

# MONETARY BULLETIN 2007

## 12

In December, gradual deceleration and stabilisation of the economic growth became more pronounced. The rate of lending growth fell rapidly and the pressure of private consumption lessened. High inflation inertia still persisted in Latvia due to the cost increase observed during the previous periods. The average annual inflation reached 10.1% in 2007, whereas the annual inflation was 14.1% in December. The rising food product prices (in particular those of bread, milk and dairy products and eggs) and an upsurge of heating tariffs and a decline in clothing and footwear prices mainly affected consumer prices in December. In November, the output in manufacturing declined by 4.8% year-on-year, while the seasonally adjusted volume index of industrial output rose by 1.1%. The growth in electricity, gas and water supply and mining and quarrying fostered the above trend. The annual increase in retail trade turnover (including the sale of motor vehicles and automotive fuel retailing) still accounted for 10.4%. The turnover of public catering companies was 4.5% lower than in November 2006. The volume of rail freight rose by 25.8% in December. At the same time, freight turnover at Latvian ports increased by 19.1%. Unemployment recorded a minor rise (to 4.9%).

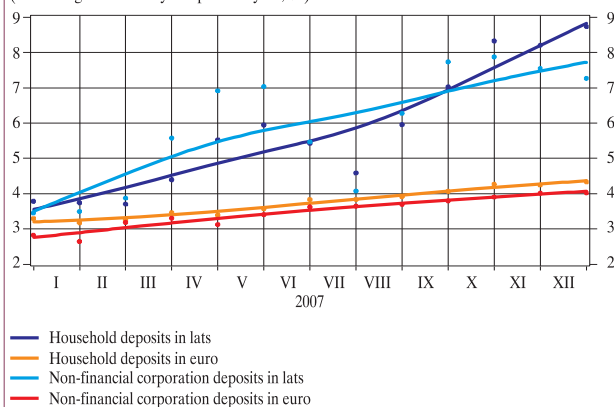
The financial deficit of the general government consolidated budget was 168.4 million lats in December, whereas the accumulated financial surplus declined to 94.0 million lats. In December, a significant financial deficit was recorded in the central government basic budget (132.9 million lats) and local government consolidated budget (84.4 million lats). A financial surplus was recorded in the social security fund (47.1 million lats). The significant year-on-year growth of the general government consolidated budget revenue (57.7%) was underpinned by an increase in the foreign financial assistance. Tax revenue rose by 20.1%. The general government consolidated budget expenditure reported a modest growth (8.1%). The increase in expenditure on wages and salaries and social security contributions slowed down notably, confirming prudent spending of funds. The general government debt, which stood at 1 158.6 million lats at the end of December, rose by 52.8 million lats within a month due to an increase in the central government's long-term external debt.

The annual growth rate of monetary aggregates continued to decline in December, a buoyant month-on-month rise in money supply on account of seasonal factors notwithstanding. Broad money M3 expanded by 198.6 million lats, with its annual rate of increase declining by 2.7 percentage points (to 14.6%). M2 also shrank by 215.0 million lats (the annual growth rate – 14.4%) and M1 diminished by 111.9 million lats, and at the end of December, M1 reported a 3.2% decline year-on-year.

High level of household and non-financial corporations' income in December contributed to a steep rise in domestic deposits. Deposits in lats increased by 139.5 million lats and those in euro by 97.0 million lats. The annual growth rate of deposits made by households and financial institutions and non-financial corporations slowed down in December by 2.0 and 1.4 percentage points respectively (to 15.1% and 19.6%).

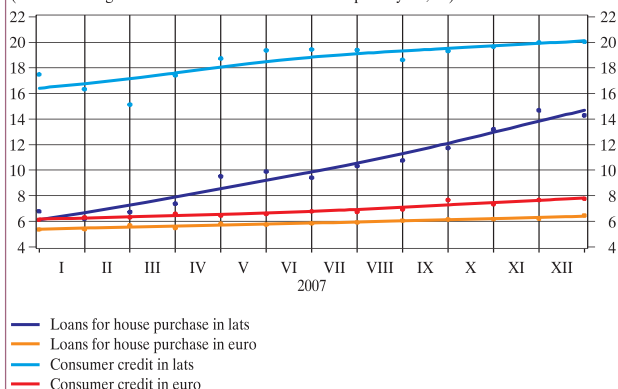
An increase in lending moderated on the domestic credit market, although in December loans expanded at a faster pace than in November. The annual growth rate of domestic credit shrank

**INTEREST RATES ON DEPOSITS FROM RESIDENTS**  
(with an agreed maturity of up to one year: %)



### INTEREST RATES ON LOANS GRANTED TO RESIDENT HOUSEHOLDS

(with a floating rate and an initial rate fixation of up to 1 year; %)



### MACROECONOMIC INDICATORS

	2007	
	XI	XII
Changes in the seasonally adjusted volume index of industrial output (year-on-year basis; %)	1.1	*
Changes in the CPI		
Month-on-month basis (%)	1.4	0.7
Average annual inflation rate (HCPI) of last 12 months (%)	9.5	10.1
Year-on-year basis (%)	13.7	14.1
Annual rate of core inflation <sup>1</sup> (%)	12.6	13.0
Number of registered unemployed persons (at end of period)	51 660	52 321
Unemployment rate (%)	4.8	4.9
General government consolidated budget financial deficit/surplus (in millions of lats)	262.4	94.0
Foreign trade (in millions of lats)		
Exports	367.8	*
Imports	647.3	*
Balance	-279.5	*

<sup>1</sup> Source: Bank of Latvia.

\* Figure available at a later date.

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

by 3.2 percentage points (to 34.2%; the lowest growth rate since October 2000). The increase in loans granted to non-financial corporations was higher, while the rise in loans granted to households was lower than in November (179.4 million lats and 67.3 million lats respectively). The annual rate of increase in all major loans decelerated in December. The annual growth rate of loans granted for house purchase, consumer credit, industrial credit and commercial credit was 44.5%, 42.2%, 39.3% and 20.8% respectively. The rise in commercial credit and industrial credit granted to non-financial corporations was higher, while that of loans granted for house purchase and consumer credit was lower month-on-month. Loans granted in lats declined further by 90.6 million lats (to 13.7% of the entire loans), while those granted in euro accounted for 83.4%. The annual growth rate of loans granted in euro also shrank by 4.0 percentage points (53.5% in December).

Domestic deposits expanded rapidly, while an increase in funding from foreign banks was small (77.8 million lats, including 90.2 million lats from parent banks). The expansion of non-resident non-MFI deposits and adequate placement of funds in foreign credit institutions contributed to a notable increase in the total aggregated balance sheet of credit institutions (1.2 billion lats). In December, the negative net foreign assets of MFIs diminished by 9.8 million lats.

The increase in the amount of required reserves was minor in December. With the seasonal factors contributing to a vigorous rise in demand, currency in circulation grew by 49.7 million lats, albeit its annual growth rate remained negative (-2.3%). Bank deposits with the Bank of Latvia also expanded rapidly. At the end of December, the monetary base M0 increased by 123.1 million lats month-on-month; nevertheless, the annual growth rate of the monetary base and bank deposits with the Bank of Latvia fell to 9.9% and 21.0% respectively. The growth of the central bank's money supply in December was determined by a decline in the Government deposit with the Bank of Latvia (73.3 million lats), a drop in loans granted to banks (18.1 million lats), the Bank of Latvia's foreign currency interventions and an increase in the currency swap balance. The Bank of Latvia's net foreign assets grew by 67.6 million lats or 2.5%. At the end of December, the backing of the national currency with the Bank of Latvia's net foreign assets was 112.3%.

In December, RIGIBOR on longer-term loans gradually moderated. At the end of December, RIGIBOR on 3-month loans stood at 10.53%, an 84 basis point month-on-month decline. RIGIBOR on 6-month loans shrank by 116 basis points (to 11.24%). RIGIBOR on overnight loans was more volatile. At the beginning and end of the month, RIGIBOR exceeded 6%, declining to 3.89% during the last days of the minimum reserve maintenance period. The average rate of RIGIBOR (5.24%) was 24 basis points higher than in November.

The drop of RIGIBOR on longer-term loans affected the interest rates on loans granted in lats as well. The weighted average interest rate on loans granted in lats to households shrank to 17.3% (including a decline in the weighted average interest rate on loans granted in lats for house purchase to 12.0%), and that on loans granted in lats to non-financial corporations dropped to 9.7%. The weighted average interest rates on euro loans granted to households and non-financial corporations rose by 0.3 percentage point (to 6.7%) and 0.4 percentage point (to 7.2%) respectively. The holiday deposit campaigns in December contributed to the rise in interest rates on household deposits, particularly those made in lats. The weighted average interest rate on household lats deposits was 8.7%.

In December, the US dollar appreciated against the lats by 2.1%, and the British pound sterling and the Japanese yen depreciated by 2.0% and 1.6% respectively.

MONETARY INDICATORS (at end of period; in millions of lats)	2007	
	XI	XII
<b>MFIs<sup>1</sup></b>		
M3	6 113.0	6 311.6
Repurchase agreements	0	0
Money market fund shares and units	43.3	41.3
Debt securities issued with maturity of up to 2 years	42.7	28.2
M2	6 027.0	6 242.0
Deposits with agreed maturity of up to 2 years	1 867.5	1 971.9
Deposits redeemable at notice of up to 3 months	336.2	335.0
M1	3 823.3	3 935.2
Currency outside MFIs	880.3	900.0
Overnight deposits	2 943.0	3 035.2
Net external assets	-4 492.6	-4 482.8
Credit to resident financial institutions, non-financial corporations and households	12 807.1	13 050.6
Credit to general government	318.5	313.6
Deposits of central government	265.2	189.3
Longer-term financial liabilities	2 288.6	2 346.9
<b>Bank of Latvia</b>		
M0	2 348.1	2 471.2
Currency in circulation	999.8	1 049.5
Deposits with the Bank of Latvia in lats	1 343.6	1 412.4
Deposits with the Bank of Latvia in foreign currencies	4.7	9.3
Net foreign assets	2 708.4	2 776.0
Net domestic assets	-360.4	-304.9
Credit	-219.6	-164.4
To MFIs	25.0	6.9
To central government (net)	-244.6	-171.2
Other items (net)	-140.8	-140.5
International reserves (at end of period; in millions of US dollars)	5 637.41	5 758.18
Gold	200.74	204.81
Special Drawing Rights	0.17	0.17
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	5 436.41	5 553.11

<sup>1</sup>In accordance with the methodology of the European Central Bank.

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES	2007	
	XI	XII
Weighted average interest rate on domestic interbank loans in lats	4.6	5.1
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	11.7	9.7
Loans to households (in lats)	18.4	17.3
incl. for house purchase	14.5	12.0
Loans to non-financial corporations (in foreign currencies)	6.8	7.2
Loans to households (in foreign currencies)	6.5	6.8
incl. for house purchase	6.3	6.4
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	7.6	7.3
Demand deposits of non-financial corporations (in lats)	2.1	2.0
Time deposits of households (in lats)	8.2	8.7
Demand deposits of households (in lats)	0.6	0.6
Time deposits of non-financial corporations (in foreign currencies)	4.1	4.1
Demand deposits of non-financial corporations (in foreign currencies)	1.7	1.6
Time deposits of households (in foreign currencies)	4.3	4.4
Demand deposits of households (in foreign currencies)	1.7	1.7
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	0.4740	0.4840
LVL/GBP	0.9830	0.9630
LVL/100 JPY	0.4310	0.4240
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	
	XI	XII
MFI reserves	1 460.2	1 566.3
Vault cash in national currency	119.5	149.5
Deposits with the Bank of Latvia	1 340.7	1 416.8
Foreign assets	4 697.6	5 474.8
Vault cash in foreign currencies	64.9	72.5
Claims on MFIs	2 813.6	3 578.1
Claims on non-MFIs	1 736.2	1 756.9
Other assets	82.9	67.3
Claims on central government	246.7	253.4
Claims on local government	71.8	60.3
Claims on public non-financial corporations	216.1	250.0
Claims on financial institutions and private non-financial corporations	6 726.2	6 866.8
Claims on households	5 921.5	5 988.8
Unclassified assets	979.7	1 041.5
Fixed assets	166.7	174.8
Items in transit	32.7	23.6
Other assets	168.5	190.0
Claims on resident MFIs (incl. investments)	611.9	653.2
<b>Total assets</b>	<b>20 319.8</b>	<b>21 501.9</b>
<i>Memo item: Trust assets</i>	<i>1 374.8</i>	<i>369.6</i>
Overnight deposits in lats	1 544.9	1 652.0
Public non-financial corporations	103.7	117.1
Financial institutions and private non-financial corporations	676.8	748.1
Households	764.4	786.8
Time deposits and deposits redeemable at notice in lats	1 045.7	1 078.0
Public non-financial corporations	171.1	176.2
Financial institutions and private non-financial corporations	275.4	299.5
Households	599.2	602.3
Foreign currency deposits of residents	2 434.6	2 541.2
Public non-financial corporations	35.5	42.4
Financial institutions and private non-financial corporations	711.2	779.2
Households	1 687.9	1 719.6
Deposits of central government	20.6	18.1
Deposits of local government	261.0	211.7
Transit funds	4.0	4.0
Foreign liabilities	11 898.6	12 733.6
Liabilities to MFIs	7 827.4	7 905.2
Liabilities to non-MFIs	3 608.0	4 513.0
Other liabilities (incl. subordinated liabilities)	463.2	315.4
Liabilities to the Bank of Latvia	25.0	6.9
Debt securities issued	339.1	314.7
Money market fund shares and units	43.3	41.3
Capital and reserves	1 673.6	1 744.1
Residents	937.0	998.9
Non-residents	736.6	745.2
Provisions	118.2	116.4
Unclassified liabilities	911.1	1 039.9
Items in transit	183.5	270.1
Other liabilities (incl. subordinated liabilities)	189.4	185.1
Liabilities to resident MFIs	538.3	584.7
<b>Total liabilities</b>	<b>20 319.8</b>	<b>21 501.9</b>
<i>Memo item: Trust liabilities</i>	<i>1 374.8</i>	<i>369.6</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>).