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Financial market tensions in Latvia eased substantially when the Saeima of the Republic of Latvia passed amendments to the Law On the State Budget for 2009, thereby improving the budget balance by 500 million lats, and when the European Commission approved the second tranche of international loan to Latvia in the amount of 1.2 billion euro. In June, the anxiety about potential disbursement of the upcoming tranche of international loan was coupled with concerns about the overall financial situation in the country and underpinned sizeable sales of lats by banks to the Bank of Latvia, which, in turn, gave rise to liquidity problems and pushed notably up money market interest rates. At the end of the month, however, banks resumed buying lats and money market interest rates declined.

The retail trade turnover was steadying for the second consecutive month: in May, it increased by 0.9% month-on-month (seasonally adjusted data), although a substantial contraction in the retail trade turnover of 26.4% (seasonally non-adjusted data) was recorded year-on-year. Meanwhile, manufacturing output narrowed both month-on-month (by 3.4%; seasonally adjusted data) and year-on-year (by 21.2%; working day adjusted data) in May.

As to freight transportation services, a positive growth trend was observed. In June, freight transport by rail grew by 5.8% and freight turnover at Latvian ports increased by 8.1% year-on-year.

Unemployment rate continued on an upward trend in June, rising to 11.5%, the general government consolidated budget deficit expanded, lending shrank, and the total money supply decreased somewhat.

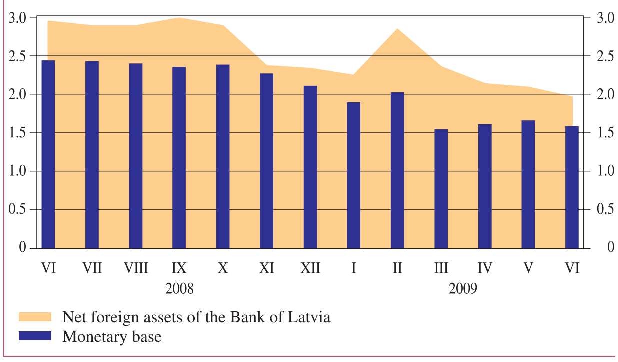
Month-on-month, consumer prices dropped 0.5%, while annual inflation abated by 1.3 percentage points, dropping to 3.4%. A weak demand and declining heating prices (regulated) underpinned a further downslide of consumer prices. Under the impact of low demand and seasonal factors, food prices declined by 0.6% and prices of clothing and footwear decreased by 2.7%. The fuel price rise of 5.6% had an upward effect on inflation. The annual core consumer price inflation declined to 2.0% and accounted for 1.5 percentage points of total inflation.

In June, the general government consolidated budget recorded a deficit of 87.3 million lats (425.2 million lats deficit accumulated from the beginning of the year). The central government basic budget, social security budget and the local government consolidated budget all recorded deficits in June. Although only a slight budget revenue fall (6.9%) was recorded in June year-on-year due to larger inflowing foreign financial support, the shrinking in tax revenue continued to be sharp (26.6%). Revenues from the corporate income tax, value added tax and personal income tax contracted most (by 89.8%, 31.0%, and 28.6% respectively). Budget expenditure fell by 9.1% year-on-year even though expenditure on social benefits increased by 35.7% but was offset by compensation of employees, goods and services, subsidies and grants as well as capital expenditure being smaller. In June, the total debt of the central and local governments dropped 78.9 million lats as a result of the redemption of Treasury bills and stood at 3 063.2 million lats.

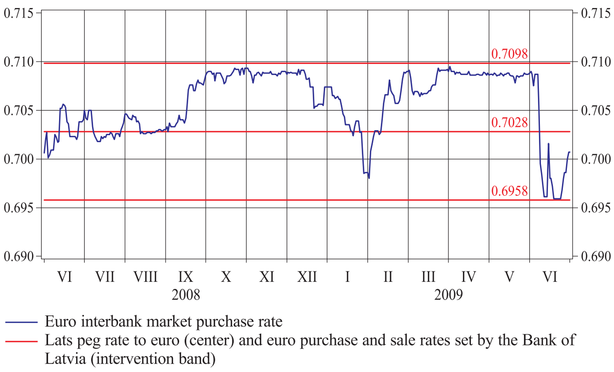
The annual rate of change in lending turned negative in June

BACKING OF THE NATIONAL CURRENCY

(at end of period; in billions of lats)



EURO EXCHANGE RATE AGAINST LATS



(–0.2%; 4.1% for loans to non-financial corporations and –0.6% for loans to households). Loans to resident financial institutions, non-financial corporations, and households contracted (by 64.1 million lats or 0.5% overall). Dropping commercial credit and consumer credit had a decreasing impact (2.2% and 1.5% respectively), whereas industrial credit increased by 0.3%. Loans in lats contracted by 34.7 million lats or 2.4% and loans in euro shrank by 18.0 million lats or 0.1%.

With the economic recession going on, a moderate weakening in the money demand was observed. In June, M1, M2, and M3 decreased by 66.7 million lats, 43.2 million lats, and 39.5 million lats respectively. The annual decrease in these money aggregates thereby became sharper (10.4%, 9.9%, and 21.0% respectively). The falling money supply was on account of the narrowing amount of currency outside MFIs (24.4%). Deposits redeemable at notice and money market fund shares and units also decreased, while deposits with an agreed maturity of up to two years and overnight deposits increased (by 17.5 million lats or 0.7%, and 18.1 million lats or 0.8% respectively).

In June, deposits increased by 0.5%, of which household deposits picked up 0.6%. Deposits in lats contracted notably for the financial institution and non-financial corporation sector as well as the household sector (by 4.4% and 3.5% respectively); meanwhile, deposits in euro increased by 5.7%. The annual rate of change in deposits of resident financial institutions, non-financial corporations and households was negative (–5.7%).

In June, Latvian bank liabilities to foreign banks shrank by 2.4% (by 1.1% in May), of which repayment of syndicated loans accounted for 1 percentage point. Month-on-month, loans from affiliated banks and non-resident non-MFI deposits contracted less (by 0.9% and 2.1% respectively). The negative net foreign assets of MFIs (excluding Bank of Latvia) diminished by 153.3 million lats.

Monetary base M0 narrowed by 76.1 million lats in June as the demand for cash went down substantially and bank demand deposits with the central bank contracted along with the falling reserve requirement. Net foreign assets of the Bank of Latvia shrank by 123.5 million lats and the backing of the national currency with the Bank of Latvia's net foreign assets was 124.1% at the end of the month. The contraction in the central bank's reserve was on account of interventions in the foreign exchange market, with the Bank of Latvia selling euro in the net worth of 110.5 million lats, and also diminishing government's foreign currency funds, with Latvia using a part of the foreign financing. Deceleration in lending to banks had a decreasing impact on the central bank's money supply, whereas the shrinkage in government's lats deposit with the Bank of Latvia had an increasing effect.

The lats liquidity conditions in June fuelled sharp fluctuations of RIGIBOR on overnight loans within 5.0% to 33.0% margins (17.18% on average per month). 3-, 6-, and 12-month RIGIBOR increased on average by 10 percentage points (to 24%–25%). The conditions in the lats money market underpinned a rise in interest rates on loans in lats to and deposits from non-financial corporations and households, while interest rates on transactions in foreign currencies followed a downward trend.

In June, the exchange rates of the US dollar and Japanese yen set by the Bank of Latvia against the lats depreciated by 1.4% and 0.4% respectively, while that of the British pound sterling appreciated by 2.0%.

MACROECONOMIC INDICATORS	2009	
	V	VI
Volume index of industrial output (working-day adjusted annual rate of change; %)	–19.3	*
Changes in the CPI		
Month-on-month basis (%)	–0.5	–0.5
Average annual inflation rate (HCPI) of last 12 months (%)	11.4	10.2
Year-on-year basis (%)	4.7	3.4
Annual rate of core inflation[1] (%)	2.9	2.0
Number of registered unemployed persons (at end of period)	126 595	129 269
Unemployment rate (%)	11.3	11.5
General government consolidated budget financial deficit/surplus (in millions of lats)	–337.8	–425.2
Foreign trade (in millions of lats)		
Exports	267.2	*
Imports	351.1	*
Balance	–83.9	*

[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)

	2009	
	V	VI
MFIs[1]		
M3	5 895.9	5 829.2
Repurchase agreements	0	0
Money market fund shares and units	82.4	59.0
Debt securities issued with maturity of up to 2 years	1.7	1.7
M2	5 811.8	5 768.6
Deposits with agreed maturity of up to 2 years	2 472.5	2 490.0
Deposits redeemable at notice of up to 3 months	306.3	285.1
M1	3 033.0	2 993.5
Currency outside MFIs	718.7	661.0
Overnight deposits	2 314.3	2 332.4
Net external assets	–4 976.7	–4 946.9
Credit to resident financial institutions, non-financial corporations and households	14 140.2	14 076.1
Credit to general government	691.5	626.8
Deposits of central government	1 202.3	1 059.1
Longer-term financial liabilities	2 337.5	2 174.1
Bank of Latvia		
M0	1 660.9	1 584.8
Currency in circulation	825.1	758.5
Deposits with the Bank of Latvia in lats	826.4	808.5
Deposits with the Bank of Latvia in foreign currencies	9.4	17.7
Net foreign assets	2 090.8	1 967.3
Net domestic assets	–429.9	–382.5
Credit	–178.1	–138.2
To MFIs	362.2	258.9
To central government (net)	–540.3	–397.0
Other items (net)	–251.9	–244.3
International reserves (at end of period; in millions of euro)	2 969.42	2 810.83
Gold	170.54	166.15
Special Drawing Rights	0.46	0.46
Reserve position in the IMF	0.06	0.06
Foreign convertible currencies	2 798.36	2 644.16
International reserves (at end of period; in millions of US dollars)	4 108.11	3 943.06
Gold	235.93	233.08
Special Drawing Rights	0.64	0.64
Reserve position in the IMF	0.09	0.09
Foreign convertible currencies	3 871.45	3 709.25

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

EXCHANGE RATES SET BY THE BANK OF LATVIA AND INTEREST RATES

	2009	
	V	VI
Weighted average interest rate on domestic interbank loans in lats	4.9	22.3
Interest rates on loans to resident non-financial corporations and households		
Loans to non-financial corporations (in lats)	13.4	33.4
Loans to households (in lats)	19.0	19.1
incl. for house purchase	10.4	10.4
Loans to non-financial corporations (in foreign currencies)	5.6	5.4
Loans to households (in foreign currencies)	5.9	5.5
incl. for house purchase	5.1	4.5
Interest rates on deposits of non-financial corporations and households		
Time deposits of non-financial corporations (in lats)	9.0	20.0
Demand deposits of non-financial corporations (in lats)	3.5	2.6
Time deposits of households (in lats)	8.5	14.7
Demand deposits of households (in lats)	1.0	1.0
Time deposits of non-financial corporations (in foreign currencies)	1.8	1.4
Demand deposits of non-financial corporations (in foreign currencies)	0.5	0.3
Time deposits of households (in foreign currencies)	2.8	3.1
Demand deposits of households (in foreign currencies)	0.9	0.9
The Bank of Latvia's refinancing rate (at end of period; %)	4.0	4.0
Exchange rates of foreign currencies (at end of period)		
LVL/USD	0.5080	0.5010
LVL/GBP	0.8100	0.8260
LVL/100 JPY	0.5280	0.5260
LVL/EUR	0.7028	0.7028

AGGREGATED BALANCE SHEET OF MFIs (EXCLUDING THE BANK OF LATVIA) (at end of period; in millions of lats)	2009	
	V	VI
MFI reserves	942.2	923.0
Vault cash in national currency	106.4	97.5
Deposits with the Bank of Latvia	835.8	825.5
Foreign assets	4 729.3	4 602.2
Vault cash in foreign currencies	57.2	64.6
Claims on MFIs	2 743.2	2 657.2
Claims on non-MFIs	1 823.5	1 775.0
Other assets	105.4	105.4
Claims on central government	617.1	552.5
Claims on local government	74.4	74.2
Claims on public non-financial corporations	383.8	382.9
Claims on financial institutions and private non-financial corporations	7 634.8	7 598.4
Claims on households	6 276.7	6 257.0
Unclassified assets	1 102.8	988.4
Fixed assets	162.4	166.9
Items in transit	25.2	22.2
Other assets	382.2	362.9
Claims on resident MFIs (incl. investments)	533.0	436.3
Total assets	**21 761.2**	**21 378.7**
Memo item: Trust assets	*344.9*	*353.7*
Overnight deposits in lats	1 108.9	1 041.9
Public non-financial corporations	72.9	65.3
Financial institutions and private non-financial corporations	486.3	439.7
Households	549.7	536.9
Time deposits and deposits redeemable at notice in lats	1 123.2	1 101.8
Public non-financial corporations	185.5	176.6
Financial institutions and private non-financial corporations	394.6	407.7
Households	543.1	517.5
Foreign currency deposits of residents	2 819.8	2 933.2
Public non-financial corporations	58.3	51.6
Financial institutions and private non-financial corporations	988.0	1 051.6
Households	1 773.5	1 829.9
Deposits of central government	662.0	662.1
Deposits of local government	208.1	189.4
Transit funds	3.2	3.2
Foreign liabilities	11 796.8	11 516.4
Liabilities to MFIs	8 268.1	8 066.4
Liabilities to non-MFIs	3 041.2	2 977.3
Other liabilities (incl. subordinated liabilities)	487.5	472.7
Liabilities to the Bank of Latvia	362.2	258.9
Debt securities issued	160.4	160.5
Money market fund shares and units	82.4	59.0
Capital and reserves	1 744.2	1 580.0
Residents	1 006.3	807.0
Non-residents	737.9	773.0
Provisions	741.5	1 020.1
Unclassified liabilities	948.4	852.2
Items in transit	93.6	90.3
Other liabilities (incl. subordinated liabilities)	357.2	363.3
Liabilities to resident MFIs	497.6	398.5
Total liabilities	**21 761.2**	**21 378.7**
Memo item: Trust liabilities	*344.9*	*353.7*

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).

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