

MONETARY BULLETIN 2007

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In October, a further deceleration of the economic growth continued in Latvia. Although in the third quarter the preliminary estimate of the GDP growth was set at the high 11.1%, the gradual deceleration of the pace of lending, dynamics of monetary aggregates as well as moderation in real estate market activities and private consumption all pointed to a more balanced growth.

In September, the annual growth in retail trade turnover (including motor vehicle sales and automotive fuel retailing) was only 9.9%, with sales of durable goods, particularly motor vehicles and furniture, shrinking notably. Catering turnover declined by 2.4%.

Significant macroeconomic imbalances continued to persist. The industrial sector still stagnated. Manufacturing output posted a 1.5% drop against September 2006, whereas overall the seasonally adjusted volume index of industrial output remained unchanged year-on-year. In October, the volume of rail freight increased by 24.9%, with a slight drop of 1.3% simultaneously recorded for freight turnover at Latvian ports. The unemployment rate was on a continuous downward trend (4.9% in October).

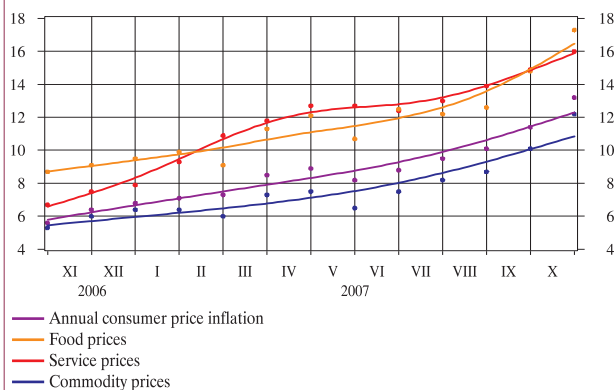
Inflation increased, driven by rising housing-related and other costs, persisting strong domestic demand, and global developments in the food and fuel markets due to economic growth inertia and more pronounced effects of inflation expectations. The October price rise (2.2%) pushed up the annual average inflation of the last 12 months (the harmonised index of consumer prices, HICP) to 8.9% and the annual consumer price inflation up to 13.2%. With public utility service prices rising, housing-related expenditure went up by 5.2% within the month and by 22.0% year-on-year. Food prices posted a steep increase of 3.5% within the month and 17.3% over the year.

The financial deficit of the general government consolidated budget was 59.0 million lats in October, with the financial surplus having dropped to 292.2 million lats since the beginning of the year. The social security fund recorded a financial surplus, whereas the central government basic budget and local government consolidated budget had a financial deficit. The pace of tax revenue growth, particularly of indirect taxes, was decelerating (to 27.8%). Due to the inflow of larger EU funds, the increase in the general government consolidated budget revenue was slightly higher (29.5%). At the same time in October, a notable pickup (46.6%) in the general government consolidated budget expenditure was observed, determined by a marked rise in expenditure for wages and salaries as well as social security contributions, a boost in capital expenditure and significant indexation of state-funded pensions. The general government debt, which was 1 076.9 million lats at the end of October, decreased by 8.9 million lats within the month.

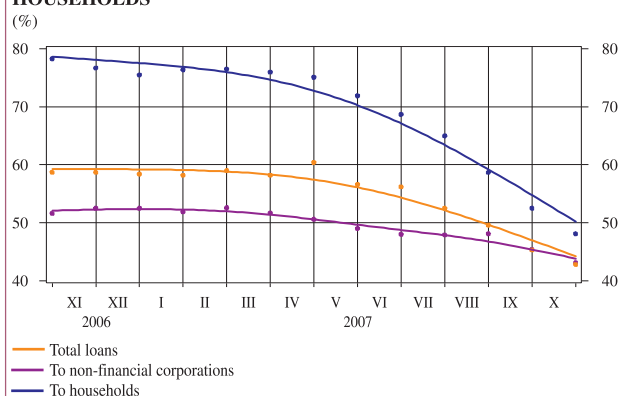
The annual growth in monetary aggregates continued on a downward trend, yet not as steeply as in September. Compared with September, a decrease in broad money and deposits with MFIs had stopped, and some decline was reported only for currency outside MFIs. Broad money M3 increased by 39.0 million lats, with its annual rate of growth dropping from 23.4% in September to 19.0% in October. As to monetary aggregate M2, it strengthened somewhat in October, yet its annual pace of growth also decelerated to 18.2%. At the same time, with

ANNUAL CONSUMER PRICE INFLATION

(year-on-year changes; %)



ANNUAL CHANGES IN LOANS TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS



currency outside MFIs and overnight deposits contracting, the narrow monetary aggregate M1 sustained a downward trend, shrinking by 99.0 million lats (3.1% annual growth rate).

The interest rate increases supported the rise in savings. Time deposits and savings deposits grew by 122.5 million lats, while overnight deposits shrank. Overall deposits of financial institutions, non-financial corporations and households picked up 72.0 million lats in October, with their annual growth rate dropping to 20.0%. Deposits in lats and euro increased by 40.4 million lats and 43.6 million lats respectively.

The annual growth rate of domestic loans lost 2.5 percentage points (to 42.8%; the slowest growth since July 2004). A slightly higher increase (126.8 million lats) was recorded for loans to non-financial corporations, whereas loans to households grew by 112.8 million lats. Thus, the annual growth in loans to non-financial corporations was down to 43.1% and that in loans to households down to 48.1%. The growth in loans to households for house purchase sustained a moderate pace, its annual indicator losing 5.8 percentage points and dropping to 56.2%. The annual growth in consumer credit also continued to decelerate, while that in industrial credit and commercial credit accelerated.

Although less foreign bank funding was used in September (an increase of 85.1 million lats), funds attracted from the parent banks expanded by 127.5 million lats. The negative net foreign assets of MFIs (excluding the Bank of Latvia) grew by 229.9 million lats in October.

The increase in required reserves was moderate in October. Bank demand deposits with the Bank of Latvia remained almost unchanged, and the narrowing of the monetary base M0 by 28.3 million lats was on account of a decrease in the demand for cash. The central bank's money supply in October diminished due to a 67.5 million lats drop in loans to banks and increased due to a 43.6 million lats decline in the Government deposit with the Bank of Latvia. The Bank of Latvia did not engage in any foreign currency interventions, and the currency swap balance remained unchanged. The Bank of Latvia's net foreign assets grew only by 5.8 million lats or 0.2%. At the end of October, the backing of the national currency with the Bank of Latvia's net foreign assets was 113.7%.

In the second half of September, the exchange rate of the lats against the euro exceeded the central parity rate of the lats vis-à-vis the euro in the interbank market, gradually regaining parity again in October. At the end of October, RIGIBOR on loans with 3-month maturity (12.64%) was only by 10 basis points lower than in September; on loans with 6-month maturity it was by 42 basis points higher (12.62%). RIGIBOR on overnight loans was unstable, dropping to 2.82% on the last days of the reserve maintenance period and rising over 8% at the beginning and end of the month.

As RIGIBOR increased, the weighted average interest rate on loans in lats to households rose to 17.7%, with a 12.4% interest rate on loans for house purchase. The weighted average interest rate on loans in foreign currency to households also went up modestly (to 6.5%, with a rise to 6.3% on loans for house purchase). At the same time, the weighted average interest rate on loans in lats and foreign currency to non-financial corporations declined somewhat.

With the weakening of the US dollar going on in the global market, its exchange rate against the lats set by the Bank of Latvia depreciated by 1.8% in October. Against the lats, the Japanese yen depreciated by 0.9%, whereas the British pound sterling appreciated by 0.4%.

MACROECONOMIC INDICATORS	2007	
	IX	X
Changes in the seasonally adjusted volume index of industrial output (year-on-year basis; %)	0	*
Changes in the CPI		
Month-on-month basis (%)	1.9	2.2
Average annual inflation rate (HCPI) of last 12 months (%)	8.2	8.9
Year-on-year basis (%)	11.4	13.2
Annual rate of core inflation ¹ (%)	10.8	11.8
Number of registered unemployed persons (at end of period)	54 690	52 383
Unemployment rate (%)	5.1	4.9
General government consolidated budget financial deficit/surplus (in millions of lats)	351.2	292.2
Foreign trade (in millions of lats)		
Exports	336.7	*
Imports	633.3	*
Balance	-296.6	*

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)	2007	
	IX	X
MFIs¹		
M3	6 044.6	6 083.6
Repurchase agreements	0	0
Money market fund shares and units	49.9	43.8
Debt securities issued with maturity of up to 2 years	41.2	43.4
M2	5 953.5	5 996.4
Deposits with agreed maturity of up to 2 years	1 656.2	1 791.9
Deposits redeemable at notice of up to 3 months	327.9	334.1
M1	3 969.4	3 870.4
Currency outside MFIs	914.7	888.4
Overnight deposits	3 054.7	2 982.0
Net external assets	-4 175.8	-4 400.0
Credit to resident financial institutions, non-financial corporations and households	12 406.6	12 670.2
Credit to general government	322.4	301.4
Deposits of central government	322.4	269.4
Longer-term financial liabilities	2 231.4	2 253.0
Bank of Latvia		
M0	2 422.4	2 394.1
Currency in circulation	1 029.4	996.9
Deposits with the Bank of Latvia in lats	1 393.0	1 397.1
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	2 715.1	2 720.9
Net domestic assets	-292.7	-326.8
Credit	-177.8	-201.8
To MFIs	121.8	54.3
To central government (net)	-299.6	-256.0
Other items (net)	-114.9	-125.1
International reserves (at end of period; in millions of US dollars)	5 423.43	5 491.60
Gold	181.18	195.10
Special Drawing Rights	0.17	0.17
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	5 241.99	5 296.24

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2007	
	IX	X
Weighted average interest rate on domestic interbank loans in lats	8.0	6.9
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	11.1	10.9
Loans to households (in lats)	16.4	17.7
incl. for house purchase	11.6	12.4
Loans to non-financial corporations (in foreign currencies)	7.3	6.9
Loans to households (in foreign currencies)	6.4	6.5
incl. for house purchase	6.2	6.3
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	7.7	7.9
Demand deposits of non-financial corporations (in lats)	2.8	2.5
Time deposits of households (in lats)	7.0	8.3
Demand deposits of households (in lats)	0.7	0.7
Time deposits of non-financial corporations (in foreign currencies)	4.0	4.0
Demand deposits of non-financial corporations (in foreign currencies)	1.8	1.7
Time deposits of households (in foreign currencies)	4.2	4.4
Demand deposits of households (in foreign currencies)	1.8	1.8
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	0.4970	0.4880
LVL/GBP	1.0020	1.0060
LVL/100 JPY	0.4300	0.4260
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	
	IX	X
MFI reserves	1 499.4	1 501.7
Vault cash in national currency	114.7	108.5
Deposits with the Bank of Latvia	1 384.7	1 393.2
Foreign assets	4 757.1	4 254.1
Vault cash in foreign currencies	53.6	58.3
Claims on MFIs	2 928.3	2 334.4
Claims on non-MFIs	1 700.2	1 789.9
Other assets	75.0	71.4
Claims on central government	236.3	229.9
Claims on local government	86.1	71.4
Claims on public non-financial corporations	190.1	208.1
Claims on financial institutions and private non-financial corporations	6 546.5	6 679.5
Claims on households	5 724.0	5 836.8
Unclassified assets	921.3	898.7
Fixed assets	158.4	162.0
Items in transit	26.1	27.4
Other assets	156.2	159.4
Claims on resident MFIs (incl. investments)	580.6	549.9
Total assets	19 960.7	19 680.1
<i>Memo item: Trust assets</i>	<i>454.6</i>	<i>432.6</i>
Overnight deposits in lats	1 564.2	1 551.1
Public non-financial corporations	89.2	94.7
Financial institutions and private non-financial corporations	675.5	694.1
Households	799.5	762.3
Time deposits and deposits redeemable at notice in lats	958.9	1 012.5
Public non-financial corporations	164.4	169.3
Financial institutions and private non-financial corporations	211.3	248.4
Households	583.3	594.7
Foreign currency deposits of residents	2 402.0	2 433.5
Public non-financial corporations	27.4	29.0
Financial institutions and private non-financial corporations	693.4	720.1
Households	1 681.3	1 684.4
Deposits of central government	22.8	13.4
Deposits of local government	273.6	258.1
Transit funds	4.2	4.1
Foreign liabilities	11 648.0	11 374.9
Liabilities to MFIs	7 500.0	7 585.1
Liabilities to non-MFIs	3 564.6	3 476.0
Other liabilities (incl. subordinated liabilities)	583.5	313.9
Liabilities to the Bank of Latvia	121.8	54.3
Debt securities issued	339.8	342.0
Money market fund shares and units	49.9	43.8
Capital and reserves	1 619.5	1 648.1
Residents	886.5	914.8
Non-residents	733.1	733.3
Provisions	110.2	120.7
Unclassified liabilities	845.7	823.5
Items in transit	172.9	164.6
Other liabilities (incl. subordinated liabilities)	164.7	178.9
Liabilities to resident MFIs	508.0	480.0
Total liabilities	19 960.7	19 680.1
<i>Memo item: Trust liabilities</i>	<i>454.6</i>	<i>432.6</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>).