



Steady Through Choppy Waters

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Latvijas Banka: our key tasks

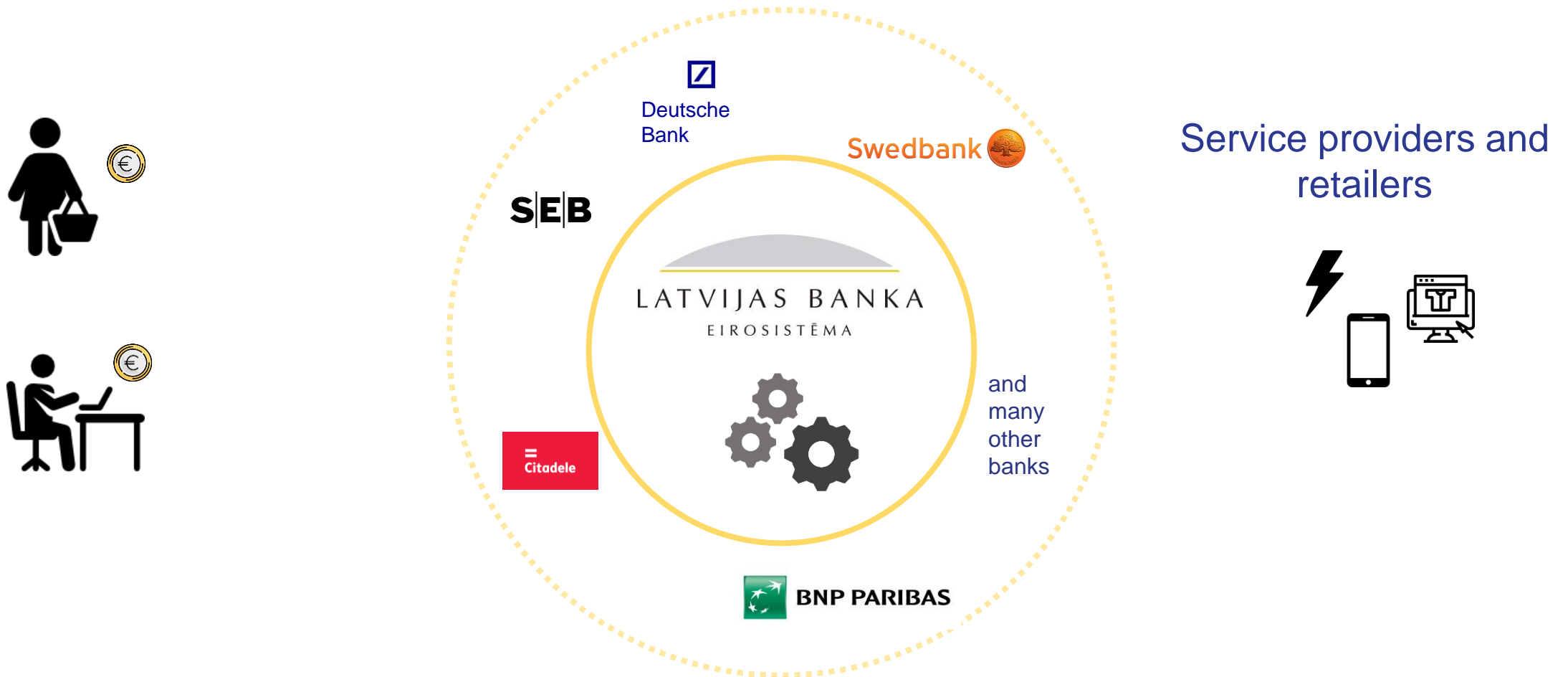
Regional euro cash storage & logistics center in the Baltics



- ▶ Ensuring the quality of cash
- ▶ Processing **~140 million** banknotes a year

The most popular **50 €** banknote goes through Latvijas Banka **~3 times a year**

Provider of key infrastructure for interbank settlements





ZIBMAKSĀJUMS
No bankas uz banku. Ātrākais!

Instant payments

Few
seconds

24h

Euro
area

7
days a
week

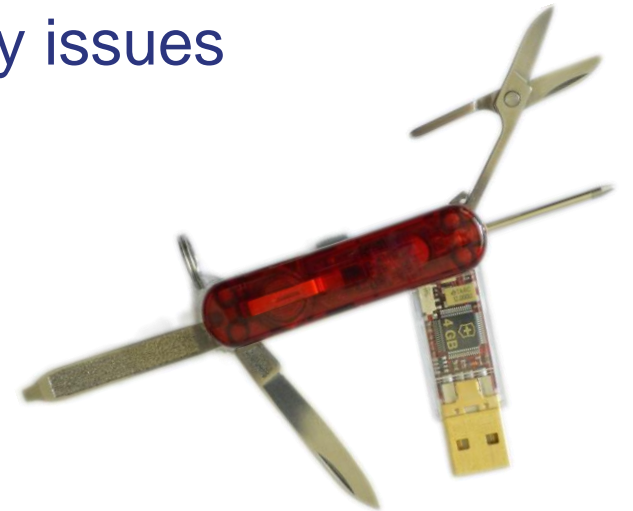
365
days a
year

- ▶ First in the whole euro area
- ▶ Industry standard: now offered by *SEB banka*, *Citadele banka*, *Swedbank* and *Latvijas Banka*
- ▶ Coming soon: payments to recipients identified by their phone number

A key to innovative payment services in the future

But so much more...

- ▶ **Monetary policy** making and execution
- ▶ In-depth **economic analysis** and modelling
- ▶ **Advisor** to the government and Saeima
- ▶ **Credit register**, macroprudential and financial stability issues
- ▶ **Statistics**, i.e., data collection and analysis
- ▶ **Reserve management...**
- ▶ ... and, yes, we do mint **coins!**



National central banks – important players in the EU



Foto: Monica Sierra, ECB

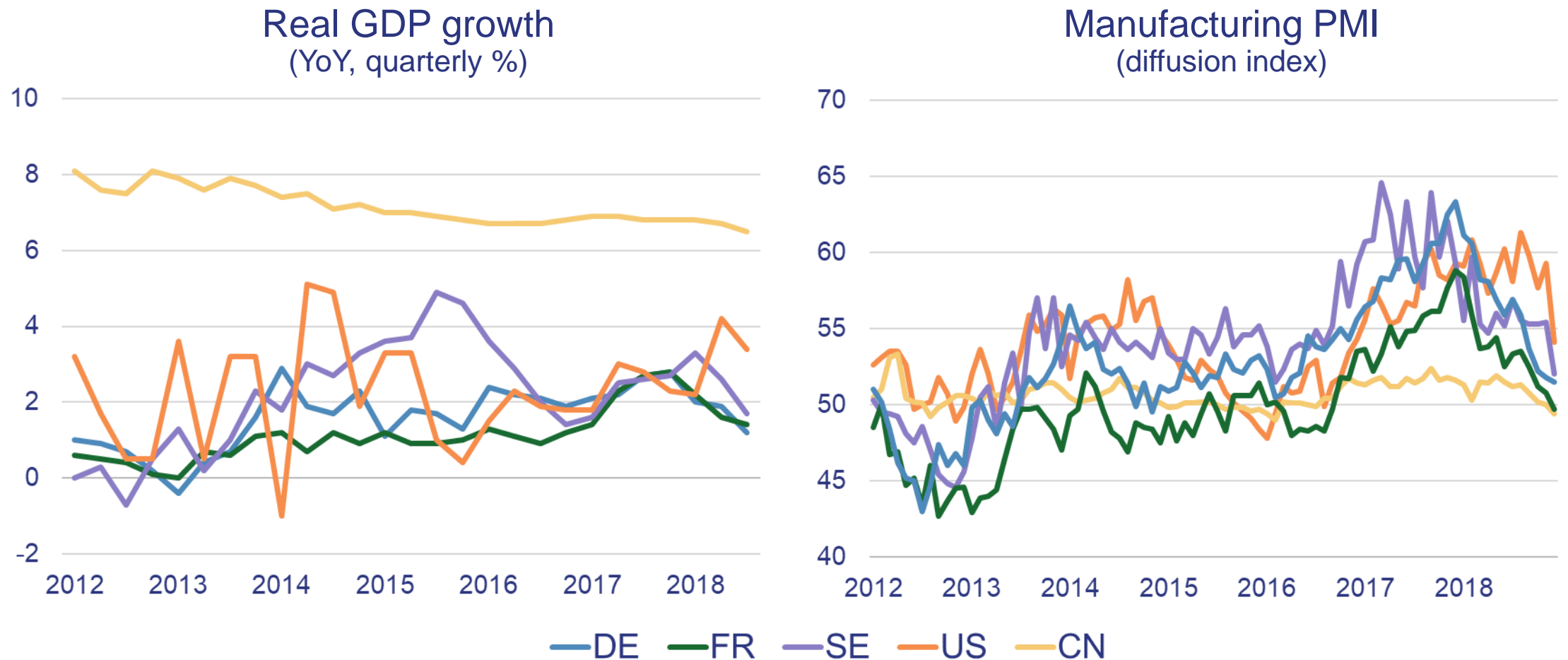
Latvijas Banka has an equal role in the decision-taking of the ECB's Governing Council and General Council

- ▶ Employees of Latvijas Banka work in **130 committees** and working groups of various EU institutions and bodies
- ▶ More than **400 EU level meetings** a year



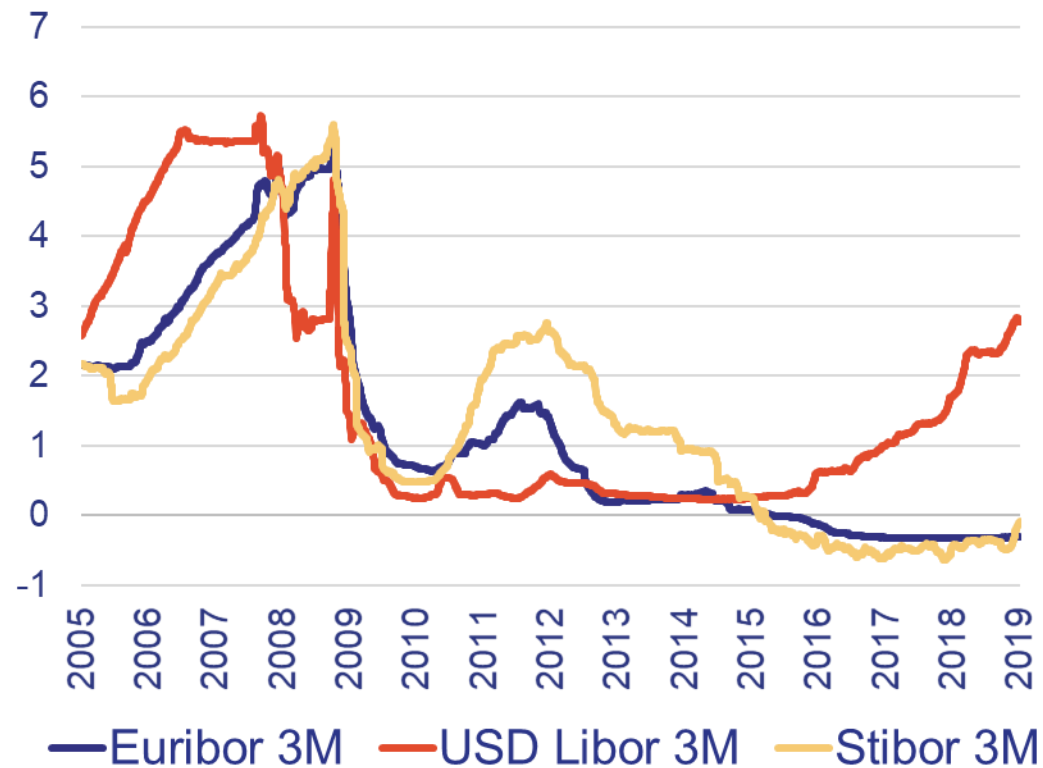
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Global business cycle is quite mature, confidence less hawkish

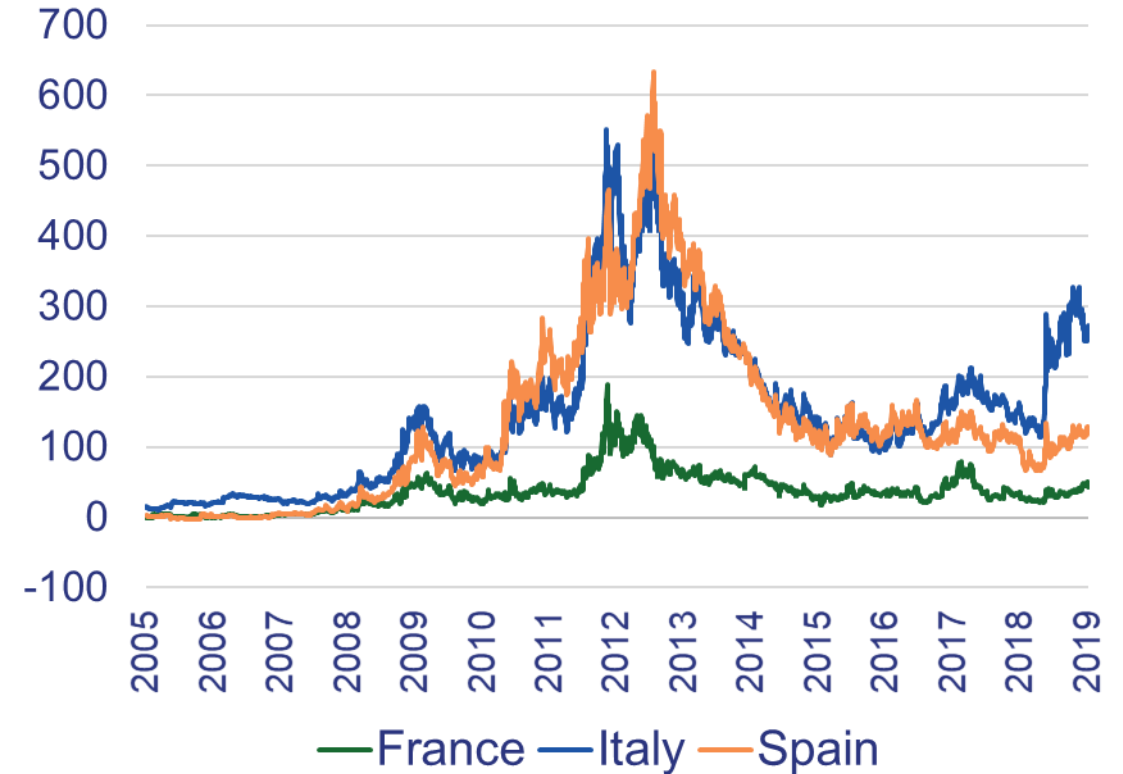


Interest rates have risen in the US, EMU lags behind

Money market 3M interest rates (%)

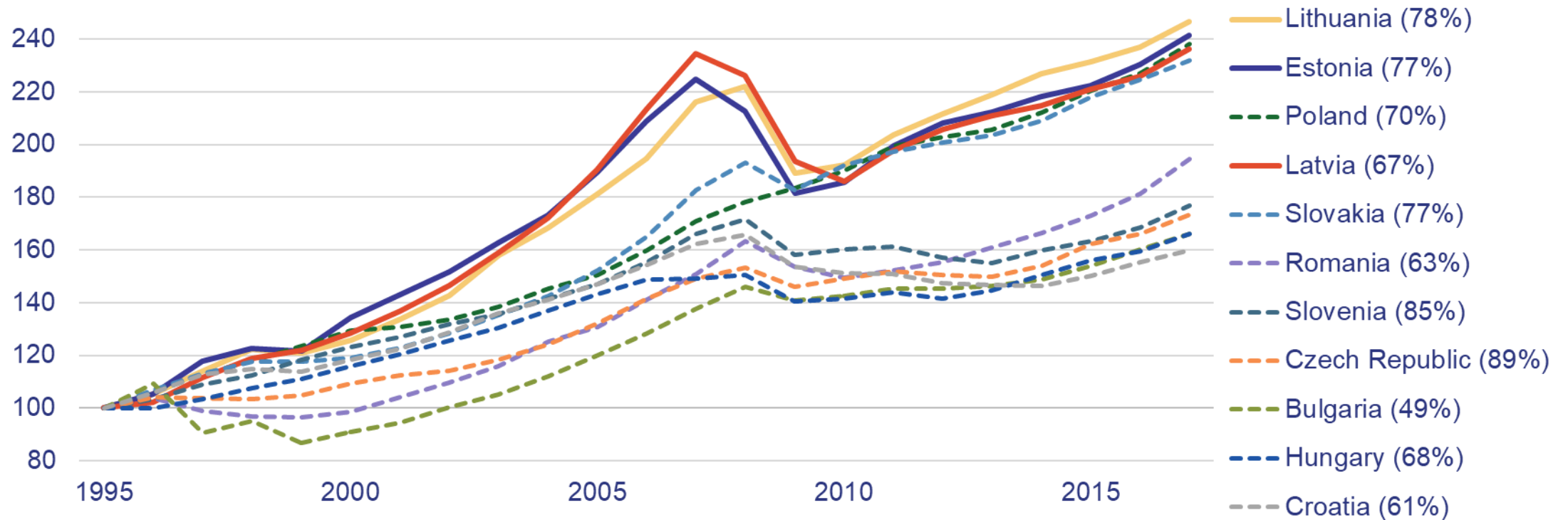


10Y Government bond spreads vs Germany (bps)

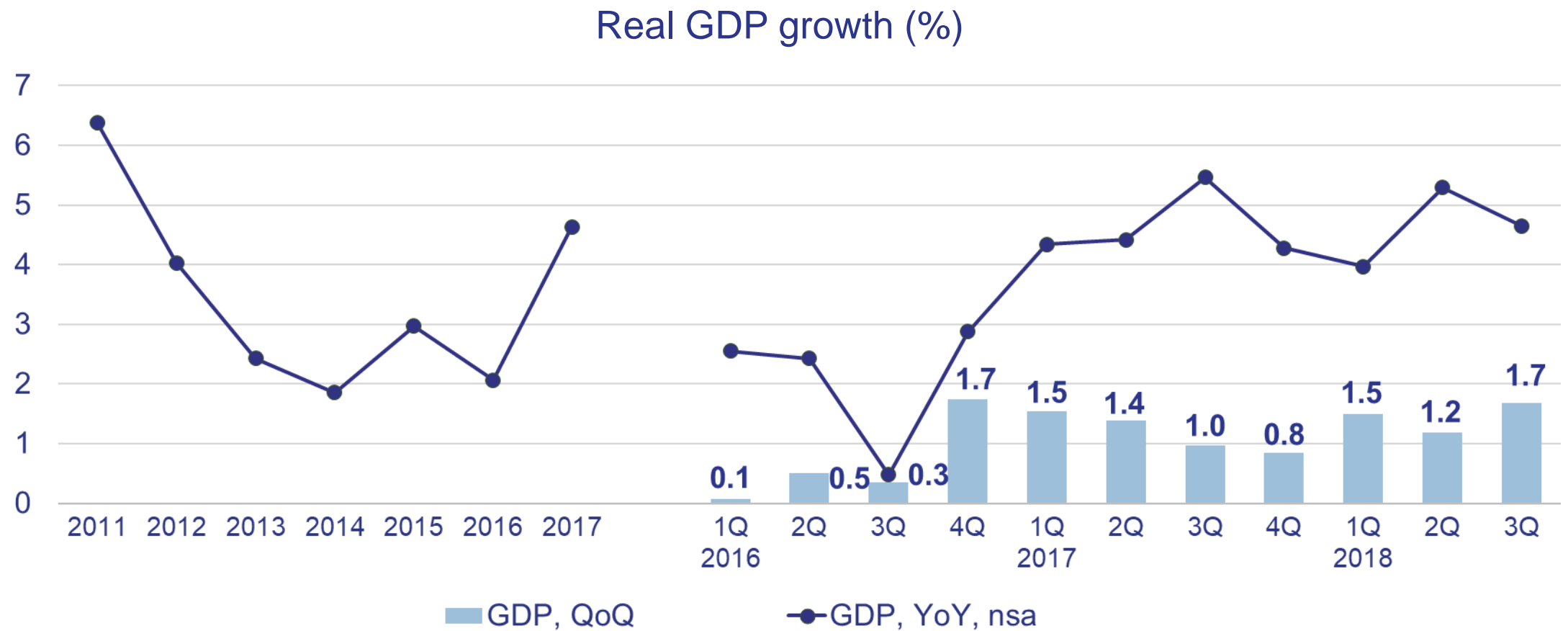


Latvian growth among the fastest in the region, but incomes still behind those of the closest neighbors

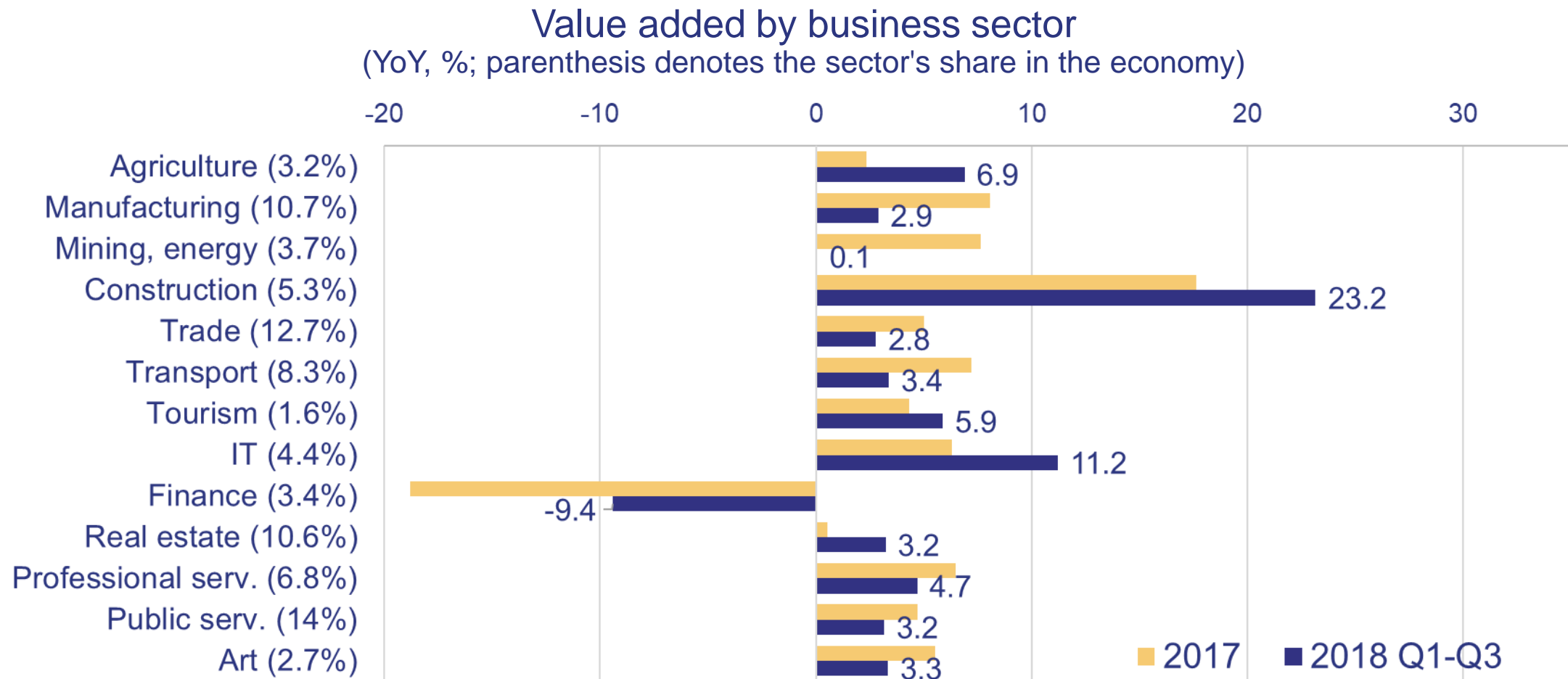
Real GDP index, 1995=100
(in parentheses 2017 GDP per capita, PPS, % of EU average)



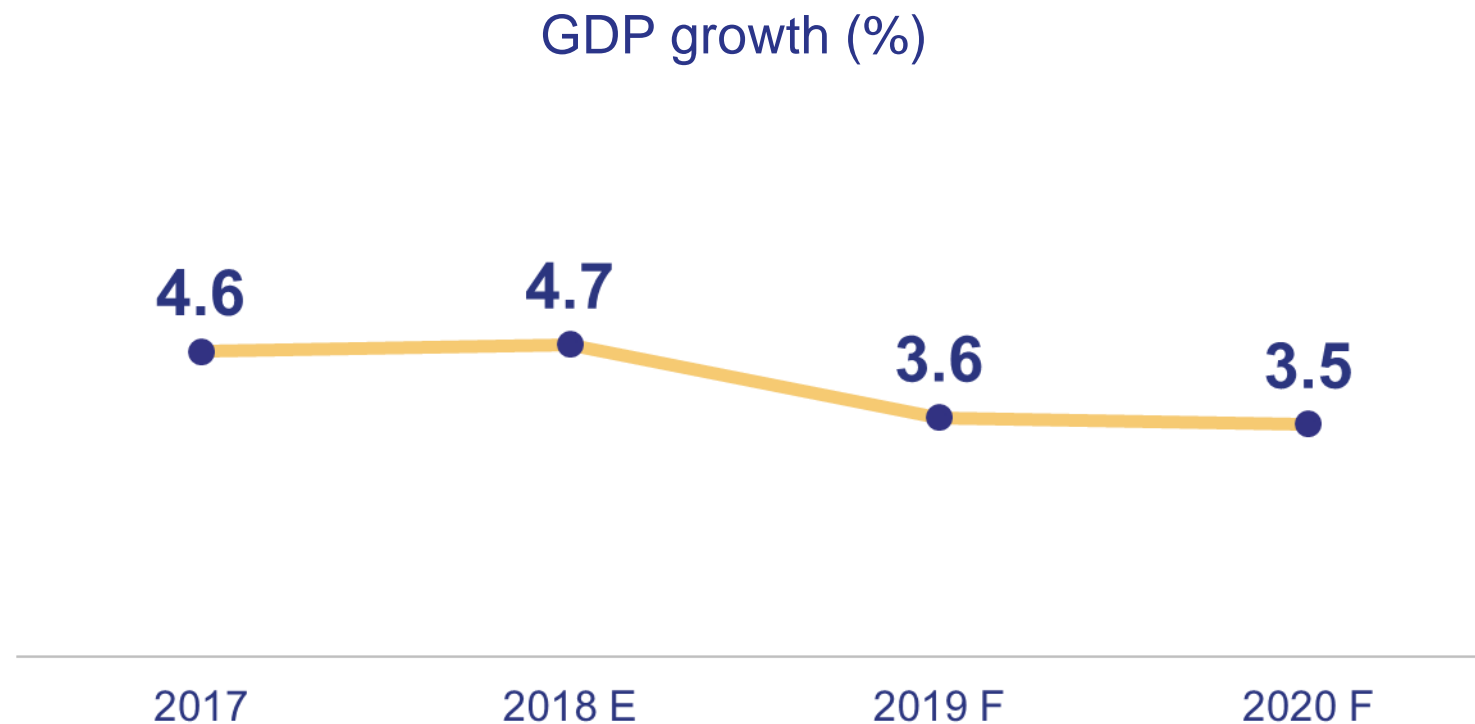
Latvia: growth has been buoyant...



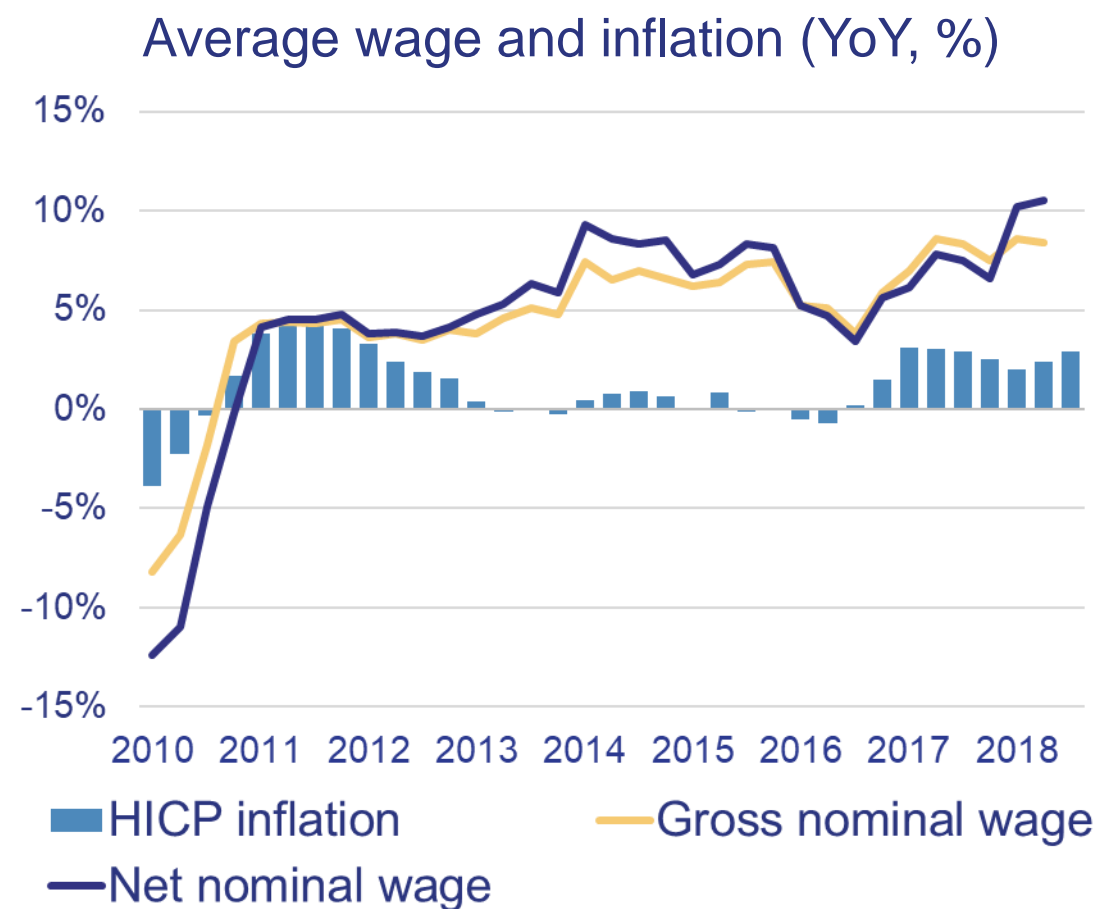
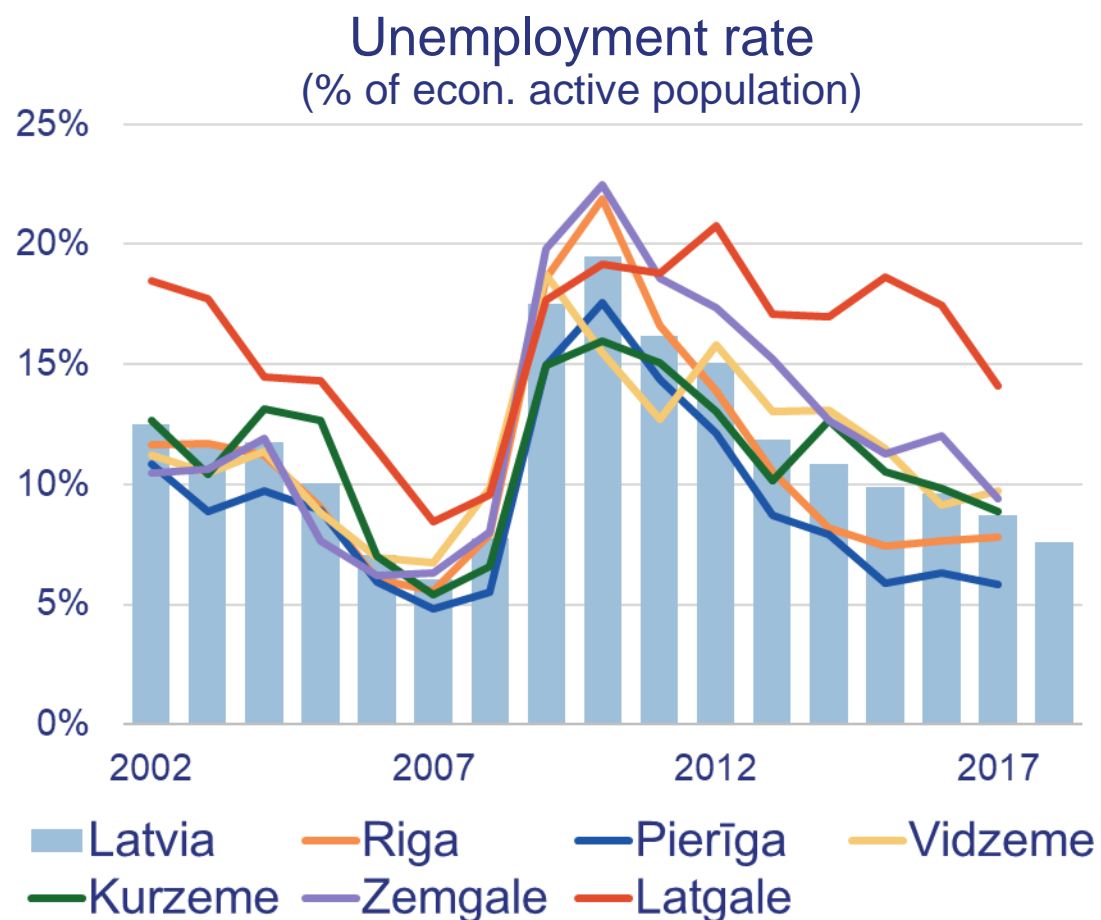
...and broad...



...but it is past its peak and will slow



Latvia: with growth continuing, labor market will tighten further

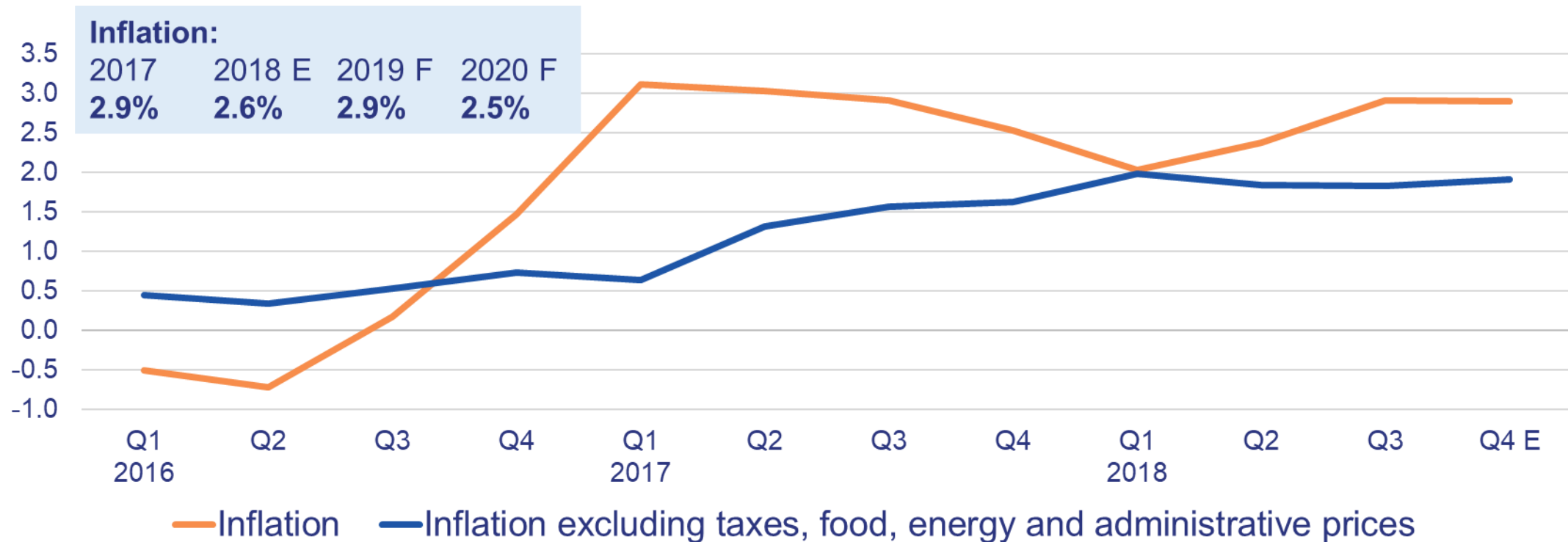


Latvia: wage growth above that of productivity will weigh down on competitiveness



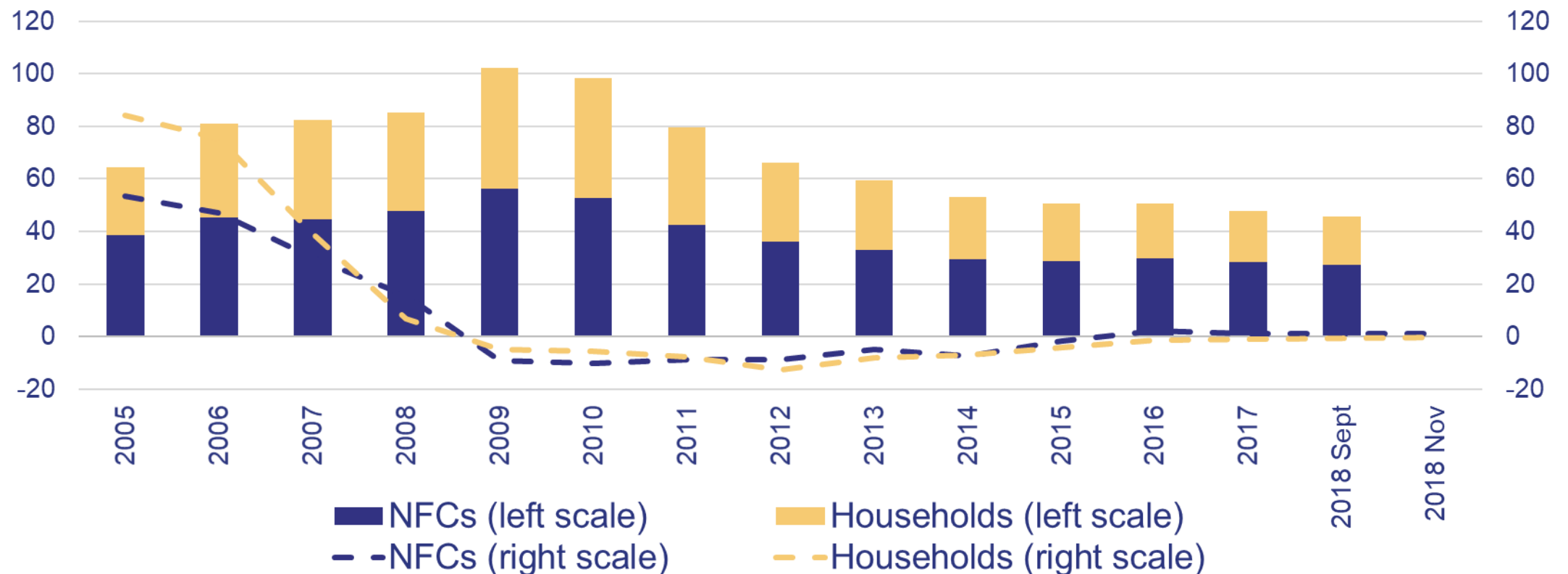
Latvia: inflation to stay moderate with price pressures shifting from external to domestic factors as the labour market tightens further

Consumer price inflation and core inflation
(YoY; %)



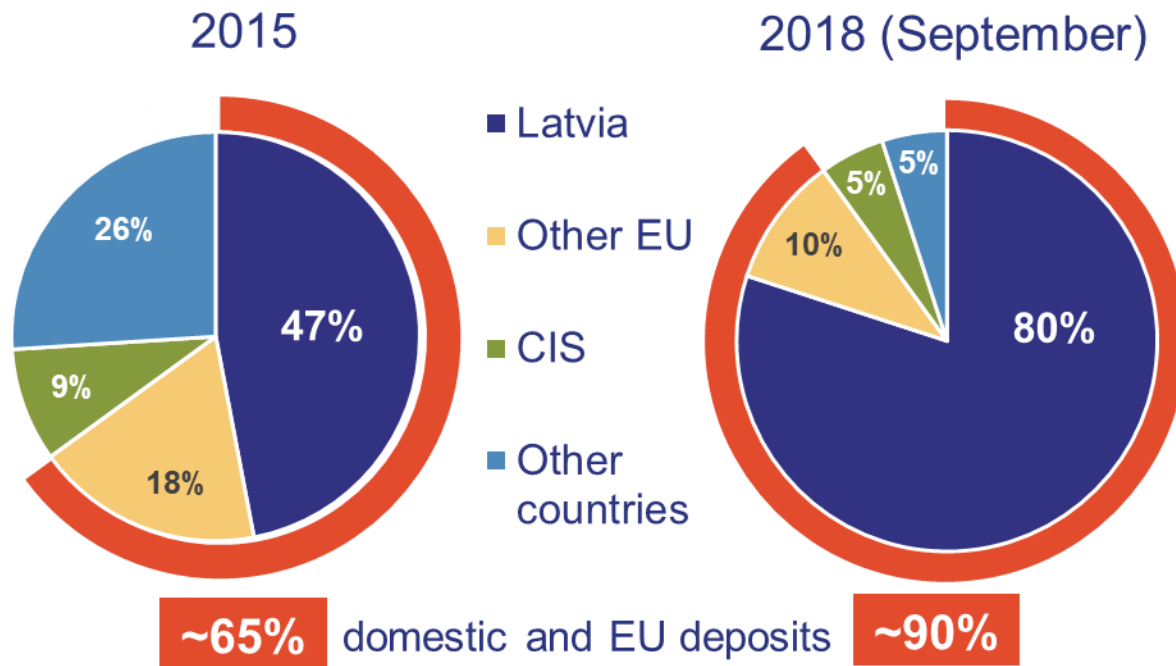
Latvia: bank lending improving, but still pale

Bank lending to resident households and non-financial corporations
(% of GDP to the left scale, YoY % to the right scale)

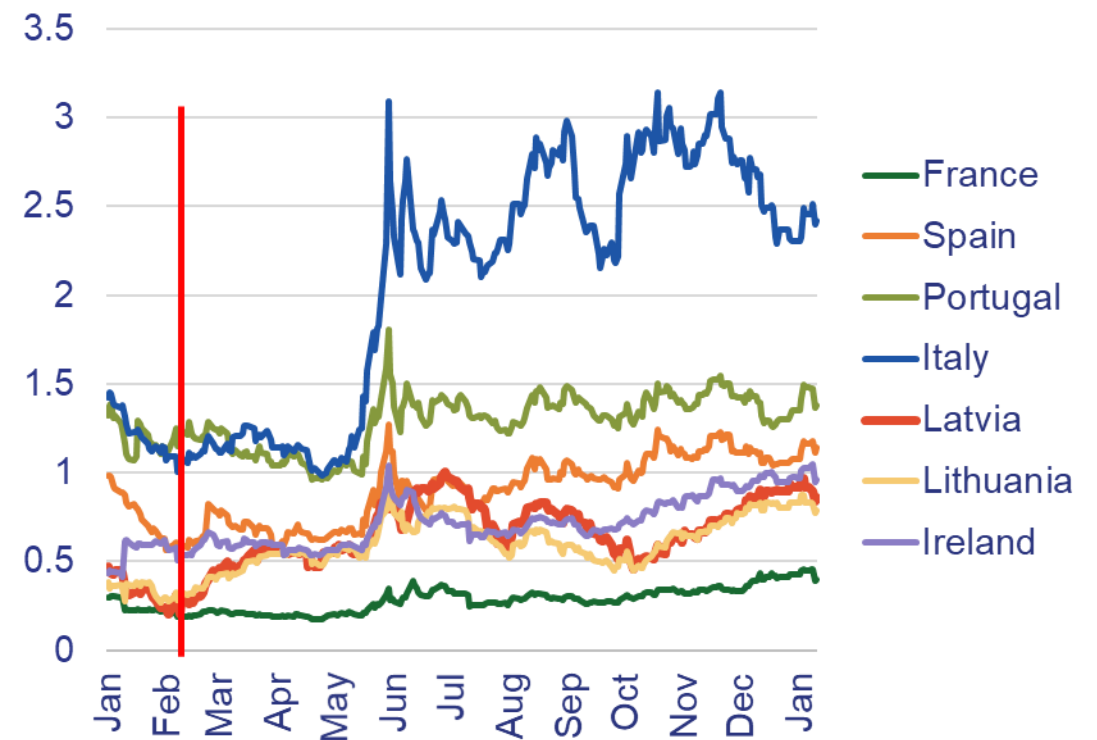


Latvia: so far market reaction from AML issues to financing cost has been muted

Bank deposits: breakdown by geography



Spread to DE 8Y bond for various EA countries (2018-2019, %)



Key risks to look out for

- ▶ Global **business cycle** is far from young... growth will weaken
- ▶ **Trade war** rhetoric does not bode well for global trade... and the EU thrives on exports
- ▶ **Global populism** and geopolitics... all the bad fundamentals are still there
- ▶ **Interest rate uncertainty**... and ripples through the markets
- ▶ **Moneyval report** and... whatever it takes to fix it



Our country, our bank
