

MONETARY BULLETIN 2008

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March was marked by further deceleration of economic growth as a result of dampened domestic demand and lending growth, shrinking industrial output and lower than planned central government budget revenue. The economic conditions in Latvia were mirrored also by the banks' profits failing to reach the same level year-on-year in the first quarter of 2008 for the first time in several years. At the same time, export growth remained stable, significantly outpacing that of the imports. Although the annual inflation edged up further, the annual core inflation posted a decrease for the first time since May 2007.

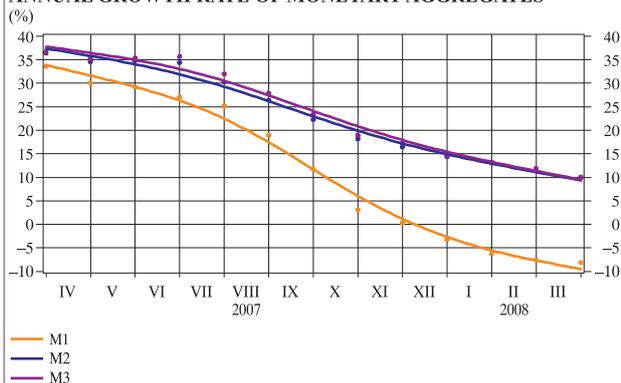
Retail trade turnover (including sales of motor vehicles and automotive fuel retailing) declined by 1.3% in February. Industrial output decreased by 4.7% in February, including by 1.0% in manufacturing. In March, freight transportation by rail increased by 2.7%, whereas freight turnover at Latvian ports decreased by 1.2%.

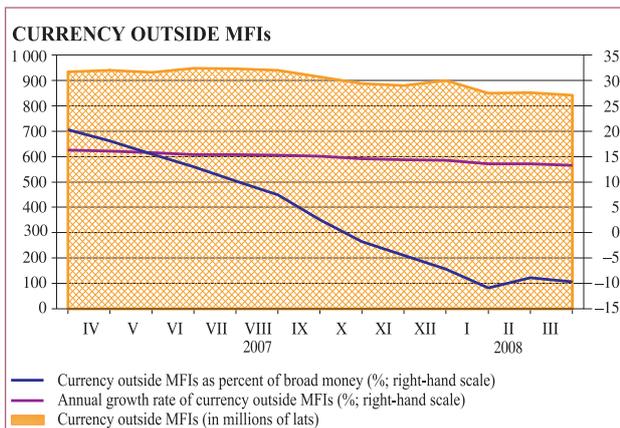
With consumer prices increasing by 1.5% in March, the annual inflation reached 16.8%, whereas the 12-month average annual inflation (the harmonised index of consumer prices) stood at 12.3%. The main drivers of consumer prices in March were the seasonal factors (prices on clothing and footwear increased by 4.8%), further growth of heating tariffs and fuel prices (by 6.4% and 3.1% respectively), rising out-patient treatment fees, further increase of prices in catering, tourism as well as recreational and cultural services. The prices of electrical appliances, audio, video, photo and data processing equipment continued to fall. The growing prices of food and tobacco as well as energy prices remained significant contributors to the growth of the annual inflation.

The financial surplus of the general government consolidated budget amounted to 8.6 million lats in March. This was the result of a 40.6 million lats surplus in the central government social security budget and a 4.0 million lats surplus in the local government consolidated budget, whereas the central government basic budget reported a deficit of 38.5 million lats. In March, the general government consolidated budget revenue and expenditure grew by 15.6% and 16.3% year-on-year respectively. The growth of tax collections continued to decelerate, with the rise in March amounting to 17.1% in comparison with 25.5% in the previous month. As a result of dampening economic growth and shrinking domestic demand, the value added tax revenue expanded by a mere 8.5%. Excise tax revenue grew by 45.1% on account of higher excise tax rates on tobacco products and oil products effective from 1 January 2008. Personal income tax revenue and social security contributions increased by 18.8% and 16.9% respectively, whereas the corporate income tax collections by 41.9%. Subsidies and grants posted the highest year-on-year growth (33.6%) in the overall budget expenditure. In the first three months of 2008, the financial surplus of the general government consolidated budget totalled 114.3 million lats in comparison with 151.1 million lats in the corresponding period of 2007. The general government debt increased by 286.7 million lats in March to stand at 1 416.5 million lats at the end of the month as a result of a launched 10-year government Euro-bond issue amounting to 400 million euro.

The annual growth of monetary aggregates continued on its downward path in March, despite of a moderate growth of the money supply. M3 increased by 67.7 million lats, with its annual growth decelerating by 1.8 percentage points to 10.1%. M2 grew by 58.2 million lats, with the annual growth rate amounting to 9.9%. M1 increased by 26.1 million lats, posting a 8.1% decline

ANNUAL GROWTH RATE OF MONETARY AGGREGATES





year-on-year. Looking at the components of M3, the growth of the overnight deposits and deposits with an agreed maturity of up to 2 years was moderate and amounted to 35.8 million lats and 34.2 million lats respectively.

Household deposits grew by a mere 7.8 million lats, whereas the deposits by financial institutions and non-financial corporations increased by 42.7 million lats. Both groups recorded a rise in the lats and euro deposits, while other currency deposits contracted. The annual growth rate of household deposits declined to 9.0%, whereas that of the deposits by financial institutions and non-financial corporations fell to 17.8%.

The annual growth rate of loans declined by 3.9 percentage points in March to stand at 25.4%, which is the lowest growth rate since June 2000, whereas the monthly growth of loans decelerated and amounted to 131.7 million lats. The growth rate of loans for house purchase continued to fall particularly quickly, with these loans posting a mere 41.3 million lats or 0.9% increase in March and their annual growth also decelerating by 8.8 percentage points to stand at 26.8%. The growth of industrial credit remained robust posting an increase of 28.7 million lats, with the annual growth rate amounting to 37.3% in March, representing a 1.0 percentage point decline over February. Both loans granted to households and loans granted to non-financial corporations expanded to a similar extent, with the annual growth rate declining to 27.4% and 31.1% respectively. The overall growth was the result of loans granted in euro increasing by 147.3 million lats and the lats loans shrinking by 12.4 million lats. Nevertheless, the annual growth of the loans granted in euro continued to decelerate (44.1% in March), whereas the outstanding loans granted in lats decreased by 32.1% year-on-year.

The growth of funding from foreign banks picked up again in March and amounted to 173.8 million lats, including 163.8 million lats from parent banks. The negative net foreign assets of MFIs decreased by 109.2 million lats as a result of a significant expansion of the net foreign assets of the Bank of Latvia.

Currency in circulation shrank slightly, with the annual rate of decline amounting to 6.7%. By contrast, bank deposits with the Bank of Latvia and the monetary base M0 expanded, with the annual growth rates also picking up to stand at 28.3% and 11.8% respectively.

In March, the central bank's money supply was increased by the Bank of Latvia's foreign currency net purchases amounting to 15.3 million lats. Changes in the central bank's foreign assets were boosted by receipts from the Eurobond issue launched by the government at the beginning of March. The Bank of Latvia's net foreign assets grew by 169.8 million lats or 6.1%. At the end of March, the backing of the national currency with the Bank of Latvia's net foreign assets was 121.5%.

RIGIBOR on 3-month loans stood at 6.00% at the end of March, posting a 109 basis point month-on-month decline. RIGIBOR on 6-month loans fell by 124 basis points to 7.03%, whereas RIGIBOR on 1-year loans dropped by 158 basis points to 8.46%. Against the background of ample liquidity, RIGIBOR on overnight loans was low (3.4%–3.8%).

In March, the weighted average rates on household loans for house purchase granted in lats and foreign currency posted a slight decrease and stood at 9.0% and 6.0% respectively. The weighted average rate on the lats loans granted to non-financial corporations remained unchanged, whereas that of the respective loans granted in foreign currency slightly increased.

In March, the exchange rate of the US dollar and the British pound sterling set by the Bank of Latvia depreciated against the lats by 4.3% and 3.3% respectively, whereas that of the Japanese yen appreciated by 1.8%.

MACROECONOMIC INDICATORS	2008	
	II	III
Volume index of industrial output (working-day adjusted annual rate of change; %)	-4.7	*
Changes in the CPI		
Month-on-month basis (%)	1.3	1.5
Average annual inflation rate (HCPI) of last 12 months (%)	11.6	12.3
Year-on-year basis (%)	16.7	16.8
Annual rate of core inflation ¹ (%)	15.8	15.5
Number of registered unemployed persons (at end of period)	53 429	52 806
Unemployment rate (%)	5.0	4.9
General government consolidated budget financial deficit/surplus (in millions of lats)	105.6	114.3
Foreign trade (in millions of lats)		
Exports	364.6	*
Imports	645.8	*
Balance	-281.2	*

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)	2008	
	II	III
MFIs¹		
M3	6 247.2	6 314.9
Repurchase agreements	0	0
Money market fund shares and units	52.7	66.2
Debt securities issued with maturity of up to 2 years	29.8	25.9
M2	6 164.7	6 222.9
Deposits with agreed maturity of up to 2 years	2 142.7	2 176.9
Deposits redeemable at notice of up to 3 months	343.2	341.0
M1	3 678.8	3 704.9
Currency outside MFIs	852.4	842.7
Overnight deposits	2 826.4	2 862.2
Net external assets	-4 820.5	-4 711.3
Credit to resident financial institutions, non-financial corporations and households	13 368.3	13 500.0
Credit to general government	299.8	322.7
Deposits of central government	259.2	432.8
Longer-term financial liabilities	2 440.2	2 414.4
Bank of Latvia		
M0	2 415.1	2 437.3
Currency in circulation	969.6	961.3
Deposits with the Bank of Latvia in lats	1 439.2	1 465.9
Deposits with the Bank of Latvia in foreign currencies	6.2	10.1
Net foreign assets	2 791.2	2 961.0
Net domestic assets	-376.1	-523.7
Credit	-188.1	-347.6
To MFIs	0	0
To central government (net)	-188.1	-347.6
Other items (net)	-188.0	-176.1
International reserves (at end of period; in millions of euro)	3 913.28	4 137.80
Gold	157.49	148.93
Special Drawing Rights	0.12	0.12
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	3 755.61	3 988.69
International reserves (at end of period; in millions of US dollars)	5 914.55	6 534.95
Gold	238.03	235.21
Special Drawing Rights	0.18	0.18
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	5 676.25	6 299.47

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2008	
	II	III
Weighted average interest rate on domestic interbank loans in lats	5.2	3.4
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	8.7	8.7
Loans to households (in lats)	18.4	18.5
incl. for house purchase	10.2	9.0
Loans to non-financial corporations (in foreign currencies)	6.7	7.3
Loans to households (in foreign currencies)	6.3	6.3
incl. for house purchase	6.1	6.0
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	5.5	5.0
Demand deposits of non-financial corporations (in lats)	1.4	1.3
Time deposits of households (in lats)	7.6	7.9
Demand deposits of households (in lats)	0.9	0.9
Time deposits of non-financial corporations (in foreign currencies)	3.8	3.7
Demand deposits of non-financial corporations (in foreign currencies)	1.7	1.7
Time deposits of households (in foreign currencies)	4.2	4.2
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	0.4650	0.4450
LVL/GBP	0.9230	0.8930
LVL/100 JPY	0.4380	0.4460
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	
	II	III
MFI reserves	1 564.9	1 591.2
Vault cash in national currency	117.2	118.6
Deposits with the Bank of Latvia	1 447.7	1 472.6
Foreign assets	4 649.3	4 561.6
Vault cash in foreign currencies	60.8	63.0
Claims on MFIs	2 775.9	2 667.1
Claims on non-MFIs	1 737.8	1 753.0
Other assets	74.8	78.5
Claims on central government	239.3	262.9
Claims on local government	60.5	59.8
Claims on public non-financial corporations	260.5	268.2
Claims on financial institutions and private non-financial corporations	7 046.6	7 102.0
Claims on households	6 120.4	6 189.1
Unclassified assets	1 010.7	988.4
Fixed assets	181.9	184.5
Items in transit	26.2	29.9
Other assets	185.7	171.9
Claims on resident MFIs (incl. investments)	616.9	602.0
Total assets	20 952.3	21 023.1
<i>Memo item: Trust assets</i>	<i>318.8</i>	<i>287.8</i>
Overnight deposits in lats	1 537.5	1 547.5
Public non-financial corporations	104.2	101.1
Financial institutions and private non-financial corporations	667.5	684.7
Households	765.8	761.7
Time deposits and deposits redeemable at notice in lats	1 174.2	1 212.3
Public non-financial corporations	191.5	210.8
Financial institutions and private non-financial corporations	344.5	346.4
Households	638.1	655.1
Foreign currency deposits of residents	2 512.1	2 514.4
Public non-financial corporations	38.9	43.4
Financial institutions and private non-financial corporations	742.3	745.3
Households	1 730.8	1 725.7
Deposits of central government	71.1	85.2
Deposits of local government	225.7	238.5
Transit funds	4.0	4.0
Foreign liabilities	12 261.0	12 233.8
Liabilities to MFIs	8 023.3	8 197.1
Liabilities to non-MFIs	3 862.3	3 677.1
Other liabilities (incl. subordinated liabilities)	375.4	359.5
Liabilities to the Bank of Latvia	0	0
Debt securities issued	318.9	309.2
Money market fund shares and units	52.7	66.2
Capital and reserves	1 797.7	1 789.6
Residents	1 052.5	1 044.4
Non-residents	745.2	745.2
Provisions	124.5	121.5
Unclassified liabilities	873.0	900.9
Items in transit	145.6	164.4
Other liabilities (incl. subordinated liabilities)	178.8	204.1
Liabilities to resident MFIs	548.6	532.4
Total liabilities	20 952.3	21 023.1
<i>Memo item: Trust liabilities</i>	<i>318.8</i>	<i>287.8</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>).