

MONETARY BULLETIN 2009

11

In November, the macroeconomic situation in Latvia remained broadly unchanged. A weak domestic demand persisted, unemployment rate was rising and stood at 15.1% at the end of November, wages and salaries as well as consumer prices continued on a downward trend. Nevertheless, several economic indicators pointed to stabilisation. In October, the surplus of the current account of the balance of payments increased further owing to a stronger external demand and growing exports; in November, currency in circulation increased somewhat.

A decline in GDP (–19.0% in the third quarter) together with contracting output in the manufacturing sector (in October, the seasonally adjusted volume index depreciated by 1.9% month-on-month and by 15.8% year-on-year (working-day adjusted)) reflected a shrinking domestic demand. The feeble domestic demand caused a further downside in retail trade. In October, its turnover fell by 1.3% month-on-month (seasonally adjusted), while the year-on-year decline was 32.2%.

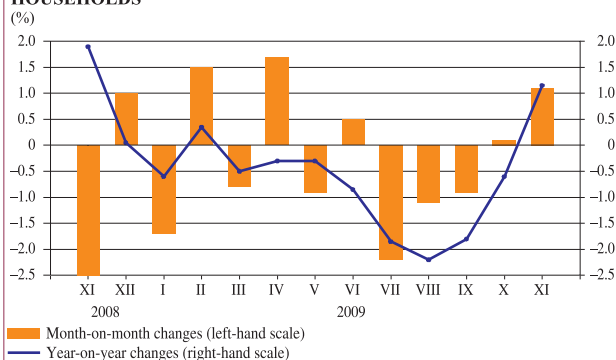
The performance of freight transportation deteriorated notably in November. With transit via Latvian ports contracting, rail freight posted a 17.1% year-on-year decline. Total freight turnover at Latvian ports shrank by 15.5%.

Lower income of the population and shrinking corporate costs continued to push down the consumer prices, the latter posting a 0.7% decrease in November, with annual consumer price deflation reaching 1.2%. November witnessed a price decline for most goods and services. The falling demand continued to exert a downward pressure both on food and non-food prices. Heating tariffs declined by a further 4.7% as a result of lower natural gas tariffs to industrial customers. Majority of services, too, became less expensive owing to a weak demand and cost optimisation. A rise in fuel prices due to climbing global oil prices, however, prevented the prices from plummeting even faster.

In November, annual consumer price core inflation reached –1.6%, while the 12-month average annual inflation and 12-month average growth in the harmonised index of consumer prices (HICP) used for the Maastricht criterion still remained relatively high (4.5% and 4.2% respectively).

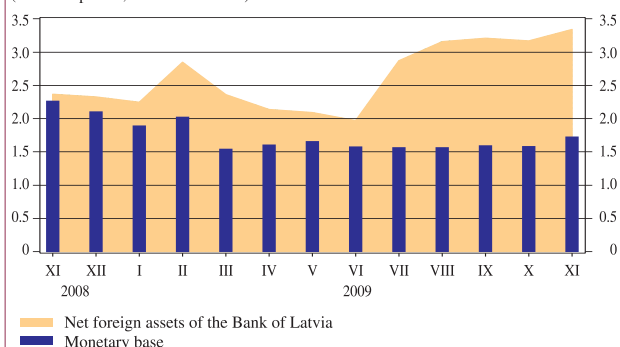
In November, the general government consolidated budget ran a deficit of 73.6 million lats, accruing to 588.1 million lats since the beginning of the year. The central government basic budget, social security budget and local government consolidated budget all were in the red, with deficits standing at 25.5 million lats, 37.9 million lats and 9.9 million lats respectively. The total annual revenue decrease was rather small (–3.9%) owing to generous non-tax revenue, while tax revenue posted a marked drop (–28.0%). Pronounced declines persisted in corporate income tax (55.8%), personal income tax (43.7%), and value added tax (22.8%) revenues; social security contributions contracted by 20.7%. Budget expenditure continued to go down as well: in November a 22.3% year-on-year decrease was reported, while the decline in the first eleven months of 2009 amounted to 10.4%. The decreases in expenditure for goods and services (49.2%), capital expenditure (48.7) and wages and salaries (45.5%) accounted for most of the decline observed in November. The general government debt stood at 4 240.0 million lats in November.

DYNAMICS OF DEPOSITS FROM RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS



BACKING OF THE NATIONAL CURRENCY

(at end of period; in billions of lats)



The steady liquidity conditions and foreign capital inflows as well as the seasonal increase in budget expenditures had a favourable effect on the dynamics of several monetary aggregates. Money supply expanded without any strong growth in demand for cash, while deposits and broad money increased. In November, deposits of resident financial institutions, non-financial corporations and households grew by 1.1% and broad money M3 by 1.0%. Currency outside banks contracted by a mere 0.3%, while deposits with an agreed maturity of up to 2 years increased by 0.5%, thus the annual growth rate of the latter reached 4.9%. The year-on-year change of deposits of resident financial institutions, non-financial corporations and households as well as broad money M3, though still in the negative area, kept improving for the third month running (to -1.7% and -7.9% respectively). Despite the diminishing income and growing unemployment, household deposits increased by 0.3% compared with the previous month, while deposits of financial institutions and non-financial corporations grew by 2.1%.

Lending to resident financial institutions, non-financial corporations and households contracted at a virtually unchanged pace since the previous month (-0.6%), continuing to point to weak domestic demand and banks' risk aversion against the backdrop of heightened uncertainty. Loans to households for house purchase and consumer credit continued to decline, and so did commercial credit to businesses. Expectations with regard to pickup in the corporate sector, including a potential stronger growth of exports, were underpinned by the growth in portfolio of industrial loans for the second consecutive month, with annual changes in outstanding amounts remaining positive.

In November, foreign funding to the banking sector diminished and liabilities to foreign parent banks decreased (liabilities to foreign banks decreased by 269.6 million lats, including a decrease of 321.7 million lats in borrowings from affiliated banks. Deposits by non-resident non-banks continued to expand for the second month in row. The negative net foreign assets of MFIs (except the Bank of Latvia) improved by 23.9 million lats in November.

The increase of M0 in November by 135.4 million lats was on account of expanding bank demand deposits with the central bank due to a decline in government deposits with the Bank of Latvia: the money borrowed from foreign creditors was converted into lats and expended. Lending to banks decreased, while the central bank's net foreign assets grew by 5.3%, and the backing of the national currency with the central bank's net foreign assets stood at 193.0% at the end of November. The rise in foreign reserves was due to the 200 million euro World Bank loan.

The low and virtually unchanged RIGIBOR, on average standing at 1.80% on overnight loans in November (1.81% in October), together with the sharply descending longer-term RIGIBOR suggested steadiness in money markets. At the end of November, 3-month, 6-month and 12-month RIGIBOR dropped to 9.5%, 12.0%, and 13.1% respectively, down from 13.9%, 14.8%, and 15.7% at the end of October. The fall in money market rates prompted a decrease in interest rates on household loans. The weighted average interest rate on lats loans (13.0%) was the lowest since March 2007, while that on loans in euro (5.5%) was the lowest since October 2006. The dynamics of deposit rates, by contrast, were prevalingly on an upward trend.

According to the exchange rate of the Bank of Latvia, in November the US dollar and the British pound sterling depreciated against the lats by 1.3% and 1.2% respectively, whereas the Japanese yen appreciated by 3.6%.

MACROECONOMIC INDICATORS	2009	
	X	XI
Volume index of industrial output (working-day adjusted annual rate of change; %)	-13.5	*
Changes in the CPI		
Month-on-month basis (%)	-0.2	-0.7
Average annual inflation rate (HCPI) of last 12 months (%)	5.5	4.5
Year-on-year basis (%)	-0.9	-1.2
Annual rate of core inflation ¹ (%)	-0.8	-1.6
Number of registered unemployed persons (at end of period)	157 897	169 236
Unemployment rate (%)	14.1	15.1
General government consolidated budget financial deficit/surplus (in millions of lats)	-514.5	-588.1
Foreign trade (in millions of lats)		
Exports	355.1	*
Imports	396.4	*
Balance	-41.3	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

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

MONETARY INDICATORS (at end of period; in millions of lats)	2009	
	X	XI
MFIs¹		
M3	5 598.4	5 654.3
Repurchase agreements	0	0
Money market fund shares and units	79.1	85.6
Debt securities issued with maturity of up to 2 years	0.9	0.9
M2	5 518.4	5 567.9
Deposits with agreed maturity of up to 2 years	2 399.3	2 411.8
Deposits redeemable at notice of up to 3 months	257.0	253.4
M1	2 862.1	2 902.6
Currency outside MFIs	641.8	639.6
Overnight deposits	2 220.3	2 263.1
Net external assets	-3 525.3	-3 333.2
Credit to resident financial institutions, non-financial corporations and households	13 796.7	13 718.8
Credit to general government	665.0	580.8
Deposits of central government	2 181.4	2 140.2
Longer-term financial liabilities	2 141.9	2 106.7
Bank of Latvia		
M0	1 593.8	1 729.2
Currency in circulation	745.6	739.5
Deposits with the Bank of Latvia in lats	838.9	942.3
Deposits with the Bank of Latvia in foreign currencies	9.3	47.4
Net foreign assets	3 169.8	3 338.0
Net domestic assets	-1 575.9	-1 608.8
Credit	-1 313.0	-1 350.8
To MFIs	226.1	145.2
To central government (net)	-1 539.2	-1 496.0
Other items (net)	-262.9	-258.0
International reserves (at end of period; in millions of euro)	4 523.28	4 804.51
Gold	174.36	195.31
Special Drawing Rights	130.74	130.53
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	4 218.12	4 478.61
International reserves (at end of period; in millions of US dollars)	6 664.53	7 169.07
Gold	256.90	291.43
Special Drawing Rights	192.63	194.78
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	6 214.91	6 682.77

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2009	
	X	XI
Weighted average interest rate on domestic interbank loans in lats	1.3	1.4
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	8.5	12.1
Loans to households (in lats)	15.2	13.0
incl. for house purchase	10.6	9.9
Loans to non-financial corporations (in foreign currencies)	5.0	5.0
Loans to households (in foreign currencies)	5.6	5.2
incl. for house purchase	4.2	4.0
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	5.4	5.4
Demand deposits of non-financial corporations (in lats)	0.6	0.6
Time deposits of households (in lats)	9.6	10.2
Demand deposits of households (in lats)	1.0	1.0
Time deposits of non-financial corporations (in foreign currencies)	0.9	1.2
Demand deposits of non-financial corporations (in foreign currencies)	0.3	0.4
Time deposits of households (in foreign currencies)	2.3	2.5
Demand deposits of households (in foreign currencies)	0.8	0.8
The Bank of Latvia's refinancing rate (at end of period; %)	4.0	4.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.4770	0.4710
LVL/GBP	0.7820	0.7730
LVL/100 JPY	0.5280	0.5470
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	
	X	XI
MFI reserves	946.8	1 084.3
Vault cash in national currency	103.8	99.9
Deposits with the Bank of Latvia	843.0	984.4
Foreign assets	4 677.4	4 458.3
Vault cash in foreign currencies	61.6	64.8
Claims on MFIs	2 812.1	2 643.6
Claims on non-MFIs	1 712.9	1 650.2
Other assets	90.8	99.7
Claims on central government	591.7	508.0
Claims on local government	73.3	72.8
Claims on public non-financial corporations	390.5	396.6
Claims on financial institutions and private non-financial corporations	7 418.6	7 369.3
Claims on households	6 153.2	6 121.0
Unclassified assets	949.0	1 031.3
Fixed assets	156.4	154.6
Items in transit	15.9	28.4
Other assets	432.4	451.8
Claims on resident MFIs (incl. investments)	344.4	396.6
Total assets	21 200.4	21 041.6
<i>Memo item: Trust assets</i>	<i>316.5</i>	<i>357.7</i>
Overnight deposits in lats	1 008.0	1 056.4
Public non-financial corporations	67.2	75.9
Financial institutions and private non-financial corporations	454.3	477.6
Households	486.6	502.8
Time deposits and deposits redeemable at notice in lats	1 043.5	1 067.9
Public non-financial corporations	193.3	209.5
Financial institutions and private non-financial corporations	348.1	352.7
Households	502.1	505.7
Foreign currency deposits of residents	2 823.6	2 803.2
Public non-financial corporations	62.2	52.8
Financial institutions and private non-financial corporations	1 007.2	1 008.9
Households	1 754.3	1 741.5
Deposits of central government	642.3	644.1
Deposits of local government	162.1	158.3
Transit funds	3.2	3.0
Foreign liabilities	11 372.5	11 129.5
Liabilities to MFIs	7 788.8	7 519.2
Liabilities to non-MFIs	3 005.5	3 030.7
Other liabilities (incl. subordinated liabilities)	578.2	579.6
Liabilities to the Bank of Latvia	226.1	145.2
Debt securities issued	154.5	153.2
Money market fund shares and units	79.1	85.6
Capital and reserves	1 529.1	1 506.4
Residents	507.9	478.8
Non-residents	1 021.2	1 027.6
Provisions	1 417.2	1 507.1
Unclassified liabilities	739.2	781.7
Items in transit	81.3	126.1
Other liabilities (incl. subordinated liabilities)	345.5	290.8
Liabilities to resident MFIs	312.4	364.8
Total liabilities	21 200.4	21 041.6
<i>Memo item: Trust liabilities</i>	<i>316.5</i>	<i>357.7</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>).