

MONETARY BULLETIN 2005

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The economic growth in Latvia continued to be dynamic, with industrial output increasing at a more rapid pace and retail trade expanding. In May, the seasonally adjusted volume index of industrial output in manufacturing improved by 7.4% year-on-year. Retail trade turnover at constant prices posted a 16.5% year-on-year pickup. In June, freight transportation by rail increased by 0.7% year-on-year, whereas freight turnover at Latvian ports grew by 3.5%. The pace of growth in oil product transportation by pipeline became more pronounced (16.4%). Against this background, the annual consumer price inflation retained its former level (6.3%). The unemployment rate continued to decline (to 7.9%), and the number of unemployed persons dropped by 9.3% below that registered with the State Employment Agency in June of the previous year.

Overall, consumer prices in June rose by 0.6% month-on-month, with commodity prices picking up 0.8% but service prices remaining unchanged. The rise was mostly a result of higher vegetable and potato, fruit as well as fuel prices (by 7.9%, 4.2% and 2.1%, respectively). At the same time, prices of meat products and bread went up, whereas a slight price decline was recorded for clothing and communication services.

In June, the financial surplus of the general government consolidated budget was 16.8 million lats due to a surplus (10.1 million lats) in the central government consolidated budget, while the local government consolidated budget recorded a small deficit (1.6 million lats). The general government consolidated budget revenue in June increased by 50.6% year-on-year as a result of a substantial rise in indirect tax revenue (77.9%) and a boost to foreign financial aid. The revenue from the value added tax, which more than doubled, was the central factor triggering a rise in the budget revenue from indirect taxes. Unchanged from May, the growth in the value added tax revenue was strongly affected not only by robust economic activity but also by a relatively low revenue base of the respective tax in the corresponding period of the previous year. In June, expenditure of the general government consolidated budget went up 55.8 million lats or 25.9% year-on-year.

Over the first six months of 2005, the financial surplus of the general government consolidate budget amounted to 106.0 million lats. It resulted from surpluses in the central government consolidated budget (72.8 million lats) and the local government consolidated budget (30.1 million lats).

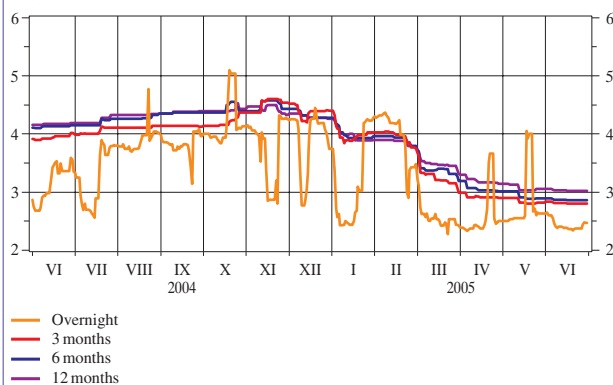
In June, Latvia's central and local government debt shrank by 5.2 million lats (to 1 012.9 million lats). The domestic debt decreased by 7.8 million lats, whereas the external debt grew slightly. The government securities outstanding recorded a decrease of 8.1 million lats, as 12-month Treasury bonds in the amount of 4.7 million lats were sold at a competitive multi-price auction of the primary market at an average weighted discount rate of 2.45% but a larger volume of securities outstanding was redeemed.

Broad money M3 grew by 237.0 million lats in June. The money supply was primarily ensured by increases in overnight deposits (108.9 million lats) and debt securities issued with maturity of up to 2 years (70.3 million lats). Currency in circulation increased by 19.9 million lats and deposits with agreed maturity of up to 2 years grew by 32.1 million lats. This brought about acceleration in the annual M3 growth rate to 33.1% in June (26.6% in May).

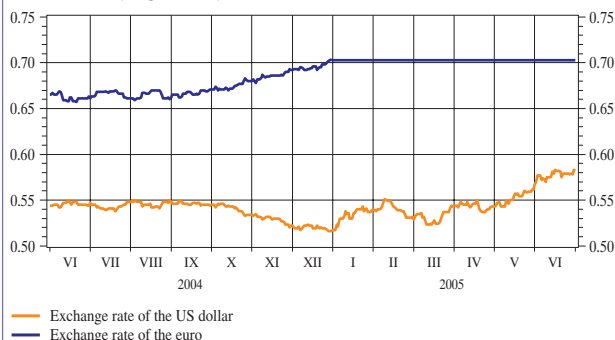
With deposits of both the households and financial institutions

MONEY MARKET INDEX RIGIBOR

(%)



EXCHANGE RATES OF THE US DOLLAR AND THE EURO SET BY THE BANK OF LATVIA



MACROECONOMIC INDICATORS	2005	
	V	VI
Changes in the volume index of industrial output (year-on-year basis; %)	7.4	*
Changes in the CPI		
Month-on-month basis (%)	0.7	0.6
Year-on-year basis (%)	6.3	6.3
Annual rate of core inflation ¹ (%)	5.0	5.1
Number of registered unemployed persons (at end of period)	86 179	84 378
Unemployment rate (%)	8.1	7.9
General government consolidated budget fiscal deficit/surplus (in millions of lats)	110.9	128.2
Foreign trade (in millions of lats)		
Exports	241.4	*
Imports	382.7	*
Balance	-141.3	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

and non-financial corporations expanding dynamically, the annual growth rate of deposits received from these residents increased by 4.3 percentage points (to 33.3%) in June, resulting in additional 145.1 million lats, including 86.2 million lats for deposits made in lats.

With expansion of lending continuing, the annual pace of lending to resident financial institutions, non-financial corporations and households increased by 3.0 percentage points in June (to 54.1%). The expansion was determined by a rise of 175.8 million lats in mortgage loans. At the same time, the growth in commercial credit and consumer credit was less pronounced (30.4 million lats and 15.7 million lats, respectively). The increase in loans granted in euros (233.9 million lats) continued to account for the major part of lending buoyancy, while loans in lats expanded only by 25.3 million, with the amount of those granted in US dollars contracting. In June, loans in lats to households and financial institutions and non-financial corporations increased by 117.8 million lats and 102.3 million lats, with the annual growth rate of lending accelerating to 79.2% and 41.9%, respectively.

Taking into account the growing budgetary surplus, net credit to the general government decreased by 19.2% in June and fell behind the level of the corresponding period of the previous year by 43.9%.

In the first six months of 2005, banks' profit stood at 88.9 million lats (an increase of 39.3 million lats or 1.8 times more year-on-year).

Given the tight competition among banks, lending rates continued to fall. On loans in lats and foreign currencies to households, they dropped 0.1 percentage point and stood at 6.4% and 4.6%, respectively, whereas on loans to non-financial corporations the interest rates lost 0.2 percentage point and were 5.8% and 4.6%, respectively.

Due to the seasonal rise in the demand for cash and an increase in bank demand deposits with the central bank, the monetary base M0 increased by 58.9 million lats in June. The strengthening of the money supply was brought about by an increase in the central bank's net foreign assets by 74.6 million lats resulting from the Bank of Latvia's foreign currency purchases. The backing of the national currency with the Bank of Latvia's net foreign assets in June was 115.7%. In turn, the positive effects of the decreasing Government deposit with the Bank of Latvia (by 26.1 million lats) on the amount of money in circulation were offset by the growing bank time deposit (by 39.4 million lats). Banks made time deposits with the Bank of Latvia in the amount of 205.3 million lats, thus reducing the ample liquidity. This resulted in a moderating bank demand for credit of the central bank (8.5 million lats at the end of June), with repo loans 2.6 times below the May level.

The sufficient bank liquidity underpinned stable interest rates in the interbank market. RIGIBOR on overnight loans stood at 2.4%–2.6% over the month, whereas RIGIBOR on loans with 6 and 12 month maturity was almost unchanged (2.9% and 3.0%, respectively).

In June, a steep depreciation of the euro against the US dollar was caused by concerns associated with the gap in economic growth between the euro area and the United States, the situation in the euro area, which has aggravated after France and the Netherlands rejected the EU Constitutional Treaty, and differences of opinion concerning the EU budget. As a result, the US dollar, the British pound sterling and the Japanese yen appreciated against the lats (by 3.9%, 3.8% and 1.9%, respectively).

MONETARY INDICATORS (at end of period; in millions of lats)	2005	
	V	VI
MFIs¹		
M3	3 083.2	3 320.2
Repurchase agreements	0	0
Money market fund shares and units	12.0	15.4
Debt securities issued with maturity of up to 2 years	9.7	80.0
M2	3 061.5	3 224.9
Deposits with agreed maturity of up to 2 years	752.3	784.4
Deposits redeemable at notice of up to 3 months	83.9	86.3
M1	2 225.3	2 354.2
Currency outside MFIs	669.7	689.6
Overnight deposits	1 555.7	1 664.6
Net external assets	-572.8	-536.5
Credit to resident financial institutions, non-financial corporations and households	4 496.8	4 717.0
Credit to general government	407.5	400.1
Deposits of central government	235.6	244.7
Longer-term financial liabilities	1 011.7	1 025.1
Bank of Latvia		
M0	1 016.3	1 075.2
Currency in circulation	749.3	766.7
Deposits with the Bank of Latvia in lats	267.0	308.5
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 169.8	1 244.4
Net domestic assets	-153.5	-169.1
Credit	-67.3	-40.6
To MFIs	8.2	8.5
To central government (net)	-75.5	-49.1
Other items (net)	-86.1	-128.5
International reserves (at end of period; in millions of US dollars)	2 128.82	2 167.30
Gold	104.26	108.19
Special Drawing Rights	0.15	0.14
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	2 024.33	2 058.89

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	V	VI
Weighted average interest rate on domestic interbank loans in lats	2.5	2.2
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	6.0	5.8
Loans to households (in lats)	6.5	6.4
incl. for house purchase	5.0	5.0
Loans to non-financial corporations (in foreign currencies)	4.8	4.6
Loans to households (in foreign currencies)	4.7	4.6
incl. for house purchase	4.4	4.2
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	2.5	2.5
Demand deposits of non-financial corporations (in lats)	0.7	0.6
Time deposits of households (in lats)	3.0	3.2
Demand deposits of households (in lats)	0.5	0.5
Time deposits of non-financial corporations (in foreign currencies)	2.2	2.1
Demand deposits of non-financial corporations (in foreign currencies)	0.8	1.4
Time deposits of households (in foreign currencies)	2.6	2.7
Demand deposits of households (in foreign currencies)	1.2	1.1
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	0.5610	0.5830
LVL/GBP	1.0200	1.0590
LVL/100 JPY	0.5200	0.5300
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	
	V	VI
MFI reserves	363.7	441.5
Vault cash in national currency	79.6	77.1
Deposits with the Bank of Latvia	284.1	364.5
Foreign assets	3 019.6	3 166.4
Vault cash in foreign currencies	62.0	68.5
Claims on MFIs	1 865.8	1 963.9
Claims on non-MFIs	1 058.5	1 099.0
Other assets	33.3	35.0
Claims on central government	233.0	224.8
Claims on local government	75.2	75.7
Claims on public non-financial corporations	118.0	120.6
Claims on financial institutions and private non-financial corporations	2 733.4	2 832.3
Claims on households	1 671.2	1 789.0
Unclassified assets	439.4	446.2
Fixed assets	128.5	128.8
Items in transit	16.7	12.9
Other assets	67.9	68.8
Claims on resident MFIs (incl. investments)	226.3	235.7
Total assets	8 653.5	9 096.5
<i>Memo item: Trust assets</i>	<i>648.7</i>	<i>682.7</i>
Overnight deposits in lats	885.2	950.7
Public non-financial corporations	39.3	49.7
Financial institutions and private non-financial corporations	408.0	425.5
Households	438.0	475.6
Time deposits and deposits redeemable at notice in lats	581.2	601.8
Public non-financial corporations	72.4	78.0
Financial institutions and private non-financial corporations	142.0	154.0
Households	366.8	369.9
Foreign currency deposits of residents	971.7	1 030.6
Public non-financial corporations	15.5	15.3
Financial institutions and private non-financial corporations	297.5	324.8
Households	658.7	690.5
Deposits of central government	60.8	96.0
Deposits of local government	82.8	83.4
Transit funds	5.1	5.1
Foreign liabilities	4 762.2	4 947.2
Liabilities to MFIs	1 795.7	1 929.0
Liabilities to non-MFIs	2 796.1	2 870.2
Other liabilities (incl. subordinated liabilities)	170.3	148.1
Liabilities to the Bank of Latvia	8.2	8.5
Debt securities issued	91.1	162.3
Money market fund shares and units	12.0	15.4
Capital and reserves	698.5	706.5
Residents	389.4	396.6
Non-residents	309.2	309.9
Provisions	88.1	91.1
Unclassified liabilities	406.5	397.8
Items in transit	109.9	112.9
Other liabilities (incl. subordinated liabilities)	70.5	66.7
Liabilities to resident MFIs	226.2	218.3
Total liabilities	8 653.5	9 096.5
<i>Memo item: Trust liabilities</i>	<i>648.7</i>	<i>682.7</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>).