

LATVIA'S BALANCE OF PAYMENTS (KEY ITEMS)

12 • 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.

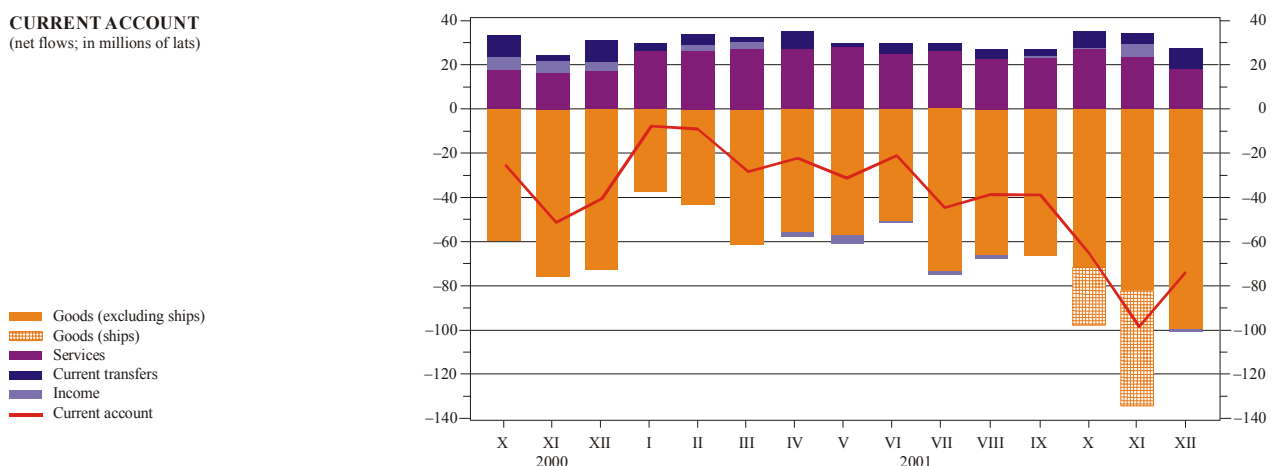
The monthly balance of payments (key items) is compiled within 30 working days after the end of the reporting month. The monthly balance of payments (key items) is revised when compiling the quarterly balance of payments, for which a wider range of data is available, including data from the reporting 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.

December witnessed a considerable month-on-month decrease in the current account deficit (to 73.5 million lats), because with exports and imports of goods declining (by 13.5% and 19.9%, respectively), a 34.1 million lats decrease was recorded in the goods deficit.

Year-on-year, the current account deficit increased by 32.8 million lats. This was largely a result of the rise in the goods deficit, occurring due to falling demand in Europe and rising domestic demand. The balance on income decreased by 4.6 million lats, turning negative. The main reason for this was growth in non-residents' reinvested earnings and undistributed branch profits.

CURRENT ACCOUNT
(net flows; in millions of lats)



In December, the services surplus was 18.6 million lats, which covered 18.7% of the goods deficit. The services surplus decreased by 5.5 million lats compared with the previous month, while remaining at approximately the same level as in December 2000. The month-on-month decrease in the services surplus was determined by lower proceeds from freight transportation services rendered by sea transport and transportation services rendered by air transport. Surplus on freight transportation services rendered by rail transport and transportation services by pipeline increased over the level in December 2000, while proceeds from other services rendered by sea transport (predominantly those of Latvian ports) declined.

The travel deficit rose 3.6 million lats over the November level, as non-residents' spending in Latvia declined.

Surplus on other services was 2.7 million lats higher than in November, owing to growth in services rendered to non-residents. Surplus on communications, financial and legal services rose.

The balance on income deteriorated compared with November, turning negative (1.1 million lats). Non-residents' investment income in Latvia exceeded residents' compensation of employees and investment income outside Latvia.

The current transfers surplus totalled 8.6 million lats, covering 8.6% of the goods deficit. Principal inflow of current transfers was in the private sector.

Surplus in the capital and financial account was 100.9 million lats.

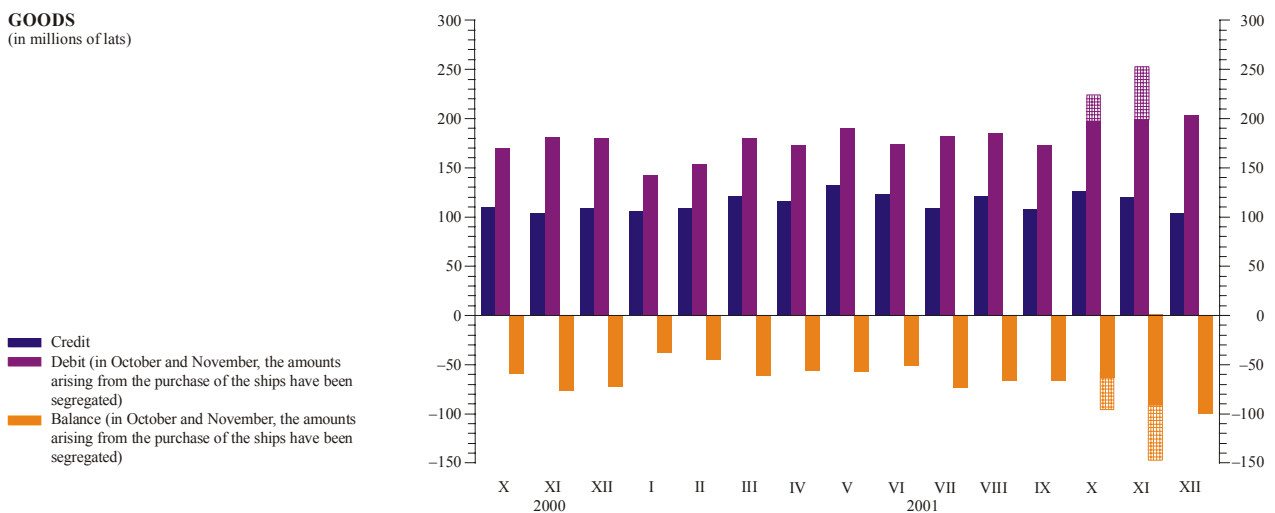
A net outflow of direct investment was 54.3 million lats. The net outflow of direct investment could be explained by restructuring within an international financial group that involved a takeover of a non-resident-owned enterprise by a local investor. The above enterprise repaid the loan to the foreign direct investor. Other capital decreased by 92.4 million lats, owing mainly to the above transaction. Non-residents' direct investment in Latvian enterprises' equity capital and reinvested earnings amounted to 39.2 million lats.

The net inflow of portfolio investment was 88.0 million lats. Residents' portfolio of foreign investment (mainly, short-term debt securities) declined by 95.5 million lats. Non-residents' portfolio of Latvian government bonds decreased by 7.2 million lats.

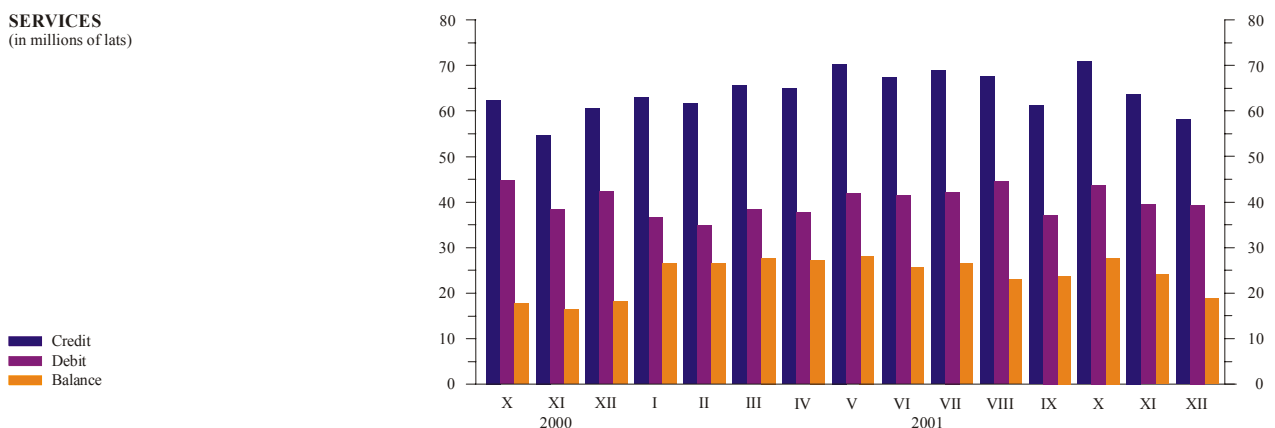
Other investment posted a net inflow of 90.0 million lats. The most significant flows were recorded in the banking sector. Banks decreased demand deposits held with foreign credit institutions by 100.3 million lats. This decrease was a result of the above restructuring of direct investment and short-term lending to non-residents. Hence, assets under other investment decreased by 66.1 million lats. At the same time, liabilities under other investment grew by 23.9 million lats. Enterprises received from non-residents 17.3 million lats as loans (of which 61.1% was long-term loans). Deposits received by banks totalled 5.9 million lats.

As the Bank of Latvia conducted mainly outright purchases of foreign currencies, reserve assets increased by 28.6 million lats, and the balance of payments was in surplus.

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													
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	-8.1	-37.9	26.5	0	3.1	1.4	14.5	7.1	9.2	-4.2	-20.1	22.4	-7.8
II	-10.2	-43.8	26.5	3.3	3.8	1.3	-9.3	3.5	-55.6	2.1	63.7	-23.0	18.2
III	-28.3	-60.9	27.9	3.4	1.3	2.1	31.8	-0.6	25.7	0.6	13.0	-6.9	-5.5
IV	-22.8	-55.9	27.6	-2.0	7.5	2.7	1.8	30.2	-36.9	1.1	15.9	-8.5	18.3
V	-31.0	-57.2	28.5	-3.1	0.8	3.0	15.8	27.2	8.0	-1.0	-26.6	8.2	12.2
VI	-21.6	-51.0	25.8	-0.3	3.9	2.3	31.5	9.3	-103.6	1.6	137.4	-13.2	-12.3
VII	-44.6	-73.2	26.7	-1.0	2.8	1.5	43.3	17.0	-48.4	-1.7	103.2	-26.7	-0.1
VIII	-40.4	-66.5	23.1	-0.7	3.7	1.6	49.7	43.7	50.9	-0.1	-57.9	13.2	-10.9
IX	-38.7	-66.0	23.9	0.2	3.2	1.1	46.2	6.5	4.5	1.8	28.9	4.5	-8.6
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
XI	-99.8	-133.7	24.1	5.6	4.2	2.3	76.4	34.4	142.2	-0.4	11.2	-111.1	21.1
XII	-73.5	-99.6	18.6	-1.1	8.6	1.5	99.4	-54.3	88.0	4.4	90.0	-28.6	-27.5

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												
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	191.8	200.0	105.7	143.5	62.9	36.4	14.5	14.5	8.7	5.6	2.6	1.2
II	194.6	204.8	109.6	153.4	61.3	34.8	14.2	10.9	9.5	5.7	2.0	0.8
III	211.5	239.8	120.8	181.7	66.2	38.2	15.4	12.0	9.1	7.8	2.3	0.2
IV	211.9	234.7	116.9	172.8	65.3	37.7	14.6	16.6	15.1	7.6	3.4	0.7
V	225.6	256.5	132.7	189.9	70.3	41.8	14.4	17.5	8.1	7.3	4.0	0.9
VI	216.0	237.5	123.4	174.4	67.4	41.6	14.4	14.7	10.7	6.8	2.4	0.2
VII	203.5	248.2	109.4	182.6	68.8	42.1	14.1	15.1	11.2	8.3	2.5	1.0
VIII	213.8	254.2	120.4	186.9	67.6	44.5	14.0	14.7	11.8	8.1	2.0	0.5
IX	193.4	232.1	108.3	174.4	61.1	37.2	13.6	13.4	10.3	7.1	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
XI	208.7	308.5	119.1	252.8	63.6	39.5	14.9	9.3	11.1	6.9	2.6	0.3
XII	192.6	266.1	103.0	202.6	57.9	39.3	15.6	16.7	16.1	7.5	2.1	0.6

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														
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	9.0	-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	5.5	-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	1.1	-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	31.4	-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	28.4	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	6.4	-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	17.4	-45.4	-3.0	3.2	-0.4	-48.6	-46.5	-2.1	-2.6	-2.6	0	-0.3	-1.4
VIII	-0.8	44.5	55.4	-4.5	-6.3	-0.3	61.7	31.6	30.2	-4.2	-4.2	0	0.5	-0.6
IX	-1.0	7.5	4.8	-0.3	-3.7	-0.3	8.5	-9.9	18.5	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
XI	-0.4	34.8	45.9	96.3	5.1	0.5	40.7	40.2	0.5	95.8	95.8	0	0.5	-0.8
XII	-1.0	-53.3	95.5	-7.6	6.7	-0.4	88.9	4.3	84.5	-7.2	-7.2	0	0.8	3.6

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											
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	-89.1	69.0	0.1	-1.4	0.2	0.4	-78.6	65.1	-10.8	4.8	
II	145.5	-81.8	0	-0.6	0.1	-0.4	164.8	-85.6	-19.5	4.8	
III	59.2	-46.2	-0.1	0.3	-1.6	-0.1	62.4	-51.2	-1.5	4.8	
IV	-2.4	18.3	0	3.5	0.7	-0.4	-9.4	23.3	6.3	-8.2	
V	-37.0	10.4	0	-3.1	-0.9	0.1	-42.7	19.1	6.6	-5.8	
VI	-14.7	152.1	-0.1	-1.5	-0.2	-0.5	-21.1	143.4	6.6	10.8	
VII	67.8	35.4	0.1	-1.4	1.0	1.0	61.5	28.2	5.2	7.6	
VIII	-68.0	10.0	-0.1	0	0.2	2.1	-73.8	2.5	5.8	5.4	
IX	11.5	17.4	0	0.3	0.3	-1.4	6.1	12.2	5.1	6.3	
X	-36.7	84.4	0.1	-0.1	-0.3	2.4	-42.1	48.3	5.6	33.8	
XI	-152.0	163.2	0	0	-4.0	1.4	-157.9	122.5	9.9	39.4	
XII	66.1	23.9	-0.1	-1.2	0.2	-0.1	63.9	8.0	2.1	17.3	

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