

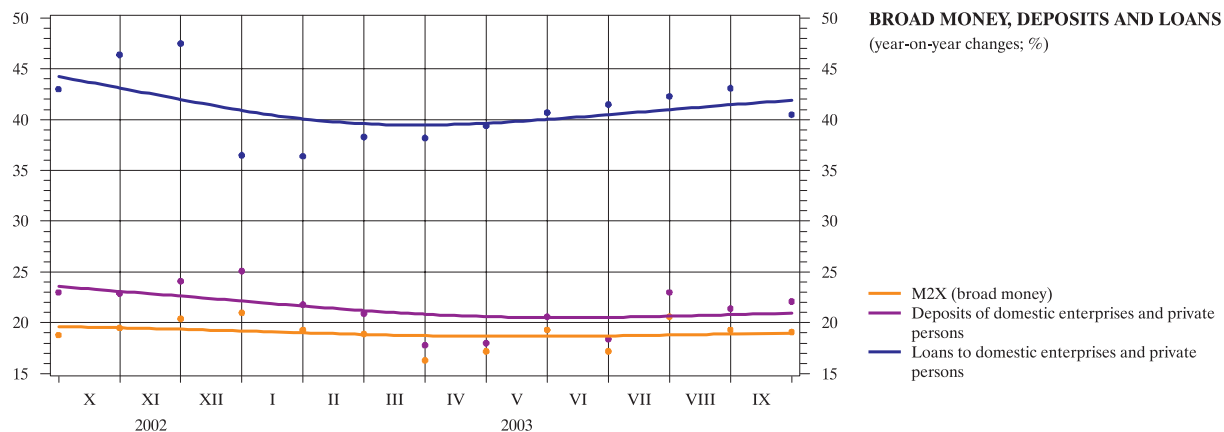
MONETARY BULLETIN

9
2003

The positive vote by the people's referendum on 20 September for Latvia's membership in the European Union manifested the stable course of Latvia's development. In September, the rapid growth of the Latvian economy did not record substantial changes, with improvement in the railway and port performance indicators for the reporting month, as well as an increase in industry and trade in August supporting this fact. Unemployment rate remained unchanged (8.5%), whereas the number of unemployed persons registered with the State Employment Service slightly decreased year-on-year (by 2.4%). In the first nine months of 2003, the general government consolidated budget maintained a fiscal surplus, and the performance of the banking sector was successful.

In September, consumer prices grew 0.5% month-on-month, whereas the annual rate of consumer price inflation dropped from 3.5% in August to 3.1% in September. The consumer price rise resulted from a seasonal increase in clothing and footwear prices (6.5%), as well as a pickup in several administratively regulated prices (payment for central heating, water supply, garbage collection), but it was slowed down by a drop in food prices (1.0%; mostly for fruit, sugar and potatoes).

Money supply grew by 5.9 million lats, and the annual growth rate of broad money M2X shrank to 19.1%. Cash outside banks decreased by 9.7 million lats. Deposits of domestic enterprises and private persons increased (by 15.6 million lats) as a result of expanding lats deposits (by 14.7 million lats). A major rise was recorded in demand deposits (14.9 million lats). The annual growth rate of deposits increased from 21.4% in August to 22.1% in September.



Loans to domestic enterprises and private persons grew slightly slower (by 56.7 million lats in September month-on-month), and their annual growth rate shrank to 40.5%, reaching its low of the last five months. The banking system's net credit to the Government (105.1 million lats) was at its low since November 2002. In September, lending to enterprises expanded by 31.9 million lats, but loans granted to private persons grew by 24.7 million lats, including a pickup of 17.9 million lats in housing loans. Loans with maturity of over 5 years posted the highest growth (28.8 million lats), with short-term loans and those with maturity of 1-5 years increasing by 15.1 million lats and 12.8 million lats, respectively. Also in September the rise in mortgage loans (32.4 million lats or 5.0%) underlay the overall increase in loans. Commercial credit expanded by 6.0 million lats, whereas industrial credit and customer account overdraft posted an equal growth (4.2 million lats).

In September, foreign assets and liabilities of the banking sector increased by 26.8 million lats and 87.5 million lats (including a rise of 78.3 million lats in liabilities against foreign banks), respectively. Assets of the banking sector grew by 88.9 million lats (to 5.2 billion lats) in September. In the first nine months of 2003, banks' profit reached 52.7 million lats (a year-on-year increase of 34.1%).

With the minimum reserves growing more rapidly than in the previous months and with the continuous development of lending, the demand for the Bank of Latvia's funds increased in the reporting period. The level of repo loans granted to banks by the Bank of Latvia (321.3 million lats) did not differ significantly from the high level

recorded in August, whereas currency swaps (236.2 million lats) expanded 2.4 times month-on-month. As a result of the above transactions, the Bank of Latvia's net foreign assets increased by 9.6%, reaching a record high of 835.6 million lats. At the end of September, the backing of the national currency with the Bank of Latvia's net foreign assets was 106.6%.

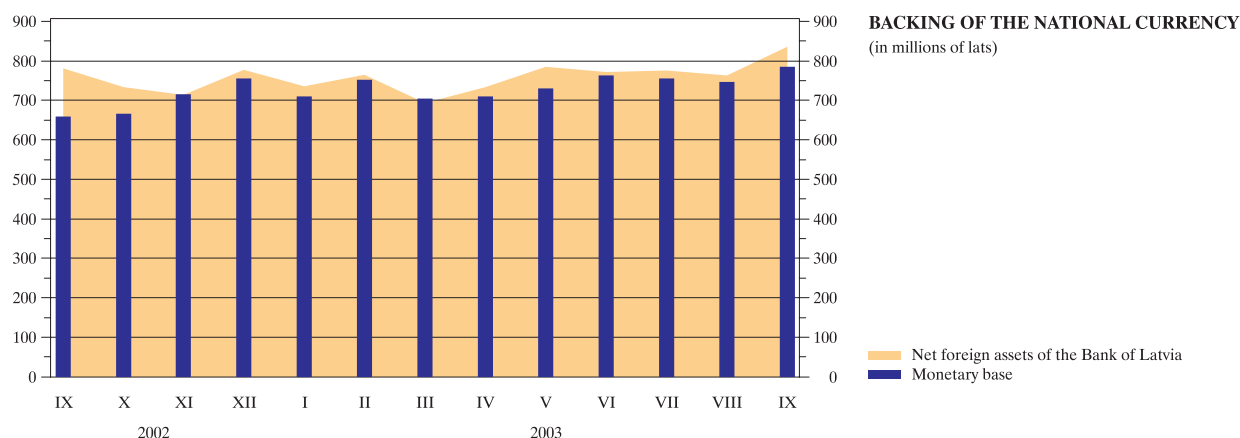
Banks increased their borrowing on the domestic interbank market as well (its turnover of loans granted in lats rose by 10.7%, reaching 558.9 million lats).

Money market liquidity fluctuations in mid-September caused a short-term increase in overnight RIGIBOR (to 4.8%), with RIGIBOR on longer-term loans also posting a minor rise at the same time (4.2% and 4.5% for those with maturity of 6 months and 12 months, respectively). The weighted average interest rates on the Bank of Latvia's repo loans and interbank loans granted in lats posted a rise (to 3.0% and 3.1%, respectively). Nevertheless, money market interest rate fluctuations had a minor effect on the weighted average interest rates of loans granted to domestic enterprises and private persons (5.3% and 7.5% for short-term and long-term loans granted in lats, respectively, and 3.8% and 5.2% for the respective loans issued in the OECD currencies).

On the global foreign exchange market, the US dollar depreciated, while other currencies of the SDR basket appreciated in September. The US dollar depreciated by 3.1% against the lats, whereas the Japanese yen and the British pound, as well as the euro appreciated by 2.4% and 2.2%, respectively.

An increase in the fiscal surplus of the central government special budget (to 45.0 million lats) and the high level of value added tax and excise tax revenues (in the first nine months of 2003 they grew 18.1% and 39.0% year-on-year, respectively) helped to maintain the fiscal surplus of the general government consolidated budget (9.2 million lats; the same budget recorded a fiscal deficit of 19.9 million lats in the corresponding period last year). In the first nine months of 2003, the increase in the general government consolidated budget revenue reached 11.0% year-on-year, with the expenditure growing by 8.8%.

At the end of September, the public debt totalled 864.1 million lats, including Latvia's external debt of 458.7 million lats, which grew by 3.2 million lats over the month due to exchange rate fluctuations. A rise in the domestic debt resulted from the issue of government securities. In September, an auction of 10-year Treasury bonds was held at the Bank of Latvia, where securities in the amount of 8.9 million lats were sold, with the average yield of 5.15% (26 basis points higher than in the previous 10-year Treasury bond auction in June). At the 12-month Treasury bill



	2003	
	VIII	IX
Changes in the volume index of industrial output (year-on-year basis; %)	5.4	*
Changes in the CPI		
Month-on-month basis (%)	-1.1	0.5
Year-on-year basis (%)	3.5	3.1
Annual rate of core inflation (%)	2.8	2.4
Number of registered unemployed persons (at end of period)	90 199	89 849
Unemployment rate (%)	8.5	8.5
General government consolidated budget fiscal deficit/surplus (in millions of lats)	10.7	9.2
Foreign trade (in millions of lats)		
Exports	129.3	*
Imports	254.0	*
Balance	-124.7	*

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	
	VIII	IX
Banking system		
M2X	2 061.9	2 067.8
Currency outside banks	570.0	560.3
Deposits of domestic enterprises and private persons	1 491.9	1 507.5
Demand deposits	870.7	885.6
Time deposits	621.2	621.9
M2D	1 449.7	1 454.7
Net foreign assets	193.5	205.8
Net domestic assets	1 868.4	1 861.9
Loans to domestic enterprises and private persons	2 281.7	2 338.4
Short-term loans	323.4	338.5
Long-term loans	1 958.3	1 999.9
Credit to the Government (net)	120.6	105.1
Bank of Latvia		
M0	746.7	784.0
Currency in circulation	639.4	632.4
Deposits with the Bank of Latvia in lats	107.3	151.6
Net foreign assets	762.6	835.6
Net domestic assets	-15.9	-51.6
Credit	44.7	11.4
To banks	103.9	73.6
To the Government (net)	-59.2	-62.2
Other items (net)	-60.6	-63.0
International reserves*	1 318.89	1 490.45
Gold	92.08	94.66
Special Drawing Rights	0.04	0.04
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	1 226.69	1 395.67

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2003	
	VIII	IX
Weighted average interest rate on domestic interbank loans in lats	2.8	3.1
Interest rates on loans to domestic enterprises and private persons		
Short-term loans (in lats)	5.4	5.3
Short-term loans (in the OECD countries' currencies)	4.1	3.8
Long-term loans (in lats)	7.5	7.5
Long-term loans (in the OECD countries' currencies)	5.1	5.2
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)	3.0	3.1
Short-term deposits (in the OECD countries' currencies)	1.4	1.4
Long-term deposits (in lats)	4.6	4.6
Long-term deposits (in the OECD countries' currencies)	1.9	2.9
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	0.5830	0.5650
LVL/GBP	0.9140	0.9360
LVL/100 JPY	0.4960	0.5080
LVL/EUR	0.6320	0.6460

auction organized by the Bank of Latvia, all securities supplied in the amount of 9.6 million lats were sold, and the weighted average discount rate rose by 31 basis points (to 3.37%).

With transit and transportation of exports, as well as domestic transportation growing, the performance indicators of transportation by rail continued to improve. The volume of rail freight increased by 18.4% year-on-year. Cargo turnover at Latvian ports increased by 9.7%.

The volume index of industrial output in manufacturing grew 6.2% year-on-year. Energy sector also recorded an increase (3.9%). The volume index of industrial output rose by 5.4%. Retail trade turnover posted a pickup of 10.7%.

In September, the producer price index increased by 0.3% month-on-month, mostly resulting from a price rise in the manufacture of chemicals and chemical products. The year-on-year increase in the above index was 2.8%.

	2003	
	VIII	IX
Bank reserves	175.8	222.9
Vault cash in national currency	69.4	72.2
Deposits with the Bank of Latvia	106.4	150.8
Foreign assets	2 084.5	2 111.3
Vault cash in foreign currency	44.8	50.6
Claims on foreign banks	1 378.7	1 377.2
Claims on foreign non-banks	609.7	659.3
Other assets	51.4	24.3
Claims on the central government (net)	176.0	163.8
Claims on local governments (net)	3.7	3.5
Claims on public enterprises	102.7	105.3
Claims on private enterprises	1 578.4	1 607.3
Claims on private persons	629.6	654.3
Unclassified assets	358.9	330.1
Fixed assets	113.8	114.3
Items in transit	10.8	5.9
Other assets	83.3	52.5
Claims on domestic credit institutions (incl. investments)	150.9	157.4
TOTAL ASSETS	5 109.7	5 198.6
<i>Memo item: Trust assets</i>	<i>512.2</i>	<i>744.6</i>
Demand deposits	515.0	525.6
Public enterprises	25.7	33.5
Private enterprises	236.5	241.0
Private persons	252.8	251.0
Time deposits	364.8	368.9
Public enterprises	26.6	22.4
Private enterprises	101.0	104.2
Private persons	237.2	242.3
Foreign currency deposits of residents	612.1	613.1
Public enterprises	28.5	22.5
Private enterprises	196.8	204.9
Private persons	386.8	385.7
Transit funds	9.2	9.3
Foreign liabilities	2 653.6	2 741.1
Liabilities to foreign banks	620.7	699.0
Liabilities to foreign non-banks	1 919.8	1 929.8
Other liabilities (incl. subordinated liabilities)	113.2	112.3
Liabilities to the Bank of Latvia	103.9	73.6
Debt securities	47.5	47.5
Equity	444.8	455.3
Residents	254.5	262.7
Non-residents	190.3	192.5
Provisions	66.2	67.5
Unclassified liabilities	292.5	296.8
Items in transit	110.8	104.3
Other liabilities (incl. subordinated liabilities)	43.9	47.7
Liabilities to domestic credit institutions	137.9	144.8
TOTAL LIABILITIES	5 109.7	5 198.6
<i>Memo item: Trust liabilities</i>	<i>512.2</i>	<i>744.6</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 on the Bank of Latvia's website (<http://www.bank.lv>).