

# MONETARY BULLETIN

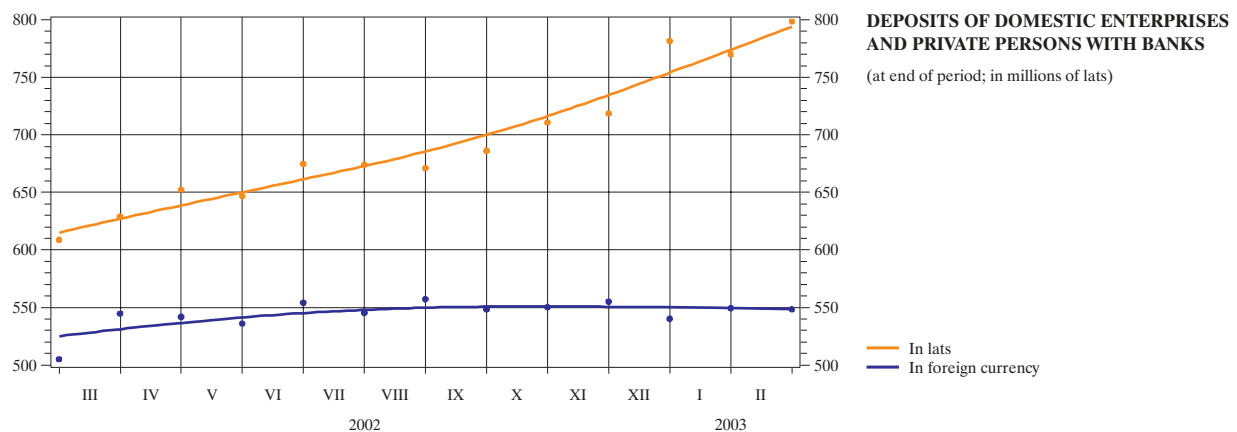
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2003

Although in February the global political situation was quite tense and the unpredictable relationship between the United States and Iraq hindered foreign trade and facilitated a rise in oil prices, the national economy developed successfully in Latvia. Both real and financial sectors continued to demonstrate robust growth. Inflation remained low – the consumer price index reported a year-on-year increase of 2.1%, the component of the annual rate of core inflation in it accounting for 1.2% only. In February, changes in consumer prices were mostly caused by an increase in food and fuel prices (0.8% and 3.6%, respectively).

The data made available to the public on the GDP growth in the fourth quarter of 2002 (8.3%) and over the year (6.1%) testified to the fact that Latvia's national economy was among those developing most rapidly not only in the Central and Eastern Europe, but also Europe in general. On 12 February, the first auction of the Latvian government bonds of 10-year maturity was launched. Investors' demand for the securities exceeded their supply 3.6 times. The average yield (5.19%) was very advantageous, meeting the Maastricht criterion at the same time. The results of the 10-year bond auction demonstrate that investors have confidence in the Latvian State and its national economy, and the high ratings awarded to it reflect the actual situation.

After a seasonal backdrop, the key monetary indicators resumed their upward trend. Broad money M2X increased by 31.3 million lats or 1.7% month-on-month, and by 18.9% year-on-year. Deposits of domestic enterprises and private persons were by 27.7 million lats or 2.1% higher than in January. The increase in deposits resulted from a rise in the attracted deposits in lats by 28.6 million lats. Due to considerable growth in time deposits, the share of time deposits increased by 0.8 percentage points (to 44.4%) in the total deposits.



Growth in the money supply could be attributed to an increase in the banking system's net domestic assets (by 60.5 million lats). Loans granted to domestic enterprises and private persons rose by 61.6 million lats month-on-month, and by 38.3% year-on-year. Loans to enterprises increased in excess of loans to private persons, and long-term loans showed higher growth than that of short-term loans. Mortgage loans reported the highest pickup (24.7 million lats or 6.1%). Commercial credit and industrial credit expanded by 9.9 million lats and 8.1 million lats, respectively. The upward trend of domestic lending resulted both from an increase in attracted deposits, as well as a decline in the banking system's net foreign assets by 29.2 million lats.

Credit institutions' assets remained almost constant (4.3 billion lats) already for the third month, but their equity rose by 11.2 million lats. In the first two months of 2003, banks' profit amounted to 9.1 million lats (a year-on-year increase of 15.2%).

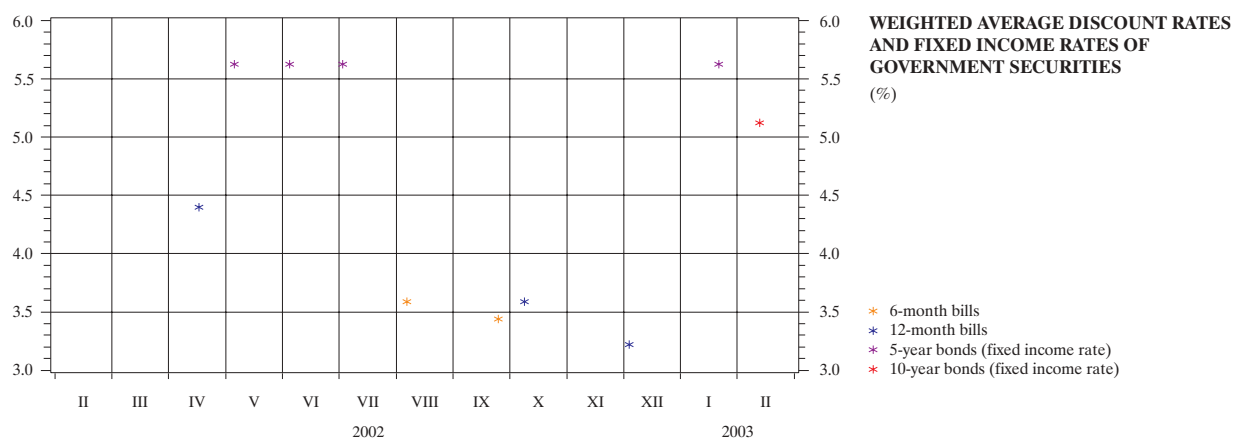
The weighted average interest rate on short-term loans granted to domestic enterprises and private persons showed a slight decline (to 5.2%), whereas the weighted average interest rate on long-term loans for this client group increased (to 7.8%). The weighted average interest rate on loans granted in the OECD currencies encountered a higher growth (to 4.4% and 5.9%, respectively). In February, the weighted average interest rate on bank deposits was almost the same as in January (2.7% and 4.9% for short-term and long-term deposits in lats, respectively; 2.0% and 3.6%, respectively for deposits in the OECD currencies).

Although in February the general government consolidated budget encountered a fiscal deficit of 7.4 million lats, a surplus in the budget totalled 14.7 million lats in the first two months of 2003 (the fiscal deficit for the corresponding period in 2001 was 6.1 million lats). In the reporting month, the deficit resulted from the central government basic budget expenditure exceeding the revenue by 10.5 million lats, but maintaining a central government special budget surplus (3.8 million lats). The local government consolidated budget deficit amounted to 0.3 million lats only. In the first two months of 2003, revenue of the general government consolidated budget increased by 10.8%, but expenditure by 0.3% only. In February, tax revenue decreased in comparison with January, but a year-on-year-increase of 11.7% was reported. The highest year-on-year growth in the first two months of 2003 was observed for excise tax, personal income tax and value added tax revenue (of 24.3%, 15.7% and 15.6%, respectively).

Government debt rose by 18.4 million lats (to 773.2 million lats). The foreign debt remaining almost constant, the net issue of government long-term bonds in the domestic market underlay the growth in the government debt.

In February, the liquidity of the banking system was still high. The average overnight RIGIBOR was close to 3.0%. The domestic interbank market demonstrated only a slightly lower turnover (631.2 million lats) as compared to its record high indicators in January. The weighted average interest rate on interbank loans granted in lats showed a minor decline (2.6% in January; 2.5% in February). *Repo* loans issued by the Bank of Latvia also ensured liquidity – in February they totalled 90.3 million lats (2.1 times exceeding their amount in January) with the weighted average interest rate of 2.8%. Short-term currency swaps encountered a decline of 28.2% month-on-month; nevertheless they involved quite considerable amounts (106.2 million lats). Liquidity improved also due to the purchase transactions of government securities in the amount of 17.2 million lats by the central bank, as well as the intervention on the currency market, purchasing net foreign currency in the amount of 6.5 million lats. As a result of foreign currency swaps and purchase transactions, the Bank of Latvia's net foreign assets increased by 30.0 million lats in February, and at the end of the month the backing of the national currency with the Bank of Latvia's net foreign assets was 101.8%. In February, the exchange rate of the US dollar against the lats increased by 0.3%, while that of euro remained constant (0.583 and 0.629, respectively at the end of the period). The exchange rate of the Japanese yen against the lats rose by 1.6%, but that of the British pound dropped by 3.3%.

An increase in the unemployment rate (by 0.2 percentage points; to 7.9%) resulted from layoffs in the fishing industry in February.



	2003	
	I	II
Changes in the volume index of industrial output (year-on-year basis; %)	6.7	*
Changes in the CPI		
Month-on-month basis (%)	0.9	0.3
Year-on-year basis (%)	1.4	2.1
Annual rate of core inflation (%)	0.8	1.2
Number of registered unemployed persons (at end of period)	91 580	93 617
Unemployment rate (%)	7.7	7.9
General government consolidated budget fiscal deficit/surplus (in millions of lats)	22.1	14.7
Foreign trade (in millions of lats)		
Exports	112.8	*
Imports	188.5	*
Balance	-75.7	*

#### MACROECONOMIC INDICATORS

\* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

**MONETARY INDICATORS**(at end of period; in millions of lats)  
(at end of period; in millions of US dollars)\*

	2003	
	I	II
<b>Banking system</b>		
M2X	1 847.8	1 879.1
Currency outside banks	528.3	531.9
Deposits of domestic enterprises and private persons	1 319.5	1 347.2
Demand deposits	744.3	748.8
Time deposits	575.2	598.4
M2D	1 298.3	1 330.5
Net foreign assets	336.8	307.6
Net domestic assets	1 511.0	1 571.5
Loans to domestic enterprises and private persons	1 865.1	1 926.7
Short-term loans	296.7	310.7
Long-term loans	1 568.4	1 616.0
Credit to the Government (net)	131.1	145.6
<b>Bank of Latvia</b>		
M0	709.2	751.5
Currency in circulation	597.8	598.1
Deposits with the Bank of Latvia in lats	111.4	153.3
Net foreign assets	734.8	764.8
Net domestic assets	-25.6	-13.4
Credit	40.6	56.3
To banks	27.9	29.2
To the Government (net)	12.6	27.0
Other items (net)	-66.2	-69.6
International reserves*	1 280.76	1 324.16
Gold	90.96	88.22
Special Drawing Rights	0.20	0.09
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 189.52	1 235.77

**EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES**

	2003	
	I	II
Weighted average interest rate on domestic interbank loans in lats	2.6	2.5
<b>Interest rates on loans to domestic enterprises and private persons</b>		
Short-term loans (in lats)	5.5	5.2
Short-term loans (in the OECD countries' currencies)	3.6	4.4
Long-term loans (in lats)	7.6	7.8
Long-term loans (in the OECD countries' currencies)	5.4	5.9
<b>Interest rates on deposits of domestic enterprises and private persons</b>		
Demand deposits (in lats)	0.8	0.9
Demand deposits (in the OECD countries' currencies)	0.5	0.8
Short-term deposits (in lats)	2.9	2.7
Short-term deposits (in the OECD countries' currencies)	1.9	2.0
Long-term deposits (in lats)	5.2	4.9
Long-term deposits (in the OECD countries' currencies)	3.5	3.6
The Bank of Latvia's refinancing rate (at end of period; %)	3.0	3.0
<b>Exchange rates of foreign currencies (at end of period)</b>		
LVL/USD	0.5810	0.5830
LVL/GBP	0.9560	0.9240
LVL/100 JPY	0.4900	0.4980
LVL/EUR	0.6290	0.6290

Transit by rail via Latvian ports increased by 36.4% year-on-year. With a rise in the levels of other types of railway transportation, the total volume of cargos transported by rail expanded by 29.0%. As a result of a decrease in oil transit, the cargo turnover in the port of Ventspils dropped 3.8%. Nevertheless, the growth in the volume of

cargos handled at the ports of Riga and Liepāja ensured an increase in the total cargo turnover in Latvian ports and showed a year-on-year pickup of 9.5%.

In February, the producer price index in industry indicated a rise of 0.7% and 2.4% month-on-month and year-on-year, respectively.

January showed a continued growth in all major industries. According to seasonally adjusted data, the volume index in manufacturing reported a 6.1% year-on-year increase, 6.1% in electricity, gas and water supply, and 22.6% in mining and quarrying. The total volume index of industrial output rose by 6.7%. According to seasonally adjusted data, retail trade turnover improved by 17.0%.

	2003	
	I	II
Bank reserves	181.8	218.0
Vault cash in national currency	69.5	66.2
Deposits with the Bank of Latvia	112.3	151.8
Foreign assets	1 856.3	1 724.2
Vault cash in foreign currency	46.7	46.8
Claims on foreign banks	1 204.1	1 041.8
Claims on foreign non-banks	570.3	615.3
Other assets	35.1	20.2
Claims on the central government (net)	103.7	102.5
Claims on local governments (net)	14.8	16.0
Claims on public enterprises	108.4	106.3
Claims on private enterprises	1 344.2	1 385.2
Claims on private persons	437.4	460.1
Unclassified assets	288.5	307.5
Fixed assets	106.5	106.1
Items in transit	5.6	6.4
Other assets	50.8	51.8
Claims on domestic credit institutions (incl. investments)	125.6	143.2
<b>TOTAL ASSETS</b>	<b>4 335.0</b>	<b>4 319.9</b>
<i>Memo item: Trust assets</i>	<i>488.5</i>	<i>481.5</i>
Demand deposits	439.0	442.5
Public enterprises	29.3	28.3
Private enterprises	209.4	208.5
Private persons	200.3	205.7
Time deposits	331.0	356.1
Public enterprises	31.4	39.1
Private enterprises	95.2	106.2
Private persons	204.3	210.8
Foreign currency deposits of residents	549.5	548.6
Public enterprises	18.6	19.3
Private enterprises	187.0	177.7
Private persons	343.9	351.7
Transit funds	10.0	10.0
Foreign liabilities	2 254.2	2 181.4
Liabilities to foreign banks	510.1	525.7
Liabilities to foreign non-banks	1 656.0	1 573.2
Other liabilities (incl. subordinated liabilities)	88.2	82.5
Liabilities to the Bank of Latvia	27.9	29.3
Debt securities	47.7	45.5
Equity	388.5	399.7
Residents	205.6	217.4
Non-residents	182.8	182.3
Provisions	60.6	62.5
Unclassified liabilities	226.6	244.2
Items in transit	79.7	75.0
Other liabilities (incl. subordinated liabilities)	38.0	37.7
Liabilities to domestic credit institutions	108.9	131.5
<b>TOTAL LIABILITIES</b>	<b>4 335.0</b>	<b>4 319.9</b>
<i>Memo item: Trust liabilities</i>	<i>488.5</i>	<i>481.5</i>

#### CONSOLIDATED BALANCE SHEET OF CREDIT INSTITUTIONS

(at end of period; in millions of lats)

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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 at the Bank of Latvia's Internet website ([http://www.bank.lv/FinancialData/English/index\\_LB.html](http://www.bank.lv/FinancialData/English/index_LB.html)).