

MONETARY BULLETIN 2010

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According to the CSB-revised indicator for the third quarter, the gross domestic product has increased in annual terms as well (by 2.9%), this being observed for the first time since the beginning of economic downturn and to a greater extent than previously projected. The annual growth in real exports of goods and services (at 15.5% in the third quarter), currently the key driver of economic development, continued to accelerate. The rise was spurred by both renewed competitiveness of manufacturing and improved external demand. Meanwhile, the dynamics of domestic demand underwent a change, with private consumption strengthening in the third quarter due to improving consumer sentiment throughout 2010, declining unemployment, and the number of the employed increasing gradually.

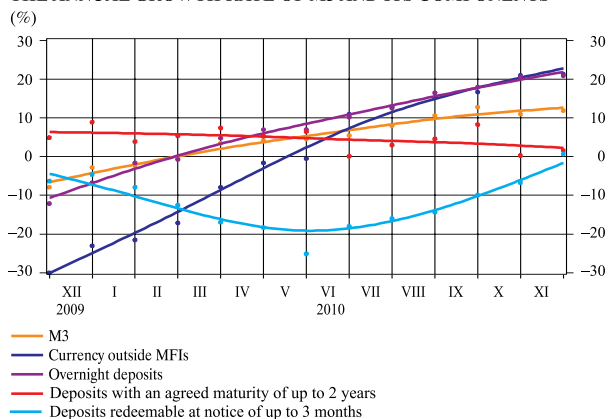
The growth in domestic demand and imports of raw materials needed for manufacturing determined a steep annual rise in overall imports of goods (27.9% in October), which slightly exceeded the likewise strong increase in exports (24.9%). Manufacturing, which greatly depended on the development of external markets, continued to record the most rapid expansion of all sectors, with industrial output growing by 1.5% month-on-month and 25.0% year-on-year in October. A slight deceleration in the monthly pickup of retail trade turnover notwithstanding, the respective annual rise preserved its upward trend (4.9%). In November, port performance continued to improve, and, with freight flows expanding, the overall freight turnover at Latvian ports increased by 14.6% year-on-year. By contrast, freight transportation by rail in Latvia contracted somewhat (by 2.1%).

Despite a slight decrease in the number of the registered unemployed in November, the level of registered unemployment remained unchanged, at 14.3% of the economically active population.

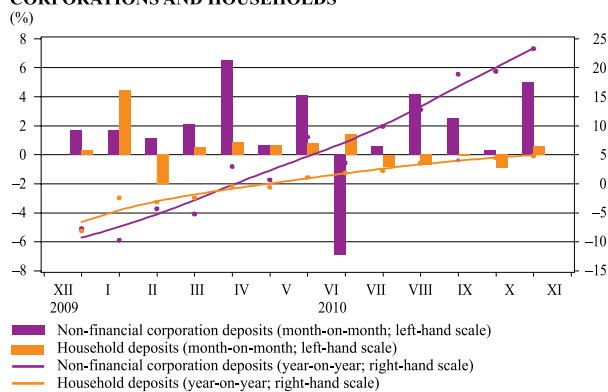
Consumer prices were still on the rise in November. The global prices affected food and fuel prices which continued to go up, and the overall consumer price level rose by 0.2%. As a result, it was 1.9% higher year-on-year. The 12-month average harmonised index of consumer prices (HICP) used for the Maastricht criterion was -1.5% in November. Annual consumer price core inflation was negative as well, at -0.6%. The weak domestic demand was still reducing the services prices which edged down by 0.2% in November against October and by 2.6% compared with the corresponding period of the previous year; the prices of goods, at the same time, elevated by 0.4% and 3.7% respectively.

In November, the consolidated general government budget deficit stood at 90.3 million lats, while the deficit accumulated since the beginning of the year was 440.0 million lats (588.1 million lats in the corresponding period of the previous year). Both the central government basic budget and the central government social security budget ran deficits, while the consolidated local government budget recorded a surplus. Non-tax revenue contracted by 1.8% year-on-year due to the base effect, whereas tax revenue picked up 7.1% due to increasing revenues from social security contributions and personal income tax. Budget expenditure in November outpaced that of the respective period of previous year by 2.0% primarily due to higher expenditure on goods and services as well as rising remuneration. The general government debt amounted to 5 028.5 million lats in November.

THE ANNUAL GROWTH RATE OF M3 AND ITS COMPONENTS



DYNAMICS OF DEPOSITS FROM RESIDENT NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS



When after a temporary contraction in October the growth in money supply observed for the other months of 2010 renewed, M3 increased again by 1.8% in November and its annual growth rate reached 11.9%. Economic recovery supported a rapid expansion in deposits of non-financial corporations, while the household deposit growth proceeded at a more moderate pace reflecting gradually increasing consumption. The liquid bank overnight deposit segment continued to post a steep rise; consequently, M1 growth, picking up 21.0% annually, remained strong as well. The term deposit growth was somewhat slower, while that of deposits redeemable at notice was edging up. Total bank deposits of resident financial institutions, non-financial corporations and households increased by 1.7% in November, with the annual deposit growth rate amounting to 8.7%.

Loans to resident financial institutions, non-financial corporations and households shrank at a slower pace than in October (-0.6%), whereas the annual pace of contraction in lending remained unchanged, at 8.2%. Duly accounting for high excess liquidity of bank accounts with the Bank of Latvia and in order to motivate the banks to channel their available resources into development of the economy, the Council of the Bank of Latvia cut the 7-day deposit facility rate from 0.5% to 0.375%, and the overnight deposit facility rate from 0.375% to 0.25% as of 24 November.

External financing of the banking sector increased by 127.7 million lats in November, with non-resident non-MFI deposits growing by 176.2 million lats and liabilities to foreign banks shrinking by 62.5 million lats. The increase in foreign assets of the banking sector was more buoyant (242.8 million lats), and, consequently, negative net foreign assets of MFIs (except the Bank of Latvia) expanded somewhat.

The monetary base M0 was augmented by 61.6 million lats in November. The central bank's monetary supply was boosted by reduced bank resorting to the deposit facility with the Bank of Latvia and contracting government deposit in lats with the Bank of Latvia as a result of increasing budget expenditure. The annual growth in monetary base M0 was 0.9%.

Net foreign assets of the Bank of Latvia contracted by 20.7 million lats or 0.5% in November; the backing of the national currency with the Bank of Latvia's net foreign assets was 241.0% at the end of the month. The shrinkage of foreign reserves was primarily on account of Bank of Latvia's interventions (selling euro) in the foreign exchange market.

In the interbank market, interest rates went down, with the average weighted interest rate on overnight loans at 0.46% and average monthly RIGIBOR at 0.61% in November (0.54% and 0.67% in October respectively). 3-month, 6-month, and 12-month RIGIBOR continued on the downward trend, decreasing by 40, 31, and 29 basis points, to 0.82%, 1.27%, and 2.13% respectively.

In November, interest rates on loans to non-financial corporations and households in lats, including loans for house purchase, dropped notably, while interest rates on loans to households in foreign currency were the only to edge up slightly. At the same time, interest rates on deposits of non-financial corporations and households continued to go down.

As the financial problems in a number of euro area countries caused depreciation of the euro in the global market, the exchange rates of the US dollar, the British pound sterling, and the Japanese yen set by the Bank of Latvia against the lats appreciated in November (by 4.3%, 3.1%, and 1.3% respectively).

MACROECONOMIC INDICATORS	2010	
	X	XI
Volume index of industrial output (working-day adjusted annual rate of change; %)	21.1	*
Changes in the CPI		
Month-on-month basis (%)	0.4	0.2
Average annual inflation rate (HCPI) of last 12 months (%)	-1.6	-1.4
Year-on-year basis (%)	1.0	1.9
Annual rate of core inflation ¹ (%)	-1.5	-0.6
Number of registered unemployed persons (at end of period)	162 497	161 816
Unemployment rate (%)	14.3	14.3
General government consolidated budget financial deficit/surplus (in millions of lats)	-349.7	-440.0
Foreign trade (in millions of lats)		
Exports	453.3	*
Imports	533.5	*
Balance	-80.2	*

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)	2010	
	X	XI
MFI ¹		
M3	6 212.5	6 326.2
Repurchase agreements	0	0
Money market fund shares and units	92.3	88.7
Debt securities issued with maturity of up to 2 years	20.6	20.6
M2	6 099.6	6 216.9
Deposits with an agreed maturity of up to 2 years	2 405.4	2 449.8
Deposits redeemable at notice of up to 3 months	239.6	255.2
M1	3 454.5	3 511.9
Currency outside MFIs	776.6	775.5
Overnight deposits	2 677.9	2 736.4
Net external assets	-1 360.5	-1 266.0
Credit to resident financial institutions, non-financial corporations and households	12 669.6	12 596.6
Credit to general government	518.8	530.2
Deposits of central government	2 121.9	2 048.5
Longer-term financial liabilities	2 299.9	2 295.1
Bank of Latvia		
M0	1 682.6	1 744.2
Currency in circulation	885.5	888.9
Deposits with the Bank of Latvia in lats	777.4	839.0
Deposits with the Bank of Latvia in foreign currencies	19.7	16.2
Net foreign assets	4 224.2	4 203.5
Net domestic assets	-2 541.6	-2 459.4
Credit	-1 399.7	-1 326.8
To MFIs	0	0
To central government (net)	-1 399.7	-1 326.8
Other items (net)	-1 141.9	-1 132.5
International reserves (at end of period; in millions of euro)	6 080.20	6 067.93
Gold	238.62	255.92
Special Drawing Rights	145.69	141.89
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	5 695.83	5 670.06
International reserves (at end of period; in millions of US dollars)	8 395.26	8 031.20
Gold	329.46	338.72
Special Drawing Rights	201.17	187.79
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	7 864.54	7 504.60

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2010	
	X	XI
Weighted average interest rate on domestic interbank loans in lats	0.5	0.5
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	6.3	5.0
Loans to households (in lats)	17.4	13.9
incl. for house purchase	7.2	4.8
Loans to non-financial corporations (in foreign currencies)	4.8	4.2
Loans to households (in foreign currencies)	4.9	5.2
incl. for house purchase	3.7	3.7
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	0.6	0.5
Demand deposits of non-financial corporations (in lats)	0.3	0.2
Time deposits of households (in lats)	2.0	1.9
Demand deposits of households (in lats)	0.6	0.5
Time deposits of non-financial corporations (in foreign currencies)	0.8	0.7
Demand deposits of non-financial corporations (in foreign currencies)	0.3	0.2
Time deposits of households (in foreign currencies)	1.7	1.6
Demand deposits of households (in foreign currencies)	0.5	0.4
The Bank of Latvia's refinancing rate (at end of period; %)	3.5	3.5
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5090	0.5310
LVL/GBP	0.8040	0.8290
LVL/100 JPY	0.6230	0.6310
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)	2010	
	X	XI
MFI reserves	1 730.2	1 776.2
Vault cash in national currency	108.9	113.4
Deposits with the Bank of Latvia	1 621.3	1 662.7
Foreign assets	4 720.1	4 962.9
Vault cash in foreign currencies	68.9	66.9
Claims on MFIs	2 603.9	2 771.7
Claims on non-MFIs	1 904.2	1 993.0
Other assets	143.2	131.4
Claims on central government	456.0	467.8
Claims on local government	62.9	62.5
Claims on public non-financial corporations	425.9	450.9
Claims on financial institutions and private non-financial corporations	6 665.0	6 600.3
Claims on households	5 798.2	5 771.1
Unclassified assets	918.5	920.3
Fixed assets	120.5	119.0
Items in transit	16.5	21.9
Other assets	497.7	499.0
Claims on resident MFIs (incl. investments)	283.8	280.3
Total assets	20 776.8	21 011.9
<i>Memo item: Trust assets</i>	446.9	472.7
Overnight deposits in lats	1 462.9	1 494.5
Public non-financial corporations	83.8	81.8
Financial institutions and private non-financial corporations	687.1	699.9
Households	692.0	712.9
Time deposits and deposits redeemable at notice in lats	1 182.3	1 175.2
Public non-financial corporations	215.2	201.1
Financial institutions and private non-financial corporations	461.3	476.7
Households	505.8	497.4
Foreign currency deposits of residents	2 617.2	2 684.0
Public non-financial corporations	61.1	84.7
Financial institutions and private non-financial corporations	888.0	926.9
Households	1 668.2	1 672.4
Deposits of central government	722.2	721.6
Deposits of local government	204.6	218.4
Foreign liabilities	10 304.8	10 432.5
Liabilities to MFIs	6 494.6	6 432.2
Liabilities to non-MFIs	3 672.1	3 848.3
Other liabilities (incl. subordinated liabilities)	138.0	151.9
Liabilities to the Bank of Latvia	0	0
Debt securities issued	193.8	175.4
Money market fund shares and units	92.7	89.1
Capital and reserves	1 638.6	1 658.8
Residents	354.0	356.7
Non-residents	1 284.5	1 302.1
Provisions	1 788.8	1 779.1
Unclassified liabilities	569.0	583.2
Items in transit	96.3	95.2
Other liabilities (incl. subordinated liabilities)	210.9	229.5
Liabilities to resident MFIs	261.7	258.5
Total liabilities	20 776.8	21 011.9
<i>Memo item: Trust liabilities</i>	446.9	472.7

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>).