

MONETARY BULLETIN 2005

10

Latvia's economic activity increased, with buoyant growth in industry, trade and transport continuing. In September, the seasonally adjusted volume index of industrial output in manufacturing increased by 9.7%, whereas industry recorded an overall growth by 7.8% year-on-year. Retail trade turnover continued to grow significantly and posted a 21.4% year-on-year increase in September. The volume of freight transported grew significantly in October. Freight carried by rail increased by 13.3% year-on-year, whereas cargo turnover at Latvian ports expanded by 13.9% and the amount of oil products transported by pipeline by 10.7%. A decline in unemployment (to 7.5%) also pointed to further economic growth.

Stabilisation of oil prices on the global market underlay a drop in fuel prices in Latvia as well (by 1.7% in October). Hence, the rise in consumer prices (0.8%) was lower than in September. Nevertheless, the pickup in heating and gas tariffs and the prices on clothing and footwear, and vegetables and potatoes under the impact of seasonal factors prevented the inflation rate from contracting more notably. The annual consumer price inflation reached the highest peak of the last twelve months (7.6%).

In October 2005, the financial surplus of the general government consolidated budget amounted to 6.1 million lats, with the financial surplus accumulated from the beginning of the year reaching 178.8 million lats (a twofold increase year-on-year). The revenue and expenditure of the general government consolidated budget in October posted a 14.1% and 22.1% year-on-year increase, respectively. The rise in budget revenue was supported by a notable increase in tax collections (22.0%). The amount of foreign financial assistance contracted year-on-year. The increase in tax collections was mostly driven by a rise in value added tax collections, social insurance contributions and excise tax revenue (29.4%, 14.5% and 36.4%, respectively). Personal income tax and corporate income tax revenue also posted significant increases.

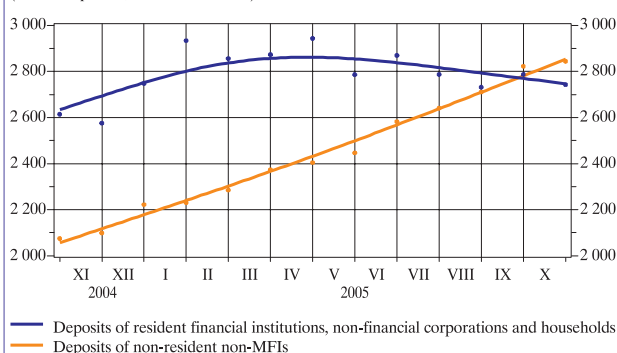
The growth of budget expenditure in October was still mostly underpinned by a rise in current expenditure as a result of raising some of the social benefits in 2005, pension indexation as well as higher spending on wages and salaries. Investment expenditure also climbed 9.5%.

Latvian central government and local government debt shrank slightly in October, totalling 997.3 million lats at the end of the month. The decrease was the result of a reduction by 7.6 million lats in foreign debt by repaying a World Bank loan.

One auction of 6-month and one auction of 12-month Treasury bills were held on the domestic government securities market in October. Bills in the amount of 4.9 million lats at the weighted average discount rate of 2.396% for the 6-months Treasury bills (43 basis points higher than at the previous auction) and 2.366% for the 12-month Treasury bills (9 basis points lower than at the previous auction) were sold at competitive multi-price auctions on the primary market.

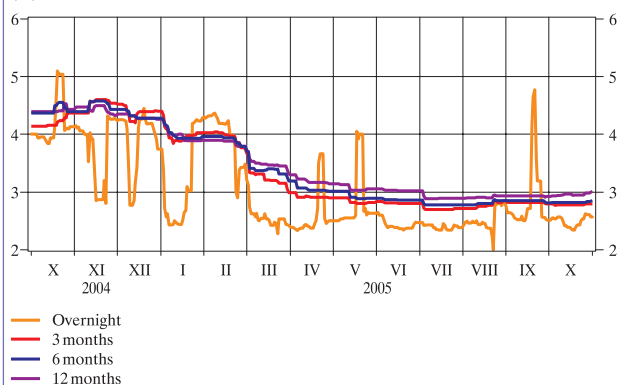
In October, the credit expansion was financed primarily by rising foreign long-term liabilities. Money supply aggregates increased rather insignificantly. The negative net foreign assets of MFIs grew by 210.9 million lats. Broad money M3 increased by 39.5 million lats, as a result of an increase in deposits with an agreed maturity of up to 2 years (by 22.8 million lats) and currency in circulation (less vault cash of MFIs; by 13.4 million lats). Hence, the annual growth rate of all money supply

DEPOSITS ATTRACTED BY LATVIAN BANKS
(at end of period; in millions of lats)



MONEY MARKET INDEX RIGIBOR

(%)


MACROECONOMIC INDICATORS

	2005	
	IX	X
Changes in the volume index of industrial output (year-on-year basis; %)	7.8	*
Changes in the CPI		
Month-on-month basis (%)	1.5	0.8
Year-on-year basis (%)	7.2	7.6
Annual rate of core inflation ¹ (%)	5.6	6.0
Number of registered unemployed persons (at end of period)	81 889	80 044
Unemployment rate (%)	7.7	7.5
General government consolidated budget fiscal deficit/surplus (in millions of lats)	197.3	197.3
Foreign trade (in millions of lats)		
Exports	251.1	*
Imports	425.4	*
Balance	-174.3	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

aggregates (M1, M2 and M3) decelerated (to 35.2%, 31.9% and 32.5%, respectively).

With the deposits of resident financial institutions, non-financial corporations and households increasing by 21.7 million lats in October, the annual growth rate of deposits declined (to 37.1%). Considered by currency, only deposits in lats grew, whereas by type of depositor both deposits made by financial institutions and non-financial corporations as well as those by households expanded slightly.

With loans granted to resident financial institutions, non-financial corporations and households increasing rapidly (by 239.4 million lats), their annual growth rate went up from 57.8% in September to 58.7% in October. Mortgage loans (an increase of 121.1 million lats) accounted for one half of the overall loan expansion, including a rise of lending to households for house purchase by 77.3 million lats. Commercial credit and industrial credit rose significantly (by 51.5 million lats and 41.6 million lats, respectively), whereas consumer credit grew more modestly (by 8.0 million lats). Loans granted in euro still reported the highest growth (229.0 million lats), but loans granted in lats also continued to increase (by 48.0 million lats). Loans granted to financial institutions and non-financial corporations grew by 128.9 million lats, whereas loans granted to households by 110.5 million lats. The annual growth rate of both loans granted to households and loans granted to financial institutions and non-financial corporations accelerated (to 79.8% and 47.4%, respectively).

With the central government basic budget surplus shrinking, net lending to the Government grew by 26.3 million lats in October.

Weighted average interest rates on bank lending remained broadly unchanged, with the weighted average interest rate on household loans for house purchase granted in lats increasing by 0.2 percentage point, whereas that on the respective loans granted in foreign currencies declining by 0.3 percentage point (to 5.3% and 4.2%, respectively). Interest rates on loans granted to non-financial corporations remained roughly unchanged (5.3% for loans in lats and 4.8% for foreign currency loans).

Interbank market rates remained stable in October (RIGIBOR on overnight loans was 2.3%–2.6%). As opposed to the preceding months, they remained broadly unchanged also at the end of the reserve maintenance period. RIGIBOR for loans with a 6- and 12-month maturity grew slightly during the month (reaching 2.84% and 3.00% at the end of the period, respectively).

In October, MFI assets expanded by 231.5 million lats, exceeding 10 billion lats, whereas profit totalled 162.2 million lats in the first ten months of 2005 (1.7 times higher year-on-year).

With the demand for cash strengthening and banks' demand deposits with the Bank of Latvia shrinking slightly, the monetary base M0 decreased by 4.2 million lats in October. The central bank's money supply was affected by the contraction of its net foreign assets (by 9.8 million lats), as the Bank of Latvia did not engage in any foreign currency purchase transactions. Money supply was additionally reduced by an increase in the banks' time deposits with the central bank by 4.5 million lats and increased by a decline in Government deposits with the Bank of Latvia by 6.8 million lats.

Liquidity remained high, and banks rarely resorted to the Bank of Latvia loans. In October, the amount of repo loans granted (5.3 million lats) decreased 4.2 times month-on-month, and there was no demand for Lombard loans. Time deposits from banks (155.7 million lats) grew 1.7 times over September.

In October, the US dollar and the Japanese yen depreciated against the lats by 0.7% and 2.7%, whereas the British pound sterling appreciated by 0.2%, respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2005	
	IX	X
MFIs¹		
M3	3 503.2	3 542.7
Repurchase agreements	0	0
Money market fund shares and units	15.3	13.3
Debt securities issued with maturity of up to 2 years	0	3.5
M2	3 487.9	3 525.9
Deposits with agreed maturity of up to 2 years	827.2	850.0
Deposits redeemable at notice of up to 3 months	98.6	97.3
M1	2 562.1	2 578.6
Currency outside MFIs	717.1	730.5
Overnight deposits	1 845.0	1 848.1
Net external assets	-784.1	-995.0
Credit to resident financial institutions, non-financial corporations and households	5 353.1	5 592.5
Credit to general government	382.5	377.3
Deposits of central government	300.7	266.0
Longer-term financial liabilities	1 160.1	1 174.6
Bank of Latvia		
M0	1 202.7	1 198.5
Currency in circulation	800.6	813.7
Deposits with the Bank of Latvia in lats	402.1	384.7
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 382.4	1 372.6
Net domestic assets	-179.7	-174.1
Credit	-77.6	-72.3
To MFIs	4.7	3.0
To central government (net)	-82.3	-75.3
Other items (net)	-102.1	-101.8
International reserves (at end of period; in millions of US dollars)	2 396.84	2 387.02
Gold	116.85	117.83
Special Drawing Rights	0.14	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	2 279.77	2 268.97

¹In accordance with the methodology of the European Central Bank.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	IX	X
Weighted average interest rate on domestic interbank loans in lats	2.9	2.2
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	5.3	5.3
Loans to households (in lats)	6.3	6.8
incl. for house purchase	5.1	5.3
Loans to non-financial corporations (in foreign currencies)	4.9	4.8
Loans to households (in foreign currencies)	4.5	4.5
incl. for house purchase	4.5	4.2
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	2.4	2.4
Demand deposits of non-financial corporations (in lats)	0.7	0.7
Time deposits of households (in lats)	2.8	2.8
Demand deposits of households (in lats)	0.5	0.4
Time deposits of non-financial corporations (in foreign currencies)	2.5	2.2
Demand deposits of non-financial corporations (in foreign currencies)	1.0	1.0
Time deposits of households (in foreign currencies)	2.6	2.7
Demand deposits of households (in foreign currencies)	1.4	1.6
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	0.5830	0.5790
LVL/GBP	1.0310	1.0330
LVL/100 JPY	0.5160	0.5020
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	
	IX	X
MFI reserves	516.8	503.3
Vault cash in national currency	83.6	83.3
Deposits with the Bank of Latvia	433.3	420.0
Foreign assets	3 209.5	3 238.6
Vault cash in foreign currencies	66.1	64.0
Claims on MFIs	1 943.4	1 957.9
Claims on non-MFIs	1 155.8	1 147.4
Other assets	44.2	69.2
Claims on central government	208.3	203.1
Claims on local government	75.2	75.0
Claims on public non-financial corporations	124.3	116.3
Claims on financial institutions and private non-financial corporations	3 163.1	3 299.7
Claims on households	2 099.9	2 210.4
Unclassified assets	419.4	401.8
Fixed assets	125.7	124.9
Items in transit	16.6	15.6
Other assets	69.8	73.2
Claims on resident MFIs (incl. investments)	207.3	188.0
Total assets	9 816.6	10 048.1
<i>Memo item: Trust assets</i>	<i>444.7</i>	<i>458.6</i>
Overnight deposits in lats	1 015.3	1 038.2
Public non-financial corporations	48.7	42.8
Financial institutions and private non-financial corporations	462.1	475.7
Households	504.5	519.7
Time deposits and deposits redeemable at notice in lats	616.9	643.6
Public non-financial corporations	51.7	57.5
Financial institutions and private non-financial corporations	183.0	199.0
Households	382.2	387.2
Foreign currency deposits of residents	1 190.5	1 162.6
Public non-financial corporations	17.5	17.5
Financial institutions and private non-financial corporations	402.0	383.7
Households	770.9	761.3
Deposits of central government	119.3	91.4
Deposits of local government	90.6	93.7
Transit funds	5.1	5.1
Foreign liabilities	5 376.1	5 606.1
Liabilities to MFIs	2 418.4	2 659.0
Liabilities to non-MFIs	2 787.7	2 743.2
Other liabilities (incl. subordinated liabilities)	170.0	203.9
Liabilities to the Bank of Latvia	4.7	3.0
Debt securities issued	166.7	172.0
Money market fund shares and units	15.3	13.3
Capital and reserves	753.6	771.9
Residents	441.9	455.6
Non-residents	311.7	316.3
Provisions	98.7	100.6
Unclassified liabilities	363.7	346.5
Items in transit	107.9	108.0
Other liabilities (incl. subordinated liabilities)	68.9	74.4
Liabilities to resident MFIs	186.9	164.1
Total liabilities	9 816.6	10 048.1
<i>Memo item: Trust liabilities</i>	<i>444.7</i>	<i>458.6</i>

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>).