

LATVIA'S BALANCE OF PAYMENTS (KEY ITEMS)

10 • 2001
MONTHLY BULLETIN

PRINCIPLES FOR COMPILING THE MONTHLY BALANCE OF PAYMENTS (KEY ITEMS)

The balance of payments is a statistical statement summarizing the economic transactions of a country's residents with the rest of the world (non-residents) for a definite period of time (a month, a quarter, or a year).

Latvia's balance of payments is compiled in conformity with the guidelines of the IMF's publication Balance of Payments Manual, 5th Edition and ECB requirements.

The balance of payments consists of the current account, the capital and financial account, and errors and omissions. The current account shows exports and imports of goods and services, income and expense (wages and salaries, dividends, interest payments), as well as current transfers, which are not intended for investment. The capital and financial account reflects received and paid capital transfers, which are intended for investment, as well as changes in foreign investment and debt for a definite period, and an increase or a decrease in reserve assets.

Beginning with the data for 2000, Latvia's balance of payments has been compiled and published by the Bank of Latvia. Previously, this was done by the Central Statistical Bureau of Latvia (CSB), but as of 2000, the

responsibility of compiling and publishing the balance of payments on the quarterly and annual basis was taken over by the Bank of Latvia. As of 2001, the Bank of Latvia also publishes the monthly balance of payments (key items).

The purpose of this publication is to disseminate information on economic transactions with foreign countries, providing for a timely analysis of macroeconomic processes.

To promote the compilation of the monthly balance of payments (key items), the Bank of Latvia has adopted the "Regulation for Preparing Information on External Payments of Non-Banks", pursuant to which Latvian banks submit to the Bank of Latvia reports on resident non-banks' external payments four times a month, and once a month resident non-banks report to the Bank of Latvia on incoming external payments via domestic banks and external payments made via foreign banks if the amount of these payments, translated in lats according to the Bank of Latvia's exchange rates as on the day of the transaction, exceeds 1 000 lats.

Apart from statistics on external payments of resident non-banks, the following data sources are used in compiling the monthly balance of payments (key items): statistics

on credit institutions' foreign assets and liabilities, compiled by the Bank of Latvia; Bank of Latvia statistics on foreign reserves; statistics on government external debt and foreign financial assistance, compiled by the State Treasury; data submitted by enterprises rendering intermediary services in concluding contracts between natural persons (residents) and employers (non-residents) for working abroad; and other data sources.

The monthly balance of payments (key items) is compiled within 30 working days after the end of the reporting month. The monthly balance of payments (key items) is revised when compiling the quarterly balance of payments, for which a wider range of data is available, including data from the reporting form No. 1-MB "Quarterly Report on Foreign Investment" and No. 3-MB "Quarterly Report on Transportation and Intermediary Services", and foreign trade statistics and aggregated data on persons entering and leaving the country, compiled by the CSB.

In some cases, electronic data processing technologies may have led to slight discrepancies between the total amount shown and the sum of the subitems.

In October, exports of goods and services reached one of this year's monthly highs, and the current transfers surplus grew. Nevertheless, with imports of goods rising sharply, the current account deficit increased substantially over the previous month's level, totalling 62.5 million lats.

Imports of goods exceeded the previous month's level by far more than did their exports (increases of 51.7 million lats or 30.0% and 17.6 million lats or 16.1%, respectively). The growth in imports of goods is seasonally high every year in the fourth quarter; however, this October, it could also be attributed to the purchase of a new vessel by the Latvian Shipping Company (the state joint-stock company in privatisation *Latvijas kuģniecība*). The goods deficit was 97.4 million lats in October.

The services surplus reached 27.8 million lats, and its year-on-year growth of 10.1 million lats was determined by increasing exports. Contributing to the year-on-year growth were the positive balances of cargo transportation by sea and other transport services (increases of 3.8 million lats and 3.0 million lats, respectively). With exports of other services increasing in excess of their imports, the balance on other services improved by 2.9 million lats, turning positive (1.6 million lats).

The income surplus declined, owing to growth in non-residents' income on investment in Latvia (year-on-year growth of 5.9 million lats), mainly on direct investment in the form of reinvested earnings and undistributed branch profits.

The current transfers surplus was 7.0 million lats. The private sector accounted for the largest part of current transfers received. Surplus in the capital and financial account was 50.6 million lats.

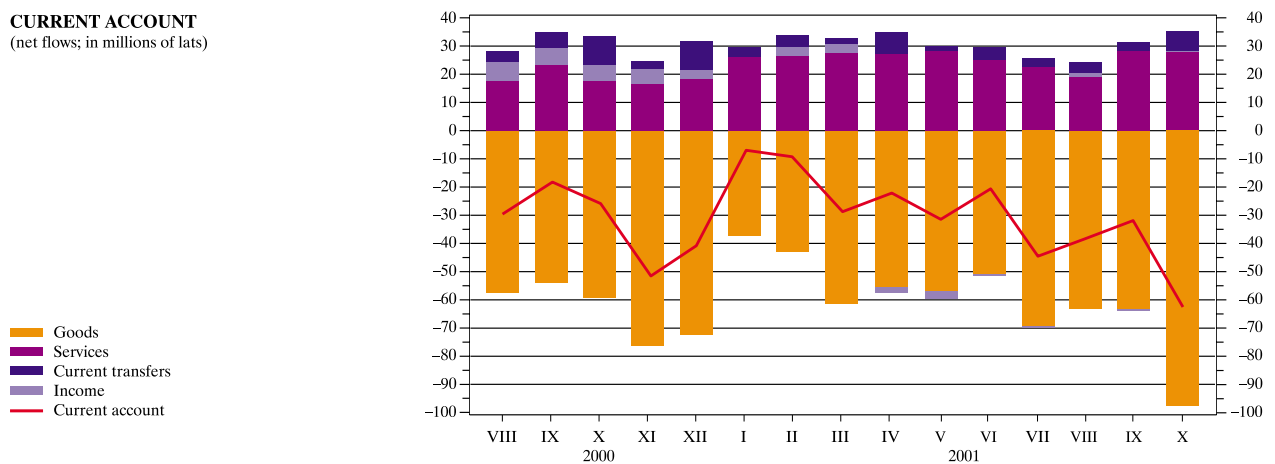
A net inflow of 29.6 million lats was observed for direct investment, including 18.4 million lats as non-residents' investment in equity capital and 6.5 million lats as non-residents' reinvested earnings.

The net outflow of portfolio investment was 2.3 million lats. The bulk of residents' transactions in foreign markets was transactions by banks: they decreased investment in shares and bonds of non-resident private enterprises, while purchasing short-term securities (mainly those with maturity of up to three months).

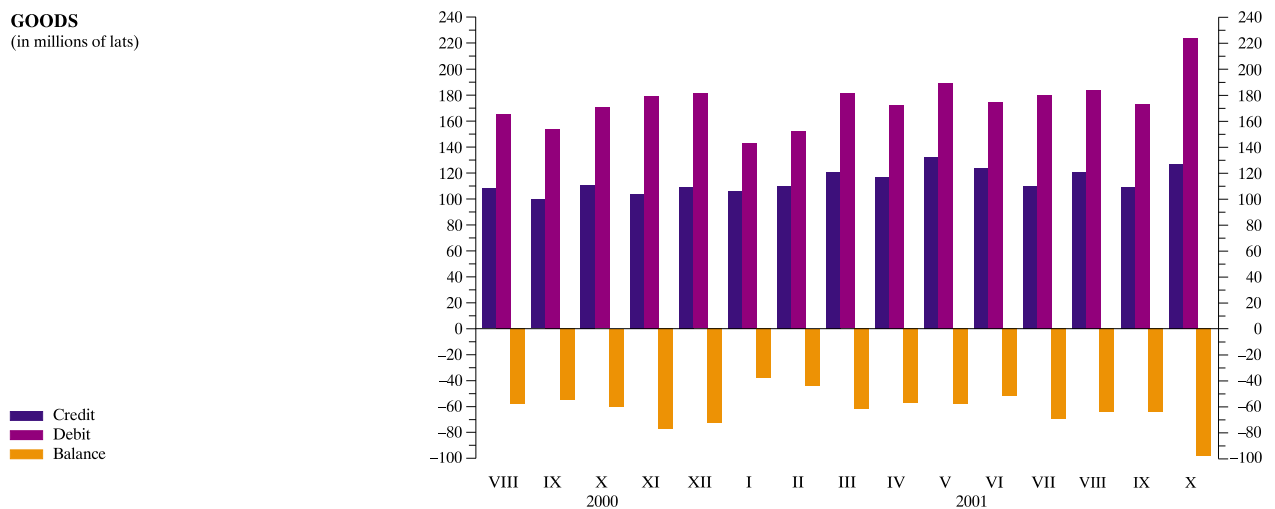
Other investment posted a net inflow of 47.7 million lats. Residents increased their foreign liabilities by 84.4 million lats (including 38.3% for long-term liabilities). Banks' liabilities amounted to 48.3 million lats, enterprises' liabilities to 33.1 million lats, and the Government's liabilities to 2.4 million lats. To achieve the optimal currency and time structure of demand deposits received from non-resident enterprises, banks increased, by 57.5 million lats, deposits with foreign credit institutions (mainly in the OECD countries).

As the exchange rates in the interbank market were close to the lower limit of the intervention band and the Bank of Latvia conducted outright purchases of foreign currencies, reserve assets rose by 22.9 million lats in October.

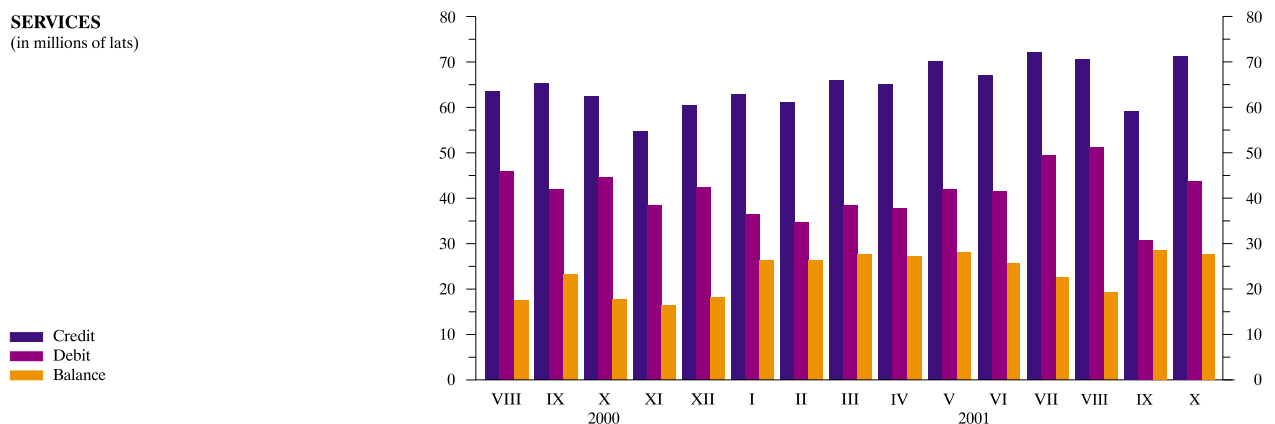
CURRENT ACCOUNT
(net flows; in millions of lats)



GOODS
(in millions of lats)



SERVICES
(in millions of lats)



MONTHLY BALANCE OF PAYMENTS (KEY ITEMS)

(balance; in millions of lats)

	Current account					Capital account	Financial account						Errors and omissions
		Goods	Services	Income	Current transfers			Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets	
2000													
VIII	-29.2	-57.2	17.6	6.9	3.4	2.2	17.3	14.5	-57.7	-0.2	47.5	13.2	9.7
IX	-19.2	-53.7	23.3	6.1	5.1	1.3	23.4	9.7	33.3	0	-41.7	22.0	-5.5
X	-25.9	-59.1	17.7	5.7	9.8	1.0	44.5	25.3	-14.6	0	71.0	-37.2	-19.7
XI	-51.8	-75.9	16.4	5.7	2.0	0.2	24.6	21.1	-11.3	1.3	6.0	7.5	27.0
XII	-40.7	-71.9	18.1	3.5	9.6	1.6	62.9	39.1	-82.2	0	82.6	23.4	-23.8
2001													
I	-7.4	-36.9	26.4	0	3.1	1.4	14.9	7.2	9.2	-4.2	-19.8	22.4	-8.9
II	-9.4	-42.9	26.4	3.3	3.8	1.3	-8.9	3.6	-55.6	2.1	64.0	-23.0	17.0
III	-28.4	-60.8	27.7	3.4	1.3	2.1	32.2	-0.5	25.7	0.6	13.3	-6.9	-5.8
IV	-22.4	-55.9	27.3	-1.3	7.5	2.7	2.9	29.8	-36.9	1.1	17.5	-8.5	16.8
V	-30.8	-57.0	28.2	-3.0	1.1	3.0	16.9	26.7	8.0	-1.0	-25.0	8.2	10.8
VI	-21.6	-50.9	25.5	-0.2	3.9	2.3	32.7	8.8	-103.6	1.6	139.1	-13.2	-13.3
VII	-44.8	-69.4	22.7	-0.7	2.6	1.4	27.9	17.2	-51.3	-1.1	89.8	-26.7	15.5
VIII	-38.9	-62.9	19.2	1.4	3.3	1.5	33.2	44.0	49.1	-0.1	-72.9	13.2	4.2
IX	-32.3	-63.3	28.6	-0.3	2.7	1.0	42.5	5.4	9.2	1.8	21.6	4.5	-11.3
X	-62.5	-97.4	27.8	0.1	7.0	2.2	48.4	29.6	-2.3	-3.7	47.7	-22.9	12.0

CURRENT AND CAPITAL ACCOUNTS

(in millions of lats)

	Current account										Capital account	
			Goods		Services		Income		Current transfers			
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
2000												
VIII	193.5	222.8	108.2	165.5	63.7	46.1	11.7	4.7	9.9	6.5	2.2	0
IX	188.8	208.0	100.3	153.9	65.3	42.0	11.3	5.2	12.0	6.8	1.5	0.2
X	201.5	227.5	111.4	170.5	62.3	44.7	13.7	8.0	14.1	4.3	2.2	1.1
XI	180.7	232.5	104.0	179.9	54.8	38.4	13.6	7.9	8.3	6.3	2.1	1.9
XII	200.9	241.6	109.3	181.2	60.4	42.3	14.2	10.8	16.9	7.3	2.7	1.1
2001												
I	192.6	200.0	106.5	143.4	62.8	36.5	14.5	14.6	8.7	5.6	2.6	1.2
II	194.7	204.1	109.7	152.6	61.2	34.8	14.3	11.0	9.5	5.7	2.0	0.8
III	211.4	239.8	120.8	181.6	66.0	38.3	15.5	12.1	9.1	7.8	2.3	0.2
IV	211.7	234.2	116.9	172.8	65.1	37.7	14.7	16.0	15.1	7.6	3.4	0.7
V	225.8	256.6	132.9	189.9	70.0	41.9	14.5	17.5	8.4	7.3	4.0	0.9
VI	215.9	237.6	123.5	174.4	67.1	41.6	14.5	14.7	10.7	6.8	2.4	0.2
VII	206.7	251.6	110.1	179.5	72.1	49.5	14.5	15.1	10.1	7.5	2.5	1.0
VIII	216.5	255.4	121.1	184.0	70.4	51.2	14.3	12.9	10.7	7.3	2.0	0.5
IX	190.8	223.1	109.2	172.5	59.2	30.6	13.2	13.5	9.2	6.5	1.7	0.7
X	225.7	288.3	126.8	224.2	71.4	43.6	14.0	13.9	13.6	6.6	2.6	0.4

FINANCIAL ACCOUNT: DIRECT AND PORTFOLIO INVESTMENT AND FINANCIAL DERIVATIVES

(net flows; in millions of lats)

	Direct investment		Portfolio investment										Financial derivatives	
	Abroad	In Latvia	Assets	Liabilities	Equity securities		Debt securities					Assets	Liabilities	
					Assets	Liabilities	Assets		Liabilities					
							Bonds and notes	Money market instruments	Bonds and notes	Money market instruments				
2000														
VIII	-0.9	15.4	-57.0	-0.7	-9.7	-1.0	-47.2	-31.5	-15.7	0.3	0.2	0.1	-0.2	0
IX	-2.2	11.9	25.2	8.2	7.1	-3.6	18.1	4.3	13.8	11.7	12.3	-0.6	0	0
X	0.3	24.9	-16.1	1.5	-1.9	-0.4	-14.2	-6.3	-7.9	1.9	1.9	0	0	0
XI	1.4	19.7	-19.2	8.0	-4.5	0.3	-14.7	-13.1	-1.6	7.7	7.7	0	1.3	0
XII	0.8	38.3	-63.7	-18.5	-9.1	-9.6	-54.7	-54.9	0.3	-8.9	-8.9	0	0	0
2001														
I	-1.9	9.1	-10.6	19.8	-0.7	0.6	-9.9	-24.8	14.9	19.2	19.3	0	0.3	-4.4
II	-2.0	5.6	-33.0	-22.6	1.6	0.6	-34.6	-37.6	3.0	-23.2	-23.2	0	2.4	-0.3
III	-1.7	1.2	-1.7	27.3	8.9	0.3	-10.5	12.8	-23.4	27.0	27.0	0	-0.4	1.0
IV	-1.2	30.9	-49.0	12.0	-11.8	0.2	-37.2	-1.4	-35.8	11.8	11.8	0	0.7	0.4
V	-1.1	27.9	1.0	6.9	5.0	0.3	-4.0	-18.0	14.0	6.6	6.6	0	-1.0	0
VI	2.9	5.9	-94.3	-9.2	-21.8	-0.7	-72.5	-13.1	-59.4	-8.5	-8.5	0	0.5	1.0
VII	-0.4	17.6	-45.8	-5.5	3.2	-3.9	-49.0	-47.6	-1.4	-1.6	-1.7	0	1.3	-2.4
VIII	-0.4	44.3	52.6	-3.5	-6.5	0.7	59.1	29.1	30.0	-4.2	-4.2	0	0.5	-0.6
IX	-1.3	6.7	4.7	4.4	-3.8	4.4	8.6	-10.0	18.6	0	0	0	0.1	1.7
X	0.8	28.7	-3.7	1.4	17.5	0.6	-21.2	29.3	-50.5	0.8	0.8	0	-1.9	-1.7

FINANCIAL ACCOUNT: OTHER INVESTMENT

(net flows; in millions of lats)

	Other investment									
	Assets		Monetary authorities		General government		Banks		Other sectors	
			Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
2000										
VIII	-0.8	48.2	0	0	-0.4	1.1	-2.7	45.3	2.3	1.9
IX	-103.2	61.5	0.1	-0.1	0.1	-7.6	-105.4	67.3	1.9	1.9
X	103.6	-32.6	0	0	0.2	1.8	105.7	-31.2	-2.3	-3.1
XI	-72.8	78.8	-0.1	-0.1	0.4	0.7	-72.5	81.3	-0.6	-3.1
XII	-63.6	146.2	-0.1	-0.9	0	0	-63.0	150.3	-0.6	-3.1
2001										
I	-89.0	69.2	0.1	-1.4	0.2	0.4	-78.6	65.1	-10.7	5.0
II	145.6	-81.6	0	-0.6	0.1	-0.4	164.8	-85.6	-19.4	5.0
III	59.3	-46.0	-0.1	0.3	-1.6	-0.1	62.4	-51.2	-1.4	5.0
IV	-3.3	20.7	0	3.5	0.7	-0.4	-9.4	23.3	5.4	-5.8
V	-37.8	12.8	0	-3.1	-0.9	0.1	-42.7	19.1	5.7	-3.3
VI	-15.5	154.6	-0.1	-1.5	-0.2	-0.5	-21.1	143.4	5.8	13.2
VII	61.4	28.4	0.1	-1.4	1.0	1.0	61.3	28.2	-1.0	0.6
VIII	-77.7	4.7	-0.1	0	0.2	2.1	-74.0	2.5	-3.7	0.1
IX	4.4	17.2	0	0.3	0.3	-1.5	5.9	12.2	-1.8	6.1
X	-36.7	84.4	0.1	-0.1	-0.3	2.4	-42.1	48.3	5.6	33.8

Latvia's balance of payments (key items) is first published at the Bank of Latvia's Internet site (<http://www.bank.lv>).