

LATVIA'S BALANCE OF PAYMENTS (KEY ITEMS)

7 • 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

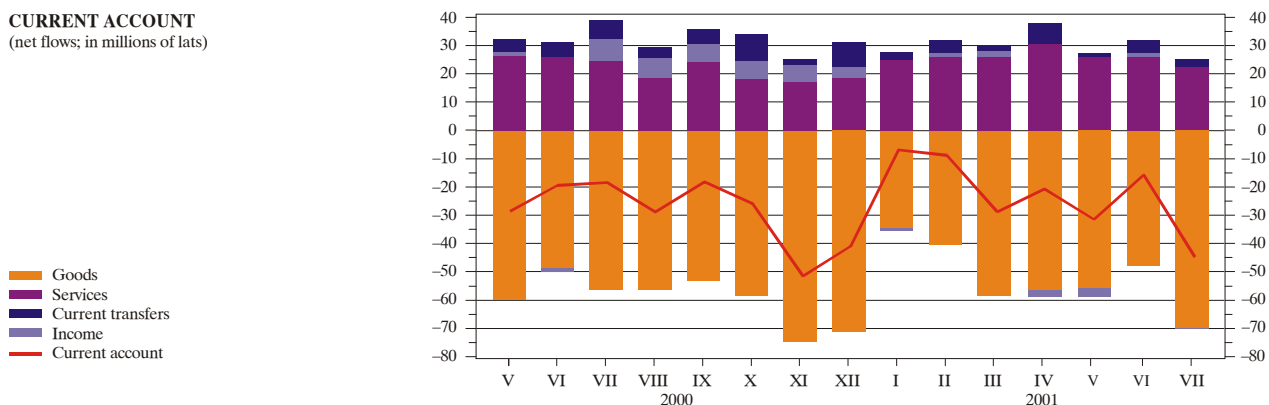
on credit institutions' foreign assets and liabilities, compiled by the Bank of Latvia; Bank of Latvia statistics on foreign reserves; statistics on government external debt and foreign financial assistance, compiled by the State Treasury; data submitted by enterprises rendering intermediary services 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.

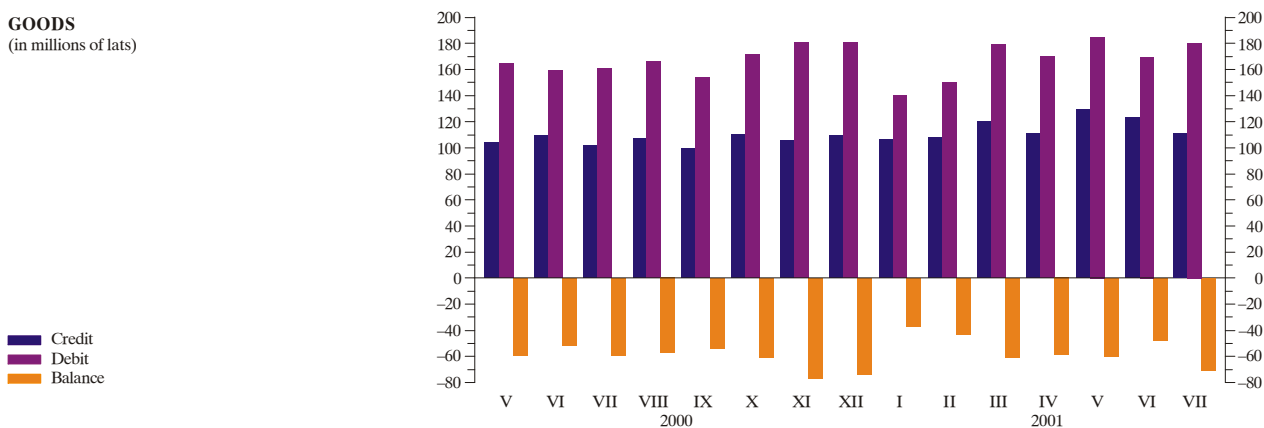
The current account deficit, which totalled 44.8 million lats in July, was larger than in June 2001, when it was 16.0 million lats, and July 2000. Compared with June, the positive balances of services, income and current transfers declined slightly, whereas the goods deficit increased. Exports of goods decreased by 12.1 million lats, while imports increased by 9.5 million lats. The excess of imports over exports reached 63.0%.

CURRENT ACCOUNT
(net flows; in millions of lats)

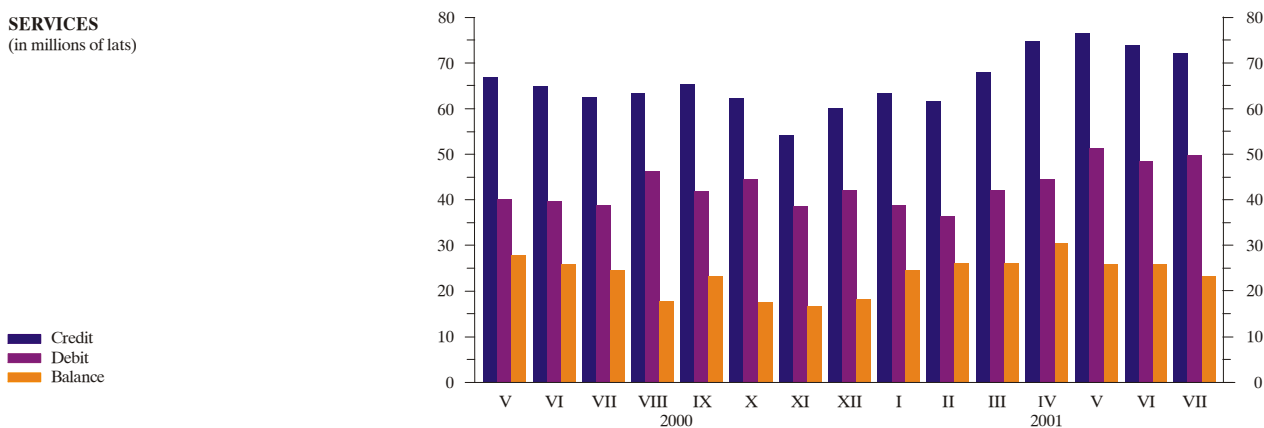


The services surplus was 22.7 million lats, which covered 32.7% of the goods deficit. The month-on-month decrease of 2.6 million lats in the services surplus was mainly attributable to a decline in proceeds from freight transportation by sea. Services

GOODS
(in millions of lats)



SERVICES
(in millions of lats)



rendered increased by 14.4% over the July 2000 level. In the first seven months of 2001, annual growth of 12.4% was registered in other services rendered by sea transport (mainly port services, which generate a large part of proceeds denominated in foreign currencies). As Latvian residents' spending abroad and non-residents' spending in Latvia rose, the travel deficit increased slightly over the June level, while showing no year-on-year changes. The other services deficit was smaller because of an increase in services rendered, in particular in merchandising and other trade related services.

The income balance deteriorated by 3.2 million lats, turning negative. In direct investment, non-residents' income on equity exceeded, by 1.7 million lats, the average monthly level in the first six months of 2001.

The current transfers surplus decreased by 1.4 million lats, mainly as a result of declining flows of current transfers in the private sector.

The surplus in the capital and financial account was 29.3 million lats.

The net inflow of direct investment in the amount of 17.2 million lats covered 38.4% of the current account deficit. Non-residents' direct investment in Latvia reported a 17.6 million lats increase, of which 5.2 million lats in investment in equity capital, 7.4 million lats in reinvested earnings and 5.0 million lats in other capital.

A net outflow of portfolio investment was recorded. Latvian banks increased their portfolio of foreign securities by 46.2 million lats, investing mainly in OECD bonds. Non-residents' portfolio investment in Latvia, in particular investment in equity securities, declined by 5.5 million lats.

A net inflow of 89.8 million lats was observed in other investment. Major changes occurred in the banking sector. Latvian banks' deposits with foreign credit institutions declined by 57.6 million lats. Non-residents' other investment in Latvian banks increased by 28.2 million lats, as deposits made by foreign credit institutions grew (short-term deposits of non-resident non-banks decreased by 90.4 million lats).

In July, Latvia witnessed a larger inflow of foreign currencies than was needed to cover the current account deficit, and reserve assets grew by 26.7 million lats, mainly as a result of currency swap deals entered into.

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													
V	-27.8	-60.0	27.3	0.7	4.2	1.3	-1.6	10.3	-30.3	0.1	-9.3	27.5	28.1
VI	-19.9	-49.3	25.7	-1.1	4.8	3.0	42.7	28.6	-2.9	-0.4	27.7	-10.2	-25.8
VII	-18.8	-56.8	24.3	6.8	6.9	1.2	19.7	22.2	-4.2	0.5	38.7	-37.5	-2.1
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	-34.5	24.4	-0.4	3.1	1.4	18.8	8.0	8.7	0	-20.3	22.4	-12.9
II	-8.5	-40.4	25.7	2.4	3.8	1.3	-10.8	4.8	-56.2	0	63.6	-23.0	18.0
III	-28.5	-58.1	25.8	2.5	1.2	2.1	32.3	1.2	25.1	0	12.8	-6.9	-5.9
IV	-20.7	-56.4	30.4	-2.3	7.6	1.7	11.7	35.9	-33.4	0	17.7	-8.5	7.3
V	-31.3	-56.1	25.7	-2.4	1.5	3.0	11.1	20.9	7.6	0	-25.7	8.2	17.3
VI	-16.0	-47.7	25.3	2.5	4.0	2.3	23.6	5.4	-101.0	0	132.4	-13.2	-9.9
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

CURRENT AND CAPITAL ACCOUNTS

(in millions of lats)

	Current account										Capital account	
	Credit		Goods		Services		Income		Current transfers		Credit	Debit
			Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
2000												
V	191.4	219.2	103.9	163.9	67.3	39.9	11.1	10.4	9.2	5.0	1.4	0.1
VI	194.8	214.7	110.1	159.4	65.2	39.5	10.7	11.8	8.8	4.0	3.1	0.1
VII	189.0	207.8	102.7	159.5	63.0	38.7	11.0	4.2	12.2	5.3	1.5	0.3
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	192.9	200.3	106.5	140.9	63.2	38.8	14.5	15.0	8.7	5.6	2.6	1.2
II	195.4	203.8	109.6	150.0	61.9	36.2	14.3	11.9	9.5	5.7	2.0	0.8
III	213.2	241.7	120.7	178.8	67.9	42.1	15.5	12.9	9.1	7.8	2.3	0.2
IV	216.6	237.3	112.7	169.1	74.8	44.4	15.1	17.4	13.9	6.3	1.9	0.3
V	228.2	259.5	129.6	185.7	76.8	51.1	14.2	16.6	7.6	6.1	3.9	1.0
VI	220.0	236.0	122.2	170.0	73.5	48.2	14.3	11.9	10.0	6.0	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

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														
V	-1.2	11.5	-22.0	-8.3	-3.1	4.9	-18.9	-23.9	5.1	-13.2	-13.1	0	0.1	0
VI	-1.3	29.9	1.1	-3.9	0.9	-0.7	0.2	-9.3	9.5	-3.3	-1.0	-2.3	-0.4	0
VII	-0.8	23.0	-6.9	2.7	-2.3	1.4	-4.6	-6.2	1.6	1.3	1.8	-0.5	0.6	-0.1
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	-1.6	9.7	-10.6	19.3	-0.7	0	-9.9	-24.8	14.9	19.2	19.3	0	0	0
II	-1.8	6.6	-33.0	-23.1	1.6	0	-34.6	-37.6	3.0	-23.2	-23.2	0	0	0
III	-1.5	2.7	-1.7	26.8	8.9	-0.2	-10.5	12.8	-23.4	27.0	27.0	0	0	0
IV	-0.8	36.7	-44.7	11.3	-10.7	0	-34.0	0.5	-34.5	11.4	11.4	0	0	0
V	-0.5	21.4	1.0	6.6	5.1	0	-4.1	-18.0	13.9	6.6	6.6	0	0	0
VI	3.3	2.1	-95.2	-5.8	-22.1	2.6	-73.1	-13.6	-59.4	-8.4	-8.5	0.1	0	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

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											
V	-67.9	58.7	0	0.1	0	0.3	-67.9	50.9	0	7.4	
VI	24.8	3.0	0.1	-1.2	0.1	-0.8	23.7	-12.7	0.9	17.6	
VII	67.4	-28.7	0.1	-1.9	-0.3	0.3	67.8	-29.0	-0.2	1.9	
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	-86.0	65.7	0.1	-1.4	0.2	0.4	-78.6	65.1	-7.7	1.5	
II	148.6	-85.1	0	-0.6	0.1	-0.4	164.8	-85.6	-16.4	1.5	
III	62.3	-49.5	-0.1	0.3	-1.6	-0.1	62.4	-51.2	1.6	1.5	
IV	5.6	12.2	0.8	3.9	0.7	-0.4	0	9.1	4.1	-0.5	
V	-39.4	13.7	0	-3.1	-0.9	0.1	-42.6	19.1	4.1	-2.5	
VI	-24.6	157.0	-0.1	-1.5	-0.2	-0.6	-21.0	143.4	-3.4	15.8	
VII	61.4	28.4	0.1	-1.4	1.0	1.0	61.3	28.2	-1.0	0.6	

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