

MONETARY BULLETIN 2009

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According to statistical information, the economic imbalances, both external and internal, are easing, with inflationary pressures declining steeply and foreign trade balance improving. However, weak global economic activity and abating domestic demand have accelerated a downturn in the production and services sectors: according to a flash estimate of the Central Statistical Bureau of the Republic of Latvia, GDP decreased by 18% year-on-year in the first quarter of 2009. The unemployment rate continued on an upward trend, albeit at a more moderate pace than in the previous months, rising to 11.0% in April. Due to a drop in tax revenue and the concurrent increase in budget expenditure, the budget deficit rose. The economic activity was hindered by continuously decelerating lending rate; nevertheless, the growth in overall money supply renewed in April as a result of a moderate upswing in deposits and a stable demand for cash.

In March, manufacturing recorded an ongoing sharp decline, with the working day adjusted volume index of industrial output contracting by 26.6% year-on-year. Retail trade turnover at constant prices, in turn, shrank by 27.3% in March (working day adjusted data). The situation in freight transportation was more stable. Freight turnover at Latvian ports in April increased by 0.7% year-on-year, whereas freight transportation by rail shrank by a mere 0.9%.

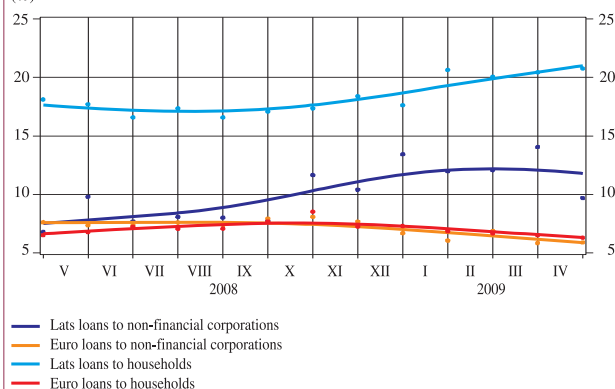
Compared with March, consumer prices fell by 0.4% and annual inflation continued to ease, standing at 6.2% in April. In line with an ongoing contraction of household income, domestic demand continued to weaken, thus tightening competition among retailers; hence, in April month-on-month, consumer price drops were recorded for almost all commodity and services groups, food products in particular (1.7%). At the same time, medical products posted a sharp price rise (5.3%); the contribution from tobacco product and fuel price rises was also strong. The annual consumer price core inflation dropped to 3.9%.

In April, the general government consolidated budget recorded a deficit of 190.8 million lats (deficit accumulated since the beginning of the year – 332.8 million lats). In the first four months of 2009, the central government basic budget and social security budget incurred deficits, whereas the local government consolidated budget continued to record a surplus. Deterioration in the general government consolidated budget in April was on account of revenue falling by 24.7% and expenditure rising by 15.9%. Tax revenues contracted markedly in all tax groups, with corporate income tax, VAT and personal income tax revenues dropping most (by 84.9%, 26.9% and 15.5% respectively). The upswing in expenditure was primarily fuelled by payments of subsidies and grants which expanded by 70.3%. Rising expenditure for social benefits (by 26.2%) and the growth in interest expense (84.7%) were also significant contributors.

The general government total debt increased by 143.2 million lats in April (to 3 119.0 million lats) primarily on account of the Treasury bill issuance. The general government external debt remained broadly unchanged.

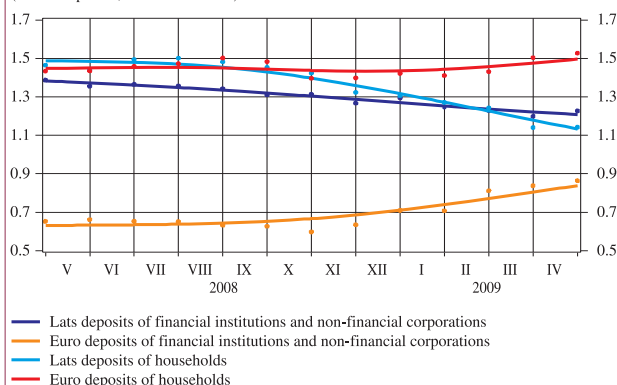
The annual lending rate decelerated to 4.3% in April, of which lending to non-financial corporations and households slowed

WEIGHTED AVERAGE INTEREST RATES ON NEW LOANS TO RESIDENT NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS (%)



**DEPOSITS OF RESIDENT FINANCIAL INSTITUTIONS,
NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS**

(at end of period; in billions of lats)



MACROECONOMIC INDICATORS	2009	
	III	IV
Volume index of industrial output (working-day adjusted annual rate of change; %)	-23.4	*
Changes in the CPI		
Month-on-month basis (%)	0.2	-0.4
Average annual inflation rate (HCPI) of last 12 months (%)	13.5	12.5
Year-on-year basis (%)	8.2	6.2
Annual rate of core inflation ¹ (%)	4.8	3.9
Number of registered unemployed persons (at end of period)	116 768	123 127
Unemployment rate (%)	10.7	11.0
General government consolidated budget financial deficit/surplus (in millions of lats)	-142.1	-332.8
Foreign trade (in millions of lats)		
Exports	288.0	*
Imports	412.6	*
Balance	-124.6	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

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

down to 9.2% and 1.3% respectively. Loans to resident financial institutions, non-financial corporations and households in April contracted by 115.9 million lats or 0.8%, dropping substantially for financial institutions and non-financial corporations, and to a lesser extent (by 0.4%) for households. Shrinking commercial credit and narrowing mortgage lending (by 3.4% and 0.8% respectively) had a downward effect; consumer credit contracted by a mere 0.2%, whereas industrial credit remained broadly unchanged. Loans in lats contracted by 45.3 million lats or 2.9% and loans in euro decreased by 68.0 million lats or 0.5%.

Stabilisation in the financial sector was reflected in growing term deposits attracted by banks and a resilient demand for cash. Thus in April, broad money M3 increased by 67.4 million lats and M2 by 63.6 million lats, despite a continued acceleration in the annual rate of decrease of the two indicators (to 8.2% and 8.1% respectively). The money supply was mainly boosted by an upsurge in time deposits with an agreed maturity of up to two years (71.6 million lats or 2.9%); at the same time, overnight deposits and deposits redeemable at notice contracted only by 0.2% and 1.1% respectively. Currency outside MFIs decreased at an annual rate of 16.6%.

With both non-financial corporations and households pushing up their savings with banks, total deposits in April increased by 1.7%, of which household deposits went up by 0.9% (for the household sector, it was the first month of deposit growth since August 2008). Although deposits in lats also grew, the increase in deposits in euro proceeded faster; the share of deposits in lats dropped to 46.5%, while deposits in euro grew to 47.0%.

In April, liabilities of Latvian banks to foreign banks contracted by 106.2 million lats (3.6 times less than in March), including a 101.7 million lats drop in borrowings from affiliated banks (a 151.6 million lats drop in March). Non-resident non-bank deposits rose slightly for the first time since August 2008 (by 8.6 million lats). In line with growing foreign assets, the negative indicator of MFI net foreign assets (except the Bank of Latvia) decreased by 296.1 million lats.

The monetary base M0 increased by 66.9 million lats in April, as at the end of the month banks used the Bank of Latvia's deposit facility less often due to a decrease in lats liquidity, and, as a result, demand deposits with the central bank grew. Net foreign assets of the Bank of Latvia decreased by 218.7 million lats in April, and the backing of the national currency with the Bank of Latvia's net foreign assets was 132.5% at the end of the month. The decrease in foreign reserves was on account of Bank of Latvia's interventions (selling euro) and shrinkage in the government's foreign currency deposit, with Latvia utilising a part of the international financial support. An upsurge in currency swaps and lending to banks had an upward effect on the central bank's money supply.

In April, the weighted average interest rate on overnight loans and average overnight RIGIBOR did not diverge substantially from March averages (3.0% and 3.1% respectively). At the same time, 3-, 6- and 12-month RIGIBOR continued to increase, standing at 12.74%, 13.40% and 13.68% respectively at the end of April.

The weighted average interest rate on loans to non-financial corporations in lats went down steeply (to 9.7%), while those to households and all customer groups in foreign currency underwent minor changes. The interest rates on non-financial corporation deposits rose somewhat, while those on household deposits remained broadly unchanged.

In April, the exchange rate of the US dollar set by the Bank of Latvia remained unchanged against the lats, whereas the British pound sterling and Japanese yen appreciated against the lats by 3.6% and 0.4% respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2009	
	III	IV
MFIs¹		
M3	5 872.7	5 940.1
Repurchase agreements	0	0
Money market fund shares and units	74.2	79.9
Debt securities issued with maturity of up to 2 years	3.2	1.3
M2	5 795.3	5 858.9
Deposits with agreed maturity of up to 2 years	2 459.2	2 530.8
Deposits redeemable at notice of up to 3 months	290.0	286.7
M1	3 046.2	3 041.3
Currency outside MFIs	726.5	725.6
Overnight deposits	2 319.6	2 315.7
Net external assets	-5 139.9	-5 062.6
Credit to resident financial institutions, non-financial corporations and households	14 368.3	14 252.4
Credit to general government	607.0	715.6
Deposits of central government	1 418.2	1 362.9
Longer-term financial liabilities	2 289.8	2 248.3
Bank of Latvia		
M0	1 545.3	1 612.2
Currency in circulation	833.4	846.6
Deposits with the Bank of Latvia in lats	703.1	752.9
Deposits with the Bank of Latvia in foreign currencies	8.9	12.7
Net foreign assets	2 355.0	2 136.3
Net domestic assets	-809.7	-524.1
Credit	-281.3	-221.2
To MFIs	254.3	275.0
To central government (net)	-535.6	-496.2
Other items (net)	-528.4	-302.9
International reserves (at end of period; in millions of euro)	3 337.74	3 045.91
Gold	174.06	168.21
Special Drawing Rights	0.52	0.52
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	3 163.10	2 877.12
International reserves (at end of period; in millions of US dollars)	4 409.36	4 023.82
Gold	229.95	222.22
Special Drawing Rights	0.69	0.68
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	4 178.64	3 800.84

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2009	
	III	IV
Weighted average interest rate on domestic interbank loans in lats	2.4	3.0
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	14.1	9.7
Loans to households (in lats)	20.3	20.5
incl. for house purchase	12.1	12.2
Loans to non-financial corporations (in foreign currencies)	6.0	6.1
Loans to households (in foreign currencies)	6.3	6.2
incl. for house purchase	5.5	5.3
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	5.9	6.3
Demand deposits of non-financial corporations (in lats)	0.8	1.9
Time deposits of households (in lats)	7.6	7.8
Demand deposits of households (in lats)	0.9	0.9
Time deposits of non-financial corporations (in foreign currencies)	1.7	2.2
Demand deposits of non-financial corporations (in foreign currencies)	0.5	0.4
Time deposits of households (in foreign currencies)	3.1	3.2
Demand deposits of households (in foreign currencies)	0.9	0.9
The Bank of Latvia's refinancing rate (at end of period; %)	5.0	5.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5320	0.5320
LVL/GBP	0.7560	0.7830
LVL/100 JPY	0.5480	0.5500
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	
	III	IV
MFI reserves	1 087.5	940.3
Vault cash in national currency	106.8	121.1
Deposits with the Bank of Latvia	980.6	819.3
Foreign assets	4 549.9	4 734.1
Vault cash in foreign currencies	58.9	62.2
Claims on MFIs	2 481.6	2 690.6
Claims on non-MFIs	1 907.8	1 878.6
Other assets	101.5	102.6
Claims on central government	526.7	641.2
Claims on local government	80.3	74.5
Claims on public non-financial corporations	383.0	376.7
Claims on financial institutions and private non-financial corporations	7 743.9	7 658.7
Claims on households	6 331.2	6 306.1
Unclassified assets	1 131.7	1 062.9
Fixed assets	166.3	164.9
Items in transit	22.5	23.2
Other assets	356.0	367.2
Claims on resident MFIs (incl. investments)	586.9	507.6
Total assets	21 834.2	21 794.4
<i>Memo item: Trust assets</i>	<i>342.9</i>	<i>331.9</i>
Overnight deposits in lats	1 152.9	1 162.0
Public non-financial corporations	82.6	85.6
Financial institutions and private non-financial corporations	512.8	494.0
Households	557.6	582.4
Time deposits and deposits redeemable at notice in lats	1 187.2	1 208.6
Public non-financial corporations	172.4	177.6
Financial institutions and private non-financial corporations	431.7	470.7
Households	583.1	560.3
Foreign currency deposits of residents	2 671.9	2 727.3
Public non-financial corporations	33.2	35.9
Financial institutions and private non-financial corporations	912.0	939.7
Households	1 726.7	1 751.7
Deposits of central government	882.6	866.7
Deposits of local government	217.9	202.8
Transit funds	3.5	3.4
Foreign liabilities	12 044.8	11 933.0
Liabilities to MFIs	8 464.3	8 358.1
Liabilities to non-MFIs	3 184.2	3 192.8
Other liabilities (incl. subordinated liabilities)	396.3	382.1
Liabilities to the Bank of Latvia	254.3	275.0
Debt securities issued	168.7	163.5
Money market fund shares and units	74.2	79.9
Capital and reserves	1 686.9	1 655.2
Residents	949.0	917.3
Non-residents	737.9	737.9
Provisions	589.1	651.3
Unclassified liabilities	900.2	865.7
Items in transit	87.3	87.7
Other liabilities (incl. subordinated liabilities)	270.1	310.3
Liabilities to resident MFIs	542.8	467.7
Total liabilities	21 834.2	21 794.4
<i>Memo item: Trust liabilities</i>	<i>342.9</i>	<i>331.9</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>).