

# MONETARY BULLETIN 2007

## 11

Buoyant economic growth continued in November. Though a 10.9% GDP growth was registered in the third quarter, a number of indicators suggested that the measures undertaken by the government and the banking system have resulted in slowing down the pace of the national economy. The lending growth rates continued to fall, increase of monetary aggregates was more contained, real estate prices declined, and private consumption shrank. The retail trade turnover (including sales of motor vehicles and automotive fuel) reported a modest annual growth (10.7% in October), with the sales of furniture, lighting fixtures and other household articles dropping. The turnover figures of public catering companies continued on a downward trend (10.6% in October).

Though a significant growth was registered in individual sectors of manufacturing, the declining output in a number of sectors, particularly in manufacture of food products, accounted for a 6.7% annual decrease of output in October. Seasonally adjusted volume index of industrial output decreased by 1.6%. In November, freight transportation by rail increased by 29.8% and the freight turnover at Latvian ports picked up (5.2%). Unemployment dropped somewhat (to 4.8%).

The developments in global food and fuel markets, as well as a further rise of administered prices fuelled inflation growth. The price increase in November (1.4%) pushed the annual inflation rate up to 13.7%, with the 12-month annual inflation (HICP) reaching 9.5%. The growth of bread and cereal product prices (16.3% and 6.3% respectively), the rise of fuel prices (5.4%) and a significant increase of vegetable, meat and dairy product prices were the major contributors to the average price increase in November.

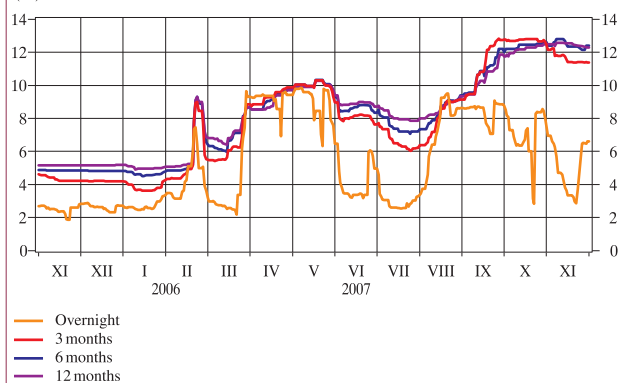
In November, the financial deficit of general government consolidated budget stood at 29.8 million lats, whereas the financial surplus declined to 262.4 million lats since the beginning of year, posting a 11.6% annual growth. The social security fund in November reported a financial surplus, whereas the central government basic budget ran a financial deficit of 74.4 million lats. Tax revenue growth rate increased somewhat (to 31.8%). The overall growth of general government consolidated budget revenue (29.2%) was slightly smaller than in the previous month. The increase of general government consolidated budget expenditure was moderate (15.7%) due to the subdued growth of wages and salaries and social security contributions, as well as capital expenditure. General government total debt, standing at 1 105.7 million lats at the end of November, reported a 28.8 million lats growth during the month.

In November, the annual growth rate of monetary aggregates continued to decline. In November, it was the narrow money M1, overnight deposits and currency outside MFIs that diminished in absolute terms (the former by 47.1 million lats, resulting in a negative annual growth rate of 0.3%). Broad money M3 increased by 29.4 million lats, with the annual growth rate declining from 19.0% in October to 17.3% in November; the increase of monetary aggregate M2 was only slightly more pronounced, its annual growth declining to 16.5%.

The expansion of time deposits and savings deposits (especially in lats) was promoted by the rising interest rates; overnight deposits underwent a further decline. The deposits of financial institutions, non-financial corporations and households increased by 28.2 million lats in November, while the annual growth rate dropped to 18.6%. Lats deposits increased by 27.1 million lats, with those in euro remaining broadly unchanged.

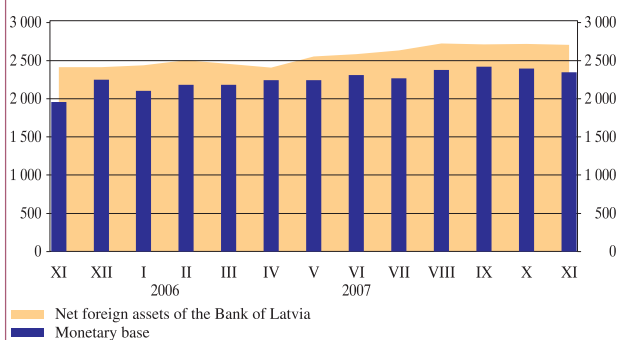
**MONEY MARKET INDEX RIGIBOR**

(%)



### BACKING OF THE NATIONAL CURRENCY

(at end of period; in millions of lats)



MACROECONOMIC INDICATORS	2007	
	X	XI
Changes in the seasonally adjusted volume index of industrial output (year-on-year basis; %)	-1.6	*
Changes in the CPI		
Month-on-month basis (%)	2.2	1.4
Average annual inflation rate (HCPI) of last 12 months (%)	8.9	9.5
Year-on-year basis (%)	13.2	13.7
Annual rate of core inflation <sup>1</sup> (%)	11.8	12.6
Number of registered unemployed persons (at end of period)	52 383	51 660
Unemployment rate (%)	4.9	4.8
General government consolidated budget financial deficit/surplus (in millions of lats)	292.2	262.4
Foreign trade (in millions of lats)		
Exports	374.2	*
Imports	683.2	*
Balance	-309.0	*

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

\* Figure available at a later date.

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

A declining trend of lending was observed in domestic lending. In November, the annual increase declined by 5.4 percentage points (to 37.4%, which is the lowest growth rate registered since the beginning of 2003), with the month-on-month increase (136.9 million lats) the lowest since April 2006. The increase in mortgage lending continued to be the key contributor to overall increase in loans, whereas the month-on-month increase in loans for house purchases continued to shrink (73.9 million lats in November, 87.4 million lats in October). The annual increase in loans for house purchases also slowed down rapidly (by 5.2 percentage points, to 51.0%). The annual consumer credit growth rate dropped 1.6 percentage points (to 26.6%). The growth of industrial credit and commercial credit (by 25.3 million lats and 15.3 million lats respectively) continued to dominate in the increase of loans granted to non-financial corporations. Lending to households and non-financial corporations continued to decrease year-on-year, posting a November growth rate of 43.8% and 36.9% respectively. The loans granted to above mentioned sectors grew by a moderate 84.8 million lats and 62.2 million lats respectively. The currency composition of the loans remained unchanged. The overall growth was on account of loans granted in euro (184.1 million lats), whereas the increase of lending in lats continued to decline (62.7 million lats). The annual rate of increase in loans in euro continued to follow a downward trend (57.5% in November), whereas that of loans in lats was negative (15.7% in November).

As to attracted funds, those contributed by foreign banks increased notably (by 242.3 million lats, including 241.2 million lats from affiliated banks). The negative net foreign assets of MFIs (except the Bank of Latvia) grew by 80.2 million lats in November (by 229.9 million lats in October).

The amount of required reserves went up only marginally in November. The banks' demand deposits with the Bank of Latvia diminished. Demand for cash also continued to shrink, and monetary base M0 was by 46.0 million lats smaller at the end of November than a month ago (the annual growth rate of the monetary base went up to 20.0%). In November, the central bank's money supply diminished mainly on account of the reduced lending to banks and the drop in currency swap balance (29.3 million lats and 45.0 million lats respectively), and increased on account of a decline in the Government deposit with the Bank of Latvia (11.4 million lats). Bank of Latvia's net foreign assets contracted somewhat in November (by 12.5 million lats or 0.5%). At the end of November, the backing of the national currency with the Bank of Latvia's net foreign assets was 115.3%.

On average, RIGIBOR in November was lower than in October. At the end of November, RIGIBOR on 3-month loans stood at 11.37%, a 127 basis points month-on-month decline, while RIGIBOR on 6-months loans dropped by 22 basis points, to stand at 12.40%. During the last days of the reserve maintenance period, RIGIBOR on overnight loans went down to 2.86%, yet, the average rate (5.00%) was more than 200 basis points lower than in October.

The weighted average interest rate on loans in lats granted to households was 18.4%, with weighted average interest rate on loans for house purchases reaching 14.5%. Average interest rate on loans granted to non-financial corporations was 11.7%. Weighted average interest rates on loans in foreign currencies remained stable, whereas the interest on deposits declined somewhat.

Further weakening of the US dollar in the global markets determined the exchange rate set by the Bank of Latvia, and the US dollar depreciated by 2.9% against the lats in November. The British pound sterling depreciated against lats as well (by 2.3%), while Japanese yen appreciated by 1.2%.

MONETARY INDICATORS (at end of period; in millions of lats)	2007	
	X	XI
<b>MFIs<sup>1</sup></b>		
<b>M3</b>	6 083.6	6 113.0
Repurchase agreements	0	0
Money market fund shares and units	43.8	43.3
Debt securities issued with maturity of up to 2 years	43.4	42.7
<b>M2</b>	5 996.4	6 027.0
Deposits with agreed maturity of up to 2 years	1 791.9	1 867.5
Deposits redeemable at notice of up to 3 months	334.1	336.2
<b>M1</b>	3 870.4	3 823.3
Currency outside MFIs	888.4	880.3
Overnight deposits	2 982.0	2 943.0
Net external assets	-4 400.0	-4 492.6
Credit to resident financial institutions, non-financial corporations and households	12 670.2	12 807.1
Credit to general government	301.4	318.5
Deposits of central government	269.4	265.2
Longer-term financial liabilities	2 253.0	2 288.6
<b>Bank of Latvia</b>		
<b>M0</b>	2 394.1	2 348.1
Currency in circulation	996.9	999.8
Deposits with the Bank of Latvia in lats	1 397.1	1 343.6
Deposits with the Bank of Latvia in foreign currencies	0	4.7
Net foreign assets	2 720.9	2 708.4
Net domestic assets	-326.8	-360.4
Credit	-201.8	-219.6
To MFIs	54.3	25.0
To central government (net)	-256.0	-244.6
Other items (net)	-125.1	-140.8
International reserves (at end of period; in millions of US dollars)	5 491.60	5 637.41
Gold	195.10	200.74
Special Drawing Rights	0.17	0.17
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	5 296.24	5 436.41

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2007	
	X	XI
Weighted average interest rate on domestic interbank loans in lats	6.9	4.6
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	10.9	11.7
Loans to households (in lats)	17.7	18.4
incl. for house purchase	12.4	14.5
Loans to non-financial corporations (in foreign currencies)	6.9	6.8
Loans to households (in foreign currencies)	6.5	6.5
incl. for house purchase	6.3	6.3
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	7.9	7.6
Demand deposits of non-financial corporations (in lats)	2.5	2.1
Time deposits of households (in lats)	8.3	8.2
Demand deposits of households (in lats)	0.7	0.6
Time deposits of non-financial corporations (in foreign currencies)	4.0	4.1
Demand deposits of non-financial corporations (in foreign currencies)	1.7	1.7
Time deposits of households (in foreign currencies)	4.4	4.3
Demand deposits of households (in foreign currencies)	1.8	1.7
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	0.4880	0.4740
LVL/GBP	1.0060	0.9830
LVL/100 JPY	0.4260	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)

	2007	
	X	XI
MFI reserves	1 501.7	1 460.2
Vault cash in national currency	108.5	119.5
Deposits with the Bank of Latvia	1 393.2	1 340.7
Foreign assets	4 254.1	4 697.6
Vault cash in foreign currencies	58.3	64.9
Claims on MFIs	2 334.4	2 813.6
Claims on non-MFIs	1 789.9	1 736.2
Other assets	71.4	82.9
Claims on central government	229.9	246.7
Claims on local government	71.4	71.8
Claims on public non-financial corporations	208.1	216.1
Claims on financial institutions and private non-financial corporations	6 679.5	6 726.2
Claims on households	5 836.8	5 921.5
Unclassified assets	898.7	979.7
Fixed assets	162.0	166.7
Items in transit	27.4	32.7
Other assets	159.4	168.5
Claims on resident MFIs (incl. investments)	549.9	611.9
<b>Total assets</b>	<b>19 680.1</b>	<b>20 319.8</b>
<i>Memo item: Trust assets</i>	<i>432.6</i>	<i>1 374.8</i>
Overnight deposits in lats	1 551.1	1 544.9
Public non-financial corporations	94.7	103.7
Financial institutions and private non-financial corporations	694.1	676.8
Households	762.3	764.4
Time deposits and deposits redeemable at notice in lats	1 012.5	1 045.7
Public non-financial corporations	169.3	171.1
Financial institutions and private non-financial corporations	248.4	275.4
Households	594.7	599.2
Foreign currency deposits of residents	2 433.5	2 434.6
Public non-financial corporations	29.0	35.5
Financial institutions and private non-financial corporations	720.1	711.2
Households	1 684.4	1 687.9
Deposits of central government	13.4	20.6
Deposits of local government	258.1	261.0
Transit funds	4.1	4.0
Foreign liabilities	11 374.9	11 898.6
Liabilities to MFIs	7 585.1	7 827.4
Liabilities to non-MFIs	3 476.0	3 608.0
Other liabilities (incl. subordinated liabilities)	313.9	463.2
Liabilities to the Bank of Latvia	54.3	25.0
Debt securities issued	342.0	339.1
Money market fund shares and units	43.8	43.3
Capital and reserves	1 648.1	1 673.6
Residents	914.8	937.0
Non-residents	733.3	736.6
Provisions	120.7	118.2
Unclassified liabilities	823.5	911.1
Items in transit	164.6	183.5
Other liabilities (incl. subordinated liabilities)	178.9	189.4
Liabilities to resident MFIs	480.0	538.3
<b>Total liabilities</b>	<b>19 680.1</b>	<b>20 319.8</b>
<i>Memo item: Trust liabilities</i>	<i>432.6</i>	<i>1 374.8</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>).