

MONETARY BULLETIN 2007

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The GDP growth in the fourth quarter and overall in 2006 (11.7% and 11.9% respectively) was driven mainly by private consumption and investment, hinting at the persistence of imbalances in the economy. A rapid growth was observed in trade, real estate, business activities and financial intermediation, whereas it was much slower in manufacturing. Also in January 2007 the growth in manufacturing was 2.2%, with overall growth of the industrial sector at a mere 0.2%. The increase in retail trade in January was 32.2%. Freight transported by rail recorded a further decline of 7.7% in February, whereas the year-on-year expansion of the total cargo turnover at Latvian ports and volume of oil products transported by pipeline was 3.9% and 32.5% respectively. The number of unemployed persons decreased slightly in February, whereas the unemployment rate remained unchanged (6.5%).

The growth of consumer price annual inflation in February (to 7.3%, including goods 6.0% and services 10.9%) was determined by the increase of administered prices (including public transport fares and housing maintenance services). During the month the fares increased by 8.8% and water supply tariffs by 5.9%. Bread and cereal products also became substantially more expensive. The annual core inflation climbed from 6.0% in January to 6.5% in February.

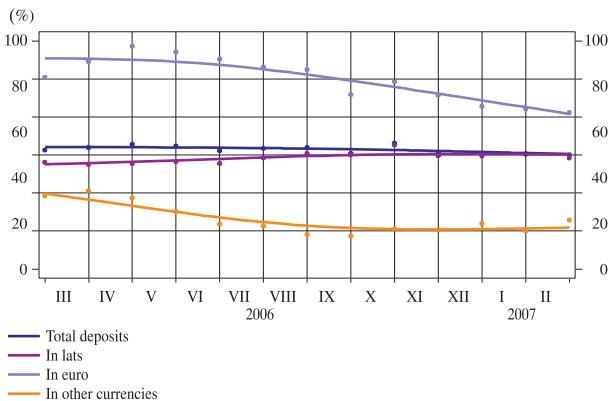
In February, the financial deficit of the general government consolidated budget totalled 12.8 million lats. The central government basic budget expenditure was 43.7 million lats over revenue. It was partly offset by the surplus in the social security fund (23.5 million lats) and local government consolidated budget (11.7 million lats). On the account of the rapid increase in corporate tax and excise tax collection (94.9% and 39.0% respectively), in February the year-on-year growth of the general government consolidated budget revenue was 35.7%, including tax revenue by 35.0%. General government consolidated budget expenditure increased by 39.5%.

Total debt of the general government, standing at 1 160.7 million lats at the end of February, increased on the account of new securities issued. In February, primary placement competitive multi-price auctions of 6-month Treasury bills and 5-year bonds were held where securities were sold in the amount of 4.0 million lats and 12.9 million lats respectively. Compared to the previous auction of securities with the same maturity, the weighted average yield on 6-month Treasury bills increased by 18 basis points to stand at 4.393%, whereas the weighted average yield on 5-year Treasury bonds went up by 107 basis points, reaching 5.196%.

In February, broad money M3 grew by a moderate 47.9 million lats. Money supply was boosted by the rapid rise in resident deposits, while currency in circulation dwindled. The annual growth rate of M3 slowed down from 39.9% in January to 38.6% in February; overnight deposits from 45.8% to 42.6% and deposits redeemable at notice from 43.2% to 34.1% respectively, whereas currency outside MFIs shrunk from 24.2% to 20.6%. The growth rate of the deposits with agreed maturity of up to 2 years increased by 6.4 percentage points year-on-year to 45.5%. The growth rate of monetary aggregates M1 and M2 also decelerated year-on-year to stand at 36.7% and 38.8% respectively.

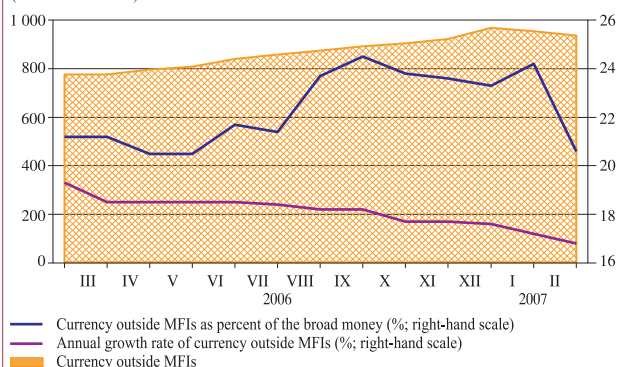
The annual growth rate of MFI deposits by resident financial

ANNUAL CHANGES IN DEPOSITS MADE BY RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS



CURRENCY OUTSIDE MFIs

(in millions of lats)



MACROECONOMIC INDICATORS	2007	
	I	II
Changes in the volume index of industrial output (year-on-year basis; %)	0.2	*
Changes in the CPI		
Month-on-month basis (%)	1.3	0.5
Year-on-year basis (%)	7.1	7.3
Annual rate of core inflation ¹ (%)	6.0	6.5
Number of registered unemployed persons (at end of period)	69 532	68 943
Unemployment rate (%)	6.5	6.5
General government consolidated budget financial deficit/surplus (in millions of lats)	153.9	141.1
Foreign trade (in millions of lats)		
Exports	265.0	*
Imports	556.1	*
Balance	-291.1	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

Source: Central Statistical Bureau of Latvia and Ministry of Finance.

institutions, non-financial corporations and households declined by 0.4 percentage point in February, hitting the 40.2% mark: the lowest since the autumn of 2005. The slowdown in deposit increase was induced by the decrease in deposits in lats by 4.9 million lats, with only the deposits in foreign currencies continuing to grow (by 57.6 million lats). The moderate growth of deposits, in combination with high demand for loans, facilitated rise in banks' market funding in the form of syndicated loans and borrowings from associated credit institutions; thus the negative net foreign assets of MFIs (excluding the Bank of Latvia) grew by 289.2 million lats.

The increase in loans to resident financial institutions, non-financial corporations and households in February was higher than the seasonally low January rate, and was close to the average growth volume in the autumn months of 2006 (300–400 million lats). The annual lending growth rate increased by 0.8 percentage point, amounting to 59.0%. The currency structure of loans remained generally the same. Mortgage loans continued to dominate, with housing loans to households increasing by 154.7 million lats. Commercial credit grew significantly (by 88.4 million lats), whereas industrial credit and consumer loans to households increased by 21.6 million lats and 13.4 million lats respectively. The annual growth rate of loans to households was 76.5%, that of financial institutions and non-financial corporations 47.2%. The growth in loans in euro (288.3 million lats) contributed the most to the overall increase, whereas the growth in loans in lats (65.9 million lats) had a minor impact. Nevertheless, the annual rate of increase in loans in lats accelerated slightly to 22.4%, whereas that of loans in euro declined to 92.4%.

The interest rates on loans granted by MFIs prevalently continued an upward trend. The interest rates on housing loans granted in lats and foreign currencies increased by 0.3 percentage point (to 6.8% and 5.7% respectively), the interest rates on loans to non-financial corporations increased as well.

In February, the Bank of Latvia conducted currency swap operations, increasing the central bank's net foreign assets by 2.8% (70.2% year-on-year). At the end of February, the backing of the national currency with the Bank of Latvia's net foreign assets was 114.7%. Money supply increased also owing to the shrinking bank time deposits with the Bank of Latvia and growing lending to banks. With the liquidity surplus decreasing, in February banks resumed borrowing from the Bank of Latvia both in the form of repo as well as Lombard loans; however, at the end of the month the loans granted by the central bank shrank to 2.7 million lats.

At the end of the third week of February, the ongoing discussions about the external imbalances and the rumours about the probable devaluation of the lats caused the selling of lats above the regular volumes. The euro exchange rate quoted by banks was approaching the Bank of Latvia's upper intervention margin. Later, when the lats strengthened, the exchange rate still remained above the central parity; yet, there was no need for the central bank interventions in the foreign exchange market. Exchange rate volatility and lack of liquidity at the end of the reserve maintenance period resulted in a sharp but temporary increase of the RIGIBOR. Therefore at the end of February, the RIGIBOR on loans with a 3- and 6-month maturity and on overnight loans was 5.52%, 6.54% and 3.62% respectively (or 124, 175 and 24 basis points higher than at the beginning of the month).

In February, the US dollar, the British pound sterling and the Japanese yen depreciated against the lats by 1.7%, 1.6% and 0.2% respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2007	
	I	II
MFIs¹		
M3	5 534.7	5 582.6
Repurchase agreements	0	0
Money market fund shares and units	52.1	49.4
Debt securities issued with maturity of up to 2 years	4.8	4.8
M2	5 477.8	5 528.4
Deposits with agreed maturity of up to 2 years	1 303.5	1 393.8
Deposits redeemable at notice of up to 3 months	156.8	157.0
M1	4 017.5	3 977.6
Currency outside MFIs	954.3	935.7
Overnight deposits	3 063.2	3 041.9
Net external assets	-2 812.4	-3 032.8
Credit to resident financial institutions, non-financial corporations and households	9 994.3	10 340.2
Credit to general government	368.7	374.6
Deposits of central government	248.3	258.0
Longer-term financial liabilities	1 829.1	1 867.6
Bank of Latvia		
M0	2 101.9	2 185.5
Currency in circulation	1 047.6	1 031.0
Deposits with the Bank of Latvia in lats	1 054.3	1 154.5
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	2 439.0	2 507.8
Net domestic assets	-337.1	-322.3
Credit	-231.6	-234.9
To MFIs	0	2.7
To central government (net)	-231.6	-237.6
Other items (net)	-105.6	-87.4
International reserves (at end of period; in millions of US dollars)	4 516.96	4 710.77
Gold	160.00	170.64
Special Drawing Rights	0.16	0.16
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	4 356.72	4 539.89

¹In accordance with the methodology of the European Central Bank.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2007	
	I	II
Weighted average interest rate on domestic interbank loans in lats	2.6	3.7
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	5.8	7.5
Loans to households (in lats)	10.1	9.4
incl. for house purchase	6.5	6.8
Loans to non-financial corporations (in foreign currencies)	6.0	6.2
Loans to households (in foreign currencies)	5.6	5.8
incl. for house purchase	5.4	5.7
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	3.5	3.9
Demand deposits of non-financial corporations (in lats)	1.0	1.3
Time deposits of households (in lats)	3.8	3.7
Demand deposits of households (in lats)	0.5	0.5
Time deposits of non-financial corporations (in foreign currencies)	3.2	3.8
Demand deposits of non-financial corporations (in foreign currencies)	1.7	1.6
Time deposits of households (in foreign currencies)	3.6	3.5
Demand deposits of households (in foreign currencies)	1.4	1.4
The Bank of Latvia's refinancing rate (at end of period; %)	5.0	5.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5420	0.5330
LVL/GBP	1.0640	1.0470
LVL/100 JPY	0.4450	0.4440
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)

	2007	
	I	II
MFI reserves	1 179.9	1 249.9
Vault cash in national currency	93.3	95.3
Deposits with the Bank of Latvia	1 086.6	1 154.6
Foreign assets	3 736.9	3 878.9
Vault cash in foreign currencies	58.3	53.4
Claims on MFIs	2 246.4	2 425.5
Claims on non-MFIs	1 389.3	1 359.9
Other assets	42.9	40.1
Claims on central government	293.9	299.7
Claims on local government	74.7	74.9
Claims on public non-financial corporations	118.3	119.5
Claims on financial institutions and private non-financial corporations	5 478.1	5 645.2
Claims on households	4 454.2	4 634.6
Unclassified assets	867.2	860.4
Fixed assets	134.7	137.0
Items in transit	20.1	17.3
Other assets	110.7	113.0
Claims on resident MFIs (incl. investments)	601.6	593.1
Total assets	16 203.2	16 763.1
<i>Memo item: Trust assets</i>	<i>447.5</i>	<i>1 337.4</i>
Overnight deposits in lats	1 767.6	1 737.0
Public non-financial corporations	96.7	99.8
Financial institutions and private non-financial corporations	757.6	713.0
Households	913.3	924.2
Time deposits and deposits redeemable at notice in lats	877.8	903.5
Public non-financial corporations	84.0	99.5
Financial institutions and private non-financial corporations	216.4	233.6
Households	577.4	570.5
Foreign currency deposits of residents	1 877.5	1 935.1
Public non-financial corporations	29.3	26.7
Financial institutions and private non-financial corporations	563.1	554.2
Households	1 285.2	1 354.2
Deposits of central government	16.7	20.4
Deposits of local government	161.3	176.1
Transit funds	4.4	4.4
Foreign liabilities	8 988.3	9 419.5
Liabilities to MFIs	5 645.3	6 029.2
Liabilities to non-MFIs	3 071.5	3 107.8
Other liabilities (incl. subordinated liabilities)	271.5	282.4
Liabilities to the Bank of Latvia	0	2.7
Debt securities issued	323.1	327.2
Money market fund shares and units	52.1	49.4
Capital and reserves	1 244.8	1 266.8
Residents	786.6	809.5
Non-residents	458.2	457.4
Provisions	95.3	95.4
Unclassified liabilities	794.2	825.5
Items in transit	128.5	164.2
Other liabilities (incl. subordinated liabilities)	111.9	121.6
Liabilities to resident MFIs	553.7	539.7
Total liabilities	16 203.2	16 763.1
<i>Memo item: Trust liabilities</i>	<i>447.5</i>	<i>1 337.4</i>

The IMF's Dissemination Standards Bulletin Board (<http://dsbb.imf.org>) disseminates the release dates for monetary indicators of the Latvian banking system, monetary indicators of the Bank of Latvia and international reserves. The data are first made available on the Bank of Latvia's website (<http://www.bank.lv>).