

# MONETARY BULLETIN 2008

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The Latvian economy saw a change in the inflation trend: for the second month running inflation decreased. According to the preliminary estimates of the Central Statistical Bureau of Latvia, the real GDP in the second quarter grew only by 0.2% year-on-year. As a result of unfavourable conditions (a decline in external demand and a rise in costs) export growth also slowed down (in June its annual growth rate was 3.1%); at the same time imports declined as well, thus improving the foreign trade balance and reducing the current account deficit of the balance of payments.

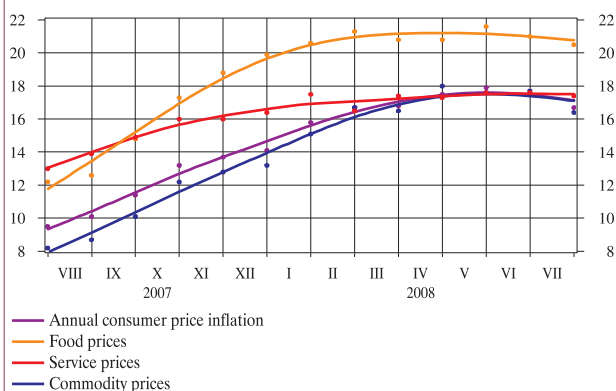
In June, the working day adjusted volume index of industrial output in manufacturing decreased by 7.5% year-on-year, and the retail trade turnover (including sales of motor vehicles and automotive fuel retailing) contracted by 13.9%. Performance indicators in transportation also deteriorated somewhat: in July the freight turnover at Latvian ports and rail freight turnover shrank by 1.4% and 0.5% year-on-year respectively.

In July, consumer price annual inflation dropped to 16.7%. The decline was partly a result of the rapid price rise in July 2007. Nevertheless, the monthly increase in consumer prices also continued to moderate (0.3% in July), while the average price level for goods remained unchanged, but service prices moved up by 1.1% mostly due to a price rise of transportation services. In July, prices of food products, particularly those of meat and meat products, continued to rise, prices of transportation services moved up by 6.6% as a result of considerably higher prices for intercity bus and train tickets and more expensive fuel. With the sales season in progress, prices of clothing and footwear posted a notable decline, sports equipment and household textiles became cheaper, and prices of some food products (vegetables, dairy products, eggs and cheese) also dropped. In July, annual core inflation of consumer prices abated to 14.3%.

In July, the financial deficit of the general government consolidated budget was 64.8 million lats, resulting from the deficit in the central government basic budget and the local government consolidated budget while only the central government social security budget remained in surplus. In July, the revenue of the general government consolidated budget grew by a mere 1.8% year-on-year while the expenditure surged by 26.0% (since the beginning of the year by 15.8% and 24.6% respectively). The tax revenue increase stood at 7.9% as the personal income tax and excise tax revenue posted higher than average growth whereas revenue from corporate income tax and social security contributions reported a slower rise. The value added tax revenue was 1.2% lower year-on-year. Expenditure increased on account of both higher capital expenditure and current expenditure. In the first seven months of 2008, the financial surplus of the general government consolidated budget was 101.1 million lats (a 188.5 million lats year-on-year decrease). In July, the general government debt expanded by 18.0 million lats to stand at 1 491.4 million lats at the end of the month as a result of a government securities issue.

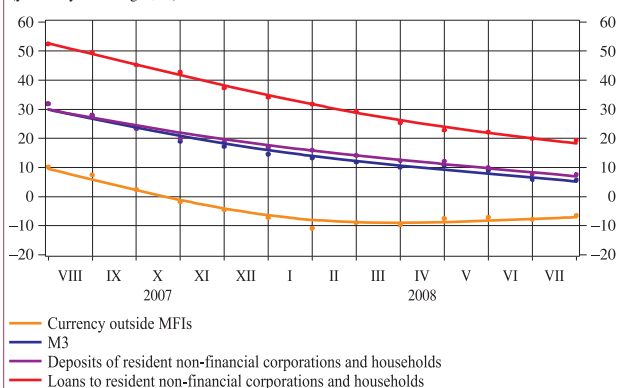
In July, broad money and domestic deposits did not post significant changes while loans granted continued to expand at a similar rate and amount as observed in the previous months of 2008, persistently reducing the potential risks related to the moderation of the economic growth. M3 increased by 9.8 million lats, with its growth rate dropping to 5.7%, while M2 and M1 shrank somewhat, with the annual growth rate standing at 5.9% and -12.1% respectively. Overnight deposits dropped by 38.5 million lats while deposits with an agreed maturity of

ANNUAL CONSUMER PRICE INFLATION (%)



## DYNAMICS OF BROAD MONETARY AGGREGATE AND ITS COMPONENTS

(year-on-year changes: %)



## MACROECONOMIC INDICATORS

	2008	
	VI	VII
Volume index of industrial output (working-day adjusted annual rate of change; %)	-6.4	*
Changes in the CPI		
Month-on-month basis (%)	0.7	0.3
Average annual inflation rate (HCPI) of last 12 months (%)	14.6	15.2
Year-on-year basis (%)	17.7	16.7
Annual rate of core inflation <sup>1</sup> (%)	15.6	14.3
Number of registered unemployed persons (at end of period)	54 012	55 436
Unemployment rate (%)	4.9	5.1
General government consolidated budget financial deficit/surplus (in millions of lats)	165.8	101.1
Foreign trade (in millions of lats)		
Exports	356.5	*
Imports	609.6	*
Balance	-253.1	*

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

\* Figure available at a later date.

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

up to two years and deposits redeemable at notice of up to three months grew by 16.3 million lats and 7.9 million lats respectively. Currency outside MFIs increased by 11.2 million lats.

The annual growth rate of deposits of resident financial institutions, non-financial corporations and households decreased by 0.2 percentage point, to 7.6%, including a 17.5 million lats or 0.5% increase in household deposits in July (annual growth rate – 4.5%).

In July, loans to resident financial institutions, non-financial corporations and households increased by 182.4 million lats or 1.3% over the previous month, with the annual rate of increase dropping 0.7 percentage point (to 19.3%). Mostly corporate loans were granted: loans to financial institutions and non-financial corporations expanded by 143.2 million lats or 1.8% in July, with the annual growth rate moving up 0.9 percentage point, to 23.5%. The increase in commercial credit (2.3%), industrial credit (2.1%) and mortgage loans (1.2%) was a notable contribution to the growth of corporate loans. Household loans expanded by 39.2 million lats or 0.6%, with the annual growth rate dropping 2.5 percentage points, to 14.4%. Loans for house purchase grew by 31.3 million lats or 0.6%, with the annual growth decelerating to 14.5%, whereas consumer credit increased by 9.2 million lats or 1.2%, with the annual growth rate of 22.9%. Loans outstanding expanded almost entirely on account of euro loans.

Funding received from foreign banks continued to grow in July (by 92.6 million lats, including an increase of 144.3 million lats from parent banks), whereas non-resident non-MFI deposits contracted slightly by 29.0 million lats. The negative net foreign assets of MFIs increased by 238.2 million lats.

Demand deposits of banks with the Bank of Latvia decreased somewhat, and at the end of July the monetary base M0 was 11.4 million lats smaller month-on-month. The annual growth rate of the monetary base and bank deposits with the Bank of Latvia increased, reaching 7.1% and 17.5% in July respectively. The central bank's money supply shrank on account of an increase in the government deposit with the Bank of Latvia. With foreign currency funds of the government decreasing, the Bank of Latvia's net foreign assets contracted by 55.3 million lats. At the end of July, the backing of the national currency with the Bank of Latvia's net foreign assets was 119.0%.

Excess liquidity persisted on the Latvian money market, and interest rates on the interbank money market were stable. Banks continued to deposit their funds under the deposit facility with the central bank and did not use the funding offered by the Bank of Latvia. Thus, RIGIBOR on overnight loans remained within the range of 3.4%–3.7%. RIGIBOR on loans with 3-month maturity dropped 13 basis points within a month (to 6.15%), whereas RIGIBOR on loans with 6- and 12-month maturity increased by 5 and 2 basis points (to 7.12% and 8.40% respectively).

In July, the weighted average interest rate on loans granted to non-financial corporations and households in lats increased, and so did that on loans granted to non-financial corporations in foreign currency whereas the weighted average interest rate on loans granted to households in foreign currency shrank by 0.3 percentage point, to 6.9%. Interest rates on time deposits made in lats decreased, and those on deposits made in foreign currency remained almost unchanged.

In July, the exchange rate of the US dollar, the British pound sterling and the Japanese yen set by the Bank of Latvia increased against the lats by 0.9%, 0.7% and 0.2% respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2008	
	VI	VII
<b>MFIs<sup>1</sup></b>		
M3	6 507.6	6 517.4
Repurchase agreements	0	0
Money market fund shares and units	98.1	110.7
Debt securities issued with maturity of up to 2 years	7.6	7.6
M2	6 401.9	6 399.0
Deposits with agreed maturity of up to 2 years	2 279.9	2 296.2
Deposits redeemable at notice of up to 3 months	333.6	341.5
M1	3 788.5	3 761.2
Currency outside MFIs	874.4	885.6
Overnight deposits	2 914.1	2 875.6
Net external assets	-5 158.8	-5 397.1
Credit to resident financial institutions, non-financial corporations and households	14 108.5	14 290.9
Credit to general government	388.7	401.0
Deposits of central government	500.5	457.3
Longer-term financial liabilities	2 355.8	2 390.0
<b>Bank of Latvia</b>		
M0	2 441.1	2 429.7
Currency in circulation	998.7	1 003.2
Deposits with the Bank of Latvia in lats	1 434.2	1 417.3
Deposits with the Bank of Latvia in foreign currencies	8.2	9.1
Net foreign assets	2 946.3	2 891.0
Net domestic assets	-505.2	-461.3
Credit	-390.6	-336.3
To MFIs	0	0
To central government (net)	-390.6	-336.3
Other items (net)	-114.6	-125.0
International reserves (at end of period; in millions of euro)	4 152.67	4 098.52
Gold	144.02	146.31
Special Drawing Rights	0.11	0.12
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	4 008.48	3 952.03
International reserves (at end of period; in millions of US dollars)	6 529.12	6 386.81
Gold	226.44	228.01
Special Drawing Rights	0.18	0.18
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	6 302.41	6 158.53

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2008	
	VI	VII
Weighted average interest rate on domestic interbank loans in lats	3.5	3.4
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	7.7	8.1
Loans to households (in lats)	16.3	16.9
incl. for house purchase	8.9	9.1
Loans to non-financial corporations (in foreign currencies)	7.3	7.5
Loans to households (in foreign currencies)	7.2	6.9
incl. for house purchase	6.9	6.7
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	4.9	4.1
Demand deposits of non-financial corporations (in lats)	1.3	1.3
Time deposits of households (in lats)	6.9	6.7
Demand deposits of households (in lats)	1.0	1.1
Time deposits of non-financial corporations (in foreign currencies)	3.9	4.0
Demand deposits of non-financial corporations (in foreign currencies)	1.8	1.9
Time deposits of households (in foreign currencies)	4.4	4.5
Demand deposits of households (in foreign currencies)	1.6	1.7
The Bank of Latvia's refinancing rate (at end of period; %)	6.0	6.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.4470	0.4510
LVL/GBP	0.8880	0.8940
LVL/100 JPY	0.4170	0.4180
LVL/EUR	0.7028	0.7028

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

	2008	
	VI	VII
MFI reserves	1 563.9	1 536.7
Vault cash in national currency	124.4	117.6
Deposits with the Bank of Latvia	1 439.5	1 419.1
Foreign assets	5 009.7	4 844.8
Vault cash in foreign currencies	59.4	65.5
Claims on MFIs	2 929.9	2 724.9
Claims on non-MFIs	1 929.6	1 977.5
Other assets	90.9	76.9
Claims on central government	315.9	328.0
Claims on local government	72.8	73.0
Claims on public non-financial corporations	281.9	294.5
Claims on financial institutions and private non-financial corporations	7 594.5	7 725.3
Claims on households	6 293.8	6 333.1
Unclassified assets	1 074.5	1 057.5
Fixed assets	192.5	194.5
Items in transit	34.4	34.9
Other assets	182.6	183.5
Claims on resident MFIs (incl. investments)	665.0	644.6
<b>Total assets</b>	<b>22 207.1</b>	<b>22 192.8</b>
<i>Memo item: Trust assets</i>	<i>1 147.3</i>	<i>331.1</i>
Overnight deposits in lats	1 627.0	1 614.0
Public non-financial corporations	80.8	67.9
Financial institutions and private non-financial corporations	693.8	699.7
Households	852.4	846.4
Time deposits and deposits redeemable at notice in lats	1 233.9	1 245.8
Public non-financial corporations	219.4	220.6
Financial institutions and private non-financial corporations	372.1	369.8
Households	642.5	655.4
Foreign currency deposits of residents	2 521.6	2 521.4
Public non-financial corporations	38.3	32.0
Financial institutions and private non-financial corporations	736.6	732.0
Households	1 746.7	1 757.3
Deposits of central government	109.9	121.1
Deposits of local government	281.7	270.5
Transit funds	3.7	3.7
Foreign liabilities	13 114.9	13 132.8
Liabilities to MFIs	8 534.8	8 627.4
Liabilities to non-MFIs	4 207.1	4 178.1
Other liabilities (incl. subordinated liabilities)	372.9	327.3
Liabilities to the Bank of Latvia	0	0
Debt securities issued	225.4	226.9
Money market fund shares and units	98.1	110.7
Capital and reserves	1 853.4	1 868.9
Residents	1 117.2	1 130.8
Non-residents	736.2	738.1
Provisions	136.6	145.1
Unclassified liabilities	1 000.9	931.9
Items in transit	161.7	137.5
Other liabilities (incl. subordinated liabilities)	228.4	221.4
Liabilities to resident MFIs	610.8	573.1
<b>Total liabilities</b>	<b>22 207.1</b>	<b>22 192.8</b>
<i>Memo item: Trust liabilities</i>	<i>1 147.3</i>	<i>331.1</i>

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>).