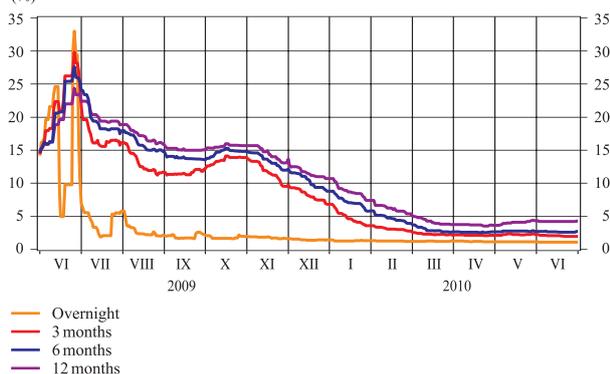


MONETARY BULLETIN 2010

6

RIGIBOR
(%)



With consumer confidence improving and the external demand growing moderately, the role of industry in the recovery of the Latvian economy strengthened. In May, the seasonally adjusted industrial output grew by 1.3% month-on-month, with the annual increase (working day unadjusted) amounting to 13.3%. The industrial development was underpinned by the export dynamics: the annual increase in exports reached 34.6% in May, with the exports of several major products (including wood and metals) even growing by 50%–60% year-on-year.

Registered unemployment continued to decrease for the third consecutive month (by 0.6 percentage point in June), reaching 15.6% of the economically active population which is the lowest level since December 2009. Unemployment rate contracted on account of both a lower motivation of the job-seekers to preserve the status of unemployed with the State Unemployment Agency once their entitlement to the unemployment benefit ended as well as slightly improved job opportunities.

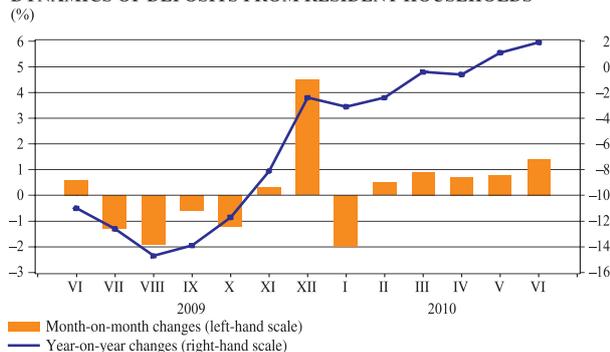
In May, retail trade turnover fell by 0.4% month-on-month (seasonally adjusted data), while the year-on-year decline was 8.4%. Freight transportation by rail and overall freight turnover at Latvian ports shrank by 22.6% and 11.9% year-on-year respectively in June.

Consumer prices edged up 0.4% in June, with the annual deflation declining to 1.4%. Average inflation of the last 12 months and 12-month average harmonised index of consumer prices (HICP) used for the Maastricht criterion was –1.4% and –1.6% respectively.

The month-on-month price rise was primarily explained by external factors: growing energy prices pushed up the production costs accordingly. As a result of further growth of the natural gas price, heating tariffs increased, thereby pushing up the overall price level by 0.4 percentage point in June. The seasonal rise in prices on fruit and vegetables as well as higher prices of milk, meat and eggs had a significant upward effect. The stabilisation of oil prices observed during the recent months alongside with the deceleration of the depreciation of the euro against the US dollar put an end to the several-months-long rise of the fuel prices. The decrease of clothing and footwear prices had a dampening effect on inflation.

The consolidated general government budget ran a 18.4 million lats deficit in June. Consequently, the deficit accumulated from the beginning of the year grew to 173.7 million lats (in the first half of the previous year the deficit of the consolidated general government budget amounted to 425.2 million lats). In June, a small deficit was recorded in the central government basic budget, the consolidated local government budget and the central government social security budget. As the foreign financial assistance funding inflows diminished, the total budget revenue declined by 10.5% year-on-year in June, whereas the tax revenue shrank by a mere 3.3%, with almost all major tax-type revenue, except the value added tax revenue, posting a decline. Budgetary expenditure fell by 21.8% in June as a result of all expenditure items contracting. The decline was particularly steep for capital expenditure and compensation to employees: 35.3% and 32.8% respectively. The general government debt contracted slightly in June and stood at 4 866.5 million lats at the end of the month.

The strengthening of the economic activity in Latvia continued to stabilise the amount of currency in circulation. Although the monetary aggregate M3 decreased slightly in June, its annual growth continued to accelerate and reached 5.5%. Funds were

DYNAMICS OF DEPOSITS FROM RESIDENT HOUSEHOLDS


mainly concentrated in M1, the most liquid component of money supply, reporting a month-on-month increase of 3.5% and a year-on-year growth of 10.4% which is the steepest rise of M1 since autumn 2007. Higher demand for cash associated with the start of the summer leave season and several days of public holiday had an upward effect on currency in circulation: currency outside MFIs expanded by 2.6%. Overnight deposits and deposits redeemable at notice grew by 3.8% and 1.9% respectively. At the same time, deposits with an agreed maturity of up to two years shrank. Aggregate deposits by resident financial institutions, non-financial corporations and households contracted by 1.4%, whereas the annual growth of deposits reached 4.6%. Household deposits posted a significant rise by 1.4%, including an increase of household deposits in lats by 3.0%.

In June, loans granted to resident financial institutions, non-financial corporations and households contracted by 0.9% month-on-month, with the annual rate of decline in loans standing at 7.6%. The decrease was more pronounced for the loans granted to non-financial corporations in comparison to the household loans. The contraction of the euro loans was steeper and that of the lats loans was more moderate, while other foreign currency (except euro) loans grew for the third consecutive month resulting in a 4.7% increase year-on-year.

In June, the foreign funding of the banking sector decreased marginally: foreign liabilities of banks shrank by 92.7 million lats overall mainly due to repayments of syndicated loans, although the liabilities to affiliated MFIs even grew by 66.2 million lats. The negative net foreign assets of MFIs (except the Bank of Latvia) continued to shrink.

The monetary base M0 grew by 136.2 million lats in June due to the ample lats liquidity resulting from the demand deposits with the central bank growing significantly. These deposits increased also on account of decrease of the 7-day deposit facility with the Bank of Latvia as compared to the end of May. At the same time, the demand for cash strengthened due to seasonal factors. As a result, the annual growth of M0 reached 7.3%, representing the highest rate since April 2008. The annual rate of change of currency in circulation turned positive (10.5%) after a prolonged period of decline, and the demand deposits with the central bank also were 4.3% above the level of the previous year. An increase in the government deposit in lats with the Bank of Latvia had a downward effect on the money supply of the central bank.

Net foreign assets of the Bank of Latvia grew by 52.3 million lats or 1.4% in June on account of higher government deposits in foreign currencies, thereby reaching an all-time-high at 3.9 billion lats, whereas the backing of the national currency with the Bank of Latvia net foreign assets was 230.6% at the end of the month.

Interbank market rates remained low, with the weighted average rate on overnight loans standing at 0.90% in June. On average, RIGIBOR on overnight loans was 1.09% in June in comparison with 1.16% in May. 3-month, 6-month and 12-month RIGIBOR decreased slightly by 28, 2 and 4 basis points, to 1.99%, 2.72% and 4.30% respectively.

The interest rates on lats loans granted to non-financial corporations rose in June, while those on the respective foreign currency loans declined. The interest rates on household loans granted in lats decreased overall, despite an increase in the rates on the lats loans for house purchase. The average level of deposit rates also rose slightly in June.

In June, the exchange rate of the US dollar, the British pound sterling and the Japanese yen against the lats set by the Bank of Latvia increased by 0.4%, 4.2% and 3.0% respectively.

MACROECONOMIC INDICATORS	2010	
	V	VI
Volume index of industrial output (working-day adjusted annual rate of change; %)	13.3	*
Changes in the CPI		
Month-on-month basis (%)	-0.1	0.4
Average annual inflation rate (HCPI) of last 12 months (%)	-1.0	-1.4
Year-on-year basis (%)	-2.3	-1.4
Annual rate of core inflation ¹ (%)	-4.2	-3.6
Number of registered unemployed persons (at end of period)	183 476	176 879
Unemployment rate (%)	16.2	15.6
General government consolidated budget financial deficit/surplus (in millions of lats)	-155.3	-173.7
Foreign trade (in millions of lats)		
Exports	374.9	*
Imports	450.4	*
Balance	-75.5	*

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	
	V	VI
MFI¹		
M3	6 165.4	6 147.6
Repurchase agreements	0	0
Money market fund shares and units	99.9	98.1
Debt securities issued with maturity of up to 2 years	12.4	20.6
M2	6 053.1	6 028.9
Deposits with agreed maturity of up to 2 years	2 632.0	2 491.4
Deposits redeemable at notice of up to 3 months	229.4	233.7
M1	3 191.7	3 303.7
Currency outside MFIs	715.3	733.6
Overnight deposits	2 476.4	2 570.1
Net external assets	-1 826.7	-1 720.4
Credit to resident financial institutions, non-financial corporations and households	13 124.0	13 007.8
Credit to general government	554.2	553.8
Deposits of central government	2 168.8	2 199.6
Longer-term financial liabilities	2 293.6	2 237.7
Bank of Latvia		
M0	1 564.2	1 700.4
Currency in circulation	819.0	838.3
Deposits with the Bank of Latvia in lats	730.2	837.8
Deposits with the Bank of Latvia in foreign currencies	15.1	24.2
Net foreign assets	3 868.1	3 920.4
Net domestic assets	-2 303.9	-2 220.0
Credit	-1 421.5	-1 400.8
To MFIs	0	0
To central government (net)	-1 421.5	-1 400.8
Other items (net)	-882.4	-819.2
International reserves (at end of period; in millions of euro)	5 569.02	5 590.93
Gold	244.84	251.75
Special Drawing Rights	145.51	146.89
Reserve position in the IMF	0.07	0.07
Foreign convertible currencies	5 178.60	5 192.22
International reserves (at end of period; in millions of US dollars)	6 854.50	6 857.47
Gold	301.35	308.78
Special Drawing Rights	179.09	180.17
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	6 373.98	6 368.44

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2010	
	V	VI
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)	2.8	7.0
Loans to households (in lats)	19.0	18.1
incl. for house purchase	7.6	8.3
Loans to non-financial corporations (in foreign currencies)	4.7	3.5
Loans to households (in foreign currencies)	4.9	4.9
incl. for house purchase	3.8	3.8
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	1.0	1.0
Demand deposits of non-financial corporations (in lats)	0.3	0.3
Time deposits of households (in lats)	3.4	3.6
Demand deposits of households (in lats)	0.6	0.6
Time deposits of non-financial corporations (in foreign currencies)	0.7	0.8
Demand deposits of non-financial corporations (in foreign currencies)	0.2	0.2
Time deposits of households (in foreign currencies)	1.5	1.9
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	0.5710	0.5730
LVL/GBP	0.8300	0.8650
LVL/100 JPY	0.6270	0.6460
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	
	V	VI
MFI reserves	1 482.3	1 526.4
Vault cash in national currency	103.7	104.7
Deposits with the Bank of Latvia	1 378.6	1 421.7
Foreign assets	4 804.5	4 765.9
Vault cash in foreign currencies	75.7	74.1
Claims on MFIs	2 660.5	2 618.2
Claims on non-MFIs	1 936.8	1 955.1
Other assets	131.5	118.5
Claims on central government	491.2	489.6
Claims on local government	63.0	64.2
Claims on public non-financial corporations	409.4	407.7
Claims on financial institutions and private non-financial corporations	6 927.2	6 854.1
Claims on households	5 977.6	5 952.1
Unclassified assets	919.4	821.6
Fixed assets	106.0	93.9
Items in transit	18.1	15.2
Other assets	479.3	490.0
Claims on resident MFIs (incl. investments)	315.9	222.4
Total assets	21 074.5	20 881.5
<i>Memo item: Trust assets</i>	375.8	533.5
Overnight deposits in lats	1 285.7	1 352.4
Public non-financial corporations	83.5	93.6
Financial institutions and private non-financial corporations	579.4	589.0
Households	622.7	669.8
Time deposits and deposits redeemable at notice in lats	1 326.9	1 239.7
Public non-financial corporations	285.5	209.4
Financial institutions and private non-financial corporations	486.5	487.7
Households	554.9	542.7
Foreign currency deposits of residents	2 776.3	2 720.7
Public non-financial corporations	92.1	44.4
Financial institutions and private non-financial corporations	964.0	951.0
Households	1 720.2	1 725.3
Deposits of central government	747.2	798.8
Deposits of local government	186.6	185.0
Foreign liabilities	10 499.3	10 406.6
Liabilities to MFIs	6 776.1	6 696.9
Liabilities to non-MFIs	3 594.7	3 590.1
Other liabilities (incl. subordinated liabilities)	128.5	119.6
Liabilities to the Bank of Latvia	0	0
Debt securities issued	183.8	192.2
Money market fund shares and units	100.3	98.5
Capital and reserves	1 605.7	1 577.9
Residents	343.0	315.2
Non-residents	1 262.7	1 262.7
Provisions	1 777.5	1 816.0
Unclassified liabilities	585.3	493.6
Items in transit	105.3	102.2
Other liabilities (incl. subordinated liabilities)	197.0	196.0
Liabilities to resident MFIs	283.0	195.3
Total liabilities	21 074.5	20 881.5
<i>Memo item: Trust liabilities</i>	375.8	533.5

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>).