

MONETARY BULLETIN 2006

1

The previous raise of the reserve ratio for banks came into effect on December 24, 2005; therefore, at its January 2006 meeting the Bank of Latvia's Council resolved to leave the key Bank of Latvia interest rates and the reserve ratio for banks unchanged. Nevertheless, it was noted that with the current development trends continuing further measures to promote balanced and sustainable economic development will be considered.

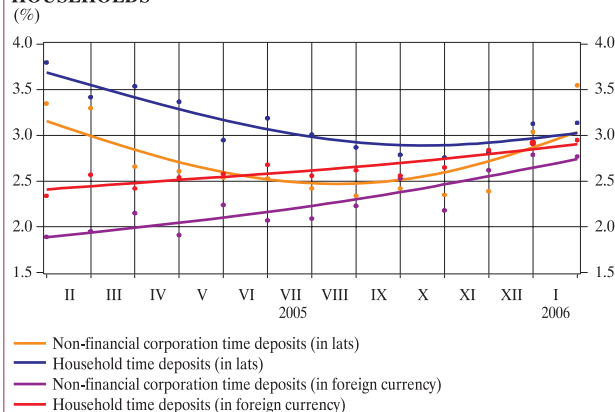
Information on economic development in December and January suggested that trade and industry continued to develop buoyantly, with the working-day-adjusted retail trade turnover growing by 23.9% at constant prices year-on-year, the seasonally adjusted volume index of industrial output in manufacturing and total industrial output expanding by 8.9% and 9.1%, respectively. In January, cargo turnover at Latvian ports and oil products transported by pipeline increased significantly (by 14.0% and 32.5%, respectively), whereas the volume of cargo transportation by rail shrank by 1.7% year-on-year. Unemployment rate increased to 7.5%.

In January, consumer prices posted a month-on-month rise of 1.1%, with annual inflation reaching 7.5%. The price rise was underpinned by a significant increase in prices of vegetables (22.6%), rising prices on alcoholic beverages stemming from new excise tax rates (4.6%), growing heating and gas tariffs resulting in higher housing maintenance costs (2.7%) and climbing fuel prices (2.0%). A decline in the prices of clothing and footwear by 4.9% as a result of seasonal sales exerted a dampening effect on inflation.

The financial surplus of the general government consolidated budget amounted to 64.4 million lats in January (10.6 million lats in January 2005). The financial balance improved on account of the surplus of the central government basic budget and that of the local government consolidated budget (62.3 million lats and 12.0 million lats, respectively). The revenue and expenditure of the general government consolidated budget grew by 28.8% and 6.0% year-on-year, respectively. Tax revenue rose by 30.0%. Indirect tax revenue posted a particularly buoyant growth with the VAT and excise tax collections recording an increase of 54.5% and 33.4%, respectively, supported by the high private consumption. Excise tax picked up also on account of higher excise tax rates on beer, other alcoholic beverages, cigarettes and other smoking tobacco effective from January 1, 2006. Foreign financial assistance inflows were also larger year-on-year. Expenditure rise was affected by pension indexation, raising some social benefits as well as the public sector wages and salaries and minimum wage and salary.

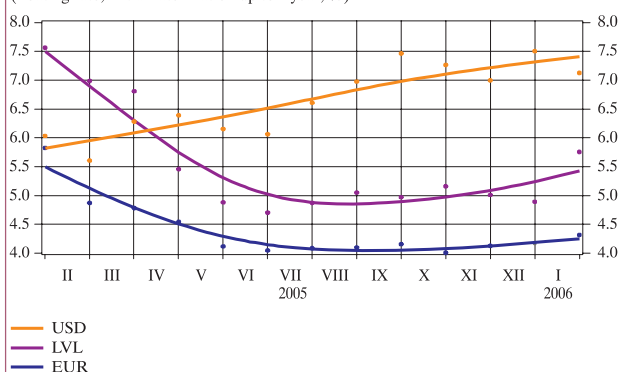
In January, Latvian central government and local government debt shrank by 9.6 million lats totalling 1 036.7 million lats at the end of the month. External debt remained broadly unchanged, whereas domestic debt decreased with the amount of maturing Government securities exceeding that of newly-issued securities. Two auctions of 10-year Treasury bonds were held on the Government securities market in January. Bonds in the amount of 41.9 million lats (87.3% of the offered amount) with the average yield of 3.644% and 3.730% (slightly higher than at the previous auction in November 2005) were allotted

**INTEREST RATES ON TIME DEPOSITS ATTRACTED FROM
RESIDENT NON-FINANCIAL CORPORATIONS AND
HOUSEHOLDS**



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

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



at competitive multi-price auctions on the primary market.

With currency outside MFIs shrinking by 18.2 million lats or 2.3% under the impact of seasonal factors and overnight deposits picking up slightly, money supply M1 remained broadly unchanged in January. M2 increased insignificantly (only by 10.1 million lats or 0.3%), with both deposits with agreed maturity of up to two years and deposits redeemable at notice of up to 3 months growing slightly. Expansion of the broad money M3 was more notable (by 32.2 million lats or 0.8%), due to money market fund units growing by 22.0 million lats as a result of new investment funds starting operation. Thus, in January the annual growth rate of M2 and M3 increased to 39.3% and 40.8%, respectively, whereas that of M1 slightly deteriorated (to 43.0%).

The deposits of resident financial institutions, non-financial corporations and households rose by only 17.9 million lats in January. The deposits with a 6- and 12-month maturity (11.6 million lats) accounted for the largest share of deposits. Deposits made in lats declined slightly (determined by non-financial corporation deposits), whereas those in euro and other foreign currencies expanded. Deposits of households accounted for the pickup in total deposits.

In January, lending moderated due to seasonal factors and loans to financial institutions, non-financial corporations and households increased by 176.2 million lats (the lowest monthly rise since April 2005). An upsurge in mortgage lending and commercial credit (96.3 million lats and 73.0 million lats, respectively) continued to contribute to the growth of lending. Lending to households for house purchase expanded by 67.8 million lats, with other types of credit posting minor changes. Loans in euro continued to account for the largest share of growth (a rise of 195.3 million lats), with loans in lats also picking up by 46.2 million lats and those in US dollars reporting a decline. Lending to financial institutions and non-financial corporations and households increased (by 102.8 million lats and 73.4 million lats, respectively), whereas the annual growth rate of loans declined slightly and stood at 51.1% and 81.9%, respectively.

The negative net foreign assets of MFIs rose by 83.9 million lats in January. In the same month, MFI (excluding the Bank of Latvia) assets expanded by 274.0 million lats and profit amounted to 18.2 million lats (a year-on-year rise of 32.8%).

An increase in the reserve ratio in December accounted for a vigorous pickup in bank demand deposits with the Bank of Latvia, and although currency in circulation diminished, the monetary base M0 increased by 104.2 million lats in January. M0 was moderately affected by the increase in its net foreign assets (16.6 million lats) and more – by an expansion of repo loans granted to banks (50.7 million lats) as well as a decline in banks' time deposits and the Government deposits with the Bank of Latvia (30.0 million lats and 42.6 million lats, respectively). The redemption of government securities (in the amount of 34.7 million lats) held by the central bank had a reducing effect on M0 in January.

RIGIBOR reflected the Bank of Latvia's tightening policy: on overnight loans it stood at 4.1%–4.6% throughout the month, whereas on loans with a 6- and 12-month maturity the RIGIBOR grew by 0.1–0.2 percentage point, reaching 3.74% and 3.68%, respectively, at the end of January. The majority of loans granted to non-MFIs rose by 0.5–0.7 percentage point in January.

In January, the US dollar and the Japanese yen depreciated against the lats by 2.0% and 1.8%, whereas the British pound sterling appreciated by 0.6%, respectively.

MACROECONOMIC INDICATORS	2005	2006
	XII	I
Changes in the volume index of industrial output (year-on-year basis; %)	9.1	*
Changes in the CPI		
Month-on-month basis (%)	–0.1	1.1
Year-on-year basis (%)	7.0	7.5
Annual rate of core inflation ¹ (%)	5.9	6.0
Number of registered unemployed persons (at end of period)	78 482	79 368
Unemployment rate (%)	7.4	7.5
General government consolidated budget financial deficit/surplus (in millions of lats)	–113.3	64.4
Foreign trade (in millions of lats)		
Exports	261.7	*
Imports	482.1	*
Balance	–220.4	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia and Ministry of Finance.

MONETARY INDICATORS (at end of period; in millions of lats)		2005	2006
		XII	I
MFIs¹			
M3		3 925.4	3 957.6
Repurchase agreements		0	0
Money market fund shares and units		16.1	38.1
Debt securities issued with maturity of up to 2 years		3.4	3.6
M2		3 905.8	3 915.9
Deposits with agreed maturity of up to 2 years		929.1	937.4
Deposits redeemable at notice of up to 3 months		106.6	109.5
M1		2 870.2	2 869.1
Currency outside MFIs		786.4	768.2
Overnight deposits		2 083.8	2 100.9
Net external assets		-1 326.6	-1 410.5
Credit to resident financial institutions, non-financial corporations and households		6 139.7	6 315.9
Credit to general government		416.0	407.1
Deposits of central government		81.7	131.5
Longer-term financial liabilities		1 241.7	1 252.9
Bank of Latvia			
M0		1 350.7	1 454.9
Currency in circulation		877.3	853.9
Deposits with the Bank of Latvia in lats		473.4	601.0
Deposits with the Bank of Latvia in foreign currencies		0	0
Net foreign assets		1 390.2	1 406.8
Net domestic assets		-39.5	48.1
Credit		53.7	111.0
To MFIs		23.3	74.0
To central government (net)		30.4	37.0
Other items (net)		-93.2	-62.9
International reserves (at end of period; in millions of US dollars)		2 355.43	2 420.53
Gold		128.45	139.83
Special Drawing Rights		0.14	0.14
Reserve position in the IMF		0.08	0.08
Foreign convertible currencies		2 226.76	2 280.48

¹ In accordance with the methodology of the European Central Bank.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES		2005	2006
		XII	I
Weighted average interest rate on domestic interbank loans in lats		2.7	4.0
Interest rates on loans to resident non-financial corporations and households			
Loans to non-financial corporations (in lats)		5.8	6.4
Loans to households (in lats)		6.6	7.2
incl. for house purchase		5.1	5.8
Loans to non-financial corporations (in foreign currencies)		4.8	5.3
Loans to households (in foreign currencies)		4.8	4.7
incl. for house purchase		4.4	4.4
Interest rates on deposits of non-financial corporations and households			
Time deposits of non-financial corporations (in lats)		3.0	3.6
Demand deposits of non-financial corporations (in lats)		1.0	1.1
Time deposits of households (in lats)		3.1	3.1
Demand deposits of households (in lats)		0.4	0.5
Time deposits of non-financial corporations (in foreign currencies)		2.8	2.8
Demand deposits of non-financial corporations (in foreign currencies)		1.0	1.2
Time deposits of households (in foreign currencies)		2.9	3.0
Demand deposits of households (in foreign currencies)		1.0	1.1
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		0.5930	0.5810
LVL/GBP		1.0210	1.0270
LVL/100 JPY		0.5040	0.4950
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	2006
		XII	I
MFI reserves		593.6	685.6
Vault cash in national currency		90.9	85.7
Deposits with the Bank of Latvia		502.7	599.9
Foreign assets		3 366.6	3 389.3
Vault cash in foreign currencies		66.1	59.5
Claims on MFIs		2 139.9	2 152.0
Claims on non-MFIs		1 133.0	1 146.3
Other assets		27.5	31.5
Claims on central government		227.4	255.0
Claims on local government		89.8	89.3
Claims on public non-financial corporations		107.5	114.3
Claims on financial institutions and private non-financial corporations		3 615.8	3 712.1
Claims on households		2 451.7	2 525.1
Unclassified assets		513.2	468.9
Fixed assets		137.8	137.6
Items in transit		10.4	14.6
Other assets		71.6	72.0
Claims on resident MFIs (incl. investments)		293.3	244.7
Total assets		10 965.5	11 239.5
<i>Memo item: Trust assets</i>		375.7	381.2
Overnight deposits in lats		1 210.5	1 208.3
Public non-financial corporations		54.5	56.0
Financial institutions and private non-financial corporations		551.5	543.0
Households		604.4	609.4
Time deposits and deposits redeemable at notice in lats		688.6	671.9
Public non-financial corporations		52.0	55.2
Financial institutions and private non-financial corporations		229.5	205.5
Households		407.1	411.2
Foreign currency deposits of residents		1 299.2	1 336.0
Public non-financial corporations		17.0	19.5
Financial institutions and private non-financial corporations		431.0	443.7
Households		851.3	872.8
Deposits of central government		13.3	105.6
Deposits of local government		67.9	82.0
Transit funds		4.9	4.9
Foreign liabilities		6 083.4	6 206.6
Liabilities to MFIs		3 005.1	2 955.4
Liabilities to non-MFIs		2 925.2	2 966.4
Other liabilities (incl. subordinated liabilities)		153.1	284.9
Liabilities to the Bank of Latvia		23.3	74.0
Debt securities issued		173.9	162.5
Money market fund shares and units		16.1	38.1
Capital and reserves		835.0	854.7
Residents		518.6	527.7
Non-residents		316.4	327.0
Provisions		89.0	88.0
Unclassified liabilities		460.4	407.0
Items in transit		114.9	105.0
Other liabilities (incl. subordinated liabilities)		83.5	84.6
Liabilities to resident MFIs		262.0	217.4
Total liabilities		10 965.5	11 239.5
<i>Memo item: Trust liabilities</i>		375.7	381.2

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>).