

MONETARY BULLETIN 2010

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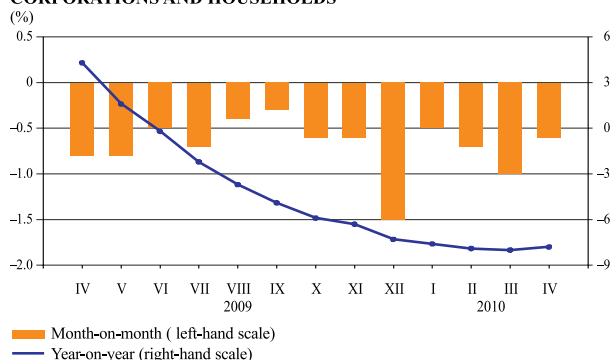
The signs of economic recovery in Latvia are becoming more pronounced with every new month. The positive trends are reflected in the flash estimate of the Central Statistical Bureau of Latvia for the first quarter GDP: exports are growing, indicators of the balance of payments are improving, manufacturing is expanding, and retail trade turnover is stabilising. For the first time in last two years, a slight quarter-on-quarter increase in GDP was recorded (0.3%; seasonally adjusted data); year-on-year, the pace of decrease in GDP decelerated notably. In line with the demand for seasonal workers strengthening and industrial and trade indicators improving in Latvia, the unemployment rate declined by 0.6 percentage point (for the first time in two years; to 16.7%). With Latvia successfully overcoming the recession, money supply continued on an upward trend in April.

In March, the retail trade turnover posted a month-on-month pickup of 2.9% (seasonally adjusted data), recording at the same time a year-on-year contraction of 7.4%. The seasonally adjusted volume index of industrial output in manufacturing rose by 12.2% in March against February, increasing by 11.1% year-on-year (working day adjusted data). The growth in manufacturing was supported by a more pronounced export-oriented production amidst progressively bolstering economic activity in trade partner countries. In April, following a decline observed for several months, freight transportation indicators improved. Freight traffic by rail picked up 2.1% year-on-year, while total cargoes loaded and unloaded at Latvia's ports expanded by 6.4%.

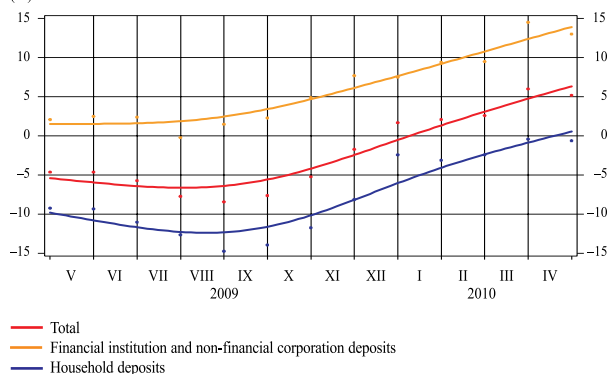
Compared with the previous month, consumer prices were going up for the second consecutive month and recorded a 0.9% rise in April. Excluding price rises for energy and seasonal price increase for some other commodities, the overall price level remained unchanged month-on-month. As income eroding continued and domestic demand was still weak, service prices dropped somewhat (by 0.4%). The price rises in April were driven by higher energy related costs: due to an upsurge in actual trading prices of natural gas, heating tariffs rose markedly by 13.9% and fuel prices picked up 3.1%. Seasonal factors pushed up vegetable and fruit as well as clothing and footwear prices. Consequently, annual deflation of consumer prices slid down to 2.7%, while annual core inflation stood at -4.4%. Average inflation of the last 12 months became negative for the first time (-0.4%), whereas 12-month average annual inflation or the harmonised index of consumer prices (HICP) used for the Maastricht criterion decreased by 0.6%.

In April, the general government consolidated budget ran a deficit of 55.6 million lats; the deficit accrued since the beginning of 2010 amounted to 188.2 million lats. The central government basic budget and the local government consolidated budget both recorded surpluses, while the central government social security budget incurred a deficit. Due to the high base of foreign financial aid, the total budget revenue in April was 6.5% behind the level of the respective period of previous year; tax collections at the same time rose by 5.3%, with almost all major taxes contributing. Budget expenditure cuts amounted to 26.1%; budget expenditure could have dropped even more if the government had not reimbursed old age pensions withheld in the previous year, thus pushing up overall social benefit and

GROWTH RATE DEVELOPMENTS FOR LOANS GRANTED TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS



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



pension expenditure. The general government debt decreased by 43.2 million lats in April, to stand at 4 868.1 million lats at the end of the month, primarily on account of domestic debt repayments.

In April, the trends in monetary aggregates did not change: the annual rate of change in M1, M2 and M3 was still positive, at 5.0%, 4.0% and 4.2% respectively. The dynamics of money supply depended substantially on the increase in currency outside MFIs by 6.7%, which, in turn, was triggered by the disbursement of old age pensions withheld earlier. The same factor was decisive also for resident deposits: deposits of households in lats grew by 2.4%, whereas overall deposits of residents expanded by 1.0%. More pronounced was the increase in overnight deposits (2.0%), deposits with an agreed maturity of up to two years grew more moderately (by 0.9%), but deposits redeemable at notice shrank by 2.8%. The growth in deposits was on account of a rise in deposits in lats (2.6%), while deposits in euro contracted somewhat.

Lending showed some signs of recovery in April as well. The drop in lending to financial institutions, non-financial corporations and households moderated (-0.6%) against the two previous months; for the first time in last three years, the dynamics of annual changes in lending improved somewhat, with the pace of decrease slowing down by 0.2 percentage point (to -7.8%). Along with industrial credit on the rise for several months, consumer credit also increased notably (+1.7%; the highest monthly indicator since May 2008) in April, likely to suggest a more optimistic consumer sentiment.

In April, foreign liabilities of the banking sector rose by mere 2.7 million lats, this modest fall in liabilities against foreign credit institutions offset by non-resident non-MFI deposit growth. With foreign assets of the banking sector picking up 169.1 million lats, the negative net foreign assets of MFIs (except Latvijas Banka) improved by 166.4 million lats.

The monetary base M0 grew by 10.0% in April as the ample lats liquidity positively and substantially contributed to demand deposits with the central bank, also bolstered by a less frequent recourse to the Bank of Latvia deposit facility. Simultaneously, the demand for cash strengthened markedly. Currency in circulation contracted 2.3% year-on-year, whereas demand deposits with the central bank rose by 2.5%. Net foreign assets of the Bank of Latvia shrank by 120.4 million lats or 3.1% on account of reduced government deposit in foreign currency, and the backing of national currency with the Bank of Latvia net foreign assets was 234.5% at the end of April.

As liquidity in the money market remained unchanged, the interbank market interest rates continued to be low, with the average weighted interest rate on overnight loans plunging to a record low (0.85%) in April. RIGIBOR on overnight loans lowered from a 1.22% average in March to a 1.21% average in April. A somewhat downward trend persisted also for 3- and 12-month RIGIBOR (a drop by 5 and 10 basis points to 2.11% and 3.67% respectively), while 6-month RIGIBOR was almost stable, at 2.64% at the end of April. Interest rates on loans to non-financial corporations and households (except loans in foreign currency for house purchase) rose slightly, whereas interest rates on all types of deposits (except time deposits of households in foreign currency) decreased.

The exchange rates of the US dollar, the British pound sterling, and the Japanese yen set by the Bank of Latvia against the lats in April appreciated by 1.9%, 3.1%, and 0.4% respectively.

MACROECONOMIC INDICATORS	2010	
	III	IV
Volume index of industrial output (working-day adjusted annual rate of change; %)	11.4	*
Changes in the CPI		
Month-on-month basis (%)	0.5	0.9
Average annual inflation rate (HCPI) of last 12 months (%)	0.3	-0.4
Year-on-year basis (%)	-3.9	-2.7
Annual rate of core inflation ¹ (%)	-5.0	-4.4
Number of registered unemployed persons (at end of period)	194 253	189 881
Unemployment rate (%)	17.3	16.7
General government consolidated budget financial deficit/surplus (in millions of lats)	-132.7	-188.2
Foreign trade (in millions of lats)		
Exports	354.9	*
Imports	439.8	*
Balance	-84.9	*

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	
	III	IV
MFI¹		
M3	6 081.0	6 189.6
Repurchase agreements	0	0
Money market fund shares and units	98.3	98.4
Debt securities issued with maturity of up to 2 years	0	0
M2	5 982.7	6 091.3
Deposits with agreed maturity of up to 2 years	2 641.2	2 664.3
Deposits redeemable at notice of up to 3 months	241.0	234.3
M1	3 100.4	3 192.7
Currency outside MFIs	669.2	713.9
Overnight deposits	2 431.2	2 478.8
Net external assets	-1 939.7	-1 893.8
Credit to resident financial institutions, non-financial corporations and households	13 217.3	13 136.5
Credit to general government	664.3	583.3
Deposits of central government	2 293.3	2 146.3
Longer-term financial liabilities	2 223.6	2 212.7
Bank of Latvia		
M0	1 464.9	1 611.8
Currency in circulation	774.2	827.1
Deposits with the Bank of Latvia in lats	673.9	770.3
Deposits with the Bank of Latvia in foreign currencies	16.7	14.5
Net foreign assets	3 899.7	3 779.3
Net domestic assets	-2 434.9	-2 167.4
Credit	-1 460.3	-1 314.4
To MFIs	117.6	116.3
To central government (net)	-1 578.0	-1 430.8
Other items (net)	-974.5	-853.0
International reserves (at end of period; in millions of euro)	5 569.59	5 432.94
Gold	204.68	219.32
Special Drawing Rights	136.16	137.71
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	5 228.69	5 075.85
International reserves (at end of period; in millions of US dollars)	7 513.08	7 190.76
Gold	276.11	290.28
Special Drawing Rights	183.67	182.26
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	7 053.22	6 718.14

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2010	
	III	IV
Weighted average interest rate on domestic interbank loans in lats	1.0	0.9
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	4.4	5.4
Loans to households (in lats)	16.2	18.2
incl. for house purchase	8.3	8.5
Loans to non-financial corporations (in foreign currencies)	5.2	5.4
Loans to households (in foreign currencies)	5.4	5.6
incl. for house purchase	4.0	3.9
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	2.7	1.3
Demand deposits of non-financial corporations (in lats)	0.4	0.3
Time deposits of households (in lats)	5.3	4.3
Demand deposits of households (in lats)	0.7	0.6
Time deposits of non-financial corporations (in foreign currencies)	0.9	1.1
Demand deposits of non-financial corporations (in foreign currencies)	0.2	0.2
Time deposits of households (in foreign currencies)	1.5	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	0.5210	0.5310
LVL/GBP	0.7820	0.8060
LVL/100 JPY	0.5640	0.5660
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	
	III	IV
MFI reserves	1 461.5	1 506.4
Vault cash in national currency	105.0	113.1
Deposits with the Bank of Latvia	1 356.5	1 393.2
Foreign assets	4 660.1	4 829.3
Vault cash in foreign currencies	67.9	67.8
Claims on MFIs	2 739.7	2 820.6
Claims on non-MFIs	1 768.4	1 840.8
Other assets	84.1	100.1
Claims on central government	600.5	520.3
Claims on local government	63.8	62.9
Claims on public non-financial corporations	403.8	407.2
Claims on financial institutions and private non-financial corporations	6 972.8	6 919.2
Claims on households	6 013.1	5 987.3
Unclassified assets	905.7	907.5
Fixed assets	135.2	134.0
Items in transit	18.5	29.0
Other assets	470.9	466.9
Claims on resident MFIs (incl. investments)	281.2	277.5
Total assets	21 081.4	21 140.1
<i>Memo item: Trust assets</i>	<i>422.1</i>	<i>387.5</i>
Overnight deposits in lats	1 210.9	1 258.2
Public non-financial corporations	93.8	79.4
Financial institutions and private non-financial corporations	519.6	552.9
Households	597.5	625.9
Time deposits and deposits redeemable at notice in lats	1 268.1	1 284.9
Public non-financial corporations	262.3	275.8
Financial institutions and private non-financial corporations	470.2	474.9
Households	535.5	534.3
Foreign currency deposits of residents	2 833.0	2 822.3
Public non-financial corporations	82.7	67.6
Financial institutions and private non-financial corporations	1 026.6	1 039.0
Households	1 723.7	1 715.8
Deposits of central government	715.4	715.5
Deposits of local government	159.8	171.5
Transit funds	3.0	3.0
Foreign liabilities	10 499.6	10 502.3
Liabilities to MFIs	6 563.9	6 478.8
Liabilities to non-MFIs	3 262.2	3 496.1
Other liabilities (incl. subordinated liabilities)	673.5	527.4
Liabilities to the Bank of Latvia	117.6	116.4
Debt securities issued	157.8	158.0
Money market fund shares and units	98.3	98.4
Capital and reserves	1 595.2	1 623.6
Residents	350.1	378.5
Non-residents	1 245.1	1 245.1
Provisions	1 707.1	1 742.8
Unclassified liabilities	715.6	643.1
Items in transit	94.6	83.7
Other liabilities (incl. subordinated liabilities)	372.1	314.0
Liabilities to resident MFIs	248.9	245.4
Total liabilities	21 081.4	21 140.1
<i>Memo item: Trust liabilities</i>	<i>422.1</i>	<i>387.5</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>).