75.5	79.6
Deposits with the Bank of Latvia	309.6	284.1
Foreign assets	2 994.1	3 019.6
Vault cash in foreign currencies	56.2	62.0
Claims on MFIs	1 851.1	1 865.8
Claims on non-MFIs	1 038.3	1 058.5
Other assets	48.5	33.3
Claims on central government	231.4	233.0
Claims on local government	79.6	75.2
Claims on public non-financial corporations	108.4	118.0
Claims on financial institutions and private non-financial corporations	2 627.4	2 733.4
Claims on households	1 575.7	1 671.2
Unclassified assets	423.0	439.4
Fixed assets	129.2	128.5
Items in transit	15.2	16.7
Other assets	66.4	67.9
Claims on resident MFIs (incl. investments)	212.2	226.3
Total assets	8 424.7	8 653.5
<i>Memo item: Trust asset</i>	637.8	648.7
Overnight deposits in lats	841.6	885.2
Public non-financial corporations	44.6	39.3
Financial institutions and private non-financial corporations	380.9	408.0
Households	416.2	438.0
Time deposits and deposits redeemable at notice in lats	637.8	581.2
Public non-financial corporations	81.6	72.4
Financial institutions and private non-financial corporations	195.9	142.0
Households	360.4	366.8
Foreign currency deposits of residents	925.3	971.7
Public non-financial corporations	15.9	15.5
Financial institutions and private non-financial corporations	287.7	297.5
Households	621.7	658.7
Deposits of central government	68.9	60.8
Deposits of local government	81.4	82.8
Transit funds	5.3	5.1
Foreign liabilities	4 619.6	4 762.2
Liabilities to MFIs	1 698.7	1 795.7
Liabilities to non-MFIs	2 743.7	2 796.1
Other liabilities (incl. subordinated liabilities)	177.2	170.3
Liabilities to the Bank of Latvia	8.5	8.2
Debt securities issued	90.3	91.1
Money market fund shares and units	14.1	12.0
Capital and reserves	678.8 ¹	698.5
Residents	369.6 ¹	389.4
Non-residents	309.1	309.2
Provisions	92.3	88.1
Unclassified liabilities	360.7	406.5
Items in transit	107.5	109.9
Other liabilities (incl. subordinated liabilities)	60.1	70.5
Liabilities to resident MFIs	193.2	226.2
Total liabilities	8 424.7	8 653.5
<i>Memo item: Trust liabilities</i>	637.8	648.7

¹ Data have been revised.

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>).

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