

MONETARY BULLETIN 2007

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In August, economic growth showed some signs of moderating, with high risks relating to economic overheating remaining. The impact of Government's measures to reduce inflation was reflected by stabilisation in the real estate market and a moderate decline in prices in some of its segments, as well as a drop in lending expansion, especially granting of real estate loans. Due to a rise in the costs of production and services based on domestic resources and developments in global food markets, as well as the effect of an increase in excise tax on tobacco products the annual inflation rose to 10.1% and the 12-month average annual inflation (the harmonised index of consumer prices) reached 7.8%.

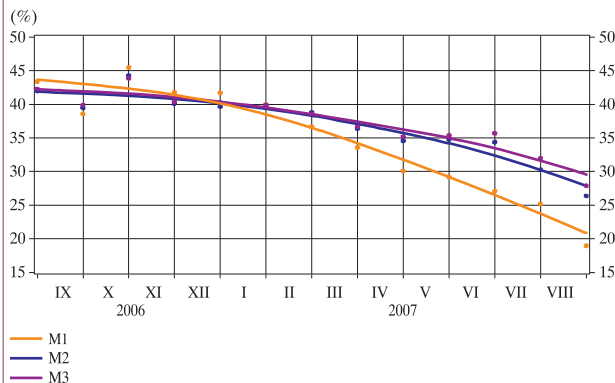
The GDP growth in the second quarter was vigorous (11.0%) and it was determined by the substantial growth of the services sector and construction. The previous trends in real sector development continued in July, with manufacturing production increasing only by 0.5% while higher growth in energy sector (1.8%) brought about an increase in industrial production overall. The persistent high growth of the retail trade turnover (24.0%) suggested that private consumption remained solid. In August, the volume of freight transported by rail and cargo turnover at Latvian ports declined slightly (by 1.5% and 4.0% respectively). At the same time, the decrease in the unemployment rate was more rapid than usually (by 0.3 percentage point to 5.4%).

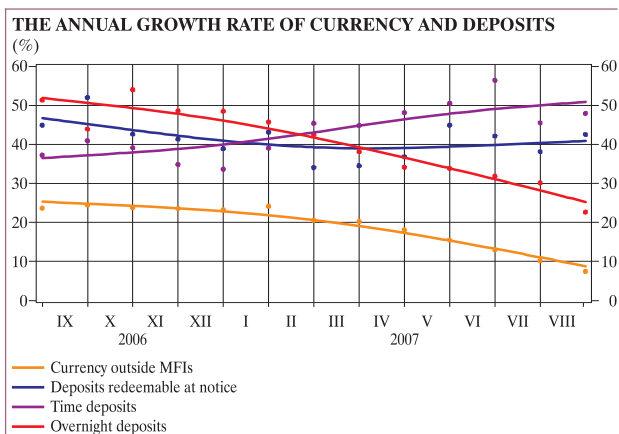
The surplus of the general government consolidated budget stood at 57.9 million lats in August, with the surplus since the beginning of the year amounting to 347.6 million lats (261.7 million lats in the respective period of 2006). In August, the increase of the general government consolidated budget revenue (33.8%), like in previous months, was supported by the fast growth of tax revenue (36.8%). The rise in the value added tax revenue was slightly faster (an increase of 40.5%), while that in social security contributions revenue was slower (27.1%). The amount of EU structural funds received, non-tax revenue and budget institutions' revenue stood higher year-on-year. The increase in the central government consolidated budget expenditure was somewhat slower than the growth in revenue (29.3%), partly due to a decrease in the capital expenditure growth to 30.0% (in the previous seven months the average annual growth rate was 52.9%).

The general government debt, which at the end of August stood at 1 087.3 million lats, increased by 0.6 million lats within the month due to the issuance of 11-year government bonds.

In August, the annual growth rate of broad money M3 declined to 27.9% (32.0% in July). The annual growth rate of monetary aggregates M2 and M1 also decelerated to 26.4% and 19.0% respectively. Monetary development was affected to some extent by the persistent macroeconomic risks which slowed down saving, as well as the decrease in the growth rate of lending. The rapid decline in the annual M1 growth rate suggested an increase in overnight deposits and cash opportunity costs. Currency outside MFIs decreased by 6.3 million lats and its annual growth rate posted a 2.7 percentage point decrease (to

THE ANNUAL GROWTH RATE OF MONEY INDICATORS





7.5%), but overnight deposits decreased by 83.3 million lats, with the annual growth rate standing at 22.7%. By contrast, the deposits of financial institutions, non-financial corporations and households with MFIs grew by 3.2 million lats in August, with the annual growth rate losing 3.8 percentage points (to 28.1%).

The annual growth rate of loans to resident financial institutions, non-financial corporations and households continued to slow down in August, reaching the lowest level since March 2005 (49.6%). With the lending to households moderating and less loans granted for house purchase, the increase in loans to non-financial corporations (169.4 million lats) was notably higher than that in loans to households (98.4 million lats, including a rise 78.2 million lats on loans for house purchase). Thus, the annual growth rate of loans granted to non-financial corporations rose to 48.1%, whereas that of loans granted to households fell to 58.7% (to 68.9% on loans for house purchase). The respective industrial credit to non-financial corporations climbed to 45.1%.

Loans in lats decreased even further, while loans in euro accounted for 80.7% of the total loans. However, the annual growth in loans in euro kept on decelerating (to 75.5% in August), whereas the stock of loans in lats lagged 6.8% behind the level of the respective period of the previous year.

With domestic deposits remaining broadly unchanged and non-resident non-MFI deposits declining, banks attracted additional funds from foreign credit institutions, both from parent banks and in the form of syndicated loans. In August, the negative net foreign assets of MFIs (except the Bank of Latvia) grew by 341.0 million lats.

At the end of August, the monetary base M0 increased by 107.7 million lats month-on-month, nevertheless, the annual growth rate of the monetary base and bank deposits with the Bank of Latvia fell to 22.5% and 34.8% respectively. In August, the growth of the central bank's money supply could be attributed to both the Bank of Latvia's outright purchases of foreign currencies and currency swaps. Thus, the Bank of Latvia's net foreign assets grew by 89.5 million lats or 3.4%, recording an increase of 23.8% during the last 12 months. At the end of August, the backing of the national currency with the Bank of Latvia's net foreign assets was 114.7%. Additional contribution to the money supply was made by an expansion in loans granted to banks (46.8 million lats) and a decrease of the recourse to the deposit facility by 21.9 million lats. At the same time, an increase in the Government deposit with the Bank of Latvia by 39.9 million lats had a moderating effect on the growth of the money supply.

In August, the need for additional liquidity was the reason for a further substantial increase of RIGIBOR. RIGIBOR on overnight loans recorded even 9.50% in mid-month, whereas those on 3- and 6-month loans recorded a monthly increase by 276 and 204 basis points respectively (to 9.14% and 9.40%). The weighted average interest rate on loans in lats to non-financial corporations and households for house purchase was 9.2% and 11.4% respectively as a result of an increase of RIGIBOR. Weighted average interest rates on loans in foreign currencies also continued to increase: to 6.4% for households (to 6.2% on loans for house purchase) and to 6.7% for non-financial corporations. In August, there was an increase in weighted average interest rates on deposits, in particular, on those made in lats.

In August, the Bank of Latvia's exchange rate set for the US dollar against the lats remained unchanged compared with July. The British pound sterling depreciated by 0.6%, whereas the Japanese yen appreciated by 2.5%.

MACROECONOMIC INDICATORS	2007	
	VII	VIII
Changes in the volume index of industrial output (year-on-year basis; %)	1.8	*
Changes in the CPI		
Month-on-month basis (%)	1.2	0.4
Average annual inflation rate (HCPI) of last 12 months (%)	7.5	7.8
Year-on-year basis (%)	9.5	10.1
Annual rate of core inflation ¹ (%)	9.1	10.1
Number of registered unemployed persons (at end of period)	60 635	57 940
Unemployment rate (%)	5.7	5.4
General government consolidated budget financial deficit/surplus (in millions of lats)	289.6	347.6
Foreign trade (in millions of lats)		
Exports	328.3	*
Imports	717.5	*
Balance	-389.2	*

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)	2007	
	VII	VIII
MFIs¹		
M3	6 167.0	6 161.2
Repurchase agreements	0	0
Money market fund shares and units	70.4	62.2
Debt securities issued with maturity of up to 2 years	52.1	51.8
M2	6 044.5	6 047.2
Deposits with agreed maturity of up to 2 years	1 576.2	1 660.8
Deposits redeemable at notice of up to 3 months	187.7	195.3
M1	4 280.7	4 191.1
Currency outside MFIs	946.8	940.6
Overnight deposits	3 333.8	3 250.6
Net external assets	-3 744.3	-3 995.7
Credit to resident financial institutions, non-financial corporations and households	11 980.5	12 265.3
Credit to general government	297.5	303.1
Deposits of central government	274.2	313.4
Longer-term financial liabilities	2 156.7	2 179.4
Bank of Latvia		
M0	2 268.9	2 376.6
Currency in circulation	1 054.7	1 057.5
Deposits with the Bank of Latvia in lats	1 214.2	1 319.0
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	2 636.1	2 725.6
Net domestic assets	-367.2	-349.1
Credit	-248.1	-241.2
To MFIs	0	46.8
To central government (net)	-248.1	-288.0
Other items (net)	-119.1	-107.9
International reserves (at end of period; in millions of US dollars)	5 109.27	5 293.94
Gold	164.70	165.53
Special Drawing Rights	0.16	0.17
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	4 944.33	5 128.16

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2007	
	VII	VIII
Weighted average interest rate on domestic interbank loans in lats	2.7	6.7
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	8.4	9.2
Loans to households (in lats)	16.5	15.4
incl. for house purchase	10.0	11.4
Loans to non-financial corporations (in foreign currencies)	6.5	6.7
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)	4.1	6.3
Demand deposits of non-financial corporations (in lats)	1.0	2.6
Time deposits of households (in lats)	4.6	6.0
Demand deposits of households (in lats)	0.5	0.6
Time deposits of non-financial corporations (in foreign currencies)	4.0	4.2
Demand deposits of non-financial corporations (in foreign currencies)	1.9	1.9
Time deposits of households (in foreign currencies)	4.0	4.1
Demand deposits of households (in foreign currencies)	1.7	1.8
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	0.5150	0.5150
LVL/GBP	1.0430	1.0370
LVL/100 JPY	0.4350	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)

	2007	
	VII	VIII
MFI reserves	1 337.0	1 429.2
Vault cash in national currency	107.9	116.9
Deposits with the Bank of Latvia	1 229.0	1 312.2
Foreign assets	4 641.9	4 458.3
Vault cash in foreign currencies	61.0	61.1
Claims on MFIs	2 838.8	2 620.8
Claims on non-MFIs	1 676.1	1 706.9
Other assets	66.0	69.5
Claims on central government	230.4	236.2
Claims on local government	67.0	66.9
Claims on public non-financial corporations	180.6	199.4
Claims on financial institutions and private non-financial corporations	6 320.3	6 487.5
Claims on households	5 538.3	5 636.7
Unclassified assets	971.4	877.5
Fixed assets	148.2	153.3
Items in transit	29.5	23.9
Other assets	133.7	145.5
Claims on resident MFIs (incl. investments)	660.0	554.8
Total assets	19 286.8	19 391.7
<i>Memo item: Trust assets</i>	<i>601.6</i>	<i>616.0</i>
Overnight deposits in lats	1 758.3	1 697.6
Public non-financial corporations	101.5	94.1
Financial institutions and private non-financial corporations	721.7	711.6
Households	935.1	891.9
Time deposits and deposits redeemable at notice in lats	927.5	927.6
Public non-financial corporations	149.4	147.4
Financial institutions and private non-financial corporations	196.6	207.5
Households	581.5	572.8
Foreign currency deposits of residents	2 316.6	2 380.3
Public non-financial corporations	30.1	28.2
Financial institutions and private non-financial corporations	685.4	697.0
Households	1 601.1	1 655.1
Deposits of central government	26.1	25.4
Deposits of local government	262.6	267.5
Transit funds	4.2	4.2
Foreign liabilities	11 022.3	11 179.7
Liabilities to MFIs	7 060.6	7 352.1
Liabilities to non-MFIs	3 676.6	3 533.5
Other liabilities (incl. subordinated liabilities)	285.1	294.1
Liabilities to the Bank of Latvia	0	46.8
Debt securities issued	359.1	350.1
Money market fund shares and units	70.4	62.2
Capital and reserves	1 547.5	1 569.3
Residents	837.0	858.1
Non-residents	710.4	711.2
Provisions	102.5	108.1
Unclassified liabilities	889.7	772.8
Items in transit	161.5	152.1
Other liabilities (incl. subordinated liabilities)	131.7	132.3
Liabilities to resident MFIs	596.5	488.4
Total liabilities	19 286.8	19 391.7
<i>Memo item: Trust liabilities</i>	<i>601.6</i>	<i>616.0</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>).