

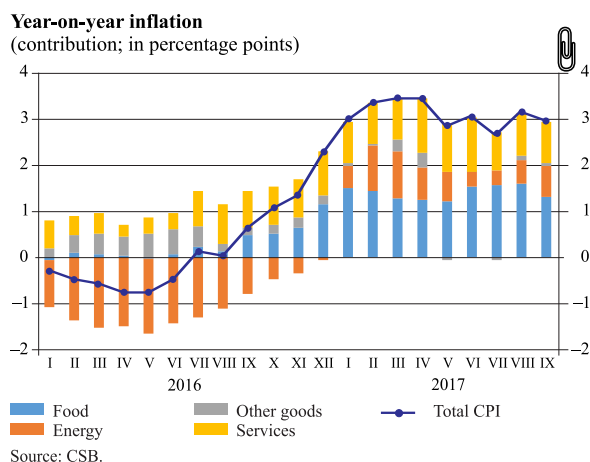


**LATVIJAS BANKA**  
**MONTHLY NEWSLETTER**

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**OCTOBER 2017**

## Annual inflation boosted by growth in energy prices while food prices decrease

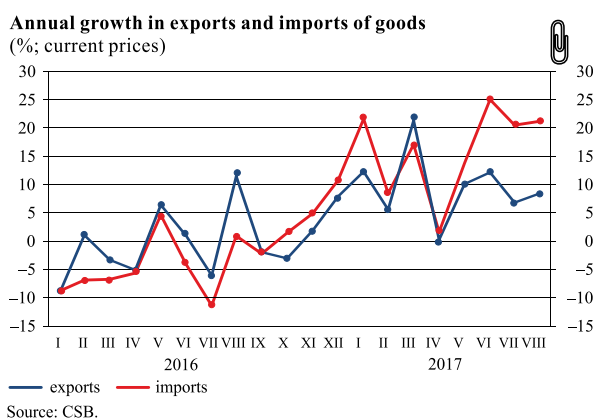


In September, annual inflation declined to 2.9%. The monthly inflation was negligible, i.e. 0.3%. Overall, the strongest upward pressure on annual inflation was exerted by the rising energy prices, whereas the fall in unprocessed food (cereals, vegetables, etc.) prices had a downward effect. Moreover, the year-on-year changes in inflation reflected atypical seasonal developments observed for footwear and clothing. International tourism likewise saw lower average prices than those charged during the previous years. These developments could be explained by higher household propensity to save, as suggested by the latest consumer confidence survey of the European Commission.

The growth of core inflation can be viewed as stable and there is no reason for any comparisons with the demand-side-induced economic overheating observed in the years preceding the crisis.

## Stable growth in partner countries helps increase exports

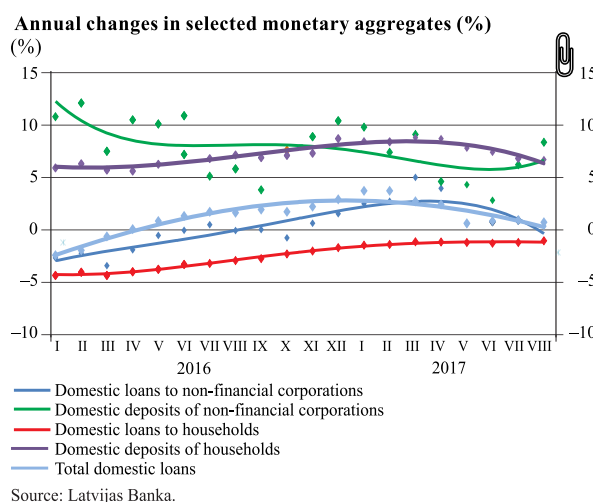
As the global economy picks up, the sustained growth in Latvia's main trading partners and rising global prices have continued to foster Latvian exports. August was the tenth consecutive month when the annual growth in exports and imports of goods was positive, i.e. 8.5% and 21.2% respectively.



In the first eight months of this year, the uptrend in exports of goods was ensured by both the increase in actual volumes and price rises. Re-exports have also picked up this year, whereas the greatest positive contributor was domestically produced goods. Year-on-year, a positive rise in exports was retained in almost all groups of goods.

Meanwhile, growth in imports accompanies development of exports and the renewed private investment activity.



## Moderate dynamics of monetary aggregates suggest economic stability



Over the last few months, discussions have been raised about the potential movement of the Latvian economy towards overheating. While certain signs of heating up have indeed surfaced on the supply side, the demand-side factors do not yet suggest such developments, which is also confirmed by the dynamics of the monetary aggregates.

Even though new loans increased in August, the size of the loan portfolio has remained practically unchanged and its annual rate of change has also been standing close to zero for quite some time now, with loans to non-financial corporations and households growing by 0.4% and -1.0% respectively. Therefore, loans should not be viewed as a factor significantly affecting money supply. While deposits with banks did rise slightly

faster due to the inflows of investment and European Union funds as well as due to an expansion of exports, the increase was only 2.7% in August year-on-year.

	Reporting period	Data (%)
<b>Gross domestic product (GDP)</b>		
Real GDP (year-on-year growth; seasonally adjusted)	2017 Q2	4.8
Real GDP (quarter-on-quarter growth; seasonally adjusted)	2017 Q2	1.2
<b>Public finances</b>		
General government budget expenditure (since the beginning of the year; year-on-year growth)	2017 IX	5.2
Tax revenue (since the beginning of the year; year-on-year growth)	2017 IX	7.6
<b>Consumer price changes</b>		
Consumer Price Index (CPI; year-on-year growth)	2017 IX	2.9
Harmonised Index of Consumer Prices (HICP; year-on-year growth)	2017 IX	1.7
12-month average inflation (HICP)	2017 IX	2.6
10.10.2017 <a href="#">Inflation going down, saved from a deeper plunge by energy and food prices</a> 		
<b>Foreign trade</b>		
Exports (year-on-year growth)	2017 VIII	8.5
Imports (year-on-year growth)	2017 VIII	21.2
<b>Balance of payments</b>		
Current account balance (ratio to GDP)	2017 Q2	-3.0
Foreign direct investment in Latvia (net flows; ratio to GDP)	2017 Q2	2.4
<b>Industrial output</b>		
Working day-adjusted manufacturing output index (year-on-year growth)	2017 VIII	12.1
<b>Retail trade turnover</b>		
Retail trade turnover at constant prices (year-on-year growth)	2017 VIII	5.3
<b>Labour market</b>		
Registered unemployment (share in working age population)	2016 IX	6.6
Jobseekers rate (share in working age population)	2017 Q2	8.9
<b>Monetary indicators</b>		
Resident deposits (year-on-year growth)	2017 VIII	2.7
29.10.2019 <a href="#">Moderate dynamics of monetary aggregates suggests economic stability</a> 		

Sources: Treasury, CSB and Latvijas Banka.

## New era in Latvia's securities market

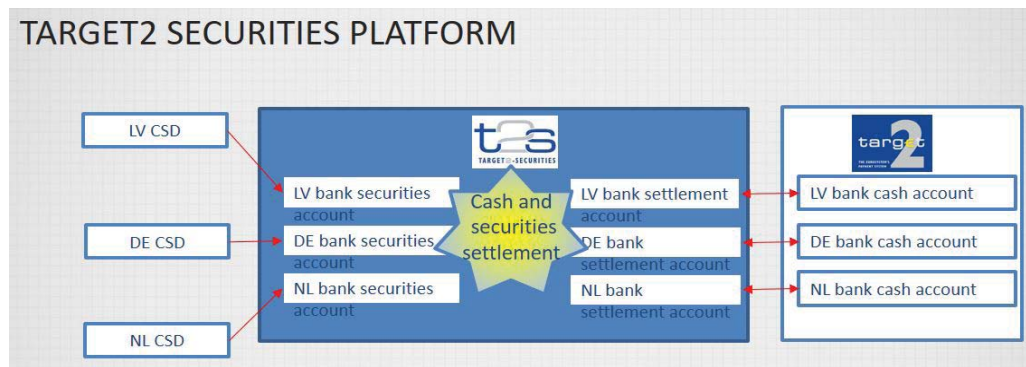


**Egons Gailitis,**  
Head of Payment  
Systems Department

Latvia's securities market and its securities settlements have experienced substantial changes. For over a month, Latvia's securities market settlements in euro are executed via the TARGET2-Securities platform developed by the Eurosystem. On 18 September 2018, the Eurosystem successfully completed launching a single TARGET2-Securities settlement platform, its largest project ever implemented in the area of payments and financial infrastructure. The project's final stage was the successful migration of Latvia's securities market, together with the securities markets of the other two Baltic States and

Spain, to the TARGET2-Securities platform. Latvijas Banka along with other Eurosystem members not only took part in the implementation of the TARGET2-Securities project, but also provided support to the securities market participants of Latvia. This is a project of an unprecedented scale globally where securities markets of 20 European countries, 20 central securities depositories and 22 central banks carry out their securities and cash settlements via a single settlement platform TARGET2-Securities. TARGET2 processes more than 500 million securities transactions per business day, with their total value exceeding 750 billion euro.

TARGET2-Securities is a single settlement platform based on state-of-the-art technologies; each business day it ensures settlement of delivery versus payment transactions in euro in real time. To ensure that, securities depositories open securities accounts for their members (credit institutions and other market participants) in TARGET2-Securities platform and transfer securities to the accounts. Central banks open settlement accounts in euro for credit institutions in the new platform to support securities settlement in euro in central bank money. Beginning with 29 October 2018, settlement via TARGET2-Securities platform will also be possible in Danish kroner.



Latvijas Banka has opened settlement accounts in euro for Latvia's credit institutions in TARGET2-Securities platform, while the securities depository Nasdaq CSD, which provides securities depository services in Latvia, has opened securities accounts for credit institutions and their customers in the new platform. As a result, in Latvia's securities market we have provided a single gateway for investors and securities issuers into the Baltic and European capital markets, ensured uniform participation criteria with no differences between domestic and cross-border settlement and effective liquidity savings tools for Latvian credit institutions provided by Latvijas Banka.

### Another unique project - establishment of Nasdaq CSD

In addition to the TARGET2-Securities project, another significant project for Latvia's securities market was completed on the same day, 18 September, with Latvijas Banka providing notable support to it. The newly established Nasdaq CSD, a single institution for central securities depository services in all three Baltic States, started its operation. Establishment of Nasdaq CSD is a unique pan-European project. Not only did Nasdaq CSD merge the central securities depositories of the three Baltic States into one corporate entity and smoothly migrated to the TARGET2-Securities platform, but it was also the first central securities depository licensed under the new EU Central Securities Depositories Regulation. The new Regulation establishes higher requirements to ensure secure and efficient operation of securities depositories. Latvijas Banka, together with the central banks of Estonia and Lithuania, have assessed Nasdaq CSD securities settlement systems as compliant with the international standards for payment and securities settlement oversight. The Eurosystem has also recognised Nasdaq CSD to be a safe entity that is eligible for use in Eurosystem monetary policy operation settlement.

With migration to TARGET2-Securities platform and launching of operation of the new Nasdaq CSD, Latvia's securities market and its participants have new, wide and challenging horizons ahead of them to further develop new, innovative and competitive securities services for the public in Latvia.