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In April 2006, a further decline was observed in annual inflation. Though in the course of the month consumer prices rose by 0.6%, annual inflation dropped to 6.1%, the lowest level since August 2005. The growth of consumer prices was determined by rising fuel, clothing and footwear, as well as food prices (5.7%, 2.1% and 0.6%, respectively). Lowering of telecommunication tariffs (by 2.2%) had a downward effect on inflation.

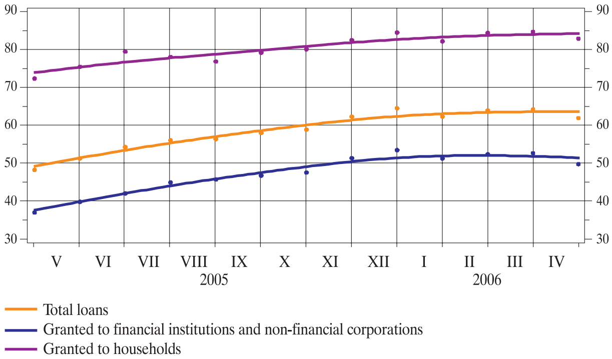
Industrial growth accelerated, with domestic trade turnover also on the upswing. Data published by the Central Statistical Bureau of Latvia for March indicate that the seasonally adjusted volume index of industrial output in manufacturing grew by 11.5% and total industrial output expanded by 9.2%, whereas retail trade turnover (including transport vehicle sales and fuel retail sales) increased by 35.1% and was determined by the fast growth in transport vehicle sales (including wholesale) and fuel sales. In April, cargo turnover at Latvian ports and the volume of freight transported by rail shrank by 4.0% and 7.1%, respectively. Unemployment rate dropped 0.1 percentage point (to 7.3%).

The financial surplus of the general government consolidated budget amounted to 25.6 million lats in April. Surpluses were recorded in both the central government consolidated budget (17.7 million lats due to surpluses in the central government basic budget and the social security fund) and the local government consolidated budget (7.7 million lats). Improvements in the general government consolidated budget were triggered by the buoyant growth of budgetary revenue (38.4%), with budgetary expenditure growing by 24.0%. The boost in tax revenue (27.3%) along with a 55.4% increase in inflows of the EU funds was the main factors determining higher budgetary revenue. Tax revenue increased mainly on account of a stronger value added tax growth (42.8%), which was a reflection of the solid increase in the domestic demand. The revenue from direct taxes also increased substantially. The rise in wages and salaries in the economy brought about an increase in tax revenues from social insurance contributions and personal income tax (20.0% and 20.2%, respectively). Corporate income tax revenue grew at an even faster pace (by 60.4%). The general government consolidated budget expenditure increased on account of growing public sector wages and salaries, indexation of and increase in pensions, higher social benefits as from January 1, 2006, and growing budgetary transfers to health care establishments.

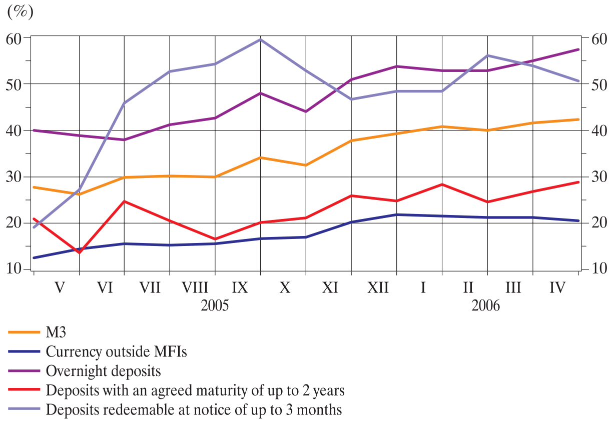
Total debt of Latvia's general government, which stood at 1 091.4 million lats at the end of April, shrank by 18.4 million lats in the course of the month primarily due to a decrease in the domestic debt owing to redemption of government securities. One competitive multi-price auction of 10-year Treasury bonds was held on the primary market where securities in the amount of only 2.0 million lats of the 12.0 million lats amount offered were sold at an average 4.304% yield rate, which exceeded the rate of the previous auction in January 2006 by 0.574 percentage point.

Strengthening of the financial sector continued in April, albeit at a slower pace than in March. Only the growth in currency outside MFIs recorded a seasonally faster pace (20.7 million lats or 2.7%). With overnight deposits expanding by 82.3 million lats, money supply M1 increased by 103.0 million lats or 3.4% (by 3.8% in the previous month). Growth in monetary aggregate M2 also slowed down (122.6 million lats or 3.0%; 4.2% in March), with deposits with agreed maturity of up to 2 years

GROWTH RATE DEVELOPMENTS FOR LOANS GRANTED TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS
(year-on-year changes; %)



THE ANNUAL GROWTH RATE OF BROAD MONEY M3 AND ITS COMPONENTS



MACROECONOMIC INDICATORS	2006	
	III	IV
Changes in the volume index of industrial output (year-on-year basis; %)	9.2	*
Changes in the CPI		
Month-on-month basis (%)	0.2	0.6
Year-on-year basis (%)	6.5	6.1
Annual rate of core inflation[1] (%)	5.3	5.0
Number of registered unemployed persons (at end of period)	78 759	77 151
Unemployment rate (%)	7.4	7.3
General government consolidated budget financial deficit/surplus (in millions of la	124.3	150.0
Foreign trade (in millions of lats)		
Exports	269.7	*
Imports	480.1	*
Balance	–210.4	*

[1] Source: Bank of Latvia.
* Figure available at a later date.
Source: Central Statistical Bureau of Latvia and Ministry of Finance.

and deposits redeemable at notice of up to 3 months expanding only slightly, whereas broad money M3 rose by 118.7 million lats or 2.8% (by 4.2% in March). The annual growth rate of M1, M2 and M3 increased to 46.0%, 41.5% and 42.3%, respectively.

Deposits of resident financial institutions, non-financial corporations and households expanded by 87.9 million lats in April, and their annual growth rate reached 45.8%. Deposits in euro accounted for the most substantial growth (82.9 million lats, including a pickup in deposits of households by 54.9 million lats).

In April, loans granted to resident financial institutions, non-financial corporations and households went up moderately (by 123.3 million lats), and their annual growth rate dropped to 61.7%. Some growth in loans was mainly recorded for the household sector (117.1 million lats), with loans granted for house purchase increasing by 80.5 million lats and consumer credit going up by 22.0 million lats. This increase notwithstanding, decreases were recorded in the annual growth of total loans to households (to 82.6%), including loans for house purchase (to 90.1%) and consumer credit (to 69.5%). The corporate sector recorded an on-going increase in industrial credit (44.8 million lats) and a decrease in commercial credit (107.5 million lats). Only loans in euro rose (by 176.8 million lats), whereas those in lats and other currencies shrank slightly.

With funds deposited with foreign banks growing faster than those attracted from non-residents, MFI net foreign assets increased by 119.8 million lats in April. By contrast, the growing general government consolidated budget surplus reduced MFI net credit to the Government by 25.2 million lats. In the first four months of 2006, profit earned by MFIs (excluding the Bank of Latvia) stood at 79.8 million lats (an increase of 27.1% year-on-year).

With deposits growing, the reserve requirement also increased, and bank demand deposits with the Bank of Latvia grew by 29.2 million lats. As the demand for cash strengthened, at the end of April the monetary base M0 exceeded that at the end of March by 49.8 million lats.

The central bank's money supply grew owing to foreign currency purchase from banks, resulting in a 20.4 million lats or 1.3% increase in the Bank of Latvia's net foreign assets. The backing of the national currency with the Bank of Latvia's net foreign assets amounted to 105.2% at the end of April. The decline in the Government deposits with the Bank of Latvia (27.1 million lats) also increased the monetary base.

To ensure the fulfilment of reserve requirements, banks used Bank of Latvia's repo loans (in the amount of 39.6 million lats in April, exceeding that of March 7.6 times) and Lombard loans (28.5 million lats) more vigorously. Time deposits attracted by the central bank (primarily at the beginning of the month) stood at 55.4 million lats.

Liquidity fluctuations were reflected in RIGIBOR changes: this index on overnight loans rose from 2.6% at the beginning of the month to 5.1% at the end of the reserve maintenance period, falling to 2.8% at the close of the month. RIGIBOR for loans with 6- and 12-month maturities was on a moderate upswing, amounting to 4.15% and 4.26%, respectively, at the end of the month. A simultaneous rise in interest rates on loans granted by non-MFIs was observed, with loans in foreign currency granted to households and loans in lats and foreign currency granted to non-financial corporations going up by 0.1–0.3 percentage point.

With the euro appreciating on the global foreign exchange markets in April, the US dollar, the Japanese yen and the British pound sterling depreciated against the lats (by 3.1%, 0.8% and 0.6%, respectively).

MONETARY INDICATORS (at end of period; in millions of lats)

	2006	
	III	IV
MFIs[1]		
M3	4 198.2	4 316.9
Repurchase agreements	0	0
Money market fund shares and units	42.8	39.9
Debt securities issued with maturity of up to 2 years	3.6	2.6
M2	4 151.8	4 274.4
Deposits with agreed maturity of up to 2 years	1 014.6	1 031.8
Deposits redeemable at notice of up to 3 months	119.4	121.7
M1	3 017.8	3 120.8
Currency outside MFIs	775.9	796.6
Overnight deposits	2 241.9	2 324.2
Net external assets	–1 539.5	–1 419.7
Credit to resident financial institutions, non-financial corporations and households	6 806.6	6 929.9
Credit to general government	385.7	373.9
Deposits of central government	216.1	219.3
Longer-term financial liabilities	1 285.3	1 384.5
Bank of Latvia		
M0	1 451.4	1 501.2
Currency in circulation	865.1	885.7
Deposits with the Bank of Latvia in lats	586.3	615.4
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	1 559.2	1 579.6
Net domestic assets	–107.8	–78.4
Credit	–49.4	–24.4
To MFIs	1.0	1.2
To central government (net)	–50.4	–25.6
Other items (net)	–58.4	–53.9
International reserves (at end of period; in millions of US dollars)	2 690.41	2 776.69
Gold	142.44	158.14
Special Drawing Rights	0.15	0.15
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	2 547.74	2 618.32

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2006	
	III	IV
Weighted average interest rate on domestic interbank loans in lats	2.9	3.2
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	6.3	6.3
Loans to households (in lats)	8.0	8.0
incl. for house purchase	6.0	6.0
Loans to non-financial corporations (in foreign currencies)	4.7	5.0
Loans to households (in foreign currencies)	4.9	5.0
incl. for house purchase	4.6	4.8
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	3.1	3.2
Demand deposits of non-financial corporations (in lats)	0.7	0.8
Time deposits of households (in lats)	3.0	3.1
Demand deposits of households (in lats)	0.5	0.5
Time deposits of non-financial corporations (in foreign currencies)	2.9	2.6
Demand deposits of non-financial corporations (in foreign currencies)	1.4	1.3
Time deposits of households (in foreign currencies)	3.1	3.3
Demand deposits of households (in foreign currencies)	1.3	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	0.5640
LVL/GBP	1.0130	1.0070
LVL/100 JPY	0.4960	0.4920
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)

	2006	
	III	IV
MFI reserves	673.7	698.5
Vault cash in national currency	89.2	89.1
Deposits with the Bank of Latvia	584.5	609.4
Foreign assets	3 300.4	3 467.8
Vault cash in foreign currencies	56.7	57.1
Claims on MFIs	1 946.5	2 111.3
Claims on non-MFIs	1 255.6	1 252.8
Other assets	41.6	46.5
Claims on central government	235.8	226.8
Claims on local government	88.9	88.5
Claims on public non-financial corporations	116.2	118.2
Claims on financial institutions and private non-financial corporations	3 967.8	3 972.3
Claims on households	2 759.6	2 876.8
Unclassified assets	539.6	700.4
Fixed assets	141.9	142.0
Items in transit	16.8	19.7
Other assets	73.8	82.9
Claims on resident MFIs (incl. investments)	307.2	455.8
Total assets	**11 682.0**	**12 149.2**
Memo item: Trust assets	*431.6*	*425.6*
Overnight deposits in lats	1 242.7	1 255.4
Public non-financial corporations	53.7	61.4
Financial institutions and private non-financial corporations	532.3	519.2
Households	656.7	674.7
Time deposits and deposits redeemable at notice in lats	737.0	751.0
Public non-financial corporations	81.2	94.0
Financial institutions and private non-financial corporations	226.6	218.6
Households	429.2	438.4
Foreign currency deposits of residents	1 439.3	1 500.5
Public non-financial corporations	17.8	20.8
Financial institutions and private non-financial corporations	467.0	481.6
Households	954.5	998.2
Deposits of central government	104.7	135.0
Deposits of local government	106.5	116.6
Transit funds	4.9	4.9
Foreign liabilities	6 399.0	6 467.1
Liabilities to MFIs	3 397.3	3 442.6
Liabilities to non-MFIs	2 778.5	2 779.0
Other liabilities (incl. subordinated liabilities)	223.3	245.4
Liabilities to the Bank of Latvia	1.0	1.2
Debt securities issued	160.9	162.8
Money market fund shares and units	42.8	39.9
Capital and reserves	894.8	986.4
Residents	565.6	574.3
Non-residents	329.1	412.1
Provisions	85.2	82.8
Unclassified liabilities	463.1	645.5
Items in transit	106.2	138.4
Other liabilities (incl. subordinated liabilities)	78.5	81.3
Liabilities to resident MFIs	278.4	425.7
Total liabilities	**11 682.0**	**12 149.2**
Memo item: Trust liabilities	*431.6*	*425.6*

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).

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