

LATVIA'S BALANCE OF PAYMENTS (KEY ITEMS)

1 • 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 resident non-banks report to the Bank of Latvia on incoming external payments via domestic banks and external payments made via foreign banks once a month.

Apart from statistics on resident non-banks' external payments, 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 January, the current account deficit was 19.4 million lats. This was mainly caused by the goods deficit (43.2 million lats), as imports of goods exceeded exports by 41.6%.

The services surplus totalled 22.6 million lats, covering 52.3% of the goods deficit. Transportation and other services had a surplus, while travel reported a deficit. Of services rendered to non-residents, transportation services were the dominating ones (mainly transportation by sea and rail). With cargo transportation on the rise, the transportation surplus reached 26.3 million lats.

As non-residents' income in Latvia exceeded residents' income outside Latvia, a deficit of 1.3 million lats was registered for income. Non-residents' principal source of income was direct investment (8.6 million lats; mainly reinvested earnings), as well as other investment in Latvia. Residents' income was mainly composed of banks' income on portfolio and other investment.

The surplus on current transfers (2.6 million lats) covered 6.0% of the goods deficit.

The surplus of the capital and financial account totalled 31.5 million lats and covered the current account deficit.

The net inflow of direct investment was 19.0 million lats, which covered 97.9% of the current account deficit. Non-residents' direct investment in Latvian enterprises was 19.2 million lats (mainly investment in equity capital).

The net inflow of portfolio investment in Latvia was 20.0 million lats (including non-residents' investment in Latvian government securities in the amount of 17.2 million lats). At the same time, Latvian residents slightly reduced their portfolio investment abroad. Latvian banks considerably decreased investment in foreign bonds and notes, while increasing investment in equity securities and money market instruments.

Non-residents' other investment in Latvia amounted to 40.7 million lats, whereas residents' other investment abroad, to 72.2 million lats. This resulted in a net outflow of other investment. Changes were mainly recorded for the banking sector. Latvian banks received foreign deposits in the amount of 88.7 million lats and repaid foreign short-term loans (19.3 million lats). Banks' other liabilities declined. Short-term funds received by banks were invested in currency and deposits with foreign banks (168.7 million lats). Banks' decreased their foreign loans by 95.0 million lats (predominantly short-term loans).

The Bank of Latvia's interventions in the foreign exchange market at the beginning of January and currency swap arrangements led to a decline in reserve assets (22.4 million lats).

MONTHLY BALANCE OF PAYMENTS (KEY ITEMS)

(in millions of lats)

	Current account					Capital account	Financial account					Errors and omissions
	Goods	Services	Income	Current transfers	Direct investment		Portfolio investment	Other investment	Reserve assets			
2001												
I	-19.4	-43.2	22.6	-1.3	2.6	1.5	30.0	19.0	20.0	-31.5	22.4	-12.1

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				
2001												
I	188.1	207.5	103.9	147.1	63.9	41.3	12.9	14.2	7.4	4.8	2.7	1.2

FINANCIAL ACCOUNT: DIRECT AND PORTFOLIO INVESTMENT

(in millions of lats)

	Direct investment		Portfolio investment												
	Abroad	In Latvia	Assets		Liabilities		Equity securities		Debt securities			Liabilities			
			Assets	Liabilities	Assets	Liabilities	Assets			Bonds and notes	Money market instruments	Financial derivatives	Bonds and notes	Money market instruments	Financial derivatives
							Bonds and notes	Money market instruments	Financial derivatives						
2001															
I	-0.2	19.2	2.9	17.1	8.0	-0.1	-5.0	-21.3	16.3	0	17.2	17.2	0	0	0

FINANCIAL ACCOUNT: OTHER INVESTMENT

(in millions of lats)

	Other investment									
	Monetary authorities		General government		Banks		Other sectors			
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities		
2001										
I	-72.2	40.7	0.4	-5.8	0.2	0.4	-69.5	45.3	-3.3	0.7

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