

MONETARY BULLETIN 2009

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Despite the ongoing economic recession, strained fiscal situation and volatile financial markets, the downturn nevertheless has stopped in some sectors and indicators are suggesting an improvement. In April, the seasonally adjusted volume index of industrial output increased by 5.0% over March owing to an increase in the volume of new orders in manufacturing observed in March and April. Year-on-year, the working day adjusted volume index of industrial output in manufacturing narrowed by 18.7%. In April, seasonally adjusted retail trade turnover moved up 0.3% month-on-month, nevertheless remaining at a considerably lower level than in the previous year (36.7% down; seasonally non-adjusted data). As to freight transportation, the situation remained rather steady. In May, freight turnover by rail increased by 6.1% year-on-year, while overall freight turnover at Latvian ports decreased by 2.4%.

Unemployment rates continued to move up in May, to stand at 11.3%. The general government consolidated budget deficit rose only somewhat; however, the deficit accumulated since the beginning of the year was high. Lending contracted further, deposits attracted by banks shrank, and aggregate money supply diminished moderately.

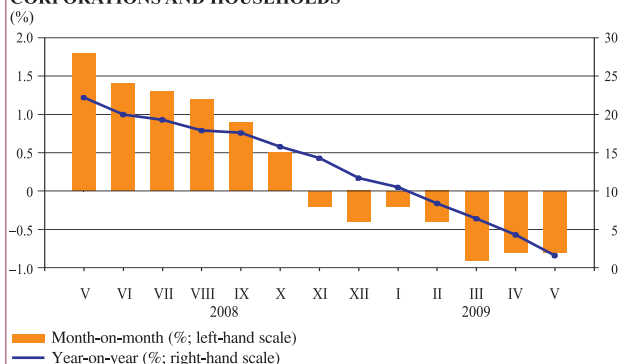
The decrease of the annual inflation rate continued to be steep in May (by 1.5 percentage points, to 4.7%), while the month-on-month decrease was 0.5%. Prices went down on account of a continuously small demand and lower administered energy prices. A low demand pushed down food and catering prices (by 0.4% and 0.7% respectively). On the backdrop of declining natural gas prices for business customers, heating tariffs recorded a notable reduction of 8.9%, thus mitigating the impact of administered prices. The annual core inflation dropped to 2.9% because of the weak demand, contributing 2.2 percentage points to total inflation.

In view of a further contraction of economic activity, easing inflation and sluggish lending, the Bank of Latvia Council reduced the Bank of Latvia refinancing rate to 4.0% (down from 5.0%) as of 24 May.

In May, the general government consolidated budget ran a deficit of 5.0 million lats, accumulating to 337.8 million lats since the beginning of the year. During the first five months of the year, the central government both basic and social security budgets recorded a deficit, while the local government consolidated budget maintained a surplus. In May, too, revenue posted a notable year-on-year decrease of 22.5%, while expenditure increased by a mere 1.2%. Tax collections went down by 26.9% for all tax groups, with corporate income tax, value added tax and personal income tax revenue posting the most pronounced decline (70.9%, 27.0% and 28.9% respectively). The budget expenditure was affected by the increasing spending on social benefits (by 40.3%), albeit offset by the decreasing compensations to employees, purchases of goods and services and also capital expenditure. With the government launching Treasury bill issues, the general government debt grew by 23.1 million lats in May, amounting to 3 142.1 million lats outstanding.

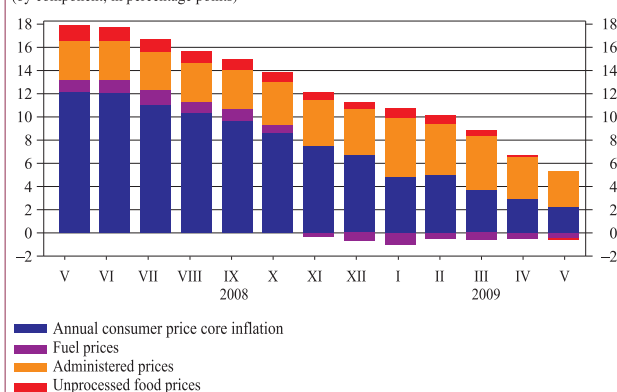
The annual lending growth rate slowed down to 1.6% (to 7.2% for non-financial corporations and to -0.2% for households) in May. Loans to resident financial institutions, non-financial corporations and households decreased by 112.2 million lats or 0.8%, with financial institutions witnessing a more pro-

GROWTH RATE DEVELOPMENTS FOR LOANS GRANTED TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS



ANNUAL CONSUMER PRICE INFLATION

(by component; in percentage points)



MACROECONOMIC INDICATORS	2009	
	IV	V
Volume index of industrial output (working-day adjusted annual rate of change; %)	-16.9	*
Changes in the CPI		
Month-on-month basis (%)	-0.4	-0.5
Average annual inflation rate (HCPI) of last 12 months (%)	12.5	11.4
Year-on-year basis (%)	6.2	4.7
Annual rate of core inflation ¹ (%)	3.9	2.9
Number of registered unemployed persons (at end of period)	123 127	126 595
Unemployment rate (%)	11.0	11.3
General government consolidated budget financial deficit/surplus (in millions of lats)	-332.8	-337.8
Foreign trade (in millions of lats)		
Exports	274.2	*
Imports	371.1	*
Balance	-96.9	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

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

nounced decline and households a milder one, whereas lending to non-financial corporations posted a small growth. Commercial credit declined by 3.3% and mortgage loans by 1.0%, thus having a dampening effect. Consumer loans contracted as well, while industrial credit moved up somewhat. As to currency breakdown, loans in lats contracted by 51.9 million lats or 3.5% and those in euro by 38.7 million lats or 0.3%.

The complicated financial situation in the country notwithstanding, the demand for cash was only slightly smaller. In May, M3, M2 and M1 decreased by 44.2 million lats, 47.1 million lats and 8.3 million lats respectively. The annual decrease rate of the monetary aggregates remained broadly unchanged and was 8.3%, 8.1% and 18.7% respectively. Money supply contracted mainly as a result of shrinking deposits with an agreed maturity of up to two years (by 58.3 million lats or 2.3%), while overnight deposits remained almost the same, but those redeemable at notice increased by 6.8%. In May, currency outside MFIs decreased by 17.0% year-on-year.

In May, deposits went down 0.9% overall, including a 1.0% drop in household deposits. Deposits in lats posted a considerable fall of 138.6 million lats, of this a decline of 88.7 million lats was on account of lats deposits by financial institutions and non-financial corporations. Deposits in euro increased by 80.6 million lats. In general, household deposits recorded a slightly faster drop. The annual growth rate of deposits made by resident financial institutions, non-financial corporations and households remained at -4.6%.

As to funding from foreign banks, the situation in the Latvian banking sector remained broadly unchanged. In May, the liabilities of Latvian banks to foreign banks decreased by 90.0 million lats or 1.1%, somewhat down from April; of this, borrowings from affiliated banks contracted by 82.0 million lats or 1.3% (a 101.7 million lats decrease in April). Contrary to the previous month, non-resident non-MFI deposits reported a decline of 151.6 million lats or 4.7%. With foreign assets remaining almost the same, the negative net foreign assets of MFIs (excluding the Bank of Latvia) improved by 131.4 million lats.

Monetary base M0 improved somewhat in May, thus its negative annual growth rate decreased to 30.1%. The expansion of M0 was the result of the growing bank demand deposits with the Bank of Latvia, since the deposit facility was a less preferred option, while recourse to the central bank's lending facility was more common. Net foreign assets of the Bank of Latvia decreased further – both on account of the shrinking government funds in foreign exchange with the central bank (they were used for covering the budget deficit) and the central bank interventions by selling euro (80.7 million lats in May in net terms).

Given the expansion of monetary base and the decline in foreign reserves, the backing of the national currency with the central bank's net foreign assets stood at 125.9% at the end of the month.

Due to a decline of lats' liquidity and the grave situation in the public finances, RIGIBOR experienced a considerable rise at the end of May, to stand at 12.30% on overnight loans (averaging 6.5% in the month), and at 14.42%, 14.40% and 14.62% on 3-, 6- and 12-month loans respectively.

In May, interest rates on loans granted to households both in lats and in foreign currencies went down, including loans for house purchase; so did interest rates on loans to non-financial corporations extended in foreign currencies. The lack of liquidity compelled banks to announce substantial interest rate raises on lats deposits, up to 8.5% for household time deposits and up to 9.0% for non-financial corporation time deposits, while interest rates on deposits in foreign currencies moved down a little.

According to the exchange rate set by the Bank of Latvia, in May the US dollar and the Japanese yen depreciated against the lats (by 4.5% and 4.0% respectively), whereas the British pound sterling appreciated by 3.4%.

MONETARY INDICATORS (at end of period; in millions of lats)	2009	
	IV	V
MFIs¹		
M3	5 940.1	5 895.9
Repurchase agreements	0	0
Money market fund shares and units	79.9	82.4
Debt securities issued with maturity of up to 2 years	1.3	1.7
M2	5 858.9	5 811.8
Deposits with agreed maturity of up to 2 years	2 530.8	2 472.5
Deposits redeemable at notice of up to 3 months	286.7	306.3
M1	3 041.3	3 033.0
Currency outside MFIs	725.6	718.7
Overnight deposits	2 315.7	2 314.3
Net external assets	-5 062.6	-4 976.7
Credit to resident financial institutions, non-financial corporations and households	14 252.4	14 140.2
Credit to general government	715.6	691.5
Deposits of central government	1 362.9	1 202.3
Longer-term financial liabilities	2 248.3	2 337.5
Bank of Latvia		
M0	1 612.2	1 660.9
Currency in circulation	846.6	825.1
Deposits with the Bank of Latvia in lats	752.9	826.4
Deposits with the Bank of Latvia in foreign currencies	12.7	9.4
Net foreign assets	2 136.3	2 090.8
Net domestic assets	-524.1	-429.9
Credit	-221.2	-178.1
To MFIs	275.0	362.2
To central government (net)	-496.2	-540.3
Other items (net)	-302.9	-251.9
International reserves (at end of period; in millions of euro)	3 045.91	2 969.42
Gold	168.21	170.54
Special Drawing Rights	0.52	0.46
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	2 877.12	2 798.36
International reserves (at end of period; in millions of US dollars)	4 023.82	4 108.11
Gold	222.22	235.93
Special Drawing Rights	0.68	0.64
Reserve position in the IMF	0.08	0.09
Foreign convertible currencies	3 800.84	3 871.45

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2009	
	IV	V
Weighted average interest rate on domestic interbank loans in lats	3.0	4.9
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	9.7	13.4
Loans to households (in lats)	20.5	19.0
incl. for house purchase	12.2	10.4
Loans to non-financial corporations (in foreign currencies)	6.1	5.6
Loans to households (in foreign currencies)	6.2	5.9
incl. for house purchase	5.3	5.1
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	6.3	9.0
Demand deposits of non-financial corporations (in lats)	1.9	3.5
Time deposits of households (in lats)	7.8	8.5
Demand deposits of households (in lats)	0.9	1.0
Time deposits of non-financial corporations (in foreign currencies)	2.2	1.8
Demand deposits of non-financial corporations (in foreign currencies)	0.4	0.5
Time deposits of households (in foreign currencies)	3.2	2.8
Demand deposits of households (in foreign currencies)	0.9	0.9
The Bank of Latvia's refinancing rate (at end of period; %)	5.0	4.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5320	0.5080
LVL/GBP	0.7830	0.8100
LVL/100 JPY	0.5500	0.5280
LVL/EUR	0.7028	0.7028

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

	2009	
	IV	V
MFI reserves	940.3	942.2
Vault cash in national currency	121.1	106.4
Deposits with the Bank of Latvia	819.3	835.8
Foreign assets	4 734.1	4 729.3
Vault cash in foreign currencies	62.2	57.2
Claims on MFIs	2 690.6	2 743.2
Claims on non-MFIs	1 878.6	1 823.5
Other assets	102.6	105.4
Claims on central government	641.2	617.1
Claims on local government	74.5	74.4
Claims on public non-financial corporations	376.7	383.8
Claims on financial institutions and private non-financial corporations	7 658.7	7 634.8
Claims on households	6 306.1	6 276.7
Unclassified assets	1 062.9	1 102.8
Fixed assets	164.9	162.4
Items in transit	23.2	25.2
Other assets	367.2	382.2
Claims on resident MFIs (incl. investments)	507.6	533.0
Total assets	21 794.4	21 761.2
<i>Memo item: Trust assets</i>	<i>331.9</i>	<i>344.9</i>
Overnight deposits in lats	1 162.0	1 108.9
Public non-financial corporations	85.6	72.9
Financial institutions and private non-financial corporations	494.0	486.3
Households	582.4	549.7
Time deposits and deposits redeemable at notice in lats	1 208.6	1 123.2
Public non-financial corporations	177.6	185.5
Financial institutions and private non-financial corporations	470.7	394.6
Households	560.3	543.1
Foreign currency deposits of residents	2 727.3	2 819.8
Public non-financial corporations	35.9	58.3
Financial institutions and private non-financial corporations	939.7	988.0
Households	1 751.7	1 773.5
Deposits of central government	866.7	662.0
Deposits of local government	202.8	208.1
Transit funds	3.4	3.2
Foreign liabilities	11 933.0	11 796.8
Liabilities to MFIs	8 358.1	8 268.1
Liabilities to non-MFIs	3 192.8	3 041.2
Other liabilities (incl. subordinated liabilities)	382.1	487.5
Liabilities to the Bank of Latvia	275.0	362.2
Debt securities issued	163.5	160.4
Money market fund shares and units	79.9	82.4
Capital and reserves	1 655.2	1 744.2
Residents	917.3	1 006.3
Non-residents	737.9	737.9
Provisions	651.3	741.5
Unclassified liabilities	865.7	948.4
Items in transit	87.7	93.6
Other liabilities (incl. subordinated liabilities)	310.3	357.2
Liabilities to resident MFIs	467.7	497.6
Total liabilities	21 794.4	21 761.2
<i>Memo item: Trust liabilities</i>	<i>331.9</i>	<i>344.9</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>).