Box 3

THE LATVIAN MFI SECTOR AND ITS IMPACT ON MONETARY STATISTICS FOR THE EURO AREA

On 1 January 2014 Latvia adopted the euro, thereby increasing the number of euro area countries from 17 to 18. Monetary statistics for Latvia will be included for the first time in the euro area aggregates for January 2014, which will be published on 27 February 2014 and reported in the March 2014 issue of the Monthly Bulletin.[1] This box highlights the key features of the balance sheets of MFIs resident in Latvia.[2] They form the basis for the Latvian contribution to euro area monetary statistics.

Key features of the MFI sector in Latvia

At the end of December 2013 a total of 73 MFIs were resident in Latvia, while the euro area (i.e. excluding Latvia) had a total of 6,717 MFIs.[3] The 73 MFIs in Latvia comprise the central bank, 63 credit institutions, 2 money market funds and 7 other MFIs. Their aggregated balance sheet totalled €35 billion at the end of December 2013, which amounts to around 0.1% of the aggregated MFI balance sheet of the enlarged euro area. This contribution is similar to that of Estonia, which joined the euro area in 2011. Given its size, the contribution from Latvia will not significantly affect the overall dynamics of euro area M3 statistics.

1 For monetary statistics, the euro area series covers all of the EU Member States that had adopted the euro at the time to which the statistics relate. This approach, which is also applied for MFI interest rate statistics and the HICP, differs from that applied for other datasets, such as GDP, for which data relate to the current composition of the euro area for the entire time series.
2 For details of the statistical methodology adopted for MFI balance sheet statistics to take account of the enlargement of the euro area, see the "Manual on MFI balance sheet statistics", ECB, April 2012. See also the "General Notes" at the back of the Monthly Bulletin.
3 For an overview of developments in the EU MFI sector, see, for example, http://www.ecb.europa.eu/stats/money/mfi/general/html/index.en.html

Impact of Latvian data on euro area M3

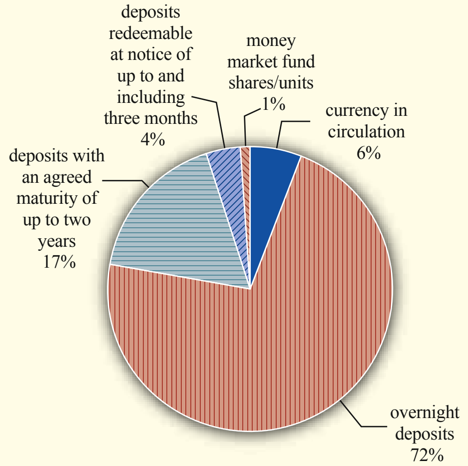
According to ECB calculations, if Latvia had already been part of the euro area in December 2013, it would have contributed almost €11 billion to euro area M3. Deposits accounted for 93% of Latvian M3 in that month. Overnight deposits made up the largest share, accounting for 72% of Latvian M3 (see Chart A), while deposits with an agreed maturity of up to two years and those redeemable at notice of up to three months accounted for 17% and 4% respectively. By comparison, total short-term deposits excluding repurchase agreements accounted for 83% of euro area M3 in December 2013 (i.e. excluding Latvia), with a considerably smaller contribution from overnight deposits (see Chart B). By contrast with deposits, in December 2013 the contribution made by marketable instruments to M3 was smaller in Latvia than in the euro area. In that month holdings of MFI short-term debt securities and repurchase agreements, which in the euro area accounted for 1% and 4% of M3 holdings respectively, were negligible in Latvia. Money market fund shares/units accounted for 4% of euro area M3 but only represented 1% of Latvian M3.

Turning to the counterparts of M3, the longer-term liabilities of Latvian MFIs totalled around €3 billion in December 2013, while, on the asset side of the balance sheet, MFI loans to the private sector totalled around €14 billion. From a sectoral point of view, €7.5 billion of those outstanding loans were granted to non-financial corporations, €6.1 billion were granted to households and just over €0.5 billion were granted to non-monetary financial intermediaries other than insurance corporations and pension funds.

Euro area MFI balance sheet statistics comprise data for those EU Member States that were part of the euro area in the reference month. From January 2014 both outstanding amounts and growth rates will cover all 18 countries currently in the euro area.[4]

Chart A Composition of M3 in Latvia

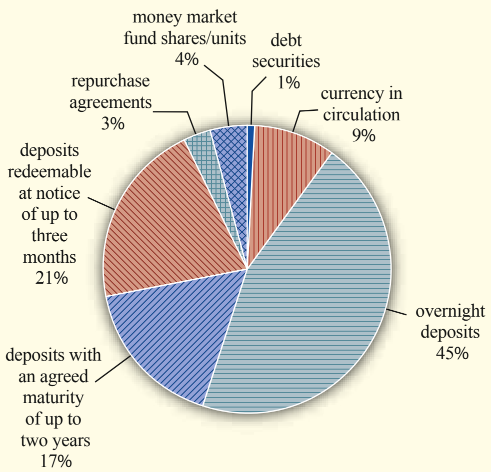
(percentages; December 2013)



Source: ECB.

Chart B Composition of euro area M3

(percentages; December 2013)



Source: ECB.

4 In order to avoid breaks in statistical series, the inclusion of new countries is treated as a reclassification, i.e. it is corrected for in transactions data and thus also in the growth rates.