

# MONETARY BULLETIN 2008

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Available preliminary data continued to point to rather sluggish growth of the Latvian economy. In May, the working day adjusted volume index of industrial output in manufacturing decreased by 8.0% year-on-year and the retail trade turnover (including sales of motor vehicles and automotive fuel retailing) shrank by 9.7%. The retail trade turnover was significantly dampened by falling demand for motor vehicles. According to preliminary data, performance indicators in transportation deteriorated considerably in June. Rail freight, turnover at ports and transportation by pipeline decreased by 3.2%, 9.9% and 23.5% year-on-year respectively.

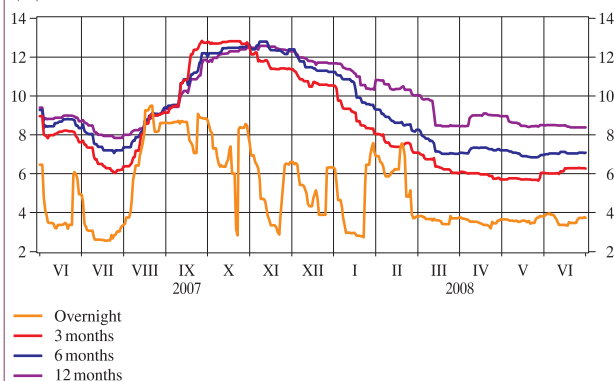
With the consumer price rise declining to 0.7% in June, the annual inflation edged down for the first time since May 2007 (by 0.2 percentage point; to 17.7%). Considering the escalation of the global energy prices, the most significant upward pressure on inflation was exerted by higher fuel prices that increased by 4.7% month-on-month. Food prices grew further by 1.4%, with the prices on meat, vegetables and potatoes posting a particularly steep rise. The most significant dampening effect was exerted by the prices of footwear dropping by 5.5%. The annual core inflation of consumer prices also decreased slightly, to 15.6%.

The financial surplus of the general government consolidated budget shrank by 107.2 million lats in June. The respective surplus of the first six months of 2008 totalled 165.8 million lats, representing a 87.8 million lats decrease over the corresponding period of the previous year. In June, both the central government basic budget and the local government consolidated budget posted a financial deficit of 49.5 million lats and 72.4 million lats respectively, which could not be offset by the small surplus of the central government social security budget totalling 14.5 million lats. The revenue and expenditure of the general government consolidated budget grew by 8.6% and 26.9% year-on-year respectively in June. Tax revenue increased by 8.3% in June, with the corporate income tax revenue and the excise tax revenue posting the most notable increase. The shrinking domestic demand resulted in a decrease of the value added tax revenue by 7.8% year-on-year. Expenditure increased on account of accelerated growth of the current expenditure, whereas the growth rate of the capital expenditure was more moderate. In June, the general government debt expanded by 18.8 million lats to stand at 1 473.4 million lats at the end of the month as a result of a government securities issue.

Broad money aggregate and resident deposits increased slightly in June, whereas the growth of loans outstanding was more modest in comparison with May, but higher in comparison with March and April. Loans to resident financial institutions, non-financial corporations and households increased by 191.9 million lats or 1.4%, yet the annual growth rate dropped by 2.2 percentage points to 20.0%. Mainly corporate loans were granted: loans to non-financial corporations expanded by 172.6 million lats or 2.6%, with the annual growth rate declining to 27.3%. The rise of the corporate loans was dominated by mortgage loans (an increase of 3.2%), whereas the expansion of commercial credit and industrial credit was more modest at 1.5% and 2.0% respectively. Household loans increased by merely 4.4 million lats or 0.1%, with the annual growth rate dropping to 16.9%. Loans for house purchase grew by 0.5%,

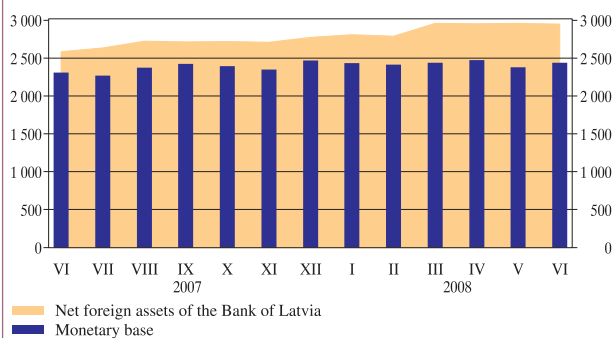
RIGIBOR

(%)



## BACKING OF THE NATIONAL CURRENCY

(at end of period; in millions of lats)



## MACROECONOMIC INDICATORS

	2008	
	V	VI
Volume index of industrial output (working-day adjusted annual rate of change; %)	-8.5	*
Changes in the CPI		
Month-on-month basis (%)	0.9	0.7
Average annual inflation rate (HCPI) of last 12 months (%)	13.8	14.6
Year-on-year basis (%)	17.9	17.7
Annual rate of core inflation <sup>1</sup> (%)	15.8	15.6
Number of registered unemployed persons (at end of period)	52 213	54 012
Unemployment rate (%)	4.8	4.9
General government consolidated budget financial deficit/surplus (in millions of lats)	273.0	165.8
Foreign trade (in millions of lats)		
Exports	369.7	*
Imports	599.0	*
Balance	-229.3	*

<sup>1</sup> Source: Bank of Latvia.

\* Figure available at a later date.

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

with the annual growth decelerating to 16.7%, whereas consumer credit increased by 0.8% with the annual growth rate amounting to 27.1%. Euro loans remained to be the main contributors to the overall loan expansion, while loans granted in lats expanded modestly: by 8.0 million lats or 0.5%.

Funding received from foreign banks grew by 80.2 million lats in June, including that from parent banks expanded by 153.2 million lats, whereas non-resident non-MFI deposits contracted by 141.6 million lats. The negative net foreign assets of MFIs grew by 225.8 million lats.

Broad monetary aggregate M3 grew by 75.0 million lats in June, with the annual growth rate declining to 5.9%, M2 expanded by 77.4 million lats (annual growth rate amounting to 6.1%), whereas M1 increased by 57.3 million lats, representing a year-on-year decrease of 10.1% at the end of June. Overnight deposits, currency outside MFIs and deposits with an agreed maturity of up to two years increased by 49.0 million lats, 8.3 million lats and 22.9 million lats respectively.

Currency in circulation grew by 10.3 million lats in June due to seasonal factors, yet the annual growth rate remained negative. With the expansion of the reserve base, demand deposits of banks with the Bank of Latvia also increased, so at the end of June the monetary base M0 was 63.3 million lats larger than at the end of May. In June, the central bank's money supply was increased by a 46.6 million lats decrease in the government deposits in lats with the Bank of Latvia. With the foreign currency funds of the government shrinking, the net foreign assets of the Bank of Latvia contracted by 11.8 million lats or 0.4% in June. At the end of June, the backing of the national currency with the Bank of Latvia's net foreign assets was 120.7%.

As the money market liquidity remained ample, banks did not use the funding offered by the Bank of Latvia and continued to resort to the deposit facility with the central bank. Therefore, the RIGIBOR on overnight loans remained low (3.3%–3.9%). The RIGIBOR on loans with a 3-month and 6-month maturity grew by 24 and 11 basis points within a month, amounting to 6.28% and 7.07% respectively, whereas that on loans with a 12-month maturity decreased by 12 basis points to stand at 8.38%.

In June, the interest rates on lats loans granted to households declined, while the rates on foreign currency loans increased. The weighted average interest rate on lats loans granted to non-financial corporations shrank by 2.1 percentage points to 7.7%, whereas that on foreign currency loans remained unaltered. The interest rates on deposits by non-financial corporations remained broadly unchanged, whereas the weighted average interest rates on time deposits in lats and foreign currencies made by households climbed to 6.9% and 4.4% respectively.

In June, the exchange rate of the US dollar, the British pound sterling and the Japanese yen set by the Bank of Latvia depreciated against the lats by 0.4%, 0.1% and 2.8% respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2008	
	V	VI
<b>MFIs<sup>1</sup></b>		
M3	6 432.6	6 507.6
Repurchase agreements	0	0
Money market fund shares and units	82.2	98.1
Debt securities issued with maturity of up to 2 years	25.9	7.6
M2	6 324.5	6 401.9
Deposits with agreed maturity of up to 2 years	2 257.0	2 279.9
Deposits redeemable at notice of up to 3 months	336.3	333.6
M1	3 731.2	3 788.5
Currency outside MFIs	866.1	874.4
Overnight deposits	2 865.1	2 914.1
Net external assets	-4 933.0	-5 158.8
Credit to resident financial institutions, non-financial corporations and households	13 916.6	14 108.5
Credit to general government	369.9	388.7
Deposits of central government	549.9	500.5
Longer-term financial liabilities	2 423.6	2 355.8
<b>Bank of Latvia</b>		
M0	2 377.8	2 441.1
Currency in circulation	988.4	998.7
Deposits with the Bank of Latvia in lats	1 380.2	1 434.2
Deposits with the Bank of Latvia in foreign currencies	9.2	8.2
Net foreign assets	2 958.1	2 946.3
Net domestic assets	-580.3	-505.2
Credit	-456.2	-390.6
To MFIs	0	0
To central government (net)	-456.2	-390.6
Other items (net)	-124.2	-114.6
International reserves (at end of period; in millions of euro)	4 194.98	4 152.67
Gold	143.37	144.02
Special Drawing Rights	0.11	0.11
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	4 051.44	4 008.48
International reserves (at end of period; in millions of US dollars)	6 566.27	6 529.12
Gold	224.41	226.44
Special Drawing Rights	0.18	0.18
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	6 341.59	6 302.41

<sup>1</sup> In accordance with the methodology of the European Central Bank.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2008	
	V	VI
Weighted average interest rate on domestic interbank loans in lats	3.4	3.5
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	9.8	7.7
Loans to households (in lats)	17.4	16.3
incl. for house purchase	9.0	8.9
Loans to non-financial corporations (in foreign currencies)	7.3	7.3
Loans to households (in foreign currencies)	6.7	7.2
incl. for house purchase	6.4	6.9
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	4.9	4.9
Demand deposits of non-financial corporations (in lats)	1.3	1.3
Time deposits of households (in lats)	6.6	6.9
Demand deposits of households (in lats)	1.1	1.0
Time deposits of non-financial corporations (in foreign currencies)	3.8	3.9
Demand deposits of non-financial corporations (in foreign currencies)	1.8	1.8
Time deposits of households (in foreign currencies)	4.1	4.4
Demand deposits of households (in foreign currencies)	1.6	1.6
The Bank of Latvia's refinancing rate (at end of period; %)	6.0	6.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.4490	0.4470
LVL/GBP	0.8890	0.8880
LVL/100 JPY	0.4290	0.4170
LVL/EUR	0.7028	0.7028

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

	2008	
	V	VI
MFI reserves	1 518.6	1 563.9
Vault cash in national currency	122.3	124.4
Deposits with the Bank of Latvia	1 396.3	1 439.5
Foreign assets	5 264.2	5 009.7
Vault cash in foreign currencies	62.4	59.4
Claims on MFIs	3 239.8	2 929.9
Claims on non-MFIs	1 877.6	1 929.6
Other assets	84.4	90.9
Claims on central government	300.4	315.9
Claims on local government	69.5	72.8
Claims on public non-financial corporations	271.1	281.9
Claims on financial institutions and private non-financial corporations	7 417.3	7 594.5
Claims on households	6 289.4	6 293.8
Unclassified assets	1 015.9	1 074.5
Fixed assets	190.9	192.5
Items in transit	27.4	34.4
Other assets	177.3	182.6
Claims on resident MFIs (incl. investments)	620.3	665.0
<b>Total assets</b>	<b>22 146.3</b>	<b>22 207.1</b>
<i>Memo item: Trust assets</i>	<i>364.0</i>	<i>1 147.3</i>
Overnight deposits in lats	1 551.1	1 627.0
Public non-financial corporations	115.9	80.8
Financial institutions and private non-financial corporations	652.2	693.8
Households	783.0	852.4
Time deposits and deposits redeemable at notice in lats	1 245.4	1 233.9
Public non-financial corporations	216.0	219.4
Financial institutions and private non-financial corporations	372.1	372.1
Households	657.4	642.5
Foreign currency deposits of residents	2 497.7	2 521.6
Public non-financial corporations	55.0	38.3
Financial institutions and private non-financial corporations	722.0	736.6
Households	1 720.7	1 746.7
Deposits of central government	93.7	109.9
Deposits of local government	297.8	281.7
Transit funds	3.7	3.7
Foreign liabilities	13 155.2	13 114.9
Liabilities to MFIs	8 454.6	8 534.8
Liabilities to non-MFIs	4 348.7	4 207.1
Other liabilities (incl. subordinated liabilities)	351.9	372.9
Liabilities to the Bank of Latvia	0	0
Debt securities issued	317.6	225.4
Money market fund shares and units	82.2	98.1
Capital and reserves	1 849.3	1 853.4
Residents	1 101.0	1 117.2
Non-residents	748.3	736.2
Provisions	128.9	136.6
Unclassified liabilities	923.6	1 000.9
Items in transit	162.2	161.7
Other liabilities (incl. subordinated liabilities)	218.5	228.4
Liabilities to resident MFIs	542.9	610.8
<b>Total liabilities</b>	<b>22 146.3</b>	<b>22 207.1</b>
<i>Memo item: Trust liabilities</i>	<i>364.0</i>	<i>1 147.3</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>).