

MONETARY BULLETIN 2004

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Data on the gross domestic product (GDP) growth in the third quarter, when, at 9.1%, it reached one of its all time highs, suggest that Latvia's economy continues to develop buoyantly. The GDP growth was driven by a rise in transport, storage and communication, commercial services as well as construction and several other branches of the goods-producing sector.

In November, Latvia's domestic demand continued to be strong and was still higher than the external demand. That was confirmed by most macroeconomic indicators. Inflation remained high. Expansion of lending slowed down slightly, whereas the unemployment rate remained unchanged (8.5%). Towards the end of the year, the fiscal surplus of the general government consolidated budget started to shrink.

In November, the annual growth rate of consumer prices remained unchanged, and the annual inflation stood at 7.2%. Prices increased by 0.5% month-on-month, largely as a result of a rise in food prices (primarily vegetables, fruit, dairy products) by 1.1% and clothing and footwear by 0.7%.

In the first eleven months of 2004, the general government consolidated budget recorded a fiscal surplus of 76.0 million lats. With the budget expenditure growing considerably, the accumulated fiscal surplus of the general government consolidated budget declined by 43.4 million lats. In the first eleven months of 2004, fiscal surpluses of the central government special social insurance budget, the local government budget and the central government basic budget were 38.3 million lats, 26.3 million lats and 4.7 million lats, respectively.

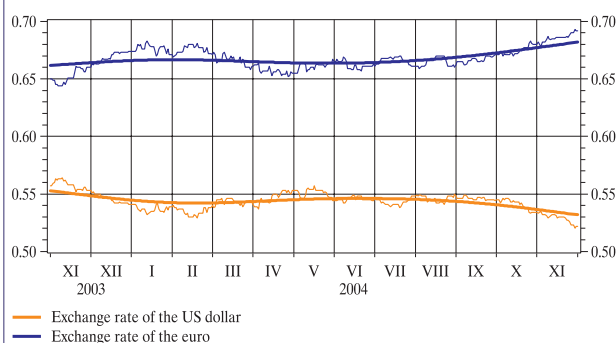
With the government external debt increasing slightly, the government debt posted a pickup of 6.7 million lats, amounting to 972.3 million lats in November. The government domestic debt remained broadly unchanged, as no new government securities were issued.

In November, the broad money M2X grew by 19.3 million lats, with deposits increasing and cash outside banks shrinking slightly. The annual growth rate of the broad money declined from 26.5% in October to 25.9% in November.

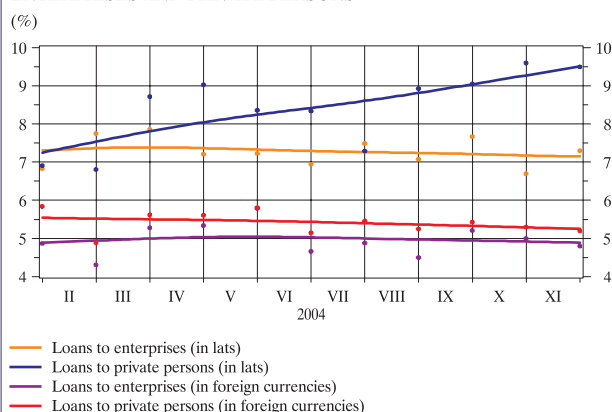
With the real interest rates on deposits remaining negative, deposits of domestic enterprises and private persons grew by 23.9 million lats, and their annual growth rate remained broadly unchanged at 32.5%. With foreign currency deposits expanding at a higher rate, both time and demand deposits grew slightly. Looking at the breakdown by depositors, only the private persons' deposits expanded (by 34.4 million lats), whereas the deposits made by enterprises slightly declined, similarly as in November 2003.

The growth of loans granted to enterprises and private persons was the lowest since July and stood at 100.9 million lats, with the growth rate of total loans also falling slightly, to 46.8%. The expansion of lending was still driven by the growth of mortgage lending; but, in contrast to the preceding months, mortgage lending no longer comprised the largest share of the total growth. Mortgage lending increased by 42.6 million lats, including loans to private persons for house purchase by 34.5 million lats. At the same time, the rise of commercial credit (20.0 million lats in November) as well as industrial credit and overdraft became increasingly stronger.

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



INTEREST RATES ON LOANS GRANTED TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS



Foreign currency loans sustained the highest growth rate. The increase in loans to enterprises and private persons was similar (by 51.6 million lats and 49.3 million lats, respectively). Annual growth rate of loans to private persons dampened slightly, albeit remaining notably higher than that of the loans to enterprises (78.5% and 33.8%, respectively). The rise in loans granted to private persons was mainly driven by an increase of lending for house purchase, with their annual growth rate reaching 88.5% in November.

The expansion of lending in November was determined by an increase in deposits made by private persons as well as the Government. Nevertheless, banks gained the major share of resources from foreign banks (an increase of 143.1 million lats, including 110.8 million lats from parent banks); therefore, the outflow of the net foreign assets of the banking sector increased by 59.2 million lats.

In the first eleven months of 2004, the banks' profit reached 104.6 million lats which represents an annual increase of 1.6 times.

The weighted average interest rate on loans to domestic enterprises granted in lats grew by 0.6 percentage point, reaching 7.3%, whereas that on loans to domestic enterprises granted in foreign currencies and loans granted to private persons in lats and foreign currencies slightly declined (by 0.2 percentage point, reaching 4.8% and by 0.1 percentage point, reaching 9.5% and 5.2%, respectively). Following a longer period of stability, deposit rates started to pick up, with the rise for deposits in lats reaching 0.2–0.5 percentage point and deposits in foreign currencies 0.1–0.2 percentage point.

RIGIBOR on overnight loans on the interbank market was within the 2.8%–4.3% margin, reaching the lowest point on the last days of the minimum reserve maintenance period. Raising of the Bank of Latvia's refinancing rate to 4.0% in November affected the medium-term RIGIBOR: RIGIBOR on loans with a 3- and 6-months maturity rose by 23 basis points and 19 basis points, reaching 4.60% and 4.58%, respectively.

In November, growth in the monetary base was negligible (5.3 million lats) and was largely determined by an increase in bank deposits with the central bank. Growth of the Bank of Latvia's monetary base was promoted by a decline in the government deposits with the Bank of Latvia by 71.4 million lats, whereas the bank loans granted by the Bank of Latvia and the central bank's net foreign assets shrank by 51.5 million lats and 9.1 million lats, respectively. The backing of the national currency with the Bank of Latvia's net foreign assets was 111.9% at the end of November.

The lats liquidity in the banking sector was high, and the Bank of Latvia's repo loans to banks declined 2.7 times, reaching 135.3 million lats, whereas the amount of loans granted on the interbank market in lats shrank by 15.2%, to 545.8 million lats. Foreign exchange swaps amounted to 24.8 million lats.

The US dollar continued to depreciate on the global foreign exchange markets as a result of the high US budget deficit and current account deficit. The exchange rates to the lats established by the Bank of Latvia also changed accordingly, with that of the US dollar dropping by 2.2% and those of the euro, British pound sterling and Japanese yen rising by 1.8%, 0.8% and 0.8%, respectively.

In November, the volume of cargo transportation by rail decreased by 2.7% year-on-year, whereas the freight turnover at Latvian ports grew by 2.7% and oil products transportation by pipeline posted an increase of 5.7%. In October, the industrial output index was 2.8%, with the growth in manufacturing reaching 3.9%. The retail trade turnover at constant prices grew by 9.6%.

MACROECONOMIC INDICATORS	2004	
	X	XI
Changes in the volume index of industrial output (year-on-year basis; %)	2.8	*
Changes in the CPI		
Month-on-month basis (%)	0.4	0.5
Year-on-year basis (%)	7.2	7.2
Annual rate of core inflation ¹ (%)	7.2	7.4
Number of registered unemployed persons (at end of period)	91 252	90 637
Unemployment rate (%)	8.5	8.5
General government consolidated budget fiscal deficit/surplus (in millions of lats)	119.4	76.0
Foreign trade (in millions of lats)		
Exports	195.0	*
Imports	337.6	*
Balance	-142.6	*

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	
	X	XI
Banking system		
M2X	2 699.9	2 719.2
Currency outside banks	624.6	620.0
Deposits of domestic enterprises and private persons	2 075.3	2 099.2
Demand deposits	1 217.7	1 226.0
Time deposits	857.6	873.2
M2D	1 896.7	1 901.1
Net foreign assets	-90.2	-158.5
Net domestic assets	2 790.1	2 877.7
Loans to domestic enterprises and private persons	3 523.0	3 623.9
Short-term loans	527.4	540.9
Long-term loans	2 995.6	3 083.0
Credit to the Government (net)	25.9	49.8
Bank of Latvia		
M0	909.4	914.7
Currency in circulation	697.9	694.4
Deposits with the Bank of Latvia in lats	211.5	220.2
Net foreign assets	1 032.6	1 023.5
Net domestic assets	-123.2	-108.9
Credit	-51.8	-32.3
To banks	88.8	37.3
To the Government (net)	-140.6	-69.6
Other items (net)	-71.5	-76.6
International reserves (at end of period; in millions of US dollars)	1 936.43	1 957.39
Gold	105.20	112.21
Special Drawing Rights	0.14	0.15
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 831.01	1 844.95

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2004	
	X	XI
Weighted average interest rate on domestic interbank loans in lats	3.8	3.4
Interest rates on loans to domestic enterprises and private persons		
Loans to enterprises (in lats)	6.7	7.3
Loans to private persons (in lats)	9.6	9.5
Loans to enterprises (in foreign currencies)	5.0	4.8
Loans to private persons (in foreign currencies)	5.3	5.2
Interest rates on deposits of domestic enterprises and private persons		
Time deposits of enterprises (in lats)	3.4	3.6
Demand deposits of enterprises (in lats)	1.1	1.1
Time deposits of private persons (in lats)	3.5	4.0
Demand deposits of private persons (in lats)	0.6	0.6
Time deposits of enterprises (in foreign currencies)	1.8	1.9
Demand deposits of enterprises (in foreign currencies)	0.7	0.7
Time deposits of private persons (in foreign currencies)	2.1	2.3
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	4.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5340	0.5220
LVL/GBP	0.9790	0.9870
LVL/100 JPY	0.5030	0.5070
LVL/EUR	0.6800	0.6920

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

	2004	
	X	XI
Bank reserves	283.4	292.3
Vault cash in national currency	73.3	74.4
Deposits with the Bank of Latvia	210.1	217.9
Foreign assets	2 896.6	2 956.6
Vault cash in foreign currencies	47.3	49.5
Claims on foreign banks	1 895.3	1 949.7
Claims on foreign non-banks	929.7	926.1
Other assets	24.3	31.4
Claims on the central government (net)	172.6	128.0
Claims on local governments (net)	-6.1	-8.5
Claims on public enterprises	85.1	90.3
Claims on private enterprises	2 246.1	2 292.6
Claims on private persons	1 229.2	1 278.5
Unclassified assets	407.8	415.6
Fixed assets	124.5	124.5
Items in transit	11.3	15.3
Other assets	61.4	64.4
Claims on domestic credit institutions (incl. investments)	210.6	211.4
Total assets	7 314.7	7 445.4
<i>Memo item: Trust assets</i>	567.5	545.6
Demand deposits	730.4	731.4
Public enterprises	58.0	45.0
Private enterprises	319.5	331.4
Private persons	353.0	355.0
Time deposits	541.7	549.7
Public enterprises	47.9	48.7
Private enterprises	177.9	175.9
Private persons	315.9	325.1
Foreign currency deposits of residents	803.2	818.1
Public enterprises	24.4	19.1
Private enterprises	275.7	272.9
Private persons	503.1	526.2
Transit funds	5.5	5.3
Foreign liabilities	4 019.5	4 138.7
Liabilities to foreign banks	1 250.2	1 393.3
Liabilities to foreign non-banks	2 614.9	2 576.1
Other liabilities (incl. subordinated liabilities)	154.4	169.3
Liabilities to the Bank of Latvia	88.8	37.3
Debt securities	76.6	86.4
Equity	602.3	613.5
Residents	341.1	351.5
Non-residents	261.1	262.0
Provisions	82.1	85.0
Unclassified liabilities	364.6	380.0
Items in transit	112.2	124.9
Other liabilities (incl. subordinated liabilities)	55.1	62.2
Liabilities to domestic credit institutions	197.4	192.9
Total liabilities	7 314.7	7 445.4
<i>Memo item: Trust liabilities</i>	567.5	545.6

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>).