

MONETARY BULLETIN 2007

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In June, some trends emerged suggesting easing of macroeconomic risks in Latvia, however, the signs of overheating induced by the high domestic demand were still present. The stabilisation of real estate market was mainly supported by a more stringent lending policy pursued by banks that slowed down the annual lending growth rate. In May, retail trade turnover climbed by 25.9% (faster than in April), though since the beginning of 2007 the retail trade turnover growth rate has been decelerating. Foreign trade data point to a gradual slowdown of the growth in imports of goods and a more dynamic growth in exports of goods. The increase of industrial output remained small (3.4% in May). It was the growth in energy and in mining and quarrying that accounted for the increase, since the output in manufacturing grew by a mere 0.1%.

Inflation remained high in June, confirming the need to proceed with the Government's counter-inflation policy. In June, consumer prices increased by 0.9%, leading to a 7.2% average annual inflation rate (HCPI) of the last 12 months. In June, the prices of food told most on inflation – the prices of fruit and of vegetables and potatoes increased by 13.0% and 6.0% respectively. The prices of meat, beer and tobacco products continued to go up. Parking fees rose markedly, by 20.6%. Consumer prices posted an 8.8% year-on-year growth. Annual core inflation increased somewhat less (0.2 percentage point, to 8.1%).

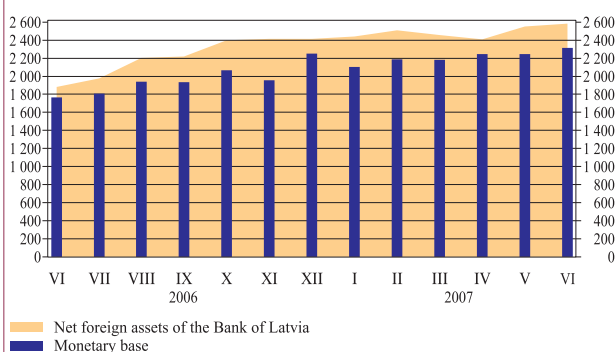
In June, the volume of rail freight and cargo turnover at Latvian ports increased by 6.1% and 11.8% year-on-year respectively.

In June, general government consolidated budget reported a financial deficit of 21.4 million lats, with its surplus dwindling to 253.6 million lats over the first six months of 2007 (207.2 million lats in the first six months of 2006). Financial deficit was recorded both for central government basic budget as well as local government consolidated budget.

The central government and local government aggregate debt, which stood at 1 104.2 million lats at the end of June, posted an 11.4 million lats increase within the month, since local governments borrowed extra 14.6 million lats. In June, Ministry of Finance approved amendments to the Government borrowing schedule, providing for contained borrowing in domestic market in the nearest future and launching a new issue of eurobonds in the autumn of 2007.

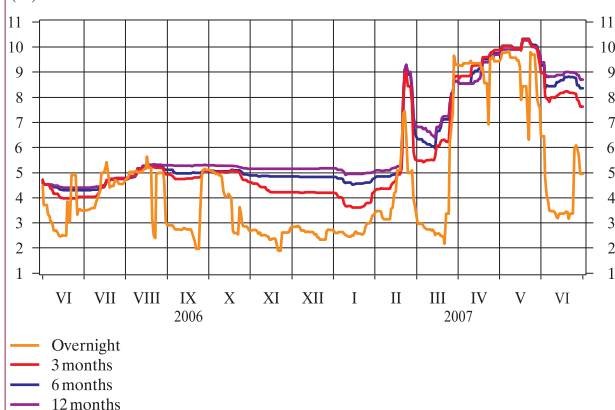
In June, broad money M3 increased by 246.6 million lats – more than in the previous month. The annual increase rate of M3 went up to 35.7% (35.4% in May). The annual growth rate of the rest of key monetary indicators slowed down. Loans to resident financial institutions, non-financial corporations and households increased by 369.7 million lats over the previous month, with the annual growth rate dropping 0.4 percentage point (to 56.2%). In June, the deposits with banks increased by 178.6 million lats, with the annual growth rate decreasing by 0.6 percentage point (to 35.6%). Currency outside MFIs increased by 16.3 million lats, posting a decrease in annual growth rate by 2.5 percentage points (to 13.0%).

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



RIGIBOR

(%)



MACROECONOMIC INDICATORS

	2007	
	V	VI
Changes in the volume index of industrial output (year-on-year basis; %)	3.4	*
Changes in the CPI		
Month-on-month basis (%)	0.6	0.9
Average annual inflation rate (HCPI) of last 12 months (%)	7.0	7.2
Year-on-year basis (%)	8.2	8.8
Annual rate of core inflation ¹ (%)	7.9	8.1
Number of registered unemployed persons (at end of period)	62 833	62 287
Unemployment rate (%)	5.9	5.8
General government consolidated budget financial deficit/surplus (in millions of lats)	275.0	253.6
Foreign trade (in millions of lats)		
Exports	350.1	*
Imports	662.8	*
Balance	-312.7	*

¹ Source: Bank of Latvia.

* Figure available at a later date.

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

Loans granted to resident financial institutions and non-financial corporations grew by 206.1 million lats, whereas loans granted to households by 163.6 million lats. Nevertheless, the annual increase rate of loans granted to financial institutions and non-financial corporations accelerated somewhat (to 47.0%), whereas that to households continued to decelerate (to 68.7%). In June, the increase of lending for house purchase slowing down by 3.9 percentage points (to 81.0%) suggested a more modest lending for real estate purchases. The growing mortgage loans continued to be behind the increase in total loans, however, it was industrial credit that demonstrated the fastest growth in June. The industrial and commercial credit annual growth rate was more rapid than in May (reaching 41.9% and 36.1% respectively), while that of mortgage loans decreased to 70.7%. The loans in lats continued to shrink rapidly (by 130.9 million lats). Thus the annual increase rate of loans in lats slowed down to 3.5%, with this group accounting for just 18.1% of loans outstanding.

The deposits by financial institutions, non-financial corporations as well as by households grew significantly. The growth of deposits in lats lagged behind those in euro, posting an increase of 64.4 million lats and 100.6 million lats respectively.

The funding came from the increase in resident deposits, as well as via external financing, where the deposits by non-resident non-banks dominated. The negative net foreign assets of MFIs (excluding the Bank of Latvia) grew by 195.6 million lats.

The Latvian banks remained highly liquid in June. The banks met the demand for lats by selling foreign currency to the central bank, and the Bank of Latvia bought euro in amount of 182.0 million lats (net). With a drop in currency swaps, the Bank of Latvia's net foreign assets increased only by 28.3 million lats. At the end of June, the backing of the national currency with the Bank of Latvia's net foreign assets was 111.7%. The money supply increased also as a result of a decrease in central government deposits with the Bank of Latvia by 61.5 million lats. Currency in circulation grew by 22.0 million lats under the impact of seasonal factors, however, its annual growth rate continued to decline (to 13.8% – the lowest since the spring of 2005). The monetary base M0 was 66.8 million lats larger at the end of June than at the end of May.

With the stable liquidity, RIGIBOR continued to decrease. In June, RIGIBOR on overnight loans decreased by 262 basis points (to 4.95%), but on loans maturing in 3 and 6 months – by 167 and 130 basis points respectively (to 7.63% and 8.35%). The weighted average interest rate on loans granted to households in lats continued to move up (to 15.4%), though the weighted average interest rate on loans granted to households for house purchase dropped 0.5 percentage point (to 9.1%). The weighted average interest rate on loans granted to households in foreign currency increased somewhat, too (to 6.2%; including to 5.9% on loans for house purchase). The weighted average interest rate on loans granted to non-financial corporations in lats went down, while that granted in foreign currency increased by a mere 0.1 percentage point (to 6.4%). The weighted average interest rate paid on time deposits in lats of non-financial corporations and households moved down (by 1.5 percentage points and 0.6 percentage point respectively, to 5.5% and 5.4%). The weighted average interest rate on time deposits in euro meanwhile increased by 0.2 percentage point for both customer groups, to 3.9% and 4.0% respectively.

In June, the US dollar and the Japanese yen depreciated against the lats (by 0.2% and 1.2% respectively), whereas the British pound sterling appreciated by 0.8%.

MONETARY INDICATORS (at end of period; in millions of lats)	2007	
	V	VI
MFIs¹		
M3	5 900.0	6 146.6
Repurchase agreements	0	0
Money market fund shares and units	45.6	59.6
Debt securities issued with maturity of up to 2 years	33.2	51.8
M2	5 821.2	6 035.3
Deposits with agreed maturity of up to 2 years	1 566.2	1 642.5
Deposits redeemable at notice of up to 3 months	175.9	178.5
M1	4 079.1	4 214.3
Currency outside MFIs	932.3	948.6
Overnight deposits	3 146.7	3 265.7
Net external assets	-3 508.2	-3 675.5
Credit to resident financial institutions, non-financial corporations and households	11 384.9	11 754.6
Credit to general government	317.6	325.6
Deposits of central government	271.7	210.4
Longer-term financial liabilities	2 060.5	2 104.2
Bank of Latvia		
M0	2 245.0	2 311.8
Currency in circulation	1 034.1	1 056.1
Deposits with the Bank of Latvia in lats	1 210.8	1 255.7
Deposits with the Bank of Latvia in foreign currencies	0	0
Net foreign assets	2 554.0	2 582.3
Net domestic assets	-309.0	-270.5
Credit	-224.5	-186.0
To MFIs	23.0	0
To central government (net)	-247.5	-186.0
Other items (net)	-84.6	-84.6
International reserves (at end of period; in millions of US dollars)	4 874.80	4 928.46
Gold	163.37	160.32
Special Drawing Rights	0.16	0.16
Reserve position in the IMF	0.08	0.08
Foreign convertible currencies	4 711.19	4 767.90

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2007	
	V	VI
Weighted average interest rate on domestic interbank loans in lats	7.6	3.6
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	10.1	9.8
Loans to households (in lats)	14.9	15.4
incl. for house purchase	9.6	9.1
Loans to non-financial corporations (in foreign currencies)	6.3	6.4
Loans to households (in foreign currencies)	6.0	6.2
incl. for house purchase	5.8	5.9
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	7.0	5.5
Demand deposits of non-financial corporations (in lats)	2.0	1.7
Time deposits of households (in lats)	6.0	5.4
Demand deposits of households (in lats)	0.7	0.6
Time deposits of non-financial corporations (in foreign currencies)	3.7	3.9
Demand deposits of non-financial corporations (in foreign currencies)	1.6	1.9
Time deposits of households (in foreign currencies)	3.8	4.0
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	0.5230	0.5220
LVL/GBP	1.0360	1.0440
LVL/100 JPY	0.4300	0.4250
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	
	V	VI
MFI reserves	1 312.6	1 363.1
Vault cash in national currency	101.8	107.5
Deposits with the Bank of Latvia	1 210.8	1 255.6
Foreign assets	3 986.9	4 148.0
Vault cash in foreign currencies	55.1	60.8
Claims on MFIs	2 290.1	2 371.7
Claims on non-MFIs	1 583.2	1 655.7
Other assets	58.5	59.8
Claims on central government	239.3	245.5
Claims on local government	78.3	80.1
Claims on public non-financial corporations	123.3	170.6
Claims on financial institutions and private non-financial corporations	6 099.5	6 260.2
Claims on households	5 218.6	5 382.2
Unclassified assets	830.7	970.3
Fixed assets	139.5	144.5
Items in transit	22.4	27.7
Other assets	125.1	128.7
Claims on resident MFIs (incl. investments)	543.7	669.3
Total assets	17 889.2	18 619.9
<i>Memo item: Trust assets</i>	548.3	521.2
Overnight deposits in lats	1 690.2	1 772.0
Public non-financial corporations	107.8	105.6
Financial institutions and private non-financial corporations	669.1	714.2
Households	913.3	952.1
Time deposits and deposits redeemable at notice in lats	988.6	971.3
Public non-financial corporations	165.8	173.8
Financial institutions and private non-financial corporations	236.6	217.4
Households	586.2	580.0
Foreign currency deposits of residents	2 133.4	2 247.6
Public non-financial corporations	25.2	26.2
Financial institutions and private non-financial corporations	608.9	665.0
Households	1 499.3	1 556.3
Deposits of central government	24.2	24.4
Deposits of local government	243.7	266.0
Transit funds	4.2	4.2
Foreign liabilities	10 049.1	10 405.8
Liabilities to MFIs	6 574.4	6 721.9
Liabilities to non-MFIs	3 148.8	3 378.5
Other liabilities (incl. subordinated liabilities)	325.9	305.4
Liabilities to the Bank of Latvia	23.0	0
Debt securities issued	338.8	357.6
Money market fund shares and units	45.6	59.6
Capital and reserves	1 471.8	1 512.2
Residents	772.6	808.3
Non-residents	699.2	703.8
Provisions	97.7	100.9
Unclassified liabilities	778.9	898.4
Items in transit	166.3	165.0
Other liabilities (incl. subordinated liabilities)	125.1	125.4
Liabilities to resident MFIs	487.5	608.0
Total liabilities	17 889.2	18 619.9
<i>Memo item: Trust liabilities</i>	548.3	521.2

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>).