

MONETARY BULLETIN 2010

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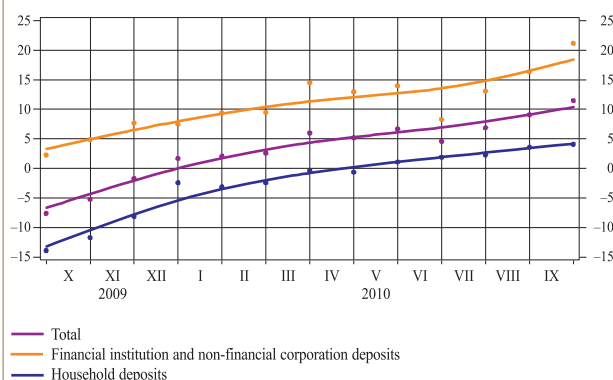
Most of the key macroeconomic indicators improved, and the economy continued to stabilise. The uncertainty of the global economic outlook notwithstanding, the economic growth of the EU countries remained sustained and Latvian exports expanded rapidly: in August exports surged at an annual rate of 44.2%. With the external demand improving, manufacturing recorded an accelerated pickup: in August its output grew by 2.6% month-on-month and 20.4% year-on-year (working-day unadjusted). The industrial growth fuelled imports of intermediate goods, hence imports of goods posted a pronounced increase (39.1% year-on-year), with the current account surplus of the balance of payments narrowing accordingly.

Registered unemployment continued to decrease for the sixth consecutive month, to stand at 14.6% of the economically active population at the end of September. For the first time since April 2008, retail trade turnover showed an annual increase (4.6%; 8.4% including sales of motor vehicles). September saw improvement in performance indicators in transportation: with the domestic and transit cargo transportation expanding, the overall freight turnover at Latvian ports moved up by 7.0%, and rail freight in Latvia grew by 6.1%. As a gradual increase in money supply persisted, resident deposits held by banks in September exceeded the pre-crisis indicators, reaching a high of 5.4 billion lats.

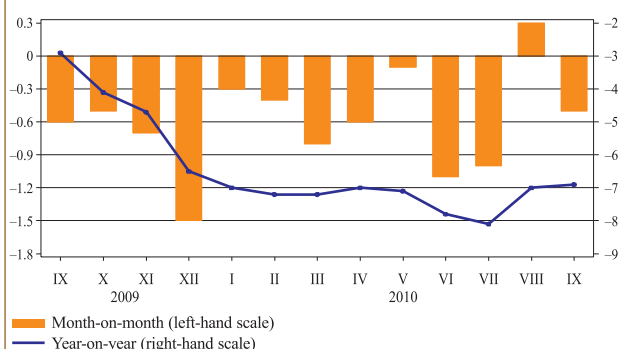
In September, the 12-month average harmonised index of consumer prices (HICP) used for the Maastricht criterion decreased by 1.9%, whereas both the annual price rise and monthly inflation stood at 0.4%. Year-on-year, the increase in prices was mainly driven by higher energy prices (contributing 1.3 percentage points to the inflation increase) while prices of clothing and footwear, most services, and housing-related goods posted a notable decline over the year. The monthly pickup in prices mostly resulted from seasonal upward changes in prices of clothing and footwear as well as higher food prices. At the same time, heating tariffs fell by 3.9% on account of lower trading price of natural gas.

The consolidated general government budget ran a 98.0 million lats deficit in September. Consequently, the deficit accumulated from the beginning of the year reached 293.8 million lats (493.7 million lats in the corresponding period of the previous year). The central government basic budget, central government social security budget and the consolidated local government budget all recorded deficits. The consolidated general government budget revenue grew by 13.1% year-on-year on account of larger amounts of foreign financial assistance and non-tax revenue growth. Tax revenue moved up by a mere 3.4% as a result of higher revenue from personal income tax, VAT and real estate tax. In September, budget expenditure expanded by 15.9% year-on-year, with increases in expenditure on subsidies and grants as well as capital expenditure being the main contributors but expenditure for compensation to employees continuing to decline (by 7.5%). The general government debt shrank to 4 856.9 million lats in September as a result of diminishing domestic debt and expanding external debt.

ANNUAL CHANGES IN RESIDENT FINANCIAL INSTITUTION,
NON-FINANCIAL CORPORATION AND HOUSEHOLD DEPOSITS
(%)



GROWTH RATE DEVELOPMENTS FOR LOANS GRANTED TO RESIDENT NON-FINANCIAL CORPORATIONS (%)



The gradual recovery of the Latvian economy was the basis for a further rise in currency in circulation. Following the trend observed already in the previous months, in September monetary aggregates M1, M2 and M3 recorded annual growth rates of 17.7%, 12.3% and 12.8% respectively.

In September, the amount of currency in circulation was mostly affected by the expanding outstanding amount of bank deposits. The notable growth of several sectors of the economy and accelerating exports supported an increase in deposits of non-financial corporations. At the same time, household deposits in lats continued on their moderate upward trend. Thus, as overnight deposits, deposits with an agreed maturity of up to two years and deposits redeemable at notice of up to three months expanded, in September deposits of resident financial institutions, non-financial corporations and households grew by 1.3%, exceeding the high observed in June 2008 by 47.7 million lats. The demand for cash moderated: currency outside MFIs edged up by a mere 0.2%.

Loans granted to resident financial institutions, non-financial corporations and households continued to contract in September (down by 0.6%) with lending to non-financial corporations and households falling at a similar pace, and the annual rate of decrease for loans in September stood at 7.7%.

In September, foreign funding to the banking sector shrank by 425.0 million lats partly reflecting also depreciation of the US dollar, whereas liabilities to foreign parent banks contracted by a mere 48.5 million lats. At the same time, banks' foreign assets decreased by 326.3 million lats, thus the negative net foreign assets of MFIs (except the Bank of Latvia) continued to improve.

With the lats liquidity remaining ample and recourse to the deposit facility with the central bank decreasing slightly, money base M0 expanded. The annual rate of change in the monetary base and its components increased: the annual growth rate of M0, currency in circulation and demand deposits with the central bank stood at 10.4%, 15.8% and 5.7% respectively at the end of September.

Net foreign assets of the Bank of Latvia increased by 51.8 million lats or 1.3% in September, and the backing of the national currency with the Bank of Latvia net foreign assets was 233.7% at the month-end. The increase in net reserves was mainly on account of a pickup in government deposit in foreign currency with the Bank of Latvia, following the receipt of funding from the World Bank as part of the international bailout, while the Bank of Latvia's interventions of selling euro had a slightly dampening effect.

In the interbank market, low interest rates persisted. In September, the weighted average interest rate on overnight loans was 0.50% (0.51% in August), and the average RIGIBOR on overnight loans was 0.67% during the month (0.68% in August). 3-month, 6-month and 12-month RIGIBOR continued to decrease by 1, 14 and 72 basis points, to 1.24%, 1.88% and 2.88% respectively.

In September, interest rates on loans granted to non-financial corporations in lats and to households in foreign currency moved up, whereas those on loans granted to non-financial corporations in foreign currency and to households in lats posted a decline. Interest rates on deposits were low, remaining broadly unchanged.

As a result of the US dollar depreciation on the global markets, in September the exchange rates of the US dollar, the British pound sterling and the Japanese yen set by the Bank of Latvia against the lats fell by 6.3%, 4.4% and 4.5% respectively.

MACROECONOMIC INDICATORS	2010	
	VIII	IX
Volume index of industrial output (working-day adjusted annual rate of change; %)	20.5	*
Changes in the CPI		
Month-on-month basis (%)	-0.7	0.4
Average annual inflation rate (HCPI) of last 12 months (%)	-1.8	-1.8
Year-on-year basis (%)	-0.3	0.4
Annual rate of core inflation ¹ (%)	-3.3	-2.5
Number of registered unemployed persons (at end of period)	169 676	165 386
Unemployment rate (%)	15.0	14.6
General government consolidated budget financial deficit/surplus (in millions of lats)	-195.9	-293.8
Foreign trade (in millions of lats)		
Exports	412.4	*
Imports	524.2	*
Balance	-111.8	*

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	
	VIII	IX
MFI ¹		
M3	6 252.0	6 332.9
Repurchase agreements	0	0
Money market fund shares and units	103.2	94.6
Debt securities issued with maturity of up to 2 years	20.6	20.6
M2	6 128.1	6 217.7
Deposits with agreed maturity of up to 2 years	2 532.7	2 573.7
Deposits redeemable at notice of up to 3 months	231.5	235.1
M1	3 364.0	3 408.9
Currency outside MFIs	758.5	760.1
Overnight deposits	2 605.5	2 648.8
Net external assets	-1 470.6	-1 320.1
Credit to resident financial institutions, non-financial corporations and households	12 885.2	12 808.1
Credit to general government	516.7	503.1
Deposits of central government	2 094.5	2 050.6
Longer-term financial liabilities	2 315.2	2 322.5
Bank of Latvia		
M0	1 652.7	1 771.2
Currency in circulation	864.5	866.8
Deposits with the Bank of Latvia in lats	773.5	887.8
Deposits with the Bank of Latvia in foreign currencies	14.8	16.6
Net foreign assets	4 088.0	4 139.8
Net domestic assets	-2 435.3	-2 368.6
Credit	-1 372.3	-1 327.7
To MFIs	0	0
To central government (net)	-1 372.3	-1 327.7
Other items (net)	-1 063.0	-1 041.0
International reserves (at end of period; in millions of euro)	5 849.73	5 853.22
Gold	241.40	240.06
Special Drawing Rights	144.15	138.10
Reserve position in the IMF	0.07	0.06
Foreign convertible currencies	5 464.11	5 475.00
International reserves (at end of period; in millions of US dollars)	7 447.84	7 956.81
Gold	307.35	326.34
Special Drawing Rights	183.53	187.73
Reserve position in the IMF	0.08	0.09
Foreign convertible currencies	6 956.88	7 442.65

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2010	
	VIII	IX
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)	6.1	6.8
Loans to households (in lats)	18.9	18.5
incl. for house purchase	7.4	10.1
Loans to non-financial corporations (in foreign currencies)	5.8	4.6
Loans to households (in foreign currencies)	5.0	5.4
incl. for house purchase	3.7	3.8
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	0.9	0.8
Demand deposits of non-financial corporations (in lats)	0.2	0.2
Time deposits of households (in lats)	3.2	2.4
Demand deposits of households (in lats)	0.7	0.8
Time deposits of non-financial corporations (in foreign currencies)	0.6	0.7
Demand deposits of non-financial corporations (in foreign currencies)	0.2	0.3
Time deposits of households (in foreign currencies)	2.0	1.8
Demand deposits of households (in foreign currencies)	0.5	0.5
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	0.5520	0.5170
LVL/GBP	0.8570	0.8190
LVL/100 JPY	0.6470	0.6180
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	
	VIII	IX
MFI reserves	1 664.9	1 740.1
Vault cash in national currency	106.0	106.7
Deposits with the Bank of Latvia	1 558.9	1 633.4
Foreign assets	4 905.8	4 579.5
Vault cash in foreign currencies	81.6	64.1
Claims on MFIs	2 662.2	2 464.5
Claims on non-MFIs	2 050.2	1 941.0
Other assets	111.7	109.9
Claims on central government	454.0	441.0
Claims on local government	62.6	62.1
Claims on public non-financial corporations	414.4	418.6
Claims on financial institutions and private non-financial corporations	6 789.2	6 746.1
Claims on households	5 893.0	5 854.9
Unclassified assets	832.9	870.4
Fixed assets	91.4	90.2
Items in transit	18.6	13.2
Other assets	506.1	502.5
Claims on resident MFIs (incl. investments)	216.8	264.5
Total assets	21 016.9	20 712.6
<i>Memo item: Trust assets</i>	<i>424.0</i>	<i>439.1</i>
Overnight deposits in lats	1 409.4	1 439.8
Public non-financial corporations	84.2	67.8
Financial institutions and private non-financial corporations	655.4	689.5
Households	669.7	682.5
Time deposits and deposits redeemable at notice in lats	1 222.5	1 241.4
Public non-financial corporations	219.7	245.5
Financial institutions and private non-financial corporations	460.8	459.3
Households	542.0	536.6
Foreign currency deposits of residents	2 729.7	2 749.1
Public non-financial corporations	52.1	55.8
Financial institutions and private non-financial corporations	996.2	1 020.5
Households	1 681.5	1 672.7
Deposits of central government	722.2	723.0
Deposits of local government	201.0	200.6
Foreign liabilities	10 464.4	10 039.4
Liabilities to MFIs	6 551.1	6 372.8
Liabilities to non-MFIs	3 760.2	3 527.6
Other liabilities (incl. subordinated liabilities)	153.1	138.9
Liabilities to the Bank of Latvia	0	0
Debt securities issued	189.2	196.2
Money market fund shares and units	103.6	94.9
Capital and reserves	1 634.6	1 634.9
Residents	356.8	357.1
Non-residents	1 277.8	1 277.8
Provisions	1 827.4	1 807.4
Unclassified liabilities	513.0	586.0
Items in transit	111.3	120.5
Other liabilities (incl. subordinated liabilities)	205.9	226.0
Liabilities to resident MFIs	195.8	239.5
Total liabilities	21 016.9	20 712.6
<i>Memo item: Trust liabilities</i>	<i>424.0</i>	<i>439.1</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>).