

MONETARY BULLETIN 2007

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The data published by the Central Statistical Bureau of Latvia confirm a further boisterous economic growth: according to preliminary estimates, in the first quarter of 2007 GDP increased by 10.7%. While the overall growth was mainly supported by services and construction sectors, the contribution of industrial sector was rather limited. In April, the volume of rail freight diminished by 6.1% year-on year, and that of oil products transported by pipeline by 6.7%. Cargo turnover at Latvian ports increased slightly (by 0.9%).

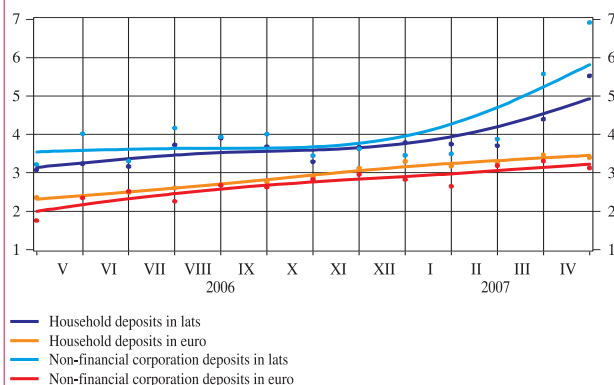
The high domestic demand added to inflationary pressure – the growth of consumer prices exceeded forecasts for several months running. In April, the annual inflation reached 8.9% (a 10-year high) subsequent to the price rise by 0.9%. The steep climb of core inflation (in April, 8.1% year-on-year) was evidence of significant demand pressures. The rise of vegetable, fuel and catering services prices (12.3%, 3.7% and 2.3% respectively) contributed the most to the rise of consumer prices. Only the prices on telecommunications decreased notably (by 2.9%). The measures towards curbing of inflation were the amendments to the laws passed by the Saeima (Parliament) of the Republic of Latvia, allegedly to contain lending, encourage personal savings and limit speculative transactions in the real estate market.

Pursuing a stringent fiscal policy is important for countering domestic demand buoyancy: the revenue windfalls from vigorous growth are to be used to diminish deficit. The budget execution results for the first four months of 2007 indicate outperformance of revenues. In April, the financial surplus of the general government consolidated budget was 23.7 million lats; since beginning of 2007, it has piled up to 174.8 million lats (150.0 million lats in the first four months of 2006). The central government basic budget reported a deficit of 28.6 million lats, whereas the social security fund revenue was 28.9 million lats above expenditure, and surplus of local government consolidated budget was 23.0 million lats. In April, the general government consolidated budget revenue posted a 25.9% year-on-year increase, with tax revenue growing by 35.3%. Non-tax revenue and the amount of the EU funds received was lower than in the respective period a year ago. Reflecting employment growth and rising wages and salaries, the social security contributions and the revenue from personal income tax increased by 31.2% and 37.3% respectively. Surging corporate profits were behind the corporate income tax revenue increase of 61.6%. Against the background of the persisting upward trend of private consumption, VAT collections posted a rise of 35.7%. General government consolidated budget expenditure increased by 28.9%, mainly on account of growing wages and salaries.

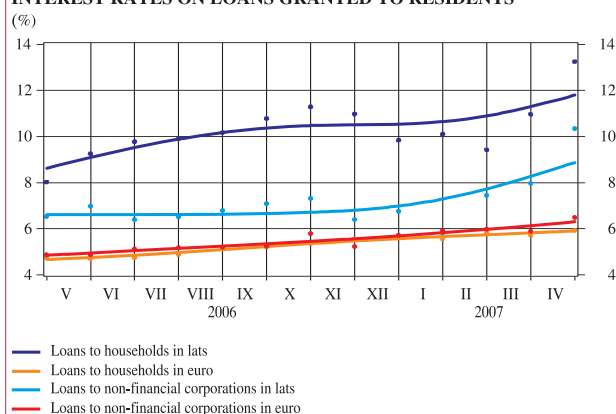
The general government debt, which stood at 1 158.0 million lats at the end of April, decreased by 8.0 million lats within the month, since Treasury did not need market funding.

In April, broad money M3 increased by 98.8 million lats, which is less than in the previous month. M3 annual growth rate slowed down to 35.2% (36.7% in March), with the resident deposits (mainly deposits with an agreed maturity up to 2 years) and currency outside MFIs growing at a lower pace. The annual growth

INTEREST RATES ON DEPOSITS FROM RESIDENTS WITH AN AGREED MATURITY OF UP TO ONE YEAR



INTEREST RATES ON LOANS GRANTED TO RESIDENTS



rate of currency outside MFIs slowed down to 18.1%, whereas that of deposits with MFIs of resident financial institutions, non-financial corporations and households – to 35.9%. Deposits in lats shrunk by 10.0 million lats, with deposits of households remaining virtually unchanged, while those of financial institutions and non-financial corporations dwindling.

The increase of loans granted to resident financial institutions, non-financial corporations and households continued to be rapid – though somewhat slower than in March (346.6 million lats) month-on-month, the annual growth rate once again reaching beyond 60% (60.4%) due to a lower base. The interest rates on transactions in lats were high, therefore, within April, the loans in euro increased by 386.3 million lats. The loans in lats decreased by 32.5 million lats.

The lending growth was largely financed by borrowings from foreign credit institutions (a 221.9 million increase in liabilities, including 127.1 million lats to parent banks), however, negative net foreign assets of MFIs (except the Bank of Latvia) deteriorated by a mere 47.5 million lats. Banks' capital and reserves increased notably in April (by 157.3 million lats) owing to a share capital raise by two banks.

In April, the situation in the foreign exchange market in Latvia stabilised, and the demand for euro decreased: the Bank of Latvia, while exercising its passive interventions in the foreign exchange market, sold only 20.9 million lats worth (net) of euro. The euro interbank market rate remained close to the Bank of Latvia's lower intervention band. Net foreign assets of the Bank of Latvia contracted by 1.9%, and the backing of the national currency with the central bank's net foreign assets stood at 107.3% at the end of April.

In April, central bank's money supply picked up as a result of extended lending to banks (by 98.7 million lats), with banks using both the Bank of Latvia's main refinancing operations and the marginal lending facility. At the end of April, the monetary base M0 was by 64.0 million lats larger than at the end of March; however, the annual growth rate slowed down by 0.8 percentage point (to 49.5%).

The interest rates raised by the Bank of Latvia at the end of March, combined with the low lats liquidity, was the reason for a further increase of RIGIBOR. At the end of April, RIGIBOR on overnight loans reached 9.43%, and on loans maturing in 3 and 6 months 9.89% and 9.75% respectively (104 and 110 basis points higher over the end of March). Rising interest rates on the money market pushed up the interest rates on loans granted by MFIs to the private sector and on deposits received. The weighted average interest rate on household loans in lats increased by 2.3 percentage points – to 13.3% (including the weighted average interest rate on loans for house purchase growing by 1.9 percentage points, to 9.4%), whereas on loans in lats to non-financial corporations by 2.4 percentage points (to 10.4%). The weighted average interest rates on loans in foreign currencies posted a slight increase (by 0.2–0.6 percentage point). The increase of weighted average interest rates on lats deposits by non-financial corporations and households was more pronounced (by 1.3 percentage points – to 6.9%, and by 1.2 percentage points – to 5.6% respectively).

In April, the exchange rate of the US dollar, the British pound sterling and the Japanese yen set by the Bank of Latvia decreased against the lats by 2.5%, 0.4% and 3.6% respectively.

MACROECONOMIC INDICATORS	2007	
	III	IV
Changes in the volume index of industrial output (year-on-year basis; %)	1.0	*
Changes in the CPI		
Month-on-month basis (%)	1.4	0.9
Year-on-year basis (%)	8.5	8.9
Annual rate of core inflation ¹ (%)	7.7	8.1
Number of registered unemployed persons (at end of period)	67 154	65 118
Unemployment rate (%)	6.3	6.1
General government consolidated budget financial deficit/surplus (in millions of lats)	151.1	174.8
Foreign trade (in millions of lats)		
Exports	339.3	*
Imports	644.5	*
Balance	-305.2	*

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)	2007	
	III	IV
MFIs¹		
M3	5 736.9	5 835.7
Repurchase agreements	0	0
Money market fund shares and units	51.5	49.2
Debt securities issued with maturity of up to 2 years	22.1	31.5
M2	5 663.2	5 754.9
Deposits with agreed maturity of up to 2 years	1 469.8	1 529.4
Deposits redeemable at notice of up to 3 months	160.7	166.7
M1	4 032.7	4 058.9
Currency outside MFIs	933.6	940.6
Overnight deposits	3 099.1	3 118.3
Net external assets	-3 293.6	-3 387.4
Credit to resident financial institutions, non-financial corporations and households	10 767.2	11 113.8
Credit to general government	364.3	358.4
Deposits of central government	245.9	239.9
Longer-term financial liabilities	1 882.5	2 040.5
Bank of Latvia		
M0	2 180.8	2 244.8
Currency in circulation	1 030.0	1 049.6
Deposits with the Bank of Latvia in lats	1 150.8	1 195.2
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	2 455.8	2 409.6
Net domestic assets	-275.0	-164.8
Credit	-183.6	-77.8
To MFIs	41.9	140.6
To central government (net)	-225.5	-218.4
Other items (net)	-91.5	-86.9
International reserves (at end of period; in millions of US dollars)	4 644.31	4 637.73
Gold	165.31	170.64
Special Drawing Rights	0.16	0.16
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	4 478.76	4 466.85

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2007	
	III	IV
Weighted average interest rate on domestic interbank loans in lats	3.4	7.7
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	8.0	10.4
Loans to households (in lats)	11.0	13.3
incl. for house purchase	7.5	9.4
Loans to non-financial corporations (in foreign currencies)	6.0	6.6
Loans to households (in foreign currencies)	5.8	6.0
incl. for house purchase	5.6	5.8
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	5.6	6.9
Demand deposits of non-financial corporations (in lats)	2.3	2.4
Time deposits of households (in lats)	4.4	5.6
Demand deposits of households (in lats)	0.6	0.7
Time deposits of non-financial corporations (in foreign currencies)	3.9	3.6
Demand deposits of non-financial corporations (in foreign currencies)	1.6	1.7
Time deposits of households (in foreign currencies)	3.6	3.7
Demand deposits of households (in foreign currencies)	1.5	1.5
The Bank of Latvia's refinancing rate (at end of period; %)	5.5	5.5
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5280	0.5150
LVL/GBP	1.0360	1.0320
LVL/100 JPY	0.4500	0.4340
LVL/EUR	0.7028	0.7028

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

	2007	
	III	IV
MFI reserves	1 247.7	1 304.2
Vault cash in national currency	96.5	109.0
Deposits with the Bank of Latvia	1 151.2	1 195.1
Foreign assets	4 052.2	4 074.6
Vault cash in foreign currencies	51.9	53.0
Claims on MFIs	2 478.5	2 479.5
Claims on non-MFIs	1 471.8	1 487.9
Other assets	50.0	54.2
Claims on central government	289.6	283.7
Claims on local government	74.7	74.6
Claims on public non-financial corporations	119.8	120.2
Claims on financial institutions and private non-financial corporations	5 847.7	6 015.1
Claims on households	4 857.8	5 037.8
Unclassified assets	799.0	870.0
Fixed assets	134.2	138.5
Items in transit	18.5	25.7
Other assets	124.3	135.8
Claims on resident MFIs (incl. investments)	521.9	570.1
Total assets	17 288.5	17 780.2
<i>Memo item: Trust assets</i>	<i>514.4</i>	<i>486.6</i>
Overnight deposits in lats	1 756.5	1 713.9
Public non-financial corporations	122.4	115.2
Financial institutions and private non-financial corporations	708.7	670.4
Households	925.5	928.3
Time deposits and deposits redeemable at notice in lats	935.8	968.8
Public non-financial corporations	106.4	117.4
Financial institutions and private non-financial corporations	267.3	279.7
Households	562.1	571.7
Foreign currency deposits of residents	1 999.7	2 083.6
Public non-financial corporations	26.0	26.7
Financial institutions and private non-financial corporations	579.2	620.9
Households	1 394.5	1 436.1
Deposits of central government	20.4	21.5
Deposits of local government	196.1	210.7
Transit funds	4.4	4.4
Foreign liabilities	9 801.6	9 871.5
Liabilities to MFIs	6 264.1	6 486.0
Liabilities to non-MFIs	3 038.4	3 050.9
Other liabilities (incl. subordinated liabilities)	499.1	334.7
Liabilities to the Bank of Latvia	41.9	140.6
Debt securities issued	343.7	352.4
Money market fund shares and units	51.5	49.2
Capital and reserves	1 280.3	1 437.6
Residents	822.1	738.4
Non-residents	458.1	699.2
Provisions	97.2	93.2
Unclassified liabilities	759.3	832.8
Items in transit	166.7	175.7
Other liabilities (incl. subordinated liabilities)	119.6	139.6
Liabilities to resident MFIs	473.0	517.5
Total liabilities	17 288.5	17 780.2
<i>Memo item: Trust liabilities</i>	<i>514.4</i>	<i>486.6</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>).