

MONETARY BULLETIN 2010

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Recovering external markets and improved competitiveness of Latvian producers strengthened the role of exports as the driving force of the ongoing economic recovery. In April, Latvia's exports posted a 5.4% month-on-month and 33.4% year-on-year increase. The current account continued to be in surplus owing to the growth of exports of goods. Business surveys had already noted positive trends, further evidenced by developments in the manufacturing sector in April when output posted a 8.0% year-on-year increase. Moreover, the strongest growth was demonstrated by subsectors with a higher share of exports. While the number of newly-registered unemployed rapidly declined, in May the registered unemployment rate was decreasing for the second month running, to stand at 16.2%. The number of unemployed contracted by 10.8 thousand following the peak in March.

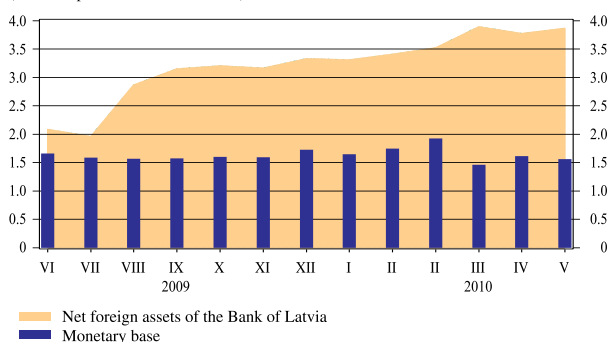
Retail trade turnover fell by 0.4% month-on-month (seasonally adjusted) in April, while the year-on-year decline was 7.7%. In May, rail freight in Latvia contracted by 19.4% year-on-year, and total freight turnover at Latvian ports shrank by 2.1%.

In May, following a four-month long break, average consumer prices fell again due to a weak domestic demand, registering a 2.3% year-on-year decline, but the annual core inflation was -4.2%. Price decline was observed both for food (on average by 0.5%–1.0% on meat, bread, milk and fish) and various types of services (mainly on water supply and miscellaneous services related to the dwelling). However, supply side factors with an upward pressure on consumer prices still persisted. Developments in foreign markets and global energy price hikes hindered further decreases of consumer prices; moreover, a weaker euro made imports more expensive. The consumer price increase in May was mainly on account of a rise in heating tariffs. Average inflation of the last 12 months dropped to -1.0%, whereas 12-month average annual inflation or the harmonised index of consumer prices (HICP) used for the Maastricht criterion decreased by 1.2%.

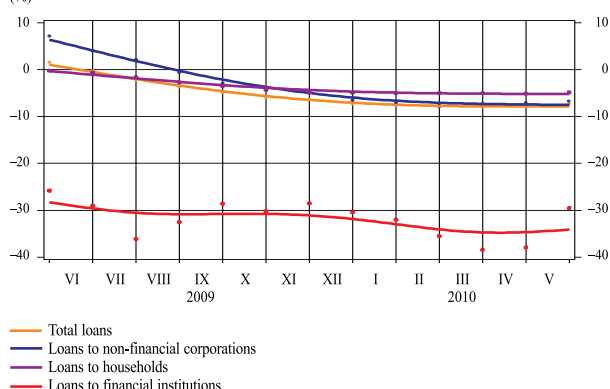
In May, the surplus in the consolidated general government budget amounted to 33.0 million lats, thus the deficit accrued since the beginning of the year declined to 155.3 million lats. The central government basic budget and consolidated local government budget recorded a surplus in May, whereas the central government social security budget still registered a small deficit. Though total budget revenue reported a mere 5.5% annual decrease in May thanks to the massive international financial assistance, tax revenue fell more markedly (by 13.0%) due to lower contributions by nearly all key tax revenues, with the increase of personal income tax revenues as the sole exception. Budget expenditure contracted by 14.4% in May, with expenses on compensation to employees and those on subsidies and grants declining even more steeply (by 28.5% and 26.0% respectively). In May, general government debt remained broadly unchanged and stood at 4 869.3 million lats at the end of the month.

The developments in the Latvian economy had a stabilising effect on money supply. Monetary aggregate M3 contracted a little in May, but its annual growth rate continued to accelerate, reaching 4.6%. The annual growth rate of monetary aggregates M1 and M2 also increased, to 5.2% and 4.2% respectively. A mere 0.2% increase in currency outside MFIs had little ef-

BACKING OF THE NATIONAL CURRENCY
(at end of period; in billions of lats)



ANNUAL CHANGES IN BANK LOANS TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS (%)



fect on money supply in May. Overnight deposits remained almost unchanged, while deposits with an agreed maturity of up to two years and deposits redeemable at notice shrank by 1.2% and 2.1% respectively.

In May, deposits of resident financial institutions, non-financial corporations and households expanded by 0.4%, with the annual growth rate of deposits reaching 6.7%. The inflow of government funds in the financial system via converting into lats the funding received under international loan agreements continued to support a faster growth of deposits in lats. The year-on-year changes in household deposits turned positive again in May (1.1%), while deposits of financial institutions and non-financial corporations posted a 14.0% annual increase.

The downside in lending that had lasted a year and a half became more subdued in May, with total loans outstanding contracting by only 12.5 million lats or 0.1%, whereas loans granted in lats even increased. Thus, the year-on-year lending dynamics improved for the second consecutive month, with the annual decrease in lending rate decelerating from 7.8% in April to 7.2% in May.

In May, the amount of foreign financing in the banking sector remained largely the same and foreign liabilities of banks declined by a mere 3.0 million lats, but the negative net foreign assets of MFIs (except the Bank of Latvia) improved by 21.8 million lats on account of a small decline in the banking sector's foreign assets.

The monetary base M0 shrank somewhat in May. This was mainly the result of the repayment of 116.3 million lats borrowed from the Bank of Latvia. Thereby the negative annual growth rate of the monetary base increased to -5.8% in May, whereas currency in circulation contracted by 0.7% year-on-year and bank demand deposits with the central bank by 10.8%. The constantly high balance of 7-day deposit facility with the Bank of Latvia, standing at 637.0 million lats at the end of May, had a decreasing effect on the monetary base, while a fall in the government lats deposit with the Bank of Latvia had an increasing effect.

In May, the Bank of Latvia's net foreign assets went up by 88.8 million lats or 2.3% as a result of increasing government deposits in foreign currencies with the Bank of Latvia and revaluation gain from foreign currencies and gold holdings, and the backing of the national currency with the central bank's net foreign assets stood at 247.3% at the end of the month.

The steady liquidity conditions in the money market also backed up stable interest rates in the interbank market, and in May the average weighted overnight lending rate was 0.84%. RIGIBOR on overnight loans remained constant during the month (1.16%), while 3-, 6-, and 12-month RIGIBOR increased somewhat (by 16, 10 and 67 basis points respectively, to 2.27%, 2.74% and 4.34%). Interest rates on loans granted both in lats and foreign currencies to non-financial corporations and household loans for house purchase declined in May, whereas interest rates on consumer credit increased a little. Interest rates on all types of deposits plunged.

During the recent months, euro depreciated notably relative to other major world currencies against the backdrop of weakening public finances of some euro area governments. Thus in May, according to the exchange rates set by the Bank of Latvia, the US dollar, the British pound sterling and the Japanese yen appreciated by 7.5%, 3.0%, and 10.8% respectively against the lats.

MACROECONOMIC INDICATORS	2010	
	IV	V
Volume index of industrial output (working-day adjusted annual rate of change; %)	9.7	*
Changes in the CPI		
Month-on-month basis (%)	0.9	-0.1
Average annual inflation rate (HCPI) of last 12 months (%)	-0.4	-1.0
Year-on-year basis (%)	-2.7	-2.3
Annual rate of core inflation ¹ (%)	-4.4	-4.2
Number of registered unemployed persons (at end of period)	189 881	183 476
Unemployment rate (%)	16.7	16.2
General government consolidated budget financial deficit/surplus (in millions of lats)	-188.2	-155.3
Foreign trade (in millions of lats)		
Exports	374.2	*
Imports	425.3	*
Balance	-51.1	*

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)	2010	
	IV	V
MFI¹		
M3	6 189.6	6 165.4
Repurchase agreements	0	0
Money market fund shares and units	98.4	99.9
Debt securities issued with maturity of up to 2 years	0	12.4
M2	6 091.3	6 053.1
Deposits with agreed maturity of up to 2 years	2 664.3	2 632.0
Deposits redeemable at notice of up to 3 months	234.3	229.4
M1	3 192.7	3 191.7
Currency outside MFIs	713.9	715.3
Overnight deposits	2 478.8	2 476.4
Net external assets	-1 893.8	-1 826.7
Credit to resident financial institutions, non-financial corporations and households	13 136.5	13 124.0
Credit to general government	583.3	554.2
Deposits of central government	2 146.3	2 168.8
Longer-term financial liabilities	2 212.7	2 293.6
Bank of Latvia		
M0	1 611.8	1 564.2
Currency in circulation	827.1	819.0
Deposits with the Bank of Latvia in lats	770.3	730.2
Deposits with the Bank of Latvia in foreign currencies	14.5	15.1
Net foreign assets	3 779.3	3 868.1
Net domestic assets	-2 167.4	-2 303.9
Credit	-1 314.4	-1 421.5
To MFIs	116.3	0
To central government (net)	-1 430.8	-1 421.5
Other items (net)	-853.0	-882.4
International reserves (at end of period; in millions of euro)	5 432.94	5 569.02
Gold	219.32	244.84
Special Drawing Rights	137.71	145.51
Reserve position in the IMF	0.06	0.07
Foreign convertible currencies	5 075.85	5 178.60
International reserves (at end of period; in millions of US dollars)	7 190.76	6 854.50
Gold	290.28	301.35
Special Drawing Rights	182.26	179.09
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	6 718.14	6 373.98

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2010	
	IV	V
Weighted average interest rate on domestic interbank loans in lats	0.9	0.9
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	5.4	2.8
Loans to households (in lats)	18.2	19.0
incl. for house purchase	8.5	7.6
Loans to non-financial corporations (in foreign currencies)	5.4	4.7
Loans to households (in foreign currencies)	5.6	4.9
incl. for house purchase	3.9	3.8
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	1.3	1.0
Demand deposits of non-financial corporations (in lats)	0.3	0.3
Time deposits of households (in lats)	4.3	3.4
Demand deposits of households (in lats)	0.6	0.6
Time deposits of non-financial corporations (in foreign currencies)	1.1	0.7
Demand deposits of non-financial corporations (in foreign currencies)	0.2	0.2
Time deposits of households (in foreign currencies)	1.8	1.5
Demand deposits of households (in foreign currencies)	0.5	0.5
The Bank of Latvia's refinancing rate (at end of period; %)	3.5	3.5
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5310	0.5710
LVL/GBP	0.8060	0.8300
LVL/100 JPY	0.5660	0.6270
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)	2010	
	IV	V
MFI reserves	1 506.4	1 482.3
Vault cash in national currency	113.1	103.7
Deposits with the Bank of Latvia	1 393.2	1 378.6
Foreign assets	4 829.3	4 804.5
Vault cash in foreign currencies	67.8	75.7
Claims on MFIs	2 820.6	2 660.5
Claims on non-MFIs	1 840.8	1 936.8
Other assets	100.1	131.5
Claims on central government	520.3	491.2
Claims on local government	62.9	63.0
Claims on public non-financial corporations	407.2	409.4
Claims on financial institutions and private non-financial corporations	6 919.2	6 927.2
Claims on households	5 987.3	5 977.6
Unclassified assets	907.5	919.4
Fixed assets	134.0	106.0
Items in transit	29.0	18.1
Other assets	466.9	479.3
Claims on resident MFIs (incl. investments)	277.5	315.9
Total assets	21 140.1	21 074.5
<i>Memo item: Trust assets</i>	387.5	375.8
Overnight deposits in lats	1 258.2	1 285.7
Public non-financial corporations	79.4	83.5
Financial institutions and private non-financial corporations	552.9	579.4
Households	625.9	622.7
Time deposits and deposits redeemable at notice in lats	1 284.9	1 326.9
Public non-financial corporations	275.8	285.5
Financial institutions and private non-financial corporations	474.9	486.5
Households	534.3	554.9
Foreign currency deposits of residents	2 822.3	2 776.3
Public non-financial corporations	67.6	92.1
Financial institutions and private non-financial corporations	1 039.0	964.0
Households	1 715.8	1 720.2
Deposits of central government	715.5	747.2
Deposits of local government	171.5	186.6
Transit funds	3.0	x
Foreign liabilities	10 502.3	10 499.3
Liabilities to MFIs	6 478.8	6 776.1
Liabilities to non-MFIs	3 496.1	3 594.7
Other liabilities (incl. subordinated liabilities) ¹	527.4	128.5
Liabilities to the Bank of Latvia	116.4	0
Debt securities issued	158.0	183.8
Money market fund shares and units	98.4	100.3
Capital and reserves	1 623.6	1 605.7
Residents	378.5	343.0
Non-residents	1 245.1	1 262.7
Provisions	1 742.8	1 777.5
Unclassified liabilities	643.1	585.3
Items in transit	83.7	105.3
Other liabilities (incl. subordinated liabilities) ¹	314.0	197.0
Liabilities to resident MFIs	245.4	283.0
Total liabilities	21 140.1	21 074.5
<i>Memo item: Trust liabilities</i>	387.5	375.8

¹ As of 1 May 2010, subordinated debt is categorised according to the European Central Bank methodology under "Deposits", "Liabilities to MFIs" or "Debt securities issued".

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>).