

MONETARY BULLETIN 2008

4

Despite the external environment still unfavourable for economic growth, the demand for Latvia's exports remained robust, and the pace of export growth notably exceeded that of imports. Exports of goods recorded a year-on-year increase of 10.2% in March, whereas imports decreased by 4.6%. In the first quarter of 2008 overall, the growth in exports (17.9%) also notably outpaced the growth in imports (3.1%). The impressively rising costs and deteriorating confidence in the manufacturing sector combined with a potentially declining external demand may have an adverse effect on Latvia's international competitiveness, bringing the need for export enhancing measures to the forefront. According to preliminary assessment by the Central Statistical Board of Latvia, the first quarter GDP grew by a mere 3.6% year-on-year, suggesting a substantial deceleration of economic growth.

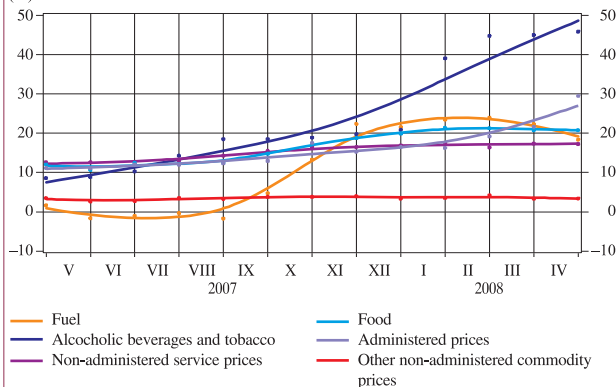
In March, the working day adjusted volume index of industrial output in manufacturing narrowed by 9.2% year-on-year. It was largely a result of a decline in manufacture of wood and products of wood and cork (10.1%) as well as food products and beverages (9.3%). A sharp deceleration of the growth in domestic demand caused substantial changes in trade volumes. The retail trade turnover (including motor vehicle sales and automotive fuel retailing) dropped 8.3% in March (seasonally unadjusted data) primarily due to shrinking sales of textiles, wearing apparel and footwear as well as food products. Motor vehicle sales and public catering were on a downward trend in March as well. The number of passenger cars newly registered with the Road Traffic Safety Department posted a year-on-year decrease of 49.2% in March and 31.9% in April.

In April, freight turnover by rail increased by 3.5% year-on-year, while overall freight turnover at Latvian ports decreased by 2.0%.

Consumer prices picked up 1.5% in April, with the annual inflation rate surging to 17.5%. Electricity became considerably more expensive (by 39.2%), and prices for some food products, bread in particular, continued on an upward trend. Costs of water supply and other household services rose by 4.2%; heating, footwear and clothing, catering and hotel services became more costly. A downward price trend continued only for electrical appliances, audio, video, photo and data processing equipment, communication services, and a number of food products (dairy, cheese and eggs). Following a drop in March, annual core inflation in April rebounded to the February level (15.8%), with the effects of non-administered service prices having stabilised and suggesting no additional demand-side pressures.

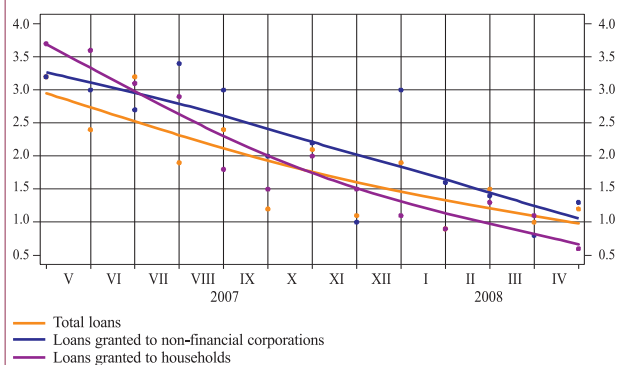
In April, the financial surplus of the general government consolidated budget was 38.5 million lats. It was the result of surpluses in the local government consolidated budget (110.0 million lats) and central government social insurance budget (2.9 million lats). The central government basic budget incurred a deficit of 75.1 million lats. In April, year-on-year increases of 48.8% in revenue and 47.6% in expenditure of the general government consolidated budget were recorded. The growth in tax revenue was more moderate (17.9%), with some pickup fuelled by inflows of foreign financial assistance and income from the corporate and property taxes. Budget expenditure grew on account of fairly large upsurge in subsidies and grants as well as social benefits and capital expenditure (66.5%, 54.9% and 45.5% respectively). In the

THE ANNUAL GROWTH RATE OF CONSUMER PRICE GROUPS (%)



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

(month-on-month changes; %)



MACROECONOMIC INDICATORS	2008	
	III	IV
Volume index of industrial output (working-day adjusted annual rate of change; %)	-5.5	*
Changes in the CPI		
Month-on-month basis (%)	1.5	1.5
Average annual inflation rate (HCPI) of last 12 months (%)	12.3	13.0
Year-on-year basis (%)	16.8	17.5
Annual rate of core inflation ¹ (%)	15.5	15.8
Number of registered unemployed persons (at end of period)	52 806	52 897
Unemployment rate (%)	4.9	4.8
General government consolidated budget financial deficit/surplus (in millions of lats)	114.3	152.7
Foreign trade (in millions of lats)		
Exports	378.4	*
Imports	629.7	*
Balance	-251.3	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia and Ministry of Finance.

first four months of 2008, the general government consolidated budget recorded a financial surplus (152.7 million lats; 174.8 million lats in the corresponding period of 2007). The general government debt grew by 7.4 million lats, amounting to 1 423.9 million lats in April primarily due to the issue of government securities.

Monetary aggregates increased in April; moreover, the annual growth in broader monetary aggregates accelerated after a period of protracted slowdown. M3 increased by 155.3 million lats, with the annual growth picking up 0.7 percentage point (to 10.8%), whereas M2 grew by 150.2 million lats, recording a 0.8 percentage point stronger annual growth rate (10.7%). M1 was the only aggregate to post a modest pickup (13.1 million lats), with its stock losing 8.4% year-on-year at the end of April. Overnight deposits shrank somewhat (by 14.2 million lats) as did deposits redeemable at notice of up to three months (by 5.7 million lats); at the same time, deposits with agreed maturity of up to two years and currency outside MFIs expanded by 142.8 million lats and 27.3 million lats respectively.

Higher returns determined the expansion in deposits in lats, with the annual growth rate amounting to 6.4%, whereas deposits in euro shrank somewhat and their annual growth rate decelerated to 32.4%.

In April, loans to resident financial institutions, non-financial corporations and households expanded by 164.1 million lats. The increase was almost on a par with the annual average for the initial months of 2008 but 2.1 times less year-on-year. The annual growth in lending was on a downward trend, at 22.9% or 2.5 percentage points less in April. Loans to households increased by 38.4 million lats, with the annual growth moderating to 23.6% (including loans for house purchase at 23.4% and consumer loans at 34.1%). Loans to non-financial corporations grew by 86.3 million lats, with their annual growth rate down to 28.7% (including 9.1% for commercial credit and 34.8% for industrial credit).

In April, the growth in foreign bank financing became more dynamic (an increase of 246.9 million lats, including 257.2 million lats from affiliated banks). At the same time, the negative net foreign assets of MFIs shrank only by 75.0 million lats.

With the demand for cash increasing, the monetary base M0 grew by 37.8 million lats in April. The Bank of Latvia's money supply was pushed up by a decline, in the amount of 18.8 million lats, in the government deposit in lats with the central bank and purchases of foreign currency by the Bank of Latvia (19.8 million lats in net terms). With the government reducing its deposit in foreign currency with the Bank of Latvia, net foreign assets of the latter diminished by 6.4 million lats. The backing of the national currency with the central bank's net foreign assets was 119.4% at the end of April.

Money market liquidity remained ample and banks placed their excess funds, via overnight depositing facility, with the central bank for the largest part of the month. As a result, RIGIBOR on overnight loans remained low (3.2%–3.8%). Within a month, RIGIBOR on loans with 3-month maturity dropped 30 basis points, declining to 5.70%; RIGIBOR on loans with 6-month maturity, on the other hand, rose slightly (by 18 basis points; to 7.21%). In April, the weighted average interest rate on loans in lats to non-financial corporations and households went down to 6.8% and 17.8% respectively but that on loans in foreign currency moved up somewhat (to 7.6% for non-financial corporations and 6.4% for households). Interest rates on deposits remained almost unchanged, with only the weighted average interest rate on time deposits of households in lats losing 1.0 percentage point and declining to 6.9%.

In April, the Bank of Latvia's exchange rate for the US dollar and British pound sterling appreciated against the lats by 0.9% and 0.1% respectively, whereas the Japanese yen depreciated by 3.4%.

MONETARY INDICATORS (at end of period; in millions of lats)	2008	
	III	IV
MFIs¹		
M3	6 314.9	6 470.2
Repurchase agreements	0	0
Money market fund shares and units	66.2	71.3
Debt securities issued with maturity of up to 2 years	25.9	25.8
M2	6 222.9	6 373.1
Deposits with agreed maturity of up to 2 years	2 176.9	2 319.7
Deposits redeemable at notice of up to 3 months	341.0	335.3
M1	3 704.9	3 718.0
Currency outside MFIs	842.7	870.0
Overnight deposits	2 862.2	2 848.0
Net external assets	-4 711.3	-4 786.3
Credit to resident financial institutions, non-financial corporations and households	13 500.0	13 664.1
Credit to general government	322.7	339.4
Deposits of central government	432.8	405.8
Longer-term financial liabilities	2 414.4	2 409.3
Bank of Latvia		
M0	2 437.3	2 475.1
Currency in circulation	961.3	1 003.9
Deposits with the Bank of Latvia in lats	1 465.9	1 461.1
Deposits with the Bank of Latvia in foreign currencies	10.1	10.2
Net foreign assets	2 961.0	2 954.6
Net domestic assets	-523.7	-479.5
Credit	-347.6	-318.3
To MFIs	0	0
To central government (net)	-347.6	-318.3
Other items (net)	-176.1	-161.2
International reserves (at end of period; in millions of euro)	4 137.80	4 163.51
Gold	148.93	141.70
Special Drawing Rights	0.12	0.12
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	3 988.69	4 021.64
International reserves (at end of period; in millions of US dollars)	6 534.95	6 517.00
Gold	235.21	221.80
Special Drawing Rights	0.18	0.18
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	6 299.47	6 294.93

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2008	
	III	IV
Weighted average interest rate on domestic interbank loans in lats	3.4	3.3
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	8.7	6.8
Loans to households (in lats)	18.5	17.8
incl. for house purchase	9.0	9.2
Loans to non-financial corporations (in foreign currencies)	7.3	7.6
Loans to households (in foreign currencies)	6.3	6.4
incl. for house purchase	6.0	6.2
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	5.0	4.9
Demand deposits of non-financial corporations (in lats)	1.3	1.2
Time deposits of households (in lats)	7.9	6.9
Demand deposits of households (in lats)	0.9	0.9
Time deposits of non-financial corporations (in foreign currencies)	3.7	3.9
Demand deposits of non-financial corporations (in foreign currencies)	1.7	1.6
Time deposits of households (in foreign currencies)	4.2	4.2
Demand deposits of households (in foreign currencies)	1.7	1.6
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	0.4450	0.4490
LVL/GBP	0.8930	0.8940
LVL/100 JPY	0.4460	0.4310
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	
	III	IV
MFI reserves	1 591.2	1 621.0
Vault cash in national currency	118.6	133.9
Deposits with the Bank of Latvia	1 472.6	1 487.1
Foreign assets	4 561.6	5 107.2
Vault cash in foreign currencies	63.0	60.7
Claims on MFIs	2 667.1	3 117.2
Claims on non-MFIs	1 753.0	1 848.1
Other assets	78.5	81.1
Claims on central government	262.9	279.5
Claims on local government	59.8	59.9
Claims on public non-financial corporations	268.2	268.5
Claims on financial institutions and private non-financial corporations	7 102.0	7 229.0
Claims on households	6 189.1	6 227.5
Unclassified assets	988.4	1 018.9
Fixed assets	184.5	190.5
Items in transit	29.9	32.2
Other assets	171.9	172.9
Claims on resident MFIs (incl. investments)	602.0	623.3
Total assets	21 023.1	21 811.4
<i>Memo item: Trust assets</i>	<i>287.8</i>	<i>314.7</i>
Overnight deposits in lats	1 547.5	1 567.4
Public non-financial corporations	101.1	102.4
Financial institutions and private non-financial corporations	684.7	668.9
Households	761.7	796.1
Time deposits and deposits redeemable at notice in lats	1 212.3	1 285.7
Public non-financial corporations	210.8	210.5
Financial institutions and private non-financial corporations	346.4	406.1
Households	655.1	669.2
Foreign currency deposits of residents	2 514.4	2 492.4
Public non-financial corporations	43.4	52.6
Financial institutions and private non-financial corporations	745.3	717.8
Households	1 725.7	1 722.0
Deposits of central government	85.2	87.5
Deposits of local government	238.5	286.1
Transit funds	4.0	3.9
Foreign liabilities	12 233.8	12 848.1
Liabilities to MFIs	8 197.1	8 444.1
Liabilities to non-MFIs	3 677.1	3 906.2
Other liabilities (incl. subordinated liabilities)	359.5	497.8
Liabilities to the Bank of Latvia	0	0
Debt securities issued	309.2	308.3
Money market fund shares and units	66.2	71.3
Capital and reserves	1 789.6	1 823.6
Residents	1 044.4	1 076.2
Non-residents	745.2	747.4
Provisions	121.5	126.2
Unclassified liabilities	900.9	910.8
Items in transit	164.4	157.2
Other liabilities (incl. subordinated liabilities)	204.1	212.5
Liabilities to resident MFIs	532.4	541.1
Total liabilities	21 023.1	21 811.4
<i>Memo item: Trust liabilities</i>	<i>287.8</i>	<i>314.7</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>).