

MONETARY BULLETIN 2005

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Both in the fourth quarter and overall in 2004, Latvia posted the steepest growth of gross domestic product (8.6% and 8.5%, respectively) among the EU countries. The annual rise was also the highest since Latvia restored independence. Development was supported by strong domestic and external demand ensuring significant growth in the major sectors of economy: construction (13.0%), transport, storage and communication (12.9%), trade (10.1%) and manufacturing (7.9%).

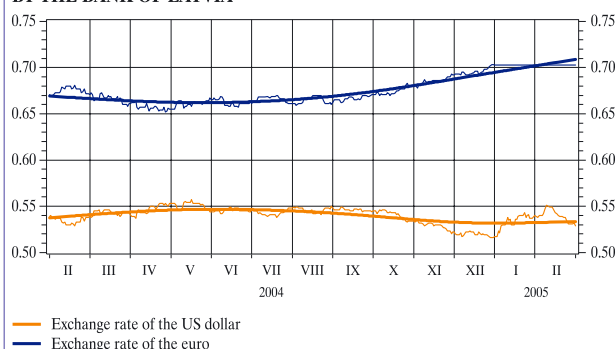
Data on Latvia's economic growth in the first two months of 2005 suggest that the performance indicators of transport have improved. In February, the volume of cargo transportation by rail increased by 7.5% year-on-year, whereas the freight turnover at Latvian ports grew by 11.9% and oil products transportation by pipeline posted an increase of 17.4%. The retail trade turnover recorded a very sharp rise (24.1% in January), whereas the growth rate in manufacturing declined, with the industrial output index reaching only 0.4% in January. In February, consumer prices posted a 6.9% rise year-on-year (0.9% increase over January). With the impact of demand factors on prices fading and that of supply factors strengthening, the annual core inflation shrank to 5.9%. The prices of unprocessed foodstuffs (meat, fish, vegetables and potatoes) escalated. The annual growth rate of prices on vegetables amounted to 51.6%. Fuel prices also continued to climb. By contrast, administratively regulated prices rose only by 0.1% month-on-month.

The fiscal surplus of the general government consolidated budget increased slightly in February, reaching 30.8 million lats in the first two months of the year (26.0 million lats in the corresponding period of the previous year). The fiscal surpluses of the central government basic budget and the local government budget amounted to 25.1 million lats and 18.1 million lats, respectively. The central government special social insurance budget retained a fiscal deficit of 11.4 million lats. Overall, the fiscal surplus was ensured by a rise in revenue, with the revenue from indirect taxes (excise tax and value added tax) posting the highest increase, and inflows of the foreign financial assistance.

In February, 5-year government bonds in the amount of 16.0 million lats were sold in a competitive multi-price auction of the primary market at the Bank of Latvia. The demand for securities was high; the weighted average yield (3.50%) was thus 115 basis points lower than at the previous auction held in January 2003.

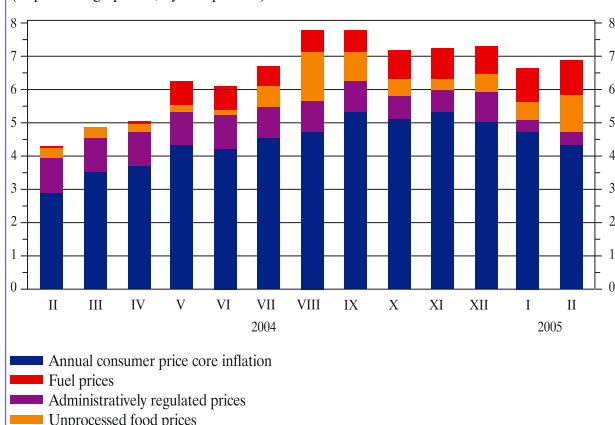
Money supply resumed moderate growth in February. Broad money M3 increased by 70.4 million lats, with the annual growth rate reaching 26.0% (25.3% in January). The growth of M3 was driven by the persistently robust increase of M1 whose annual growth rate stood at 27.2% as a result of the rapid annual expansion of overnight deposits (37.7%). The annual growth of M2 accelerated, with the growth rate of deposits with the agreed maturity of up to 2 years recording a particularly steep rise (18.5% in January, 22.8% in February). In February, the annual growth rate of deposits received from resident financial institutions, non-financial corporations and households remained high (31.0%, a 0.4 percentage point decline), whereas the annual growth rate of the currency outside MFIs climbed to 9.0%. Deposits received from financial institutions and non-financial corporations and those received from households followed a similar upward month-on-month trend in terms of the growth rate and outstanding amounts, and the same dynamics was also characteristic of the outstanding deposits in lats and foreign currencies.

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



CHANGES IN ANNUAL CONSUMER PRICE INFLATION

(in percentage points; by component)



MACROECONOMIC INDICATORS

	2005	
	I	II
Changes in the volume index of industrial output (year-on-year basis; %)	-1.2	*
Changes in the CPI		
Month-on-month basis (%)	0.5	0.9
Year-on-year basis (%)	6.6	6.9
Annual rate of core inflation ¹ (%)	6.4	5.9
Number of registered unemployed persons (at end of period)	92 329	92 862
Unemployment rate (%)	8.6	8.7
General government consolidated budget fiscal deficit/surplus (in millions of lats)	27.8	30.8
Foreign trade (in millions of lats)		
Exports	184.8	*
Imports	294.4	*
Balance	-109.6	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

Analysing the counterparts of M3, the relatively low rise in lending to resident financial institutions, non-financial corporations and households has to be noted. In February, it amounted to 75.0 million lats, which is the lowest monthly rise since January 2004, whereas the annual growth rate of loans decelerated from 50.4% in January to 48.2% in February. The fairly slow expansion of lending was underpinned by the seasonally sluggish growth of mortgage lending (24.3 million lats) and a rather moderate rise in commercial credit and industrial credit (20.7 million lats and 8.1 million lats, respectively). The increase was ensured by expansion of foreign currency loans. In February, lending to households grew by 38.1 million lats and lending to financial institutions and non-financial corporations by 36.9 million lats. The annual growth rate of lending to households continued to decelerate, albeit remaining notably higher than that of the lending to financial institutions and non-financial corporations (74.2% and 36.8%, respectively). Lending for house purchase accounted for 81.6% of the total rise in loans granted to households.

The annual growth rate of credit to Government declined to 2.1% in February (3.1% in January) as a result of the growing surplus in the general government consolidated budget.

In February, the MFI net foreign assets recorded an inflow for the first time in the last 10 months, as a result of the MFI net foreign assets outflow shrinking by 8.1 million lats due to an increase in the Bank of Latvia's foreign assets. Both MFI (except the Bank of Latvia) foreign assets and foreign liabilities contracted, mainly due to shrinking non-MFI deposits in some banks, and the balance of funds placed with MFIs decreasing accordingly.

In the first two months of 2005, banks' profit stood at 25.7 million lats (1.6 times higher than in the corresponding period of 2004).

Interest rates on loans for house purchase both in lats and foreign currencies decreased in February (by 0.3 percentage point and 0.6 percentage point; to 7.1% and 5.0%, respectively). The interest rates on other loans to non-financial corporations and households and on deposits received from this customer group displayed no pronounced trends.

In February, the Bank of Latvia bought foreign currency in the net amount of 68.2 million lats. Liquidity in the banking sector remained ample; therefore, the banks' demand for open market operations of the Bank of Latvia was low. Nevertheless, due to the expansion of the reserve base for meeting the minimum reserve requirements, the demand for lats grew; therefore, the interbank loans granted in lats as well as the Bank of Latvia's repo loans expanded (by 21.3% to 802.0 million lats and 2.0 times to 31.9 million lats, respectively).

The demand for cash recorded moderate growth in February, and the expansion of the monetary base (56.6 million lats) was primarily supported by the increase in bank deposits with the central bank as a result of complying with the minimum reserve requirements following from a higher reserve base. The rise in the Bank of Latvia's money supply was underpinned by an increase in its net foreign assets 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 was 112.5% at the end of February. The central bank's money supply decreased due to an increase in the Government deposits with the Bank of Latvia (22.4 million lats) and a decline in the Bank of Latvia's lending to banks (2.6 million lats).

In February, the US dollar and the Japanese yen depreciated against the lats (by 1.3% and 3.3%, respectively), whereas the exchange rate of the British pound sterling remained broadly unchanged.

MONETARY INDICATORS (at end of period; in millions of lats)	2005	
	I	II
MFIs¹		
M3	2 812.5	2 882.9
Repurchase agreements	0	0
Debt securities issued with maturity of up to 2 years	2.0	4.6
M2	2 810.5	2 878.3
Deposits with agreed maturity of up to 2 years	730.8	768.8
Deposits redeemable at notice of up to 3 months	73.1	75.0
M1	2 006.6	2 034.5
Currency outside MFIs	632.3	639.8
Overnight deposits	1 374.3	1 394.7
Net external assets	-358.5	-350.4
Credit to resident financial institutions, non-financial corporations and households	3 897.4	3 972.3
Credit to general government	415.5	423.4
Deposits of central government	219.2	230.1
Longer-term financial liabilities	929.2	944.5
Bank of Latvia		
M0	918.7	975.3
Currency in circulation	712.3	718.7
Deposits with the Bank of Latvia in lats	206.4	256.6
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 015.9	1 097.2
Net domestic assets	-97.2	-121.9
Credit	-33.9	-59.3
To MFIs	10.9	8.3
To central government (net)	-44.8	-67.6
Other items (net)	-63.3	-62.6
International reserves (at end of period; in millions of US dollars)	1 947.44	2 077.78
Gold	106.18	107.75
Special Drawing Rights	0.15	0.15
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 841.03	1 969.80

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	I	II
Weighted average interest rate on domestic interbank loans in lats	2.7	3.5
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	7.5	7.5
Loans to households (in lats)	8.5	8.7
incl. for house purchase	7.4	7.1
Loans to non-financial corporations (in foreign currencies)	4.5	5.2
Loans to households (in foreign currencies)	5.6	5.1
incl. for house purchase	5.6	5.0
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	3.4	3.3
Demand deposits of non-financial corporations (in lats)	1.2	0.9
Time deposits of households (in lats)	3.8	3.4
Demand deposits of households (in lats)	0.6	0.6
Time deposits of non-financial corporations (in foreign currencies)	1.9	2.0
Demand deposits of non-financial corporations (in foreign currencies)	0.8	0.8
Time deposits of households (in foreign currencies)	2.3	2.6
Demand deposits of households (in foreign currencies)	1.3	1.3
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	0.5390	0.5320
LVL/GBP	1.0200	1.0200
LVL/100 JPY	0.5220	0.5050
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	
	I	II
MFI reserves	282.9	330.5
Vault cash in national currency	80.0	78.9
Deposits with the Bank of Latvia	202.9	251.6
Foreign assets	3 192.8	3 063.9
Vault cash in foreign currencies	51.5	51.6
Claims on MFIs	2 157.3	2 014.0
Claims on non-MFIs	955.1	969.3
Other assets	29.0	29.0
Claims on the central government	253.8	263.0
Claims on the local government	68.3	67.4
Claims on public non-financial corporations	87.6	117.8
Claims on financial institutions and private non-financial corporations	2 450.2	2 457.4
Claims on households	1 388.4	1 426.5
Unclassified assets	443.1	434.5
Fixed assets	127.4	129.9
Items in transit	12.4	11.3
Other assets	63.1	58.8
Claims on resident MFIs (incl. investments)	240.2	234.5
Total assets	8 167.2	8 161.1
<i>Memo item: Trust assets</i>	674.6	738.6
Overnight deposits in lats	803.0	797.4
Public non-financial corporations	45.5	42.8
Financial institutions and private non-financial corporations	382.9	370.7
Households	374.6	383.9
Time deposits and deposits redeemable at notice in lats	563.1	600.7
Public non-financial corporations	49.2	64.3
Financial institutions and private non-financial corporations	172.1	188.1
Households	341.8	348.3
Foreign currency deposits of residents	864.9	887.8
Public non-financial corporations	13.5	14.3
Financial institutions and private non-financial corporations	269.8	284.0
Households	581.6	589.5
Deposits of central government	81.0	69.5
Deposits of local government	62.2	67.2
Transit funds	5.4	5.4
Foreign liabilities	4 567.2	4 511.5
Liabilities to MFIs	1 427.0	1 499.6
Liabilities to non-MFIs	2 934.5	2 856.6
Other liabilities (incl. subordinated liabilities)	205.7	155.2
Liabilities to the Bank of Latvia	10.9	8.3
Debt securities issued	80.6	84.9
Capital and reserves	638.0	651.9
Residents	368.0	378.0
Non-residents	270.0	273.9
Provisions	90.3	90.5
Unclassified liabilities	400.6	386.0
Items in transit	110.0	103.0
Other liabilities (incl. subordinated liabilities)	59.9	61.6
Liabilities to resident MFIs	230.8	221.5
Total liabilities	8 167.2	8 161.1
<i>Memo item: Trust liabilities</i>	674.6	738.6

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>).