

# MONETARY BULLETIN 2005

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In the second quarter of 2005, the GDP growth was surprisingly strong (a year-on-year increase of 11.6%). The service sector and construction showed a considerable acceleration of growth fuelled by the domestic demand. Therefore some concern arises from the structural breakdown of growth.

However, in the last few months a relatively rapid increase in manufacturing was also observed. In July, the seasonally adjusted volume index of industrial output in this sector rose by 7.8% year-on-year (the industrial growth was 6.2%). Retail trade turnover continued to accelerate rapidly, climbing 21.1% (at constant prices) year-on-year. In August, the volume of rail freight increased by 2.8% year-on-year, whereas the cargo turnover at Latvian ports grew by 9.0% and oil products transportation by pipeline posted a pickup of 16.5%. Unemployment stabilised at 7.8%, and at the end of August the number of the unemployed registered with the State Employment Agency was 10.3% lower year-on-year.

In August, as in the corresponding period of the previous year, consumer prices fell by 0.1% month-on-month, with the annual inflation rate remaining unchanged (6.1%). Consumer prices were mostly affected by a drop in potato, vegetable and fruit prices (26.1%, 18.3% and 6.5%, respectively), whereas the price rise was driven by an increase in fuel, solid fuel and natural gas prices (1.9%, 9.4% and 14.9%, respectively), as well as higher prices of several food products (meat, fish, bread and sugar).

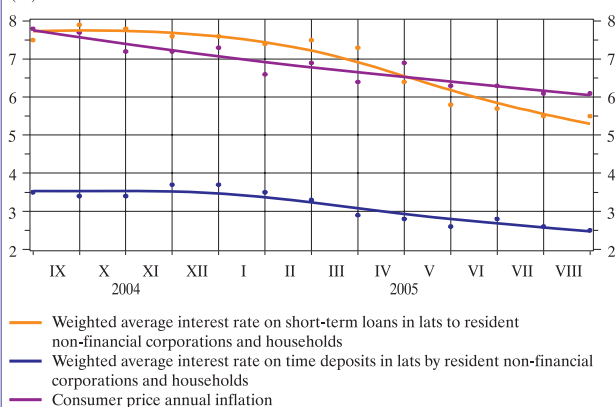
The financial surplus of the general government consolidated budget was 21.5 million lats in August, with the financial surplus accumulated since the beginning of 2005 reaching 149.9 million lats (2.6 times higher year-on-year); both the surplus of the central government basic budget and the local government consolidated budget accounted for the increase. The financial surplus resulted from a rapid rise in the general government consolidated budget revenues (a year-on-year increase of 32.4% in August), with the direct tax revenues posting considerable growth due to rising corporate profits and wages and salaries. In August, the expenditure of the general government consolidated budget picked up 33.1% year-on-year due to an increase both in current expenditure (wages and salaries, subsidies, intermediate consumption) and investment.

In August, the Latvian Government debt shrank by 3.5 million lats, standing at 999.4 million lats at the end of the month (including a rise of 5.4 million lats in the central government debt, reaching 913.6 million lats). The amount of government securities outstanding posted a slight decrease, as in a competitive multi-price auction on the primary market 12-month Treasury bills were sold in the amount of 4.7 million lats at the weighted average discount rate of 2.375%, and the amount of maturing government securities was even larger.

Loans granted by banks and money supply aggregates continued on an upward trend. In August, broad money M3 grew by 69.7 million lats. The growth of money supply was underpinned by an increase of 50.1 million lats and 18.7 million lats in overnight deposits and deposits with an agreed maturity of up to 2 years, respectively, while the amount of currency outside MFIs remained broadly unchanged. Thus, the annual growth rate of M3 declined somewhat from 30.4% in July to 30.0% in August.

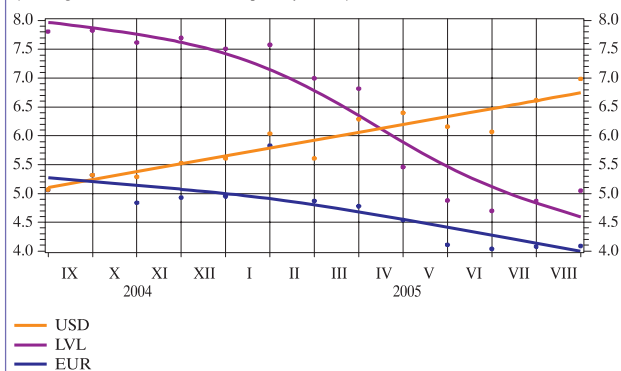
In August, the annual growth rate of deposits received from resident financial institutions, non-financial corporations and

CONSUMER PRICE ANNUAL INFLATION AND WEIGHTED AVERAGE INTEREST RATES OF LOANS AND DEPOSITS (%)



### INTEREST RATES ON LENDING TO RESIDENT HOUSEHOLDS FOR HOUSE PURCHASE BY CURRENCY

(floating rate, initial rate fixation up to 1 year; %)



### MACROECONOMIC INDICATORS

	2005	
	VII	VIII
Changes in the volume index of industrial output (year-on-year basis; %)	6.2	*
Changes in the CPI		
Month-on-month basis (%)	0.0	-0.1
Year-on-year basis (%)	6.1	6.1
Annual rate of core inflation <sup>1</sup> (%)	4.9	5.1
Number of registered unemployed persons (at end of period)	83 121	83 345
Unemployment rate (%)	7.8	7.8
General government consolidated budget fiscal deficit/surplus (in millions of lats)	150.8	173.2
Foreign trade (in millions of lats)		
Exports	236.8	*
Imports	379.7	*
Balance	-142.9	*

<sup>1</sup> Source: Bank of Latvia.

\* Figure available at a later date.

Source: Central Statistical Bureau of Latvia.

households remained unchanged (34.3%). Demand deposits and time deposits grew at a similar rate, and the increase in deposits made in lats and foreign currencies was almost the same. Deposits expanded by 70.2 million lats, including a 37.0 million lats increase in deposits in lats.

The annual growth rate of loans granted by banks continued to accelerate (from 55.9% in July to 56.2% in August), with loans posting a 192.9 million lats gain in August. The rise in outstanding loans was mostly determined by an expansion of mortgage loans (by 137.6 million lats), including a 85.2 million lats increase in loans to households for house purchase. Commercial credit and industrial credit edged higher by 40.9 million lats and 19.9 million lats, respectively. With the spread between interest rates on loans granted in lats and foreign currencies narrowing, loans in lats posted a significant increase (57.9 million lats). Loans in euros recorded the highest rise (186.3 million lats) on the account of new loans granted in this currency as well as refinancing of loans formerly granted in US dollars. Lending to financial institutions and non-financial corporations as well as households also expanded along similar lines: in August, such loans increased by 101.1 million lats and 91.8 million lats, respectively. The annual growth rate of lending to households abated somewhat, whereas that to financial institutions and non-financial corporations moved up to 76.6% and 45.6%, respectively.

With the budget surplus widening, net credit to the Government shrank 3.9 times, to 14.0 million lats in August.

Weighted average interest rates on loans granted by banks did not post essential changes. For lending to households for house purchase they rose by 0.1 percentage point, to 5.2% on loans in lats and 4.4% on loans in foreign currencies. Weighted average interest rates on loans to non-financial corporations dropped slightly (to 5.8% and 4.4% on loans in lats and foreign currencies, respectively).

Interbank market interest rates remained low, and only at the end of August, with the raised bank reserve ratio taking effect, RIGIBOR for overnight loans reached 2.8%. RIGIBOR for loans with a maturity of 6 and 12 months posted a minimum rise (4–7 basis points), reaching 2.85% and 2.93%, respectively.

In August, bank assets increased by 200.6 million lats, and in the first eight months of 2005 bank profit stood at 128.2 million lats (1.8 times higher than in the corresponding period of 2004).

With bank demand deposits with the Bank of Latvia recording a considerable upturn after raising the reserve ratio and at the same time with the demand for cash slightly subsiding, the monetary base M0 expanded by 95.5 million lats in August. The rise in the Bank of Latvia's money supply was underpinned by an increase of 63.0 million lats 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 113.2% at the end of August. Money supply increased also due to a downslide in banks' time deposits with the central bank (54.0 million lats or 30.7%, to 176.0 million lats), and decreased due to a rise in Government deposits with the Bank of Latvia (21.0 million lats). The amount of repo loans issued (6.5 million lats) was 30.0% higher than in July.

In August, the US dollar depreciated against the lats by 1.2%, whereas the British pound sterling and the Japanese yen appreciated by 1.6% and 0.2%, respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2005	
	VII	VIII
<b>MFIs<sup>1</sup></b>		
<b>M3</b>	3 316.1 <sup>2</sup>	3 385.8
Repurchase agreements	0	0
Money market fund shares and units	14.2	16.7
Debt securities issued with maturity of up to 2 years	4.7 <sup>2</sup>	0
<b>M2</b>	3 297.2	3 369.1
Deposits with agreed maturity of up to 2 years	798.9	817.6
Deposits redeemable at notice of up to 3 months	90.7	94.4
<b>M1</b>	2 407.6	2 457.1
Currency outside MFIs	707.8	707.2
Overnight deposits	1 699.8	1 749.9
Net external assets	-631.3	-690.3
Credit to resident financial institutions, non-financial corporations and households	4 902.8	5 095.7
Credit to general government	389.5	378.9
Deposits of central government	252.7	274.8
Longer-term financial liabilities	1 113.7 <sup>2</sup>	1 140.3
<b>Bank of Latvia</b>		
<b>M0</b>	1 068.5	1 164.0
Currency in circulation	788.6	784.8
Deposits with the Bank of Latvia in lats	279.8	379.2
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 254.8	1 317.8
Net domestic assets	-186.3	-153.8
Credit	-41.9	-61.7
To MFIs	3.5	4.5
To central government (net)	-45.4	-66.2
Other items (net)	-144.5	-92.1
International reserves (at end of period; in millions of US dollars)	2 181.97	2 307.39
Gold	105.71	108.59
Special Drawing Rights	0.14	0.15
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	2 076.04	2 198.57

<sup>1</sup>In accordance with the methodology of the European Central Bank.

<sup>2</sup>Data have been revised.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2005	
	VII	VIII
Weighted average interest rate on domestic interbank loans in lats	2.2	2.2
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	5.9	5.8
Loans to households (in lats)	6.1	6.1
incl. for house purchase	5.1	5.2
Loans to non-financial corporations (in foreign currencies)	4.7	4.4
Loans to households (in foreign currencies)	4.5	4.5
incl. for house purchase	4.3	4.4
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	2.4	2.3
Demand deposits of non-financial corporations (in lats)	0.7	0.8
Time deposits of households (in lats)	3.0	2.9
Demand deposits of households (in lats)	0.5	0.4
Time deposits of non-financial corporations (in foreign currencies)	2.1	2.2
Demand deposits of non-financial corporations (in foreign currencies)	0.9	1.0
Time deposits of households (in foreign currencies)	2.6	2.6
Demand deposits of households (in foreign currencies)	1.2	1.2
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	0.5820	0.5750
LVL/GBP	1.0150	1.0310
LVL/100 JPY	0.5180	0.5190
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	
	VII	VIII
MFI reserves	432.6	477.4
Vault cash in national currency	80.8	77.6
Deposits with the Bank of Latvia	351.8	399.8
Foreign assets	3 158.6	3 128.3
Vault cash in foreign currencies	61.5	65.0
Claims on MFIs	1 972.6	1 900.2
Claims on non-MFIs	1 092.4	1 129.2
Other assets	32.1	33.9
Claims on central government	215.8	205.0
Claims on local government	75.3	75.3
Claims on public non-financial corporations	125.4	127.3
Claims on financial institutions and private non-financial corporations	2 927.2	3 034.7
Claims on households	1 875.3	1 967.1
Unclassified assets	414.4	410.1
Fixed assets	129.3	125.2
Items in transit	14.5	10.4
Other assets	69.5	69.4
Claims on resident MFIs (incl. investments)	201.1	205.2
<b>Total assets</b>	<b>9 224.6</b>	<b>9 425.2</b>
<i>Memo item: Trust assets</i>	495.5	547.4
Overnight deposits in lats	956.6	987.0
Public non-financial corporations	43.2	49.6
Financial institutions and private non-financial corporations	424.1	448.7
Households	489.3	488.7
Time deposits and deposits redeemable at notice in lats	603.9	610.5
Public non-financial corporations	65.9	56.9
Financial institutions and private non-financial corporations	165.6	175.5
Households	372.4	378.1
Foreign currency deposits of residents	1 080.8	1 114.0
Public non-financial corporations	18.8	16.2
Financial institutions and private non-financial corporations	338.8	356.0
Households	723.2	741.8
Deposits of central government	108.9	110.0
Deposits of local government	81.6	90.1
Transit funds	5.1	5.1
Foreign liabilities	5 044.7	5 136.4
Liabilities to MFIs	2 105.4	2 263.9
Liabilities to non-MFIs	2 787.5	2 732.2
Other liabilities (incl. subordinated liabilities)	151.8	140.3
Liabilities to the Bank of Latvia	3.5	4.5
Debt securities issued	162.3	162.2
Money market fund shares and units	14.2	16.7
Capital and reserves	720.0	738.3
Residents	413.6	430.2
Non-residents	306.4	308.0
Provisions	93.6	96.9
Unclassified liabilities	349.3	353.5
Items in transit	106.9	102.2
Other liabilities (incl. subordinated liabilities)	59.8	67.1
Liabilities to resident MFIs	182.6	184.2
<b>Total liabilities</b>	<b>9 224.6</b>	<b>9 425.2</b>
<i>Memo item: Trust liabilities</i>	495.5	547.4

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>).