

# MONETARY BULLETIN 2007

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In January, the growth in monetary aggregates moderated due to seasonal factors: the money supply increased slightly, and the pickup in loans in absolute terms was the smallest in the last six months, recording an annual growth rate of 58.2%, the slowest since September 2005. Overall, the situation in the Latvian economy remained broadly unchanged. In January inflation was high, with prices rising by 1.3% within a month and the annual inflation, which soared to 7.1%, exceeding the 7% level for the first time since January 2006. January price changes were mainly driven by a rise in vegetable prices (25.9%), more costly catering services as well as services and goods related to housing maintenance, including higher electricity tariffs (by 6.3%) and fuel prices (by 3.4%) due to revisions made in excise tax rates. Prices for clothing and footwear went down 5.3% as a result of seasonal sales.

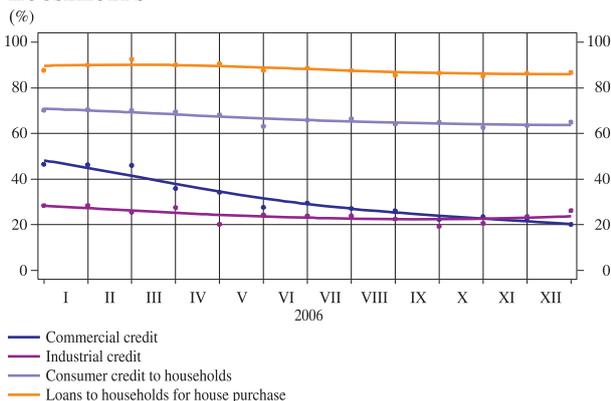
In December, the seasonally adjusted volume index of industrial output increased by 3.2%, with the corresponding index in manufacturing rising by 4.6%. In January, the volume of rail freight continued to narrow (by 12.2%). Freight turnover at Latvian ports shrank by 10.0% year-on-year, whereas oil products transported by pipeline grew by 8.9%. Retail trade remained on a steep upward trend (an increase of 35.5% at constant prices), with mainly sales of durable goods as the major contributor. The number of unemployed persons increased slightly in January, whereas the unemployment rate remained unchanged (6.5%).

The financial surplus of the general government consolidated budget was 153.9 million lats in January (64.4 million lats in January 2006). Surpluses were recorded in the central government consolidated budget, social security fund and local government consolidated budget. The general government consolidated budget revenue grew by 41.0% year-on-year in January. A similar increase was recorded for social insurance contributions (42.0%), whereas the personal income tax revenue went up by 35.3%. Budget expenditure rose by a mere 14.2%.

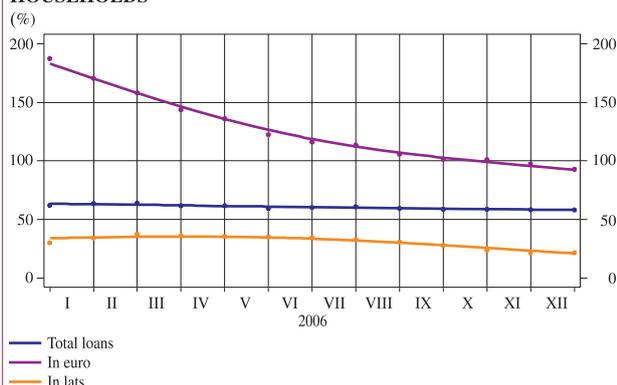
The general government debt, which stood at 1 154.1 million lats at the end of January, rose by 39.0 million lats within a month, primarily due to the issue of the Latvian government securities. In January, competitive multi-price auctions of 6- and 12-month Treasury bills as well as of 5-year bonds, one for each type, were held on the primary market where securities in the amount of 27.3 million lats were sold. The yields on both Treasury bills and bonds were lower than at previous auctions: the yield on 6-month Treasury bills shrank by 0.6 percentage point (to 4.213%), that on 12-month Treasury bills dropped 0.5 percentage point (to 4.344%), and those on 5-year bonds declined by 0.1 percentage point (to 5.089%).

In January, the growth in broad money M3 was subdued due to seasonal factors, with residents' deposits picking up moderately and the demand for cash easing. As a result, the annual rate of growth in M3 decelerated by 0.4 percentage point (to 39.9%). The annual growth rate of overnight deposits dropped 2.8 percentage points (to 45.8%). At the same time, the annual rate of increase in deposits with an agreed maturity up to two years grew by 5.4 percentage points (to 39.1%), that in deposits redeemable at notice picked up 4.2 percentage points (to 43.2%), and that in currency outside MFIs went up by 0.9 percentage point (to 24.2%). The annual growth rate of monetary aggregate

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M2 accelerated (to 39.9%), whereas that of M1 decelerated (to 40.0%).

With the annual growth rate of deposits in euro decelerating to 64.5% and the respective indicator for deposits in lats accelerating to 40.7%, the overall annual rate of increase in deposits of resident financial institutions, non-financial corporations and households in January slowed down by 0.4 percentage point (to 40.6%).

The growth in loans in January was less pronounced (271.4 million lats) due to seasonal factors and was basically driven by an increase of 134.6 million lats in loans to households for house purchase. The rise in commercial credit was more moderate (47.4 million lats). In comparison with December, the annual growth rate of commercial credit decelerated to 20.1% but that of loans to households for house purchase, industrial credit and consumer credit accelerated (to 86.8%, 26.2% and 65.0% respectively) in January. Household lending increased more significantly, with the annual rate of increase in such loans amounting to 76.4%, while the annual growth rate of lending to financial institutions and non-financial corporations declined to 46.2%. The largest contribution to the growth came from loans in euro reporting an increase of 211.7 million lats, whereas the loans in lats recorded a weaker expansion of 59.2 million lats. However, the annual rate of increase in loans in lats accelerated slightly and was 21.6% in January, whereas the annual rate of growth in loans in euro declined to 92.9%.

In January, the negative net foreign assets of MFIs (excluding the Bank of Latvia) grew by 202.4 million lats.

At the beginning of 2007, the state budget accumulated a substantial surplus, and the banking system's net credit to the general government dropped 141.5 million lats.

Trend changes in interest rates on MFI loans were not sharp, with the average weighted interest rate on loans to households for house purchase in foreign currency remaining unchanged (5.4%), and such rate on respective loans in lats falling by 0.4 percentage point (to 6.5%). The weighted average interest rate on loans to non-financial corporations in lats declined substantially (by 1.0 percentage point; to 5.8%); the weighted average interest rate on loans to this group of customers in foreign currency rose to 6.0%.

Excess liquidity persisted in the banking sector, with RIGIBOR on overnight loans at a low level (2.5%–3.3%). At the same time, RIGIBOR on loans with 6- and 12-month maturity decreased by 7 and 14 basis points within a month, and was 4.76% and 5.04% respectively at the end of the period.

In January, banks did not buy and borrow national currency from the central bank but reduced their excess liquidity by placing time deposits with the Bank of Latvia. A steep increase (181.8 million lats) in government deposits with the central bank, reflecting the large excess of budget revenue over expenditure, also limited liquidity. Bank demand deposits with the Bank of Latvia decreased by 120.6 million lats and currency in circulation shrank by 26.3 million lats, resulting in a narrowing monetary base M0 whose annual growth rate went down to 44.5%. Net foreign assets of the Bank of Latvia gained 24.6 million lats in January, and the backing of the national currency with the central bank's net foreign assets was 116.0% at the end of the month.

In January, the US dollar and the British pound sterling appreciated against the lats by 1.1% and 1.5% respectively, whereas the Japanese yen depreciated by 1.3%.

MACROECONOMIC INDICATORS	2006	2007
	XII	I
Changes in the volume index of industrial output (year-on-year basis; %)	3.2	*
Changes in the CPI		
Month-on-month basis (%)	0.3	1.3
Year-on-year basis (%)	6.8	7.1
Annual rate of core inflation <sup>1</sup> (%)	5.8	6.0
Number of registered unemployed persons (at end of period)	68 944	69 532
Unemployment rate (%)	6.5	6.5
General government consolidated budget financial deficit/surplus (in millions of lats)	-98.6	153.9
Foreign trade (in millions of lats)		
Exports	282.0	*
Imports	605.0	*
Balance	-323.0	*

<sup>1</sup> Source: Bank of Latvia.

\* Figure available at a later date.

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

<b>MONETARY INDICATORS</b> (at end of period; in millions of lats)	2006	2007
	XII	I
<b>MFIs<sup>1</sup></b>		
<b>M3</b>	5 506.8	5 534.7
Repurchase agreements	0	0
Money market fund shares and units	46.1	52.1
Debt securities issued with maturity of up to 2 years	4.8	4.8
<b>M2</b>	5 456.0	5 477.8
Deposits with agreed maturity of up to 2 years	1 241.9	1 303.5
Deposits redeemable at notice of up to 3 months	148.2	156.8
<b>M1</b>	4 065.8	4 017.5
Currency outside MFIs	969.3	954.3
Overnight deposits	3 096.5	3 063.2
Net external assets	-2 634.7	-2 812.4
Credit to resident financial institutions, non-financial corporations and households	9 722.9	9 994.3
Credit to general government	333.7	368.7
Deposits of central government	89.8	248.3
Longer-term financial liabilities	1 804.9	1 829.1
<b>Bank of Latvia</b>		
<b>M0</b>	2 248.8	2 101.9
Currency in circulation	1 073.9	1 047.6
Deposits with the Bank of Latvia in lats	1 174.9	1 054.3
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	2 414.4	2 439.0
Net domestic assets	-165.6	-337.1
Credit	-49.8	-231.6
To MFIs	0	0
To central government (net)	-49.8	-231.6
Other items (net)	-115.8	-105.6
International reserves (at end of period; in millions of US dollars)	4 509.60	4 516.96
Gold	156.10	160.00
Special Drawing Rights	0.16	0.16
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	4 353.26	4 356.72

<sup>1</sup>In accordance with the methodology of the European Central Bank.

<b>EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES</b>	2006	2007
	XII	I
Weighted average interest rate on domestic interbank loans in lats	2.3	2.6
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	6.8	5.8
Loans to households (in lats)	9.9	10.1
incl. for house purchase	6.9	6.5
Loans to non-financial corporations (in foreign currencies)	5.9	6.0
Loans to households (in foreign currencies)	5.7	5.6
incl. for house purchase	5.4	5.4
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	3.5	3.5
Demand deposits of non-financial corporations (in lats)	0.7	1.0
Time deposits of households (in lats)	3.9	3.8
Demand deposits of households (in lats)	0.5	0.5
Time deposits of non-financial corporations (in foreign currencies)	3.4	3.2
Demand deposits of non-financial corporations (in foreign currencies)	1.7	1.7
Time deposits of households (in foreign currencies)	3.9	3.6
Demand deposits of households (in foreign currencies)	1.4	1.4
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	0.5360	0.5420
LVL/GBP	1.0480	1.0640
LVL/100 JPY	0.4510	0.4450
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)	2006	2007
	XII	I
MFI reserves	1 316.8	1 179.9
Vault cash in national currency	104.5	93.3
Deposits with the Bank of Latvia	1 212.3	1 086.6
Foreign assets	3 625.8	3 736.9
Vault cash in foreign currencies	65.1	58.3
Claims on MFIs	2 160.0	2 246.4
Claims on non-MFIs	1 353.6	1 389.3
Other assets	47.1	42.9
Claims on central government	259.0	293.9
Claims on local government	74.7	74.7
Claims on public non-financial corporations	114.5	118.3
Claims on financial institutions and private non-financial corporations	5 359.2	5 478.1
Claims on households	4 303.2	4 454.2
Unclassified assets	814.8	867.2
Fixed assets	133.9	134.7
Items in transit	16.0	20.1
Other assets	111.1	110.7
Claims on resident MFIs (incl. investments)	553.8	601.6
<b>Total assets</b>	<b>15 867.9</b>	<b>16 203.2</b>
<i>Memo item: Trust assets</i>	<i>432.2</i>	<i>447.5</i>
Overnight deposits in lats	1 804.1	1 767.6
Public non-financial corporations	115.6	96.7
Financial institutions and private non-financial corporations	775.6	757.6
Households	912.8	913.3
Time deposits and deposits redeemable at notice in lats	846.8	877.8
Public non-financial corporations	73.7	84.0
Financial institutions and private non-financial corporations	214.8	216.4
Households	558.4	577.4
Foreign currency deposits of residents	1 859.7	1 877.5
Public non-financial corporations	25.9	29.3
Financial institutions and private non-financial corporations	603.3	563.1
Households	1 230.6	1 285.2
Deposits of central government	40.0	16.7
Deposits of local government	143.4	161.3
Transit funds	4.4	4.4
Foreign liabilities	8 674.8	8 988.3
Liabilities to MFIs	5 388.4	5 645.3
Liabilities to non-MFIs	3 016.8	3 071.5
Other liabilities (incl. subordinated liabilities)	269.6	271.5
Liabilities to the Bank of Latvia	0	0
Debt securities issued	319.8	323.1
Money market fund shares and units	46.1	52.1
Capital and reserves	1 212.7	1 244.8
Residents	758.0	786.6
Non-residents	454.7	458.2
Provisions	92.8	95.3
Unclassified liabilities	823.3	794.2
Items in transit	199.2	128.5
Other liabilities (incl. subordinated liabilities)	117.9	111.9
Liabilities to resident MFIs	506.3	553.7
<b>Total liabilities</b>	<b>15 867.9</b>	<b>16 203.2</b>
<i>Memo item: Trust liabilities</i>	<i>432.2</i>	<i>447.5</i>

Note. Due to the exclusion from the List of MFIs of the Republic of Latvia of the joint stock company Ogres komercbanka, the respective indicators are not included in monetary and financial statistics published by the Bank of Latvia as of December 2006.

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>).