

MONETARY BULLETIN

11
2003

The high domestic and foreign demand determined the robust growth of the Latvian national economy, with the year-on-year GDP growth in the third quarter (7.3%; 7.4% in the first nine months of 2003) demonstrating it. In October, the seasonally adjusted volume index of industrial output in manufacturing and the retail trade turnover increased by 8.2% and 14.3% year-on-year, respectively.

In November, transit rail freight (oil products) to Latvian ports expanded year-on-year, leading to improved performance indicators for transportation by rail as well as port operations. The volume of freight transit through Latvian ports and rail freight rose by 29.7% and 25.0%, respectively, whereas cargo turnover at Latvian ports expanded by 5.4%.

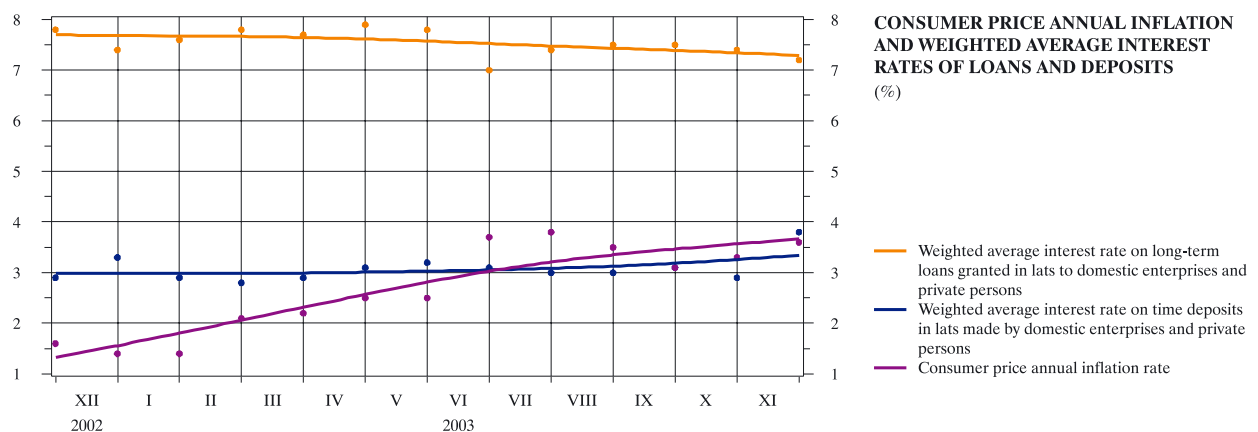
In November, the growth in consumer prices dropped slightly month-on-month (to 0.5%), but the annual inflation rate increased (to 3.6%). The price rise in November resulted from higher food prices by 1.5%, including a pickup of 33.7% in vegetable prices. Prices of catering services, medicine and specific dwelling-related services also increased. A drop in footwear and cereal product prices reduced the inflation rate.

The level of registered unemployment rate remained unchanged for the fifth consecutive month (8.5%). The number of unemployed persons registered with the State Employment Service decreased by 0.6% year-on-year.

In the first eleven months of 2003, the fiscal deficit of the general government consolidated budget was 5.3 million lats only, but in November it reached 9.6 million lats. With the end of the year approaching and expenditure expanding, the fiscal deficit in the central government basic budget amounted to 22.8 million lats in November. Tax revenue retained a stable growth. In the first eleven months of 2003, value added tax and excise tax revenue was 21.1% and 20.5% higher year-on-year, respectively. The fiscal surplus of the social insurance budget remained high.

In November, broad money M2X increased by 24.8 million lats or 1.2% month-on-month and by 20.3% year-on-year. A similar growth rate was observed both for currency outside banks and deposits of domestic enterprises and private persons (1.3% and 1.1%, respectively). The moderate increase in the demand deposits in lats (0.7%) resulted in a pickup in the monetary aggregate M1 by only 1.0% in November (a year-on-year growth of 18.8%). Although deposits in foreign currency decreased (by 0.6%), a considerable rise in time deposits made in lats (4.5%) resulted in an increase in quasi money as well (1.3%). In the last months of the year, the seasonally high demand for lats facilitated a more rapid growth in domestic money supply M2D (1.9% in November; 23.0% year-on-year). Deposits of domestic enterprises and private persons grew 24.4% year-on-year (24.3% in October).

In November, loans granted to domestic enterprises and private persons recorded the highest growth (77.8 million lats or 3.3%) in the last four months; nevertheless, due to the high base their year-on-year rise shrank to 37.6%, a low in the last ten months. Unlike the previous months, short-term loans accounted for the major share in the increase in lending (a rise of 43.8 million lats or 12.5%, including a pickup of 40.9 million lats or 15.6% in loans to private enterprises). Commercial credit recorded the highest growth (33.2 million lats or 4.5%). Mortgage loans also reported a considerable increase (26.1 million lats or 3.7%).



With the year coming to its close, the Government funds in banks decreased, and the banking system's net credit to the Government increased by 23.2 million lats (to 140.3 million lats).

Since the loans granted in November had been funded mainly by non-residents, net foreign assets of the banking system decreased by 56.0 million lats. Foreign liabilities of the banking sector increased by 206.6 million lats (loans from the associated and related foreign credit institutions and non-resident non-bank deposits grew by 82.2 million lats and 91.0 million lats, respectively), whereas foreign assets expanded by 98.7 million lats. Assets of the banking sector recorded a pickup of 214.7 million lats (a monthly high in 2003), reaching 5.4 billion lats. Banks' profit in the first eleven months of 2003 reached 65.2 million lats (a year-on-year increase of 29.6%).

In November, the situation regarding liquidity in the banking sector was somewhat tense, and the demand for lats remained high throughout the month. It resulted both from the necessity to comply with the increasing reserve requirements, as well as the inflow of foreign currencies in Latvia. As a result, the weighted average interest rate on loans granted in lats on the interbank market rose to 3.7% in November, reaching a high since January 2002. The RIGIBOR also increased, causing a rise of 0.4 percentage points (to 5.6%) in the interest rate on short-term loans to domestic enterprises and private persons granted in lats.

The high demand for lats underlay an increase in loans granted at repo auctions organised by the Bank of Latvia (1.8 times; to 338.8 million lats), as well as in currency swaps (8.0%; to 81.0 million lats). The net foreign currency purchased (19.6 million lats) was at a monthly high in 2003. Thus in November the Bank of Latvia's net foreign assets expanded by 6.8% (to 813.0 million lats). At the end of November, the backing of the national currency with the Bank of Latvia's net foreign assets was 108.4%.

In comparison with the previous month, banks reduced their borrowing on the domestic interbank market considerably (its turnover of loans granted in lats shrank by 27.5% to 288.9 million lats).

Although several indicators of the US economy improved, the continuously high US current account deficit and improvement in the indicators of the euro area economy underlay the low exchange rate of the US dollar on the global foreign exchange market. In November, the euro appreciated against the lats by 1.5%, whereas the US dollar, the British pound and the Japanese yen depreciated by 0.7%, 0.1% and 1.6%, respectively.

In November, two additional issues of 3-year Treasury bonds were held. Of the bonds supplied in the amount of 24.0 million lats, securities in the amount of only 1.7 million lats were sold, since the liquidity on the money



	2003	
	X	XI
Changes in the volume index of industrial output (year-on-year basis; %)	5.3	*
Changes in the CPI		
Month-on-month basis (%)	0.9	0.5
Year-on-year basis (%)	3.3	3.6
Annual rate of core inflation (%)	2.4	2.6
Number of registered unemployed persons (at end of period)	89 366	90 214
Unemployment rate (%)	8.5	8.5
General government consolidated budget fiscal deficit/surplus (in millions of lats)	4.3	-5.3
Foreign trade (in millions of lats)		
Exports	155.5	*
Imports	285.3	*
Balance	-129.8	*

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	
	X	XI
Banking system		
M2X	2 134.5	2 159.3
Currency outside banks	567.5	574.8
Deposits of domestic enterprises and private persons	1 567.1	1 584.4
Demand deposits	918.4 ¹	929.0
Time deposits	648.6 ¹	655.4
M2D	1 496.2	1 524.9
Net foreign assets	194.6	138.6
Net domestic assets	1 939.9	2 020.6
Loans to domestic enterprises and private persons	2 391.2	2 469.0
Short-term loans	350.6	394.4
Long-term loans	2 040.6	2 074.6
Credit to the Government (net)	117.1	140.3
Bank of Latvia		
M0	758.2	749.7
Currency in circulation	637.7	646.3
Deposits with the Bank of Latvia in lats	120.4	103.4
Net foreign assets	761.1	813.0
Net domestic assets	-2.9	-63.3
Credit	55.6	-2.8
To banks	88.4	50.0
To the Government (net)	-32.8	-52.8
Other items (net)	-58.5	-60.6
International reserves*	1 373.13	1 482.24
Gold	96.15	98.41
Special Drawing Rights	0.04	0
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 276.86	1 383.75

¹ Data have been revised.**EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES**

	2003	
	X	XI
Weighted average interest rate on domestic interbank loans in lats	2.7	3.7
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	5.2	5.6
Short-term loans (in the OECD countries' currencies)	3.9	3.9
Long-term loans (in lats)	7.4	7.2
Long-term loans (in the OECD countries' currencies)	4.7	4.7
Interest rates on deposits of domestic enterprises and private persons		
Demand deposits (in lats)	0.9	0.9
Demand deposits (in the OECD countries' currencies)	0.5	0.7
Short-term deposits (in lats)	2.8	3.7
Short-term deposits (in the OECD countries' currencies)	1.4	1.5
Long-term deposits (in lats)	4.7	4.7
Long-term deposits (in the OECD countries' currencies)	2.8	3.3
The Bank of Latvia's refinancing rate (at end of period; %)	3.0	3.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5570	0.5530
LVL/GBP	0.9470	0.9460
LVL/100 JPY	0.5150	0.5070
LVL/EUR	0.6500	0.6600

market was scarce and the Government was not interested in borrowing on higher interest rates. The weighted average yield (4.06%) did not differ considerably from that in the previous auction held in August. In November, with a large stock of securities maturing, the Government securities outstanding shrank by 10.5% to 370.8 million lats at the end of the period (5-year bonds and 10-year bonds accounted for 56.2% and 26.2% of them, respectively, while 12-month Treasury bills amounted to 11.0%).

	2003	
	X	XI
Bank reserves	189.6	173.8
Vault cash in national currency	70.3	71.4
Deposits with the Bank of Latvia	119.3	102.4
Foreign assets	2 127.3	2 226.0
Vault cash in foreign currency	48.1	49.5
Claims on foreign banks	1 382.2	1 458.0
Claims on foreign non-banks	675.2	689.5
Other assets	21.8	29.0
Claims on the central government (net)	132.2	171.3
Claims on local governments (net)	17.7	21.8
Claims on public enterprises	94.8	95.2
Claims on private enterprises	1 638.2	1 686.7
Claims on private persons	687.1	716.1
Unclassified assets	332.3	343.1
Fixed assets	114.6	115.1
Items in transit	4.1	9.5
Other assets	52.4	54.8
Claims on domestic credit institutions (incl. investments)	161.2	163.6
TOTAL ASSETS	5 219.2	5 433.9
<i>Memo item: Trust assets</i>	<i>558.8</i>	<i>521.6</i>
Demand deposits	547.6	551.5
Public enterprises	32.9	34.1
Private enterprises	252.6	243.9
Private persons	262.0	273.5
Time deposits	381.2	398.5
Public enterprises	27.4	33.0
Private enterprises	109.3	119.3
Private persons	244.4	246.2
Foreign currency deposits of residents	638.3	634.4
Public enterprises	26.3	24.4
Private enterprises	215.3	208.1
Private persons	396.8	402.0
Transit funds	7.5	7.4
Foreign liabilities	2 693.8	2 900.4
Liabilities to foreign banks	666.1	760.3
Liabilities to foreign non-banks	1 917.7	2 008.7
Other liabilities (incl. subordinated liabilities)	110.1	131.5
Liabilities to the Bank of Latvia	88.4	50.0
Debt securities	47.5	48.0
Equity	459.7	465.0
Residents	267.3	272.0
Non-residents	192.4	193.1
Provisions	65.7	68.7
Unclassified liabilities	289.5	310.1
Items in transit	95.8	108.6
Other liabilities (incl. subordinated liabilities)	45.5	50.8
Liabilities to domestic credit institutions	148.2	150.6
TOTAL LIABILITIES	5 219.2	5 433.9
<i>Memo item: Trust liabilities</i>	<i>558.8</i>	<i>521.6</i>

**CONSOLIDATED BALANCE SHEET
OF CREDIT INSTITUTIONS**

(at end of period; in millions of lats)

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