

MONETARY BULLETIN 2009

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With low domestic and foreign demand persisting, the Latvian economy continued into a more severe recession. The economic downturn was mirrored by industrial and retail trade indicators, soaring unemployment (10.7% in March), falling tax revenues, and a rising budget deficit. That the economic activity had become sluggish was confirmed by a further decline in monetary aggregates resulting from a drop in deposits and lending. The falling demand spurred a further easing of inflation and external imbalances: for the second consecutive month, the current account of the balance of payments recorded a surplus.

In order to facilitate the activity in the lats interbank market and provide incentives for banks to channel available financing into lending, the Council of the Bank of Latvia resolved to cut by 1 percentage point the Bank of Latvia's refinancing rate (to 5.0%) and marginal deposit facility rate (to 1.0%) as of 24 March.

Consumer prices rose by 0.2% month-on-month in March. The annual consumer price inflation dropped to 8.2% and annual core inflation slid down to 4.8%. The consumer price rise observed in March was on account of higher patient fees and the end of traditional seasonal sales; however, due to demand diminishing steeply and competition tightening, the impact of seasonal changes on prices was not so strong (also due to protracted season of discount prices and lower new collection prices as well).

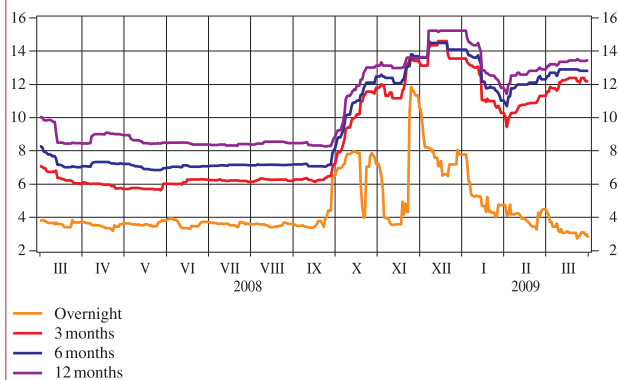
Year-on-year, the working day adjusted volume index of industrial output in manufacturing fell by 28.3% in February, the overall industrial output indicator diminished by 24.2% and the retail trade turnover at constant prices narrowed by 25.3%. Moderating economic activity had a negative effect on the dynamics of freight transportation services. In March year-on-year, freight turnover decreased by 2.4% at Latvian ports and by 10.7% by rail.

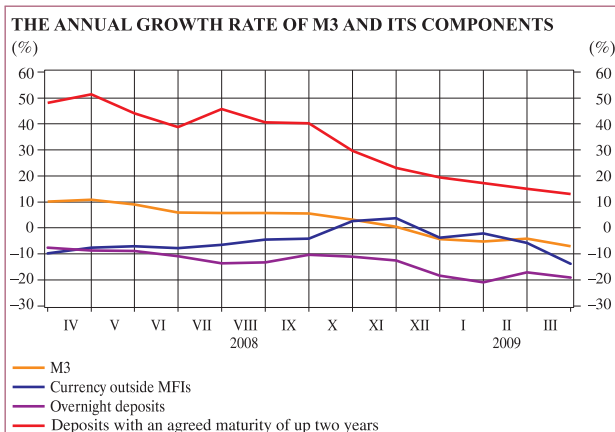
In March, the general government consolidated budget recorded a deficit of 148.9 million lats (142.1 million lats deficit accumulated from the beginning of the year). In the first three months of the year, the negative balance of the general government consolidated budget resulted from the central government basic budget deficit (193.8 million lats); at the same time, the local government budget recorded a surplus (49.9 million lats). A year-on-year deterioration in the general government consolidated budget balance in March was triggered by both a 23.8% fall in revenues and 10.6% rise in expenditure. Smaller tax collections were mostly on account of drops in social security contributions (23.9%) as well as value added (25.4%) and personal income tax (18.1%) revenues. The inflow of financing from the EU funds shrank by 54.4%. An increase in expenditure was mainly determined by a growing central government basic budget interest expenditure and higher expenditure on social benefits.

The general government debt decreased by 333.1 million lats over the month (2 975.8 million lats at the end of March). In March, 369.5 million lats worth of Treasury bills were redeemed, while the external debt expanded due to a borrowing from the European Investment Bank to provide co-financing of EU funded projects.

RIGIBOR

(%)





Despite annual growth in lending being still positive (6.4% in March), its monthly indicator was declining for the fifth consecutive month. Loans to resident financial institutions, non-financial corporations and households dropped 123.6 million lats or 0.9% in March. The annual growth in lending to non-financial corporations and households decelerated to 11.6% and 2.3% respectively, whereas the pace of changes in lending to financial institutions became negative (-2.8%). Loans in lats decreased by 50.4 million lats or 3.2%, whereas loans in euro shrank by 50.5 million lats or 0.4%.

After stabilisation in February, M3 dropped again in March (by 112.3 million lats), with a 2.8 percentage point slowdown (to -7.0%) also in its annual rate of change. Month-on-month, M2 and M1 also declined, with their year-on-year drops amounting to 6.9% and 17.8% respectively. The dynamics of money supply depended on somewhat contracting overnight deposits, deposits with agreed maturity remaining broadly unchanged and those redeemable at notice growing slightly. Currency outside MFIs was down by 13.8% year-on-year.

In March, deposits of resident financial institutions, non-financial corporations and households diminished by 0.8% (of the latter, including time deposits, most). Deposits in lats (of households in particular) dropped while those in euro expanded. Thus the share of deposits in lats in total deposits decreased to 46.7%, whereas that of deposits in euro increased to 46.8%. Deposits of resident financial institutions, non-financial corporations and households shrank by 5.0% year-on-year.

In March, foreign financing for the Latvian banking sector contracted on account of both syndicated loan repayments to foreign banks and smaller borrowings from affiliated banks in the context of slightly falling non-resident non-MFI deposits. The negative net foreign assets of MFIs (except the Bank of Latvia) shrank by 422.1 million lats.

The fall in monetary base M0 in March was underpinned by both ebbing bank demand deposits with the Bank of Latvia (banks using deposit facility and bank reserve base contracting) and a substantially weakened demand for cash.

The exchange rate of lats remained close to the upper intervention margin in March and the Bank of Latvia intervened in the foreign exchange market selling net amount of euro worth 118.5 million lats. Net foreign assets of the Bank of Latvia decreased by 17.2% in March; the backing of issued national currency with the Bank of Latvia's net foreign assets was 152.4% at the end of the month. Along with the interventions (selling euro) the decrease in net foreign assets was attributable to the government deposit with the central bank diminishing as a result of the repayment of syndicated and other loans of the state supported JSC "Parex banka" and channelling funds to financing the budget deficit.

In March, the weighted average interest rate on overnight loans in the interbank market and average RIGIBOR on overnight loans fell behind those recorded in February (2.40% and 3.30% respectively). At the same time, 3-, 6- and 12-month RIGIBOR surged (12.20%, 12.80%, and 13.44% at the end of March respectively). The interest rates on loans in lats to non-financial corporations and households rose, while those on loans in foreign currencies to the same customer groups were down. Interest rates on loans for housing purchase in all currencies also recorded a downslide.

In March, the exchange rates of the US dollar and British pound sterling set by the Bank of Latvia against the lats depreciated by 3.8% and that of the Japanese yen fell by 3.2%.

MACROECONOMIC INDICATORS	2009	
	II	III
Volume index of industrial output (working-day adjusted annual rate of change; %)	-24.2	*
Changes in the CPI		
Month-on-month basis (%)	1.1	0.2
Average annual inflation rate (HCPI) of last 12 months (%)	14.3	13.5
Year-on-year basis (%)	9.6	8.2
Annual rate of core inflation ¹ (%)	6.6	4.8
Number of registered unemployed persons (at end of period)	103 731	116 768
Unemployment rate (%)	9.5	10.7
General government consolidated budget financial deficit/surplus (in millions of lats)	6.8	-142.1
Foreign trade (in millions of lats)		
Exports	261.0	*
Imports	385.9	*
Balance	-124.9	*

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)	2009	
	II	III
MFIs¹		
M3	5 985.0	5 872.7
Repurchase agreements	0	0
Money market fund shares and units	83.6	74.2
Debt securities issued with maturity of up to 2 years	3.1	3.2
M2	5 898.3	5 795.3
Deposits with agreed maturity of up to 2 years	2 464.3	2 459.2
Deposits redeemable at notice of up to 3 months	283.6	290.0
M1	3 150.4	3 046.2
Currency outside MFIs	803.9	726.5
Overnight deposits	2 346.5	2 319.6
Net external assets	-5 071.2	-5 139.9
Credit to resident financial institutions, non-financial corporations and households	14 491.9	14 368.3
Credit to general government	985.3	607.0
Deposits of central government	1 884.9	1 418.2
Longer-term financial liabilities	2 350.6	2 289.8
Bank of Latvia		
M0	2 025.4	1 545.3
Currency in circulation	922.2	833.4
Deposits with the Bank of Latvia in lats	1 091.8	703.1
Deposits with the Bank of Latvia in foreign currencies	11.4	8.9
Net foreign assets	2 845.8	2 355.0
Net domestic assets	-820.4	-809.7
Credit	-576.2	-281.3
To MFIs	592.8	254.3
To central government (net)	-1 169.0	-535.6
Other items (net)	-244.2	-528.4
International reserves (at end of period; in millions of euro)	4 371.58	3 337.74
Gold	185.40	174.06
Special Drawing Rights	0.53	0.52
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	4 185.59	3 163.10
International reserves (at end of period; in millions of US dollars)	5 555.82	4 409.36
Gold	235.62	229.95
Special Drawing Rights	0.68	0.69
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	5 319.44	4 178.64

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2009	
	II	III
Weighted average interest rate on domestic interbank loans in lats	3.3	2.4
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	12.1	14.1
Loans to households (in lats)	19.5	20.3
incl. for house purchase	12.4	12.1
Loans to non-financial corporations (in foreign currencies)	6.9	6.0
Loans to households (in foreign currencies)	7.3	6.3
incl. for house purchase	5.9	5.5
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	5.6	5.9
Demand deposits of non-financial corporations (in lats)	1.2	0.8
Time deposits of households (in lats)	7.4	7.6
Demand deposits of households (in lats)	1.0	0.9
Time deposits of non-financial corporations (in foreign currencies)	1.8	1.7
Demand deposits of non-financial corporations (in foreign currencies)	0.5	0.5
Time deposits of households (in foreign currencies)	2.8	3.1
Demand deposits of households (in foreign currencies)	0.9	0.9
The Bank of Latvia's refinancing rate (at end of period; %)	6.0	5.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5530	0.5320
LVL/GBP	0.7860	0.7560
LVL/100 JPY	0.5660	0.5480
LVL/EUR	0.7028	0.7028

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

	2009	
	II	III
MFI reserves	1 222.6	1 087.5
Vault cash in national currency	118.3	106.8
Deposits with the Bank of Latvia	1 104.4	980.6
Foreign assets	4 580.7	4 549.9
Vault cash in foreign currencies	60.7	58.9
Claims on MFIs	2 467.5	2 481.6
Claims on non-MFIs	1 933.9	1 907.8
Other assets	118.6	101.5
Claims on central government	905.0	526.7
Claims on local government	80.2	80.3
Claims on public non-financial corporations	389.3	383.0
Claims on financial institutions and private non-financial corporations	7 820.7	7 743.9
Claims on households	6 360.2	6 331.2
Unclassified assets	1 055.1	1 131.7
Fixed assets	194.1	166.3
Items in transit	24.5	22.5
Other assets	322.4	356.0
Claims on resident MFIs (incl. investments)	514.1	586.9
Total assets	22 413.9	21 834.2
<i>Memo item: Trust assets</i>	<i>365.8</i>	<i>342.9</i>
Overnight deposits in lats	1 231.0	1 152.9
Public non-financial corporations	91.8	82.6
Financial institutions and private non-financial corporations	522.7	512.8
Households	616.5	557.6
Time deposits and deposits redeemable at notice in lats	1 241.5	1 187.2
Public non-financial corporations	173.3	172.4
Financial institutions and private non-financial corporations	441.8	431.7
Households	626.4	583.1
Foreign currency deposits of residents	2 578.6	2 671.9
Public non-financial corporations	33.7	33.2
Financial institutions and private non-financial corporations	886.6	912.0
Households	1 658.3	1 726.7
Deposits of central government	715.8	882.6
Deposits of local government	207.0	217.9
Transit funds	3.5	3.5
Foreign liabilities	12 497.7	12 044.8
Liabilities to MFIs	8 843.0	8 464.3
Liabilities to non-MFIs	3 244.5	3 184.2
Other liabilities (incl. subordinated liabilities)	410.2	396.3
Liabilities to the Bank of Latvia	592.8	254.3
Debt securities issued	178.1	168.7
Money market fund shares and units	83.6	74.2
Capital and reserves	1 746.5	1 686.9
Residents	1 008.0	949.0
Non-residents	738.5	737.9
Provisions	474.7	589.1
Unclassified liabilities	863.1	900.2
Items in transit	93.6	87.3
Other liabilities (incl. subordinated liabilities)	299.9	270.1
Liabilities to resident MFIs	469.5	542.8
Total liabilities	22 413.9	21 834.2
<i>Memo item: Trust liabilities</i>	<i>365.8</i>	<i>342.9</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>).