

LATVIA'S BALANCE OF PAYMENTS (KEY ITEMS)

6 • 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

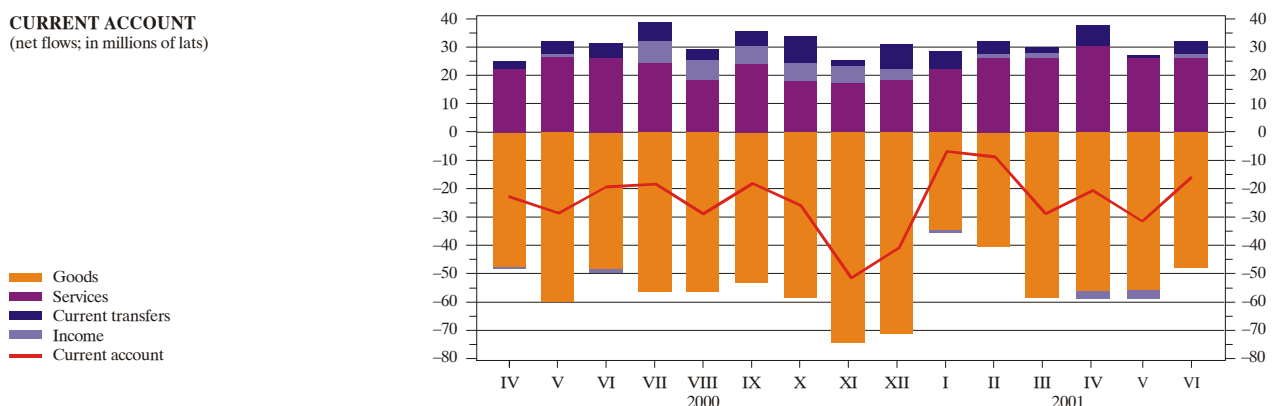
on credit institutions' foreign assets and liabilities, compiled by the Bank of Latvia; Bank of Latvia statistics on foreign reserves; statistics on government external debt and foreign financial assistance, compiled by the State Treasury; data submitted by enterprises rendering intermediary services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

As the balances on goods and income improved, the current account deficit declined compared with both the previous month and June 2000 (by 15.3 million lats and 3.9 million lats, respectively), amounting to 16.0 million lats.

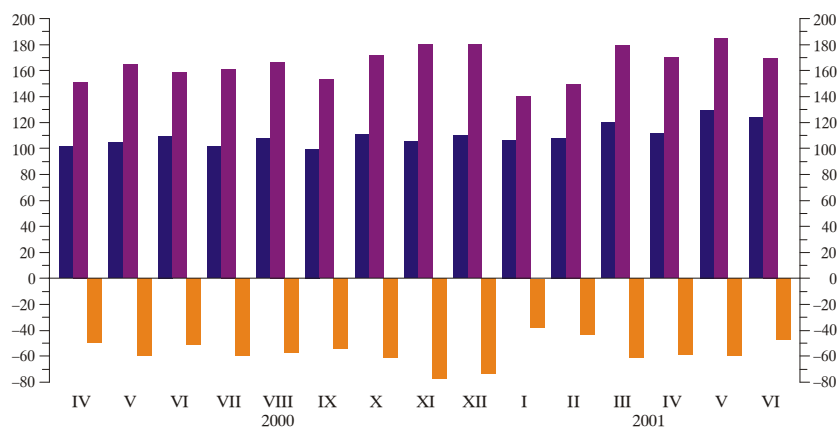
CURRENT ACCOUNT
(net flows; in millions of lats)



The goods deficit was 47.7 million lats. As the annual growth of exports (11.0%) exceeded that of imports (6.6%), the excess of imports over exports decreased to 39.1%.

GOODS
(in millions of lats)

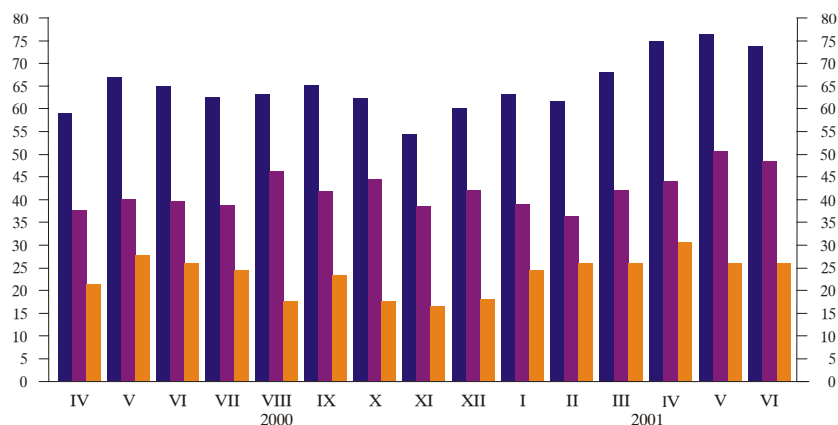
■ Credit
■ Debit
■ Balance



The services surplus (25.3 million lats) did not change substantially over the previous month's level, and covered 53.0% of the goods deficit. Services rendered to and received from non-residents declined compared with the previous month (by 4.3% and 5.7%, respectively), while rising compared with June 2000 (by 12.7% and 22.0%, respectively). The transportation surplus remained at the previous month's level. The surplus on transportation by sea and rail increased. At the same time, the surplus on transportation by pipeline and road declined. The travel deficit decreased by 2.7 million lats mainly because of a seasonal increase of 39.3% in such services rendered. With income from other services declining, the balance on other services deteriorated slightly.

SERVICES
(in millions of lats)

■ Credit
■ Debit
■ Balance



The income balance improved by 4.9 million compared with the May level, turning positive. The main contributors were a decrease in non-residents' income on direct investment in Latvia and a 14.4% increase in residents' income on portfolio investment abroad. The income surplus covered 5.2% of the goods deficit.

The surplus on current transfers increased by 2.5 million lats, covering 8.4% of the goods deficit. This was a result of an increase in current transfers received by the private sector.

The surplus in the capital and financial account was 25.9 million lats.

The net inflow of direct investment was 5.4 million lats. Main inflows were registered in reinvested earnings. At the same time, as the amount of loans repaid by Latvian enterprises exceeded that received from direct investors, foreign direct investment in other capital declined. In June, the inflow of foreign direct investment was 2.1 million lats.

A net outflow of 101.0 million lats was reported for portfolio investment. Latvian banks increased their investment in foreign securities by 94.0 million lats, mainly by investing in money market instruments. Non-residents' investment in Latvian government bonds decreased by 8.5 million lats.

With non-residents' other investment in Latvia increasing, a net inflow of 132.4 million lats was observed in other investment. Changes mainly related to the banking sector. The inflow of non-residents' funds in Latvian banks was 143.4 million lats (mainly deposits and short-term loans). Latvian banks' other investment abroad grew by 21.0 million lats, as short-term loans increased. Latvian banks invested part of the received short-term funds in non-residents' securities thus ensuring a reasonable term and currency structure of assets and liabilities. In June, the inflow of non-residents' funds in the form of short-term and long-term loans in the enterprise sector amounted to 15.8 million lats.

In June, Latvia witnessed a larger inflow of foreign currencies than was needed to cover the current account deficit. Reserve assets increased by 13.2 million lats, mainly influenced by the balance on currency swaps.

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													
IV	-24.2	-48.5	21.4	-0.2	3.1	2.1	15.4	13.1	29.4	0	-21.7	-5.5	6.6
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

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												
IV	178.5	202.7	102.2	150.7	59.2	37.8	10.5	10.7	6.5	3.4	2.2	0.1
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

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		Assets	Liabilities			
								Bonds and notes	Money market instruments					Bonds and notes
2000														
IV	0.2	13.0	18.5	10.9	1.1	0.1	17.4	16.9	0.4	10.8	10.8	0	0	0
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

FINANCIAL ACCOUNT: OTHER INVESTMENT

(net flows; in millions of lats)

	Other investment										
			Monetary authorities		General government		Banks		Other sectors		
			Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets
2000											
IV	-45.7	24.1	-0.1	0	0.3	-0.1	-47.5	18.4	1.5	5.8	
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	

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