

MONETARY BULLETIN 2008

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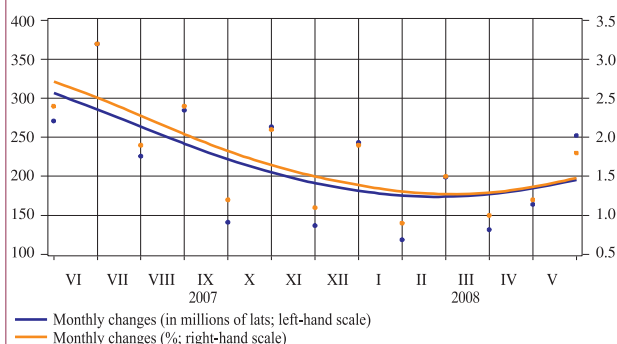
In the first quarter, the annual GDP growth of 3.3% pointed to a slowdown in the economic growth in Latvia. At the beginning of the second quarter, however, the situation improved in several sectors. In April, the working-day-adjusted volume index of industrial output in manufacturing increased by 2.6% year-on-year. Electricity, gas and water supply posted a considerable rise of 9.0%. Industrial output growth reached 3.7%. Retail trade turnover (including sales of motor vehicles and automotive fuel retailing) edged up 1.5% in April. The largest positive contribution to the change in turnover was on account of sales of furniture, household goods, building materials and motor vehicles while a drop in the demand for food products had a negative effect. External demand remained robust, and the annual export growth was 24.7% in April. In May, the rail freight turnover posted a significant rise of 8.1% whereas the cargo turnover at Latvian ports dropped by 7.4%. The substantial increase in non-financial investment in manufacturing, trade and transport, storage and communication in the first quarter supported the potential for economic growth. The Moody's rating agency reaffirmed the rating previously assigned to Latvia, confirming a stable outlook for the country.

Consumer prices went up 0.9% in May, leading to a 17.9% annual inflation. As a result of the rapid rise in fuel prices (4.4% over a month), the annual price rise of consumer goods exceeded that of services. In May, food prices mostly rose on account of a 22.1% increase in vegetable prices while dairy product prices shrank somewhat (by 0.5%). Administered prices continued on their gradual upward trend (mostly those of goods and services related to housing maintenance: water supply, sewage, garbage collection and heating). At the beginning of the tourist season, hotel and catering services became more expensive. The annual core inflation remained unchanged at 15.8%, albeit with a considerable impact of indirect taxes and costs.

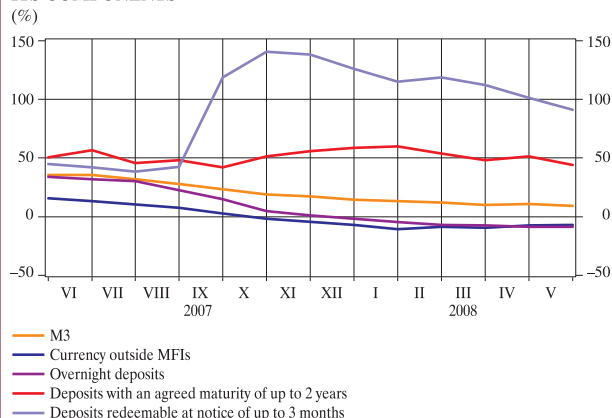
In May, the financial surplus of the general government consolidated budget was 120.3 million lats as a result of a 79.9 million lats surplus in the central government basic budget and a 40.7 million lats surplus in the central government social security budget. The local government consolidated budget reported a small deficit. In May, the general government consolidated budget revenue and expenditure grew by 12.5% and 10.4% year-on-year respectively. The rate of increase in tax revenue reached 11.7% as the excise tax revenue and corporate income tax revenue posted notably accelerated rises. The increase in the value added tax revenue and social security contributions was lower than expected. The budget expenditure growth resulted from an accelerated increase in capital expenditure, with current expenditure posting a more moderate rise. In the first five months of 2008, the financial surplus of the general government consolidated budget was 273.0 million lats (a 2.0 million lats year-on-year decline). In May, the general government debt increased by 30.7 million lats to stand at 1 454.6 million lats at the end of the month as a result of a government securities issue.

The annual rate of increase in loans to resident financial institutions, non-financial corporations and households decelerated slightly (to 22.2%), in May, however, these loans expanded by 252.5 million lats or 1.8% (the highest increase observed since December 2007). Corporate loans accounted for the major part of lending growth. Loans granted to non-financial corporations grew

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



THE ANNUAL GROWTH RATE OF BROAD MONEY M3 AND ITS COMPONENTS



by 130.7 million lats or 2.0%, with the annual rate of increase declining by 1.2 percentage points (to 27.5%). The loans granted to financial institutions also rose considerably. Household lending expanded by 61.9 million lats or 1.0%, with the annual growth moderating by 3.1 percentage points (to 20.5%). Loans for house purchase rose by 38.8 million lats or 0.8%, while their annual rate of increase shrank to 20.1%. Consumer credit increased by 21.8 million lats or 2.9%, with the annual growth shrinking to 30.0%. As a result of loan reclassifications, industrial credit declined, whereas mortgage loans expanded in corporate loans and at the same time, commercial credit posted a substantial rise (29.8 million lats or 5.2%). The interest rate dynamics and notable rise in short-term commercial credit contributed to a markedly rapid increase in the loans in lats (73.9 million lats or 4.4%; primarily to non-financial corporations), accounting for 12.5% of total loans (loans granted in euro amounted to 84.6%).

The foreign bank financing remained broadly unchanged in May, while the deposits attracted by non-resident non-MFIs grew notably (by 442.5 million lats). The negative net foreign assets of MFIs increased by 146.7 million lats.

Broad money M3 shrank by 37.6 million lats, with its annual growth decelerating to 9.0%. M2 declined by 48.6 million lats, recording a 8.6% year-on-year rise. M1 increased moderately (by 13.2 million lats), posting a 8.5% year-on-year fall. Deposits with an agreed maturity of up to two years contracted more notably (by 62.7 million lats). Currency outside MFIs also diminished by 3.9 million lats. Overnight deposits and deposits redeemable at notice of up to three months expanded by 17.1 million lats and 1.0 million lats respectively.

Following the reduction in the minimum reserve requirements, the banks' demand deposits with the Bank of Latvia declined and monetary base M0 was by 97.3 million lats smaller at the end of May than at the end of April. The annual growth rate of the monetary base dropped to 5.9%. The central bank's money supply decreased due to an increase in the government lats deposit with the Bank of Latvia (117.3 million lats) and expanded as a result of recourse to the deposit facility with the central bank moderating. The Bank of Latvia's net foreign assets grew by 3.5 million lats in May. The backing of the national currency with the Bank of Latvia's net foreign assets was 124.4% at the end of May.

Money market liquidity was ample, hence banks continued to deposit their funds with the central bank under the deposit facility. Thus, RIGIBOR on overnight loans remained low (3.4%–3.8%). RIGIBOR on loans with 3-month maturity rose by 34 basis points within a month (to 6.04%), whereas RIGIBOR on loans with 6- and 12-month maturity decreased by 25 and 46 basis points (to 6.96% and 8.50% respectively). In May, the weighted average interest rate on the lats loans granted to households declined moderately, whereas that on foreign currency loans increased. The dynamics of the weighted average interest rates on loans granted to non-financial corporations was just the opposite. The weighted average interest rates on deposits remained broadly unchanged, with only the interest rates on time deposits made by households shrinking to 6.6%.

According to the exchange rate set by the Bank of Latvia, the US dollar remained unchanged against the lats, whereas the British pound sterling and the Japanese yen depreciated by 0.6% and 0.5% respectively.

| MACROECONOMIC INDICATORS | 2008 | |
|--|--------|--------|
| | IV | V |
| Volume index of industrial output (working-day adjusted annual rate of change; %) | 3.7 | * |
| Changes in the CPI | | |
| Month-on-month basis (%) | 1.5 | 0.9 |
| Average annual inflation rate (HCPI) of last 12 months (%) | 13.0 | 13.8 |
| Year-on-year basis (%) | 17.5 | 17.9 |
| Annual rate of core inflation ¹ (%) | 15.8 | 15.8 |
| Number of registered unemployed persons (at end of period) | 52 897 | 52 213 |
| Unemployment rate (%) | 4.8 | 4.8 |
| General government consolidated budget financial deficit/surplus (in millions of lats) | 152.7 | 273.0 |
| Foreign trade (in millions of lats) | | |
| Exports | 403.4 | * |
| Imports | 688.5 | * |
| Balance | -285.1 | * |

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) | 2008 | |
|--|----------|----------|
| | IV | V |
| MFIs¹ | | |
| M3 | 6 470.2 | 6 432.6 |
| Repurchase agreements | 0 | 0 |
| Money market fund shares and units | 71.3 | 82.2 |
| Debt securities issued with maturity of up to 2 years | 25.8 | 25.9 |
| M2 | 6 373.1 | 6 324.5 |
| Deposits with agreed maturity of up to 2 years | 2 319.7 | 2 257.0 |
| Deposits redeemable at notice of up to 3 months | 335.3 | 336.3 |
| M1 | 3 718.0 | 3 731.2 |
| Currency outside MFIs | 870.0 | 866.1 |
| Overnight deposits | 2 848.0 | 2 865.1 |
| Net external assets | -4 786.3 | -4 933.0 |
| Credit to resident financial institutions, non-financial corporations and households | 13 664.1 | 13 916.6 |
| Credit to general government | 339.4 | 369.9 |
| Deposits of central government | 405.8 | 549.9 |
| Longer-term financial liabilities | 2 409.3 | 2 423.6 |
| Bank of Latvia | | |
| M0 | 2 475.1 | 2 377.8 |
| Currency in circulation | 1 003.9 | 988.4 |
| Deposits with the Bank of Latvia in lats | 1 461.1 | 1 380.2 |
| Deposits with the Bank of Latvia in foreign currencies | 10.2 | 9.2 |
| Net foreign assets | 2 954.6 | 2 958.1 |
| Net domestic assets | -479.5 | -580.3 |
| Credit | -318.3 | -456.2 |
| To MFIs | 0 | 0 |
| To central government (net) | -318.3 | -456.2 |
| Other items (net) | -161.2 | -124.2 |
| International reserves (at end of period; in millions of euro) | 4 163.51 | 4 194.98 |
| Gold | 141.70 | 143.37 |
| Special Drawing Rights | 0.11 | 0.11 |
| Reserve position in the IMF | 0.06 | 0.06 |
| Foreign convertible currencies | 4 021.64 | 4 051.44 |
| International reserves (at end of period; in millions of US dollars) | 6 517.00 | 6 566.27 |
| Gold | 221.80 | 224.41 |
| Special Drawing Rights | 0.18 | 0.18 |
| Reserve position in the IMF | 0.09 | 0.09 |
| Foreign convertible currencies | 6 294.93 | 6 341.59 |

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

| EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES | 2008 | |
|---|--------|--------|
| | IV | V |
| Weighted average interest rate on domestic interbank loans in lats | 3.3 | 3.4 |
| Interest rates on loans to resident non-financial corporations and households | | |
| Loans to non-financial corporations (in lats) | 6.8 | 9.8 |
| Loans to households (in lats) | 17.8 | 17.4 |
| incl. for house purchase | 9.2 | 9.0 |
| Loans to non-financial corporations (in foreign currencies) | 7.6 | 7.3 |
| Loans to households (in foreign currencies) | 6.4 | 6.7 |
| incl. for house purchase | 6.2 | 6.4 |
| 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) | 1.2 | 1.3 |
| Time deposits of households (in lats) | 6.9 | 6.6 |
| Demand deposits of households (in lats) | 0.9 | 1.1 |
| Time deposits of non-financial corporations (in foreign currencies) | 3.9 | 3.8 |
| Demand deposits of non-financial corporations (in foreign currencies) | 1.6 | 1.8 |
| Time deposits of households (in foreign currencies) | 4.2 | 4.1 |
| 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 | 0.4490 |
| LVL/GBP | 0.8940 | 0.8890 |
| LVL/100 JPY | 0.4310 | 0.4290 |
| 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 | |
|---|-----------------|-----------------|
| | IV | V |
| MFI reserves | 1 621.0 | 1 518.6 |
| Vault cash in national currency | 133.9 | 122.3 |
| Deposits with the Bank of Latvia | 1 487.1 | 1 396.3 |
| Foreign assets | 5 107.2 | 5 264.2 |
| Vault cash in foreign currencies | 60.7 | 62.4 |
| Claims on MFIs | 3 117.2 | 3 239.8 |
| Claims on non-MFIs | 1 848.1 | 1 877.6 |
| Other assets | 81.1 | 84.4 |
| Claims on central government | 279.5 | 300.4 |
| Claims on local government | 59.9 | 69.5 |
| Claims on public non-financial corporations | 268.5 | 271.1 |
| Claims on financial institutions and private non-financial corporations | 7 229.0 | 7 417.3 |
| Claims on households | 6 227.5 | 6 289.4 |
| Unclassified assets | 1 018.9 | 1 015.9 |
| Fixed assets | 190.5 | 190.9 |
| Items in transit | 32.2 | 27.4 |
| Other assets | 172.9 | 177.3 |
| Claims on resident MFIs (incl. investments) | 623.3 | 620.3 |
| Total assets | 21 811.4 | 22 146.3 |
| <i>Memo item: Trust assets</i> | <i>314.7</i> | <i>364.0</i> |
| Overnight deposits in lats | 1 567.4 | 1 551.1 |
| Public non-financial corporations | 102.4 | 115.9 |
| Financial institutions and private non-financial corporations | 668.9 | 652.2 |
| Households | 796.1 | 783.0 |
| Time deposits and deposits redeemable at notice in lats | 1 285.7 | 1 245.4 |
| Public non-financial corporations | 210.5 | 216.0 |
| Financial institutions and private non-financial corporations | 406.1 | 372.1 |
| Households | 669.2 | 657.4 |
| Foreign currency deposits of residents | 2 492.4 | 2 497.7 |
| Public non-financial corporations | 52.6 | 55.0 |
| Financial institutions and private non-financial corporations | 717.8 | 722.0 |
| Households | 1 722.0 | 1 720.7 |
| Deposits of central government | 87.5 | 93.7 |
| Deposits of local government | 286.1 | 297.8 |
| Transit funds | 3.9 | 3.7 |
| Foreign liabilities | 12 848.1 | 13 155.2 |
| Liabilities to MFIs | 8 444.1 | 8 454.6 |
| Liabilities to non-MFIs | 3 906.2 | 4 348.7 |
| Other liabilities (incl. subordinated liabilities) | 497.8 | 351.9 |
| Liabilities to the Bank of Latvia | 0 | 0 |
| Debt securities issued | 308.3 | 317.6 |
| Money market fund shares and units | 71.3 | 82.2 |
| Capital and reserves | 1 823.6 | 1 849.3 |
| Residents | 1 076.2 | 1 101.0 |
| Non-residents | 747.4 | 748.3 |
| Provisions | 126.2 | 128.9 |
| Unclassified liabilities | 910.8 | 923.6 |
| Items in transit | 157.2 | 162.2 |
| Other liabilities (incl. subordinated liabilities) | 212.5 | 218.5 |
| Liabilities to resident MFIs | 541.1 | 542.9 |
| Total liabilities | 21 811.4 | 22 146.3 |
| <i>Memo item: Trust liabilities</i> | <i>314.7</i> | <i>364.0</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>).