

MONETARY BULLETIN 2004

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Inflation growth was primarily driven by the supply side factors, which have a temporary impact and do not require immediate action on Bank of Latvia's part and changes in the monetary policy. Prices rose mainly on account of considerably higher prices of vegetables and fruit due to poor crops and the global oil prices that had reached a historic high. The growth in administratively regulated prices and changes in tax and insurance legislation also continued to exert a significant impact. Nevertheless, the rise in consumer prices was also determined by the robust domestic demand and the related rapid economic growth. Although consumer prices were 0.1% lower month-on-month in August, the annual inflation reached 7.8%, as no notable month-on-month price drops due to seasonal factors were experienced in summer as had been the case over the last six years.

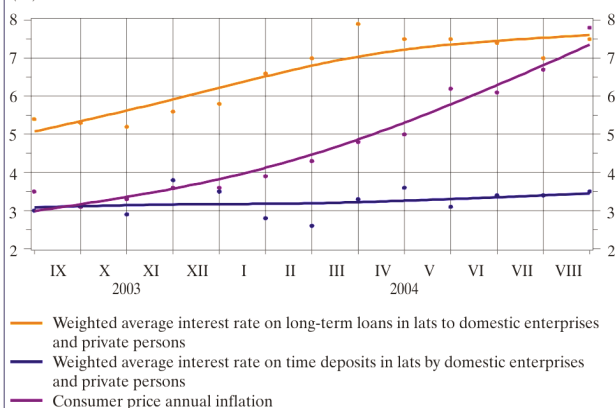
In August, money supply expanded at a slightly quicker pace month-on-month, whereas the annual growth rate of lending exceeded the level of three preceding months. Driven by both significant growth of domestic deposits and funds attracted from non-residents, lending expanded. The growth of money supply and the modest base determined the annual growth rate of the key monetary aggregates, which was 27.6% and 35.3% for broad money and deposits of domestic enterprises and private persons, respectively, and 43.0% for loans granted to the above customer group.

The fiscal surplus in the general government consolidated budget continued to grow in August, reaching 69.6 million lats in the first eight months of 2004 (10.7 million lats in the same period of the preceding year). The surplus of the central government special budget stood at 38.7 million lats, whereas that of the local government consolidated budget and central government basic budget was 20.8 million lats and 8.4 million lats, respectively. The surplus of the general government consolidated budget resulted from the revenue exceeding the expenditure (16.4% and 12.2% increase since the beginning of the year; 26.1% and 22.1% in August, respectively) due to increased tax revenue (primarily corporate and personal income tax and social insurance contributions) and foreign financial assistance (in August, inflows of structural funds amounted to 14.6 million lats).

In August, the Government debt remained broadly unchanged and stood at 935.9 million lats at the end of the month. One auction of 6-months and one auction of 12-months Treasury bills were held in August, where securities in the amount of 11.4 million lats were sold. The average discount rates of both 6-months and 12-months Treasury bills (3.53% and 3.64%, respectively) were slightly higher than at the auctions of the same maturity securities held in June and July.

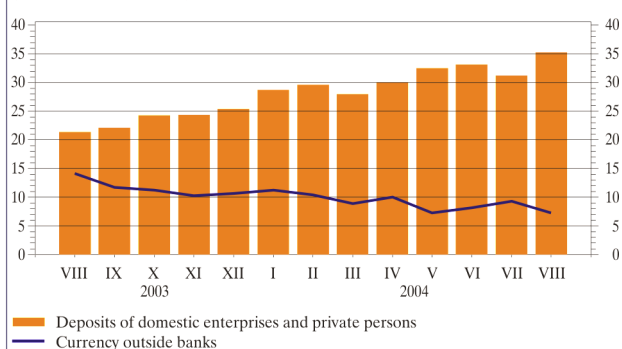
The growth of broad money (49.6 million lats) was driven by the expansion of deposits of domestic enterprises and private persons (52.1 million lats), whereas cash outside banks shrank slightly, with its annual growth rate declining to 7.3%. Expansion of deposits was observed across maturities, currencies and depositors (enterprises and private persons). Domestic money supply M2D increased by 30.5 million lats, with deposits in lats expanding by 33.0 million lats.

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



BANK DEPOSITS OF DOMESTIC ENTERPRISES AND PRIVATE PERSONS AND CURRENCY OUTSIDE BANKS

(year-on-year changes; %)



MACROECONOMIC INDICATORS	2004	
	VII	VIII
Changes in the volume index of industrial output (year-on-year basis; %)	3.5	*
Changes in the CPI		
Month-on-month basis (%)	0.2	-0.1
Year-on-year basis (%)	6.7	7.8
Annual rate of core inflation ¹ (%)	6.3	6.6
Number of registered unemployed persons (at end of period)	92 628	92 880
Unemployment rate (%)	8.7	8.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	46.7	69.6
Foreign trade (in millions of lats)		
Exports	174.8	*
Imports	296.8	*
Balance	-122.0	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

In August, lending to domestic enterprises and private persons increased by 116.7 million lats or 3.7%, which is one of the highest lending growth rates observed in the course of last year. More than half of the monthly rise resulted from the expansion of mortgage lending (by 62.6 million lats). Industrial credit and commercial credit also increased significantly (28.9 million lats and 21.8 million lats, respectively). Although the growth of lending in lats was the most notable since March (35.2 million lats), the overall rise was mostly driven by foreign currency loans, where the annual growth rate rose to 55.3% in August. The annual growth rate of lending in lats decelerated to 28.3%. Slightly more than a half of total loans were granted to households; in August, lending to private persons increased by 58.9 million lats, including lending for house purchase by 45.4 million lats, whereas corporate lending grew by 57.8 million lats.

The expansion of lending was ensured by a rise in domestic deposits as well as a decline in the net foreign assets of the banking sector by 64.6 million lats. In August, the banking sector's assets grew by 239.6 million lats reaching 6.9 billion lats. In the first eight months of 2004, banks' profit stood at 71.3 million lats, i.e. a year-on-year increase of 1.5 times.

Interest rates on loans granted to domestic private persons in lats increased significantly by 1.6 percentage points, climbing to 8.9%, whereas interest rates on loans granted to domestic enterprises and private persons in foreign currencies declined slightly: to 4.5% and 5.3%, respectively, and interest rates on loans granted to domestic enterprises in lats to 7.1%. Although inflation went up, interest rates on deposits remained broadly unchanged.

In August, interbank market interest rates on overnight loans were 3.7%–4.0%, with a short-lived rise to 4.8% at the end of the minimum reserve maintenance period. RIGIBOR on 6-months loans increased slightly from 4.26% at the beginning of August to 4.35% at the end of the month, whereas on 12-months loans from 4.33% to 4.35%, respectively. Weighted average interest rate on interbank market loans in lats climbed to 3.6%.

The expansion of the central bank's money supply was driven by an increase of the Bank of Latvia's net foreign assets (37.4 million lats), resulting from net foreign exchange market interventions in the amount of 30.3 million lats as well as a 39.7 million lats rise in the Bank of Latvia loans granted to banks. Although the expansion of money supply was partly offset by an increase in the Government deposits with the central bank (35.1 million lats), base money reached 891.8 million lats at the end of August. At the end of that month, the backing of the national currency with the Bank of Latvia's net foreign assets was 107.0%. With banks complying with the increased minimum reserve requirement, repo loans granted by the Bank of Latvia in August grew 3.3 times month-on-month reaching 298.6 million lats. Banks also made limited use of demand Lombard loans and currency swaps (10.4 million lats and 12.5 million lats, respectively). Interbank loans granted in lats shrank to 555.8 million lats which is 16.6% less month-on-month.

Exchange rates against the lats set by the Bank of Latvia changed in line with the exchange rate fluctuations against the SDR: in August, the US dollar and the Japanese yen appreciated by 0.4% and 1.4%, respectively, whereas the euro and the British pound sterling depreciated by 0.2% and 1.8%, respectively.

Data on GDP growth in the second quarter of 2004 were published confirming that the growth of 7.7% year-on-year was driven by the increase in goods and services sectors (7.4% and 7.8%, respectively).

In July, the volume index of industrial output was 3.5%, whereas the retail trade turnover grew 9.2% year-on-year.

In August, rail freight increased by 7.0% year-on-year, whereas the volume of oil products transported by pipeline grew by 29.4%. Freight turnover at Latvian ports expanded by 5.8%.

MONETARY INDICATORS (at end of period; in millions of lats)	2004	
	VII	VIII
Banking system		
M2X	2 580.8	2 630.4
Currency outside banks	614.0	611.5
Deposits of domestic enterprises and private persons	1 966.8	2 018.9
Demand deposits	1 147.4	1 165.8
Time deposits	819.4	853.1
M2D	1 847.8	1 878.3
Net foreign assets	7.7	-19.6
Net domestic assets	2 573.1	2 649.9
Loans to domestic enterprises and private persons	3 145.4	3 262.1
Short-term loans	458.3	467.1
Long-term loans	2 687.1	2 795.0
Credit to the Government (net)	101.3	80.9
Bank of Latvia		
M0	853.9	891.8
Currency in circulation	685.8	683.4
Deposits with the Bank of Latvia in lats	168.2	208.4
Net foreign assets	916.7	954.1
Net domestic assets	-62.7	-62.3
Credit	-7.0	-2.2
To banks	52.3	92.0
To the Government (net)	-59.3	-94.2
Other items (net)	-55.7	-60.1
International reserves (at end of period; in millions of US dollars)	1 689.78	1 738.19
Gold	96.96	100.37
Special Drawing Rights	0.16	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 592.58	1 637.60

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	VII	VIII
Weighted average interest rate on domestic interbank loans in lats	2.8	3.6
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	7.5	7.1
Loans to private persons (in lats)	7.3	8.9
Loans to enterprises (in foreign currencies)	4.9	4.5
Loans to private persons (in foreign currencies)	5.5	5.3
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.4	3.5
Demand deposits of enterprises (in lats)	1.1	1.2
Time deposits of private persons (in lats)	3.6	3.5
Demand deposits of private persons (in lats)	0.7	0.6
Time deposits of enterprises (in foreign currencies)	1.5	1.5
Demand deposits of enterprises (in foreign currencies)	0.6	0.6
Time deposits of private persons (in foreign currencies)	1.9	2.1
Demand deposits of private persons (in foreign currencies)	0.8	0.9
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	0.5480	0.5500
LVL/GBP	1.0000	0.9820
LVL/100 JPY	0.4910	0.4980
LVL/EUR	0.6610	0.6600

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

	2004	
	VII	VIII
Bank reserves	236.8	277.0
Vault cash in national currency	71.8	71.8
Deposits with the Bank of Latvia	165.0	205.2
Foreign assets	2 675.7	2 743.3
Vault cash in foreign currencies	47.2	52.3
Claims on foreign banks	1 761.4	1 788.9
Claims on foreign non-banks	845.3	877.1
Other assets	21.9	25.0
Claims on the central government (net)	148.3	174.0
Claims on local governments (net)	12.3	1.0
Claims on public enterprises	78.5	79.5
Claims on private enterprises	2 047.9	2 104.8
Claims on private persons	1 054.7	1 113.6
Unclassified assets	381.0	381.5
Fixed assets	124.0	123.7
Items in transit	12.7	8.1
Other assets	59.4	59.5
Claims on domestic credit institutions (incl. investments)	184.9	190.2
Total assets	6 635.1	6 874.7
<i>Memo item: Trust assets</i>	526.8	587.5
Demand deposits	708.0	718.8
Public enterprises	56.2	52.5
Private enterprises	304.2	321.9
Private persons	347.6	344.4
Time deposits	525.8	548.1
Public enterprises	51.1	57.4
Private enterprises	163.4	174.2
Private persons	311.3	316.5
Foreign currency deposits of residents	732.9	752.0
Public enterprises	25.6	27.7
Private enterprises	252.8	263.4
Private persons	454.5	460.9
Transit funds	5.5	5.5
Foreign liabilities	3 584.7	3 716.9
Liabilities to foreign banks	1 047.5	1 114.8
Liabilities to foreign non-banks	2 384.1	2 463.5
Other liabilities (incl. subordinated liabilities)	153.0	138.7
Liabilities to the Bank of Latvia	52.3	92.0
Debt securities	77.4	78.8
Equity	540.3	555.7
Residents	297.6	313.0
Non-residents	242.7	242.7
Provisions	78.3	80.3
Unclassified liabilities	329.8	326.6
Items in transit	106.6	99.1
Other liabilities (incl. subordinated liabilities)	56.6	55.3
Liabilities to domestic credit institutions	166.6	172.2
Total liabilities	6 635.1	6 874.7
<i>Memo item: Trust liabilities</i>	526.8	587.5

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>).