

# MONETARY BULLETIN

**5**  
**2003**

The released data on the growth of GDP in the first quarter of 2003 indicated rapid development of the Latvian national economy. The real GDP grew 8.8% year-on-year. The dynamic growth resulted from the persistently high domestic demand (consumption and investment) and a higher external demand, reflected in a considerable increase in exports. Development of all sectors of the national economy underlay the GDP growth, but it was mostly facilitated by a year-on-year increase in the value added in trade (17.3%), construction (17.5%) and manufacturing (10.4%). Rapid improvement in industry and trade also continued in April: the volume index in manufacturing and electricity, gas and water supply posted a year-on-year increase of 9.0% and 9.3%, respectively, while the volume index of industrial output grew 8.9%. Retail trade turnover rose by 9.8% in comparison with April 2002.

In May, transportation by rail continued to develop successfully, and the level of transported cargos reached 4.5 billion tons (a year-on-year increase of 2.2%). As the level of services rendered at the ports of Riga and Liepāja and the small ports expanded considerably, cargo turnover in Latvian ports rose by 22.3%, exceeding the level reached before oil transit shrank as a result of the policy implemented by Russia. Also the volume of cargos handled at the port of Ventspils considerably exceeded (by 15.9%) the indicator for the corresponding period in the previous year due to the diversification of cargo and type of transportation used, as well as a lower base.

A stable increase in tax revenue and a surplus in the central government special budget in the first five months of 2003 ensured a higher fiscal surplus of the general government consolidated budget (reaching 10.4 million lats). In the first five months of 2003, the year-on-year growth of the general government consolidated budget revenue and expenditure was 8.8% and 4.6%, respectively (in May, 17.2% and 10.2%, respectively). Social insurance contributions recorded a year-on-year rise of 5.6% in the first five months of 2003, whereas that of personal income tax revenue grew 11.1%. The revenue of excise tax and value added tax increased as well (by 11.0% and 18.5%, respectively).

In May, CPI grew mostly as a result of seasonally rising prices for clothing and some services, but the increase was reduced by a drop in fuel prices. The annual rate of inflation remained the same (2.5%) in comparison with April, but was higher than in the corresponding period in the previous year. The level of unemployment decreased by 0.1 percentage points (to 8.7%).

Financial sector continued its robust growth in May, and the key monetary indicators increased. The rise in broad money M2X and deposits of domestic enterprises and private persons was somewhat slower, whereas that in loans granted and cash outside banks was more rapid than in the previous month. Broad money, cash outside banks, deposits of domestic enterprises and private persons, and loans granted to the above group of customers grew 19.3%, 16.1%, 20.6% and 40.7% year-on-year, respectively.

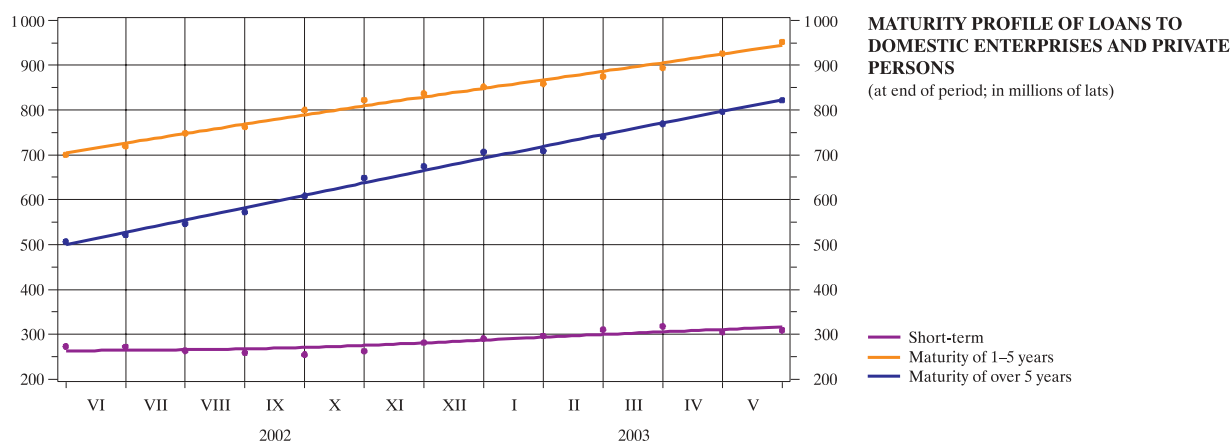
In May, deposits of domestic enterprises and private persons expanded by 16.8 million lats. The growth resulted from a pickup in deposits in lats (17.2 million lats). Deposits of enterprises and private persons increased. A rise in time deposits (12.5 million lats) was considerably higher than that in demand deposits.

In May, loans granted to domestic enterprises and private persons in lats expanded by 29.0 million lats, and, contrary to the trend of previous three months, their share increased (to 45.7%). Short-term loans granted in lats and foreign currency, and loans with a maturity of 1–5 years and over 1 year grew by 4.3 million lats, 25.8 million lats and 25.7 million lats, respectively.

The banking system's net credit to the Government decreased by 10.7 million lats, although credit institutions' net claims on central government increased by 15.7 million lats, as deposits of the Government with the banking sector continued to shrink, while those with the Bank of Latvia grew. The growth in lending, alongside that in domestic deposits, was based on the attraction of foreign funds. Thus the rise in money supply was determined by an increase in net domestic assets of the banking system (45.8 million lats), with its net foreign assets decreasing.

Assets of the banking sector grew by 35.6 million lats in May (to 4.6 billion lats). In the first five months of 2003, banks' profit reached 25.7 million lats (a year-on-year increase of 36.7%).

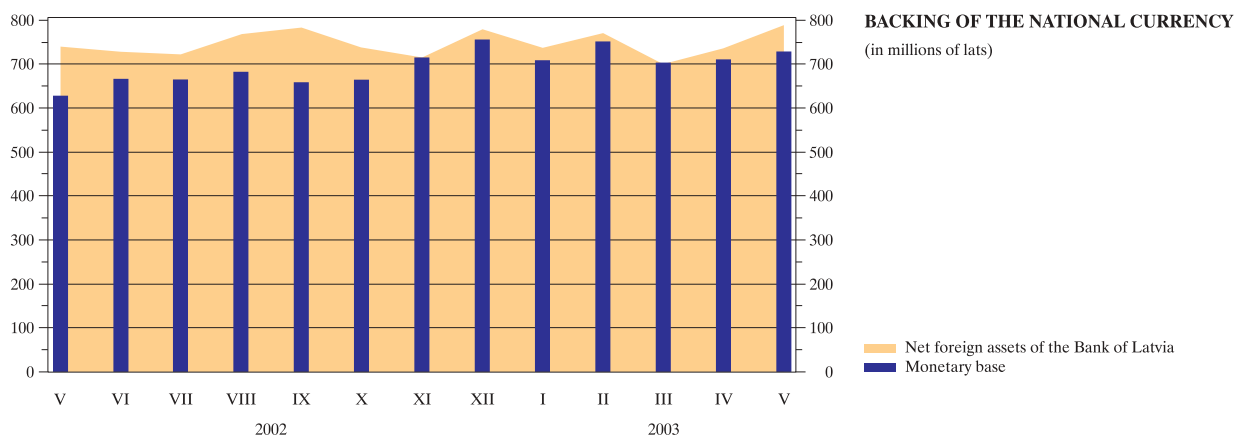
The first auction of 12-month Treasury bills in 2003 was held in May, and all securities offered in the amount of 6.4 million lats were sold; moreover, the demand was 3.0 times higher than the supply. The State Treasury benefited from low interest rates, and the weighted average discount rate of the auction decreased by 13 basis points (to 3.09%) in comparison with the previous auction of debt securities of the same maturity, held in December 2002. Also the entire stock of debt securities offered (1.6 million lats) was sold at the fixed rate (non-competitive) auction



at the Latvian Central Depository. The amount of Treasury bills and bonds outstanding increased by 3.7% (to 354.9 million lats). The Government debt grew by 21.3 million lats (to 826.0 million lats). Changes in the Government external debt were mostly caused by a rise in the exchange rate of the euro.

On the global foreign exchange market, the exchange rate of the US dollar against the euro continued to decrease, since the forecasts regarding the development of the US national economy remained pessimistic, whereas return on assets in the euro area was higher. Therefore the exchange rates of the US dollar and Japanese yen against the lats declined (by 2.8% and 1.7%, respectively), while those of the euro and the British pound rose (by 3.9% and 0.1%, respectively).

In May, the monetary base increased by 20.3 million lats or 2.9%, including currency in circulation, which grew by 6.5 million lats or 1.1%. As a result of currency swap arrangements and the purchase of foreign currency, net foreign assets of the central bank increased by 50.5 million lats, and at the end of May, the backing of the national currency with the Bank of Latvia's net foreign assets was 107.4%. The level of credit granted to banks recorded a slight decline (1.2 million lats), whereas the Government's deposit with the central bank increased by 24.7 million lats.



|                                                                                     | 2003   |        |
|-------------------------------------------------------------------------------------|--------|--------|
|                                                                                     | IV     | V      |
| Changes in the volume index of industrial output (year-on-year basis; %)            | 8.9    | *      |
| Changes in the CPI                                                                  |        |        |
| Month-on-month basis (%)                                                            | 0.3    | 0.2    |
| Year-on-year basis (%)                                                              | 2.5    | 2.5    |
| Annual rate of core inflation (%)                                                   | 1.7    | 1.9    |
| Number of registered unemployed persons (at end of period)                          | 93 393 | 91 617 |
| Unemployment rate (%)                                                               | 8.8    | 8.7    |
| General government consolidated budget fiscal deficit/surplus (in millions of lats) | 2.4    | 10.4   |
| Foreign trade (in millions of lats)                                                 |        |        |
| Exports                                                                             | 142.8  | *      |
| Imports                                                                             | 244.8  | *      |
| Balance                                                                             | -102.0 | *      |

#### 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     |          |
|------------------------------------------------------|----------|----------|
|                                                      | IV       | V        |
| <b>Banking system</b>                                |          |          |
| M2X                                                  | 1 944.0  | 1 972.3  |
| Currency outside banks                               | 534.2    | 545.8    |
| Deposits of domestic enterprises and private persons | 1 409.7  | 1 426.5  |
| Demand deposits                                      | 786.3    | 790.7    |
| Time deposits                                        | 623.4    | 635.9    |
| M2D                                                  | 1 363.6  | 1 392.4  |
| Net foreign assets                                   | 299.0    | 281.6    |
| Net domestic assets                                  | 1 644.9  | 1 690.7  |
| Loans to domestic enterprises and private persons    | 2 027.9  | 2 083.7  |
| Short-term loans                                     | 304.9    | 309.2    |
| Long-term loans                                      | 1 723.0  | 1 774.5  |
| Credit to the Government (net)                       | 136.8    | 126.1    |
| <b>Bank of Latvia</b>                                |          |          |
| M0                                                   | 710.3    | 730.6    |
| Currency in circulation                              | 606.8    | 613.3    |
| Deposits with the Bank of Latvia in lats             | 103.5    | 117.2    |
| Net foreign assets                                   | 733.8    | 784.3    |
| Net domestic assets                                  | -23.5    | -53.7    |
| Credit                                               | 39.9     | 13.6     |
| To banks                                             | 64.7     | 63.5     |
| To the Government (net)                              | -24.8    | -49.8    |
| Other items (net)                                    | -63.4    | -67.3    |
| International reserves*                              | 1 281.04 | 1 406.47 |
| Gold                                                 | 82.85    | 90.14    |
| Special Drawing Rights                               | 0.36     | 0.10     |
| Reserve position in the IMF                          | 0.08     | 0.08     |
| Foreign convertible currencies                       | 1 197.75 | 1 316.15 |

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

|                                                                               | 2003   |        |
|-------------------------------------------------------------------------------|--------|--------|
|                                                                               | IV     | V      |
| Weighted average interest rate on domestic interbank loans in lats            | 2.8    | 3.1    |
| <b>Interest rates on loans to domestic enterprises and private persons</b>    |        |        |
| Short-term loans (in lats)                                                    | 5.2    | 5.5    |
| Short-term loans (in the OECD countries' currencies)                          | 4.7    | 4.5    |
| Long-term loans (in lats)                                                     | 7.9    | 7.8    |
| Long-term loans (in the OECD countries' currencies)                           | 5.2    | 5.7    |
| <b>Interest rates on deposits of domestic enterprises and private persons</b> |        |        |
| Demand deposits (in lats)                                                     | 0.9    | 0.9    |
| Demand deposits (in the OECD countries' currencies)                           | 0.7    | 0.6    |
| Short-term deposits (in lats)                                                 | 3.0    | 3.1    |
| Short-term deposits (in the OECD countries' currencies)                       | 1.7    | 1.6    |
| Long-term deposits (in lats)                                                  | 4.9    | 4.9    |
| Long-term deposits (in the OECD countries' currencies)                        | 3.3    | 2.8    |
| 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 | 0.5650 |
| LVL/GBP                                                                       | 0.9240 | 0.9250 |
| LVL/100 JPY                                                                   | 0.4840 | 0.4760 |
| LVL/EUR                                                                       | 0.6390 | 0.6640 |

The demand for lats remained high, and the level of repo loans issued by the Bank of Latvia (277.0 million lats) was 25.2% higher than in April. Under currency swaps, 203.6 million lats were sold (a month-on-month increase of 20.7%), and the currency swap balance reached 109.4 million lats at the end of May.

The amount of domestic interbank loans granted in lats increased by 10.5% (to 489.6 million lats) in May, and their weighted average interest rate rose to 3.1%. RIGIBOR for 3-, 6- and 12-month loans rose by 0.1–0.2 percentage points, with overnight RIGIBOR remaining almost constant.

Interest rate growth on the money market facilitated an increase in weighted average interest rates on short-term loans issued to and deposits attracted from domestic enterprises and private persons in lats as well (to 5.5% and 3.1%, respectively), while the weighted average interest rate on long-term loans decreased to 7.8%. The weighted average interest rate on long-term loans issued in the OECD currencies increased to 5.7%, whereas those on short-term loans and short-term and long-term deposits shrank.

|                                                            | 2003           |                |
|------------------------------------------------------------|----------------|----------------|
|                                                            | IV             | V              |
| Bank reserves                                              | 172.4          | 183.9          |
| Vault cash in national currency                            | 72.5           | 67.5           |
| Deposits with the Bank of Latvia                           | 99.9           | 116.4          |
| Foreign assets                                             | 1 827.9        | 1 780.6        |
| Vault cash in foreign currency                             | 46.3           | 51.2           |
| Claims on foreign banks                                    | 1 139.9        | 1 125.9        |
| Claims on foreign non-banks                                | 603.8          | 585.7          |
| Other assets                                               | 37.9           | 17.8           |
| Claims on the central government (net)                     | 152.2          | 167.9          |
| Claims on local governments (net)                          | 9.4            | 8.0            |
| Claims on public enterprises                               | 102.0          | 101.0          |
| Claims on private enterprises                              | 1 447.2        | 1 480.5        |
| Claims on private persons                                  | 504.6          | 529.3          |
| Unclassified assets                                        | 313.3          | 313.5          |
| Fixed assets                                               | 109.7          | 109.4          |
| Items in transit                                           | 7.4            | 8.2            |
| Other assets                                               | 52.8           | 54.1           |
| Claims on domestic credit institutions (incl. investments) | 143.4          | 141.8          |
| <b>TOTAL ASSETS</b>                                        | <b>4 529.1</b> | <b>4 564.7</b> |
| <i>Memo item: Trust assets</i>                             | <i>518.9</i>   | <i>546.3</i>   |
| Demand deposits                                            | 466.0          | 467.8          |
| Public enterprises                                         | 29.1           | 30.5           |
| Private enterprises                                        | 213.9          | 204.7          |
| Private persons                                            | 223.0          | 232.6          |
| Time deposits                                              | 363.4          | 378.8          |
| Public enterprises                                         | 34.6           | 35.6           |
| Private enterprises                                        | 108.9          | 118.7          |
| Private persons                                            | 219.9          | 224.5          |
| Foreign currency deposits of residents                     | 580.4          | 579.9          |
| Public enterprises                                         | 25.9           | 29.9           |
| Private enterprises                                        | 192.6          | 195.6          |
| Private persons                                            | 361.9          | 354.4          |
| Transit funds                                              | 9.6            | 9.6            |
| Foreign liabilities                                        | 2 262.7        | 2 283.2        |
| Liabilities to foreign banks                               | 518.0          | 558.3          |
| Liabilities to foreign non-banks                           | 1 651.8        | 1 630.8        |
| Other liabilities (incl. subordinated liabilities)         | 92.9           | 94.1           |
| Liabilities to the Bank of Latvia                          | 64.7           | 63.5           |
| Debt securities                                            | 43.8           | 43.9           |
| Equity                                                     | 409.9          | 420.1          |
| Residents                                                  | 226.9          | 236.4          |
| Non-residents                                              | 183.0          | 183.6          |
| Provisions                                                 | 62.9           | 64.5           |
| Unclassified liabilities                                   | 265.7          | 253.5          |
| Items in transit                                           | 92.7           | 86.5           |
| Other liabilities (incl. subordinated liabilities)         | 38.9           | 40.2           |
| Liabilities to domestic credit institutions                | 134.1          | 126.7          |
| <b>TOTAL LIABILITIES</b>                                   | <b>4 529.1</b> | <b>4 564.7</b> |
| <i>Memo item: Trust liabilities</i>                        | <i>518.9</i>   | <i>546.3</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>).