May 2006
IMF Country Report No. 06/162

Republic of Lithuania: 2006 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with the Republic of Lithuania, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 14, 2006, with the officials of the Republic of Lithuania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 12, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 1, 2006 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF LITHUANIA

Staff Report for the 2006 Article IV Consultation

Prepared by the Staff Representatives for
the 2006 Consultation with the Republic of Lithuania

Approved by Poul Thomsen and G. Russell Kincaid

April 12, 2006

The Article IV discussions were held in Vilnius during February 1–14, 2006. The mission comprised Mr. Mody (Head), Ms. Ohnsorge, and Ms. Igan (all EUR), Ms. Ribakova (MFD), Mr. Sierhej (EUR, Warsaw Office), and Mr. Lugaresi (external FAD expert). Mr. Sigurgeirsson (Alternate Executive Director) and Mr. Minkevicius (Advisor to the Executive Director) joined the discussions. The mission met with President Adamkus, Prime Minister Brazauskas, Finance Minister Balcytis, Central Bank Governor Sarkinas, members of the Budget Committee of the Parliament, leaders of political parties, financial institutions, investors, and experts at think tanks.

Lithuania maintains a currency board, has accepted the obligations of Article VIII, and maintains an exchange rate system free of restrictions (Appendix I). In accordance with UN Security Council resolutions, Lithuania maintains restrictions and imposes sanctions against individuals, groups, and organizations associated with terrorism. Anti-money-laundering legislation is now largely harmonized with EU directives, and a forthcoming Moneyval report will provide more details.

Lithuania subscribes to the Special Data Dissemination Standard. Data provision is timely and facilitates effective surveillance (Appendix II). The authorities have agreed to the publication of the staff report.

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EXECUTIVE SUMMARY

Following exceptional economic progress—based on macro stability and economic flexibility—demand pressures have emerged. In 2005, GDP grew by 7½ percent, driven by growth of consumption and investment in non-traded goods and services. Revenue overperformance made possible a small fiscal contraction, but was offset by the demand impact of European Union (EU) funds. Evidence of resource bottlenecks suggests that growth has been above its potential of about 6 percent a year. External shocks, amid domestic demand pressures (and helped by rapid credit growth), contributed to rising year-on-year inflation of about 2¾ -3 percent, which may delay euro adoption.

Emergent domestic and external imbalances deserve precautionary steps. In 2006, ongoing momentum should keep growth at about 6¾ percent, still somewhat above its potential. Inflation will likely pick up as the pass-through from energy price increases continues and substantially increased use of EU funds adds to demand pressures. The current account deficit (expected in the range of 7½ -8 percent of GDP) and the accumulating external short-term debt need close monitoring. The authorities have taken welcome prudential steps with respect to the banking system, though additional measures, especially to cool the property market, would be appropriate.

A short postponement of euro adoption would not impose an immediate economic risk. The currency board, fiscal policy, and the process of trade and financial integration with Europe can be expected to stay on course. Further delays in euro adoption, however, cannot be ruled out if the upside risks to inflation projections materialize. More pro-active fiscal tightening would, at this point in the business cycle, relieve inflationary pressures and signal Lithuania's commitment to euro adoption.

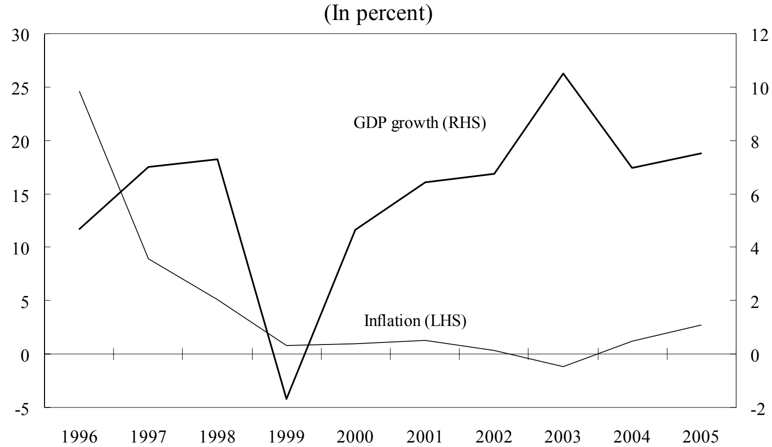
Since long-term fiscal pressures are set to increase, forward-looking revenue and expenditure rationalization measures are needed. Aging and public sector wage increases in response to emigration will exert pressures on expenditures. The elimination of the social tax will reduce revenues from 2008. A widening of the tax base and expenditure rationalization will be needed. Examples of expenditure rationalization include streamlined social assistance benefits to ensure a better social safety net with fewer labor market distortions, formalized co-payments in the health care system, and more competition in the delivery of health services. All measures need to be integrated into a more ambitious medium-term expenditure framework, integrated into a Fiscal Responsibility Act.

EU funds need to be harnessed carefully to ensure that they improve competitiveness. Export growth faces new challenges as capacity constraints are reached in the oil refining industry and international competition in labor-intensive goods increases. The absorption of EU funds is expected to rise steeply in the next few years. Effective use of these funds for developing public goods, without distorting market competition, will help maintain competitiveness. Easing labor market regulations will support small and medium-sized companies, the main source of employment in the economy.

I. Introduction

1. **Lithuania's exceptional economic progress has laid the foundation for continued advancement.** This fortunate outcome is the consequence of commendable policy initiatives over the past decade. High, productivity-led growth with price stability has been achieved (Text Figures 1 and 2). Product and labor markets are generally flexible. Strong international trade links create competitive discipline, and financial links provide access to foreign capital at virtually risk-free rates. The foundation exists for success in the euro zone with sustained productivity-based growth.

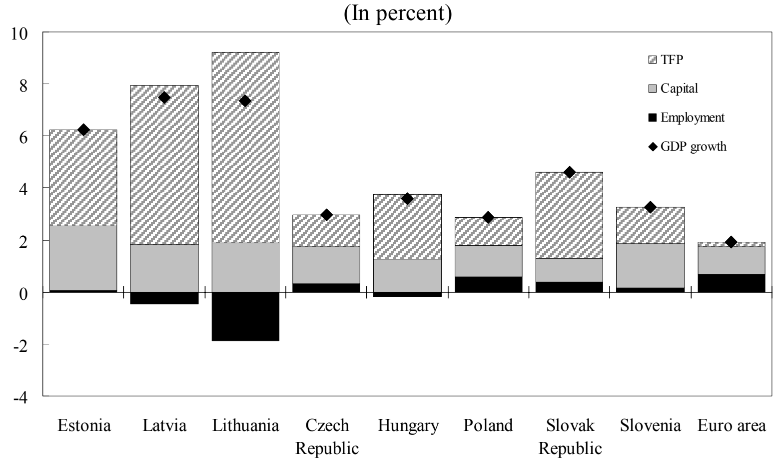
Text Figure 1. Lithuania: Output and Inflation
(In percent)



Source: Lithuanian Department of Statistics.

2. **The question now is whether the inevitable growing pains could metamorphose into disruptive imbalances.** With rapid growth, imbalances and warning signals have emerged. Short-term challenges include the maintenance of financial and price stability, and inflation may narrowly exceed the Maastricht reference value, delaying euro adoption beyond the targeted date of January 1, 2007. Fiscal pressures and maintaining competitiveness constitute the medium-term challenges. These are not, as yet, a source of alarm. As such, needed measures should aim at anticipating risks and exercising caution. The authorities have moved in the right direction (Box 1), and a stepped-up momentum would provide valuable insurance.

Text Figure 2. Contributions to GDP Growth, 2000-04
(In percent)



Sources: IMF, *World Economic Outlook* ; and IMF staff calculations.

Box 1. Implementation of Fund Policy Advice

Financial sector. The 2001 FSAP recommendations have been implemented, and, against the background of rapid credit growth, monitoring, informal credit guidelines, and consultations with foreign supervisors are in line with the recommendations of the 2004 Article IV consultation (see paragraph 16).

Fiscal consolidation. Staff's recommendation of fiscal consolidation, with a general government deficit below 2 percent of GDP in 2005, was implemented. A midyear supplemental budget was not approved. The deficit (including savings and property restitution), at 1.3 percent of GDP, largely reflected revenue overperformance in a buoyant macroeconomic environment, but was also helped by improved tax administration (see paragraph 5).

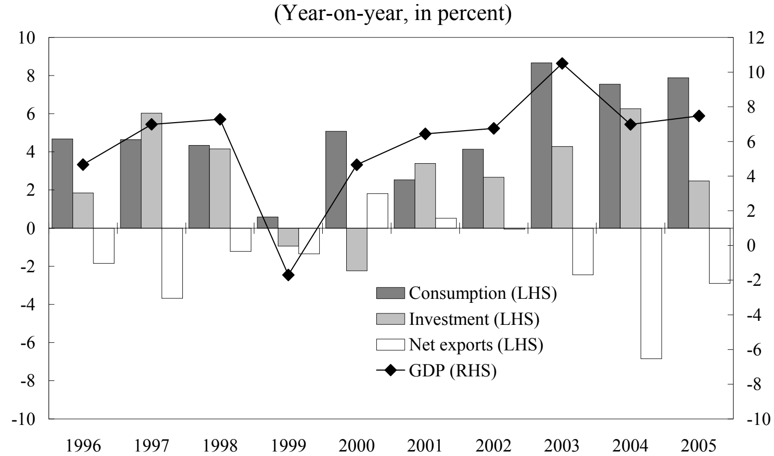
Improved government efficiency. Limited progress has been made in response to Fund calls for greater government efficiency. Advice on fiscal decentralization and on improving expenditure management has not yet been implemented (see paragraph 23). Initial steps in the health and education systems are constructive, but a significant task lies ahead. The interest in a Fiscal Responsibility Act, for long-term fiscal discipline, has waned.

Competitiveness. The authorities have moved to lower the personal income tax and have adopted the framework of EU structural funds to foster competitiveness, especially in small and medium-sized enterprises (see paragraph 26). Further labor market flexibility will help labor absorption.

II. Recent Economic Developments

3. **GDP grew by a surprising 7.5 percent in 2005.** Attractive returns on public road transportation projects and property development were reflected in especially buoyant real estate, construction, and financial intermediation sectors. Consumer demand contributed to growth of wholesale and retail trade. Strong export growth, which was helped by food and chemicals exports following improved access to European markets, reduced the traditionally substantial negative contribution of net exports (Text Figure 3).

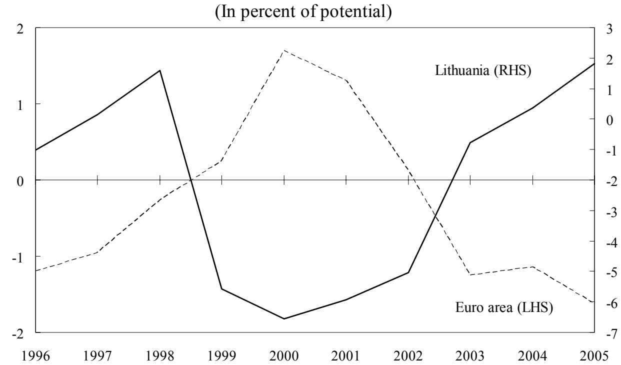
Text Figure 3. Lithuania: Contributions to Growth
(Year-on-year, in percent)



Sources: Lithuanian Department of Statistics; and IMF staff calculations.

4. **Most indicators suggest a tightening of resource use.** The declining unemployment rate stood at 7¼ percent in the third quarter of 2005, and, with evidence of substantial structural unemployment, real wages increased briskly at a year-on-year rate of 7¾ percent (Figure 1). Rising emigration was an important factor in the tightening of labor markets (Box 2). Capacity utilization has risen to above 70 percent. Core inflation, excluding food and energy, though still low at 1.5 percent a year, has been rising since May 2005 and asset prices have been especially buoyant. Housing prices increased by 38 percent year on year in the first half of 2005 to about eight times the annual average income (Figure 2). The stock market index surged until October and, despite a recent correction, grew by 37 percent in 2005 (Figure 3). The authorities agreed with staff that, though precise calculation is difficult, the potential growth rate was about 5¾ percent a year.[1] On that assumption, the economy has been operating above potential since 2004, with a current gap of 1¾ percent of GDP. The Lithuanian economic cycle has continued to move in opposition to the euro zone cycle, which shows output below potential (Text Figure 4).

Text Figure 4. Output Gap
(In percent of potential)



Source: IMF staff estimates.

5. **The economy has received stimulus from the combination of fiscal and European Union (EU) expenditures—and the risks of overheating have risen.** The fiscal deficit, unbudgeted outlays for savings and property restitution, and the injection of EU funds are, to varying degrees, contributing to economic stimulus (Text Table 1). After a strong stimulus in 2004, a neutral stance in 2005 was made possible by one-off revenue gains, especially on account of value added tax (VAT) revenues (a recovery from 2004 losses of 0.4 percent of GDP after EU accession) and profit tax receipts (unusual dividend payments by large taxpayers of 0.2 percent of GDP). Reorganization of tax administration in late 2004 yielded more lasting revenue gains. The demand stimulus is projected to intensify in 2006.

Text Table 1. Lithuania. Demand Impact from Fiscal Operations and EU Funds
(In percent of GDP)

	2003	2004	2005	2006
Deficit (ESA95 terms)	1.2	1.4	0.5	1.4
Savings and property restitution payments	0.5	1.1	0.8	0.7
Deficit (including restitution payments)	1.7	2.5	1.3	2.1
Cyclically adjusted deficit (including restitution payments)	1.4	2.6	1.7	2.9
EU funds 1/	0.7	0.6	1.5	3.3
Demand impulse from fiscal operations and EU funds	1.2	1.1	0.0	3.0

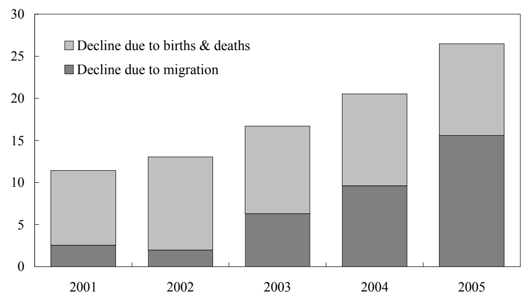
Sources: Ministry of Finance; and IMF staff estimates.
1/ Spending of EU funds minus contributions to the EU budget. Includes all EU fund: capture full effect of EU funds on domestic demand.

[1] This rate is close to the average growth of the last 10 years and also to that predicted by EUR's cross-country growth analysis (SM/06/46).

Box 2. Migration: Short-Term Pressures

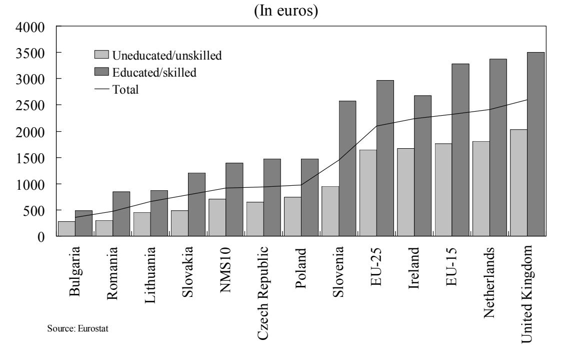
Migration outflows have picked up, despite strong economic growth and bright prospects. Lithuania's population, which stands at 3.4 million people, has declined over the past 10 years from a high of 3.6 million in 1995. In recent years, migration has contributed considerably to the decline; 9,600 migrants in 2004 formed over 40 percent of the population reduction (Figure 1). The differences in income relative to the more advanced European nations make emigration an attractive option (Figure 2). The authorities estimate that about 15,600 people emigrated in 2005, and emigration incentives could continue for the next 25 years, during which period about 200,000 people, or more than 8 percent of working-age population in 2005, could leave (see forthcoming Selected Issues Paper).

Figure 1. Lithuania. Contribution to Population Decline
(In thousands of people)



Source: Lithuania Statistics Department.

Figure 2. Average Monthly Wages in PPP by Level of Education, 2002
(In euros)

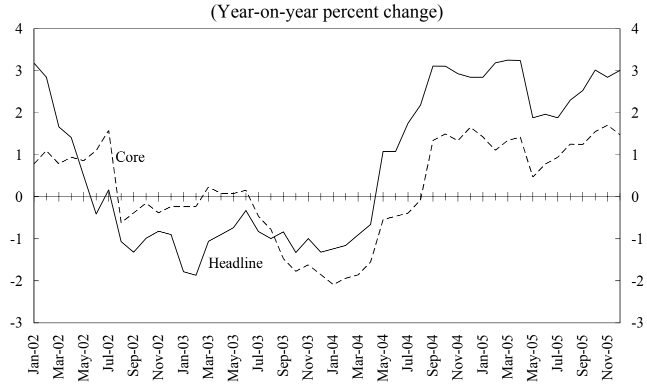


Source: Eurostat

Emigrants tend to be of working age, creating labor market pressures. The top destinations for Lithuanians presently are the United Kingdom, Ireland, and Sweden. According to Irish and UK immigrant records, about three quarters of immigrants are between the ages of 18 and 34. Also, more than 40 percent of immigrants have college degrees. In 2005, the sectors most affected by emigration were construction, wholesale and retail trade (with nominal wage increases of around 12 percent), and health care (where salaries increased almost 20 percent).

6. **Inflation has trended upward.** Annual average inflation of 2.7 percent in 2005 rose from 1.2 percent in 2004. This rise reflects, in part, the oil price shock. Moreover, food price inflation picked up following EU accession in May 2004: food exports to the EU-15 countries increased as safety regulations were largely harmonized while imports were reduced following entry into the EU customs union. Year-on-year inflation in December 2005 was 3 percent (Text Figure 5). Of that, tradable goods inflation was 2.4 percent, as energy price increases were offset by large drops in

Text Figure 5. Lithuania: Harmonized Consumer Price Index
(Year-on-year percent change)



Source: Eurostat.

the prices of textiles, footwear, and furniture. The increase was more pronounced in prices of nontradable goods which, year on year, rose by 3.5 percent at end-2005.

7. **The current account deficit has remained sizable, with significant reliance on bank and market-based financing to cover it.** Helped by temporarily favorable factors strengthening export growth (a boost to food and chemical exports from EU accession), the deficit narrowed to about 7.0 percent of GDP in 2005 from 7.7 percent of GDP posted in 2004 (Figure 4). Net factor income outflows were 2.5 percent of GDP in 2005, driven mainly by the large stock of FDI, with remittances and worker compensation from emigrants contributing to inflows of about 2.1 percent of GDP. FDI and EU funds are expected to have financed about one-half of the current account deficit in 2005 (Table 2), with the rest covered by bank and market-based financing.

8. **Despite the current account deficits, external indebtedness remains among the lowest in the new Central and Eastern European members of the EU (the CEE-8), though an increasing share is in the form of short-term debt.** At 38 percent of GDP, the net international liabilities position at end-2004 was among the lowest in the CEE-8 (Text Table 2). As of end-December 2005, gross debt had risen to 48.7 percent of GDP, from 47 percent of GDP a year earlier. The share of short-term debt (on a remaining-maturity basis) in external debt has increased steadily and at end-December 2005 stood at 49 percent; foreign currency reserves covered 63 percent of this short-term debt.

Text Table 2. CEE-8: Net International Investment Position, 2004
(In percent of GDP)

Estonia	-100
Hungary	-95
Latvia	-54
Poland	-53
Lithuania	-38
Czech Republic	-34
Slovak Republic	-21
Slovenia	-18

Sources: IMF, *IFS;* and *World Economic Outlook*

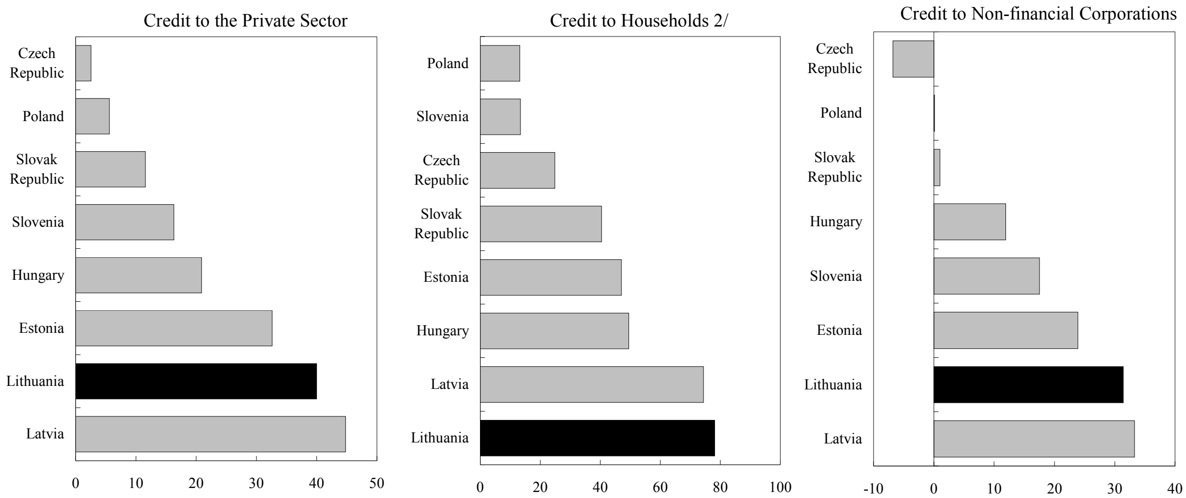
9. **Credit growth has picked up once again.** This pickup reflects not only the pace and composition of economic growth, but also the low base of credit penetration, especially for mortgage lending (Figure 5 and Box 3). Bank lending to households grew in 2005 by 90 percent year on year, supporting consumption growth and raising the share of household credit by 7 percentage points, to more than one-third of outstanding private sector credit. Credit to enterprises has been expanding most rapidly to nontradable sectors, particularly to real estate and construction.

Box 3. Financial Sector Developments

Lithuania's credit growth rate was one of the highest in the region during 2002-05 (Figure 1). This rapid growth was fueled, in part, by residential mortgage lending, which now stands at 19 percent of total outstanding loans. Strong mortgage growth was partially driven by households' demands for higher quality residences, but also reflected a small share of mortgages in bank portfolios (and a low level of household indebtedness) consistent with the international evidence (Figure 2). Mortgage lending can, therefore, be expected to slow as the market matures. While presenting risks, residential mortgage lending provides useful diversification from large corporate exposures.

Figure 1. Credit to the Private Sector, 2002-05 1/

(Average year-on-year percent change)



Sources: National central banks; and IMF, *International Financial Statistics* .
1/ Data starting in 2004 for Slovak Republic.
2/ Includes credit to nonprofit institutions serving households (NPISH), except for Lativia, Lithuania, and Slovenia, where credit to NPISH is included under credit to nonfinancial corporations.

Figure 2. EU-25: Mortgage Debt Growth and Residential Debt to GDP Ratio, 2004

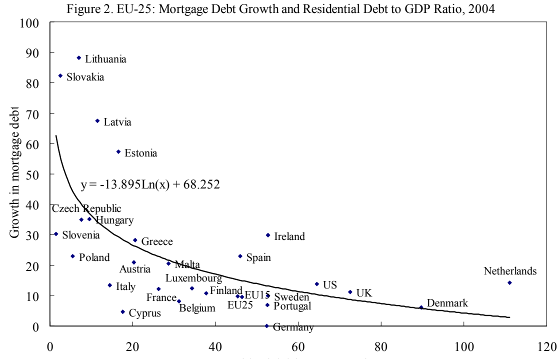
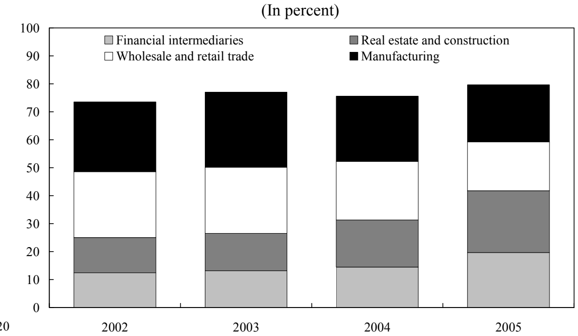


Figure 3. Lithuania: Bank Loans to Enterprises
(In percent)



Source: Bank of Lithuania.

The buoyant nontraded goods sectors have had a strong appetite for credit. Commercial real estate and construction have increased their share in the corporate loan portfolio by 10 percentage points since 2002 to about 22 percent (Figure 3) in 2005. The other large corporate exposures are to financial intermediation and wholesale and retail trade. In contrast, the share of manufacturing has decreased by 5 percentage points to about 20 percent.

10. **While financial sector earnings and liquidity ratios held steady, asset quality and capital adequacy indicators deteriorated somewhat in 2005.** The competition among banks to satisfy the demand for credit has led to more aggressive lending practices, as seen in narrower interest margins and increasing loan-to-value and debt-to-income ratios of new loans. Nonperforming loans, though still low by international standards, have risen somewhat, to 2½ percent of gross loans (Text Table 3). With the introduction of International Financial Reporting Standards (IFRS) in October 2005, the authorities now compile a loan impairment ratio, which also shows a similar increase. Provisioning against nonperforming loans remains low by international standards. At the same time, the capital adequacy ratio has come down to 10 percent (though is still above the regulatory minimum of 8 percent). Loans to large borrowers (those with loans exceeding 10 percent of bank capital) as a ratio of bank capital have increased to 135 percent. The stock of foreign currency loans as a share of outstanding credit has risen to 62½ percent.

Text Table 3. Selected Financial Stability Indicators 1/
(In percent)

Country	Capital Adequacy Ratio	Capital/ Assets	Nonperforming Loans/Total Loans	Provisions/ Nonperforming Loans
Czech Republic	12.6	5.6	4.3	69.4
Estonia	12.4	9.3	0.2	178.0
Hungary	11.2	8.9	2.1	51.1
Ireland	12.6	4.9	0.8	97.0
Latvia	10.2	8.7	1.0	93.7
Lithuania	**10.0**	**7.3**	**2.5**	**40.2**
Poland	15.6	8.2	5.7	58.0
Portugal	10.3	6.1	2.2	72.6
Russia	17.0	14.0	3.4	139.5
Slovak Republic	19.0	7.2	2.0	89.1
Slovenia	11.0	7.5	5.5	34.0
Spain	11.6	8.5	0.8	266.2
Turkey	28.8	14.3	6.0	88.1
United States	13.2	10.3	0.8	167.8

Source: National authorities; ECB; and IMF staff estimates.
1/ 2005 or most recent data available.

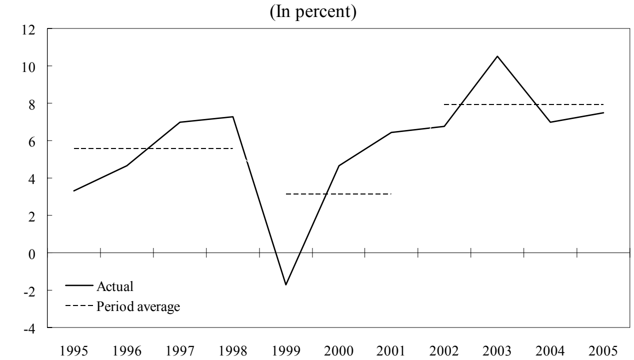
III. Discussions with the Authorities

11. **While commending the authorities for prudent management, the mission called for a combination of measures that insured against downside risks while sustaining growth.** Solid growth with moderate inflation can continue but the level of achievement will depend on the policy environment. The authorities were receptive to the principle of precaution in guiding policy decisions. In this context, the discussion centered around four themes: (a) short-term outlook and vulnerabilities; (b) euro adoption; (c) long-term fiscal reforms; and (d) structural measures.

A. Outlook and Vulnerabilities

12. **The authorities expect the economy's growth potential to be lower than the very rapid growth achieved recently.** Lithuania has enjoyed an extended period of significant, even accelerating, growth. Between 1995 and 1998 average annual GDP growth was 5.6 percent. The growth rate fell to 3.1 percent a year during the next three years, which included the decline in output following the Russian crisis. But with a strong bounce-back since 2002, GDP has grown at an average rate of 7½ percent (Text Figure 6). In assessing Lithuania's growth potential and outlook, the judgment must be made whether the recent growth spurt represents a fundamental shift in the economy's productive capacity or is a reflection of relatively easy productivity gains made possible by the unfinished redeployment of productive resources, combined with rapid consumption growth based on a more optimistic view of the future. The authorities and staff agreed that some part of recent growth cannot be presumed to continue, and since a precise evaluation of potential growth was difficult, a conservative view of about 6 percent a year, was desirable, especially for fiscal planning.

Text Figure 6. Lithuania: GDP Growth
(In percent)



Source: Lithuanian Department of Statistics; and IMF staff calculations.

13. **The authorities expect that GDP growth in 2006 will moderate in line with its potential.** There are conflicting forces at work. The authorities project real GDP growth of 6–6¼ percent in 2006, based on an expectation of slowing of credit growth and, possibly, moderating asset prices due to a rise in interest rates. Following one-off effects this year, net exports are expected to decline (Text Table 4). Staff's growth projection at 6¾ percent is based on more persistence of the current momentum, sustained by wage growth, fiscal expansion, and EU funds absorption, and, is, therefore, marginally higher than that of the authorities (as was the case for the 004 Article IV consultation).

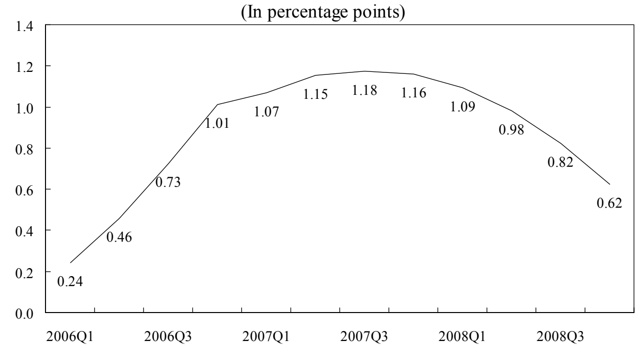
Text Table 4. Lithuania: Sources of Real GDP Growth
(In percent)

	2004	2005	2006	2007
	(Contribution to growth)			
GDP	**7.0**	**7.5**	**6.8**	**6.0**
Consumption	7.6	7.9	7.1	6.1
Investment	6.3	2.5	3.2	1.9
Exports of goods and services	2.3	7.7	5.7	5.6
Imports of goods and services	-9.2	-10.6	-9.2	-7.6
	(Year-on-year growth)			
GDP	**7.0**	**7.5**	**6.8**	**6.0**
Consumption	9.2	9.4	8.3	7.0
Investment	25.5	8.6	10.9	6.3
Exports of goods and services	4.2	14.3	10.0	9.5
Imports of goods and services	14.8	15.9	12.9	10.0

Source: IMF staff calculations.

14. **Staff projects somewhat higher inflation, and greater upside risks, in 2006 than do the authorities.** The authorities expect year-on-year inflation in 2006 to remain in the 2¾ to 3¼ percent range, while staff forecasts an inflation rate of 3½ percent. The authorities consider domestic demand pressures a minor factor for inflation whereas staff places more weight on them. In particular, staff views the rise in wages and in non-traded sectors as a reflection of domestic demand pressures (see forthcoming Selected Issues Paper). Also, while the authorities and staff agreed that the EU accession-related jump in prices should wear off, staff was more concerned about the pass-through of energy prices, including the 40 percent increase (on January 1, 2006) in the price of Gazprom supplied natural gas (Text Figure 7), the remaining pass-through from last year's rise in world oil prices, and further increases in world oil prices projected by the World Economic Outlook. Continued convergence to EU price levels can be expected, since most tradable prices are about 50-70 percent of the EU-25 average price level and, in the medium term, excise taxes will have to be raised to comply with EU regulations.

Text Figure 7. Lithuania: Increase of Year-on-Year Inflation Resulting from a 40 Percent Gas Price Increase Starting January 2006
(In percentage points)



Souce: IMF staff estimates.

15. **Though important, the authorities consider the external vulnerabilities to be as yet in a manageable range.** The current account deficit is projected to fall between 7½ and 8 percent of GDP in the next two years. Staff analysis suggests that a deficit of this size is consistent with Lithuania's relatively low per capita income, and permits higher investment rates and more consumption smoothing (IMF Country Reports Nos. 05/122 and 05/123). FDI and EU funds are expected to finance just over 50 percent of the current account deficit in 2006. In this context, staff expressed concern that, under adverse international capital market conditions, the accumulating short-term debt may not be rolled over and reserves may not cover their repayment. The authorities pointed, however, to important mitigating factors. The short-term debt mainly comprises trade credits and lending from parent banks to their Lithuanian subsidiaries. Because the banking sector is largely owned by reputable foreign banks (Text Table 5), the likelihood remains high that much of the short-term debt will be rolled over. Also, the currency board has been well tested in adverse conditions.

Text Table 5. Baltics: Share of Major Foreign Banks in Domestic Financial System Assets, 2004
(End of period, in percent)

	Lithuania	Estonia	Latvia
SEB Group	36.2	19.7	15.7
FöreningsSparbanken AB	27.8	73.1	17.3
Bank DnB NORD A/S	13.0	0.0	5.1
Total market share	77.0	92.8	38.1

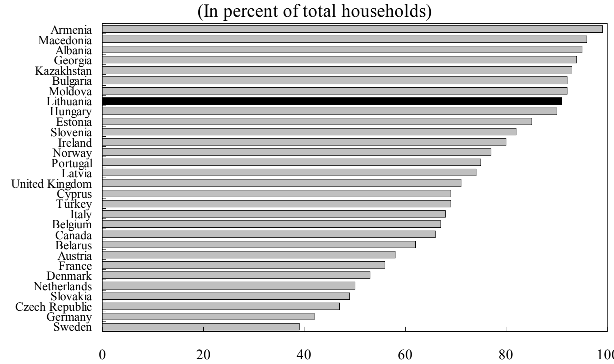
Source: Bankscope; and IMF staff estimates.

16. **The authorities view the risks to the domestic financial system to be generally under control.** They are monitoring financial system stresses—especially the key credit

risks—arising from domestic credit growth and agreed that direct measures to cool down the property market would be helpful. Four policy measures were discussed:

- In a welcome step to improve transparency, the Bank of Lithuania (BOL) will soon publish a financial stability report to discuss the state of the financial system.
- The BOL has appropriately been in contact with banks to discuss guidelines for loan-to-value and debt-to-income ratios as well as on adequate capitalization and provisioning.
- Coordination between Lithuanian and foreign bank supervisors has been active.
- Given high home ownership (Text Figure 8), reducing tax exemptions for mortgage interest payments should be an early priority. A broad-based property tax could reduce the speculative element in the housing market, as would rationalizing land use regulations.

Text Figure 8. Households Living in Owner-Occupied Accommodations, 2004
(In percent of total households)



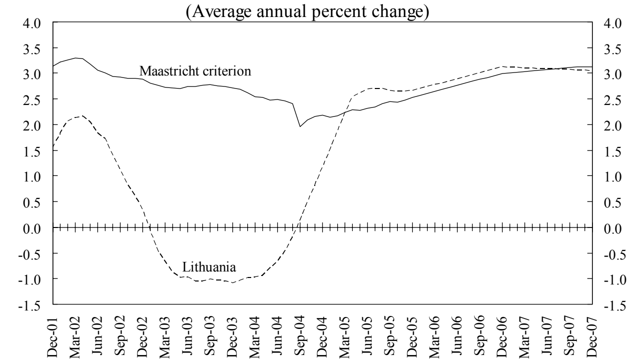
Source: UNECE.

17. **Staff took a more cautious stance and recommended additional steps to strengthen financial sector surveillance.** In particular, staff was concerned about the consequences of continued rapid credit growth, alongside a decline in the net foreign asset position of the banking system. Aggressive lending risked deterioration in lending quality and increased vulnerabilities. With the FSAP recommendations and the EU guidelines in place, staff did not recommend administrative measures to slow down the pace of credit expansion. Staff did recommend that the supervisor undertake forward-looking analysis to identify emerging risks and ensure that banks' information and risk management systems are adequate. Besides publishing the loan "impairment ratio," continuing to publish and regulate banks on the basis of the conventional NPL ratio remains essential for consistent tracking of the financial system's health. Regulations for disclosing banks' fees and posting borrowing guidelines on the BOL's website would provide additional consumer protection. The authorities agreed to an FSAP update, targeted for April 2007.

B. Euro Adoption

18. **Euro adoption in January 2007 is likely to be a close call—a short postponement, while unfortunate for Lithuania, would not pose an immediate economic risk.** The authorities remain optimistic that the target date will be met. Until recently, Lithuania appeared well on course to achieve this objective. The budget deficit, public debt, and interest rates had all been running well below the Maastricht limits—and they continue to do so. In 2004, inflation was, similarly, safely under the ceiling. In 2005, external shocks, followed by administered price changes, and domestic demand pressures contributed to a rising inflation rate, which could breach the reference value and, hence, delay euro adoption (Text Figure 9). The authorities took the view, and staff agreed, that a year's delay is unlikely to concern financial markets: the currency board, fiscal policy, and the process of trade and financial integration with Europe can be expected to stay on course.

Text Figure 9. Lithuania: Inflation and the Maastricht Criterion
(Average annual percent change)



Sources: Eurostat; and IMF staff estimates.

19. **To prevent continuing delays, the discussion focused on signaling by the authorities of an additional commitment to euro adoption—guided in doing so by their own medium-term fiscal goals.** The authorities agreed that if the January 2007 date is not met, a continued breach of the inflation reference value is possible. Staff noted that if the upside risks to inflation materialize, even a January 2008 date could be at risk. Continued delays in euro adoption could erode the low public—and, hence, political—support for the euro (Text Figure 10), with euro adoption pushed back further. Staff agreed with the authorities that macro stability and economic flexibility had laid the basis for significant medium-term gains from euro adoption. With fiscal policy as the main available tool, the authorities recognize that their continued commitment to macro stability and euro adoption could be reiterated through fiscal restraint in the current year. The current budget envisages a substantial procyclical impulse (about 3 percent of GDP) from a combination of fiscal policy and EU funds in 2006 (Text Table 1). Given the lags from fiscal restraint to reduced inflation, an immediate commitment to a countercyclical fiscal stance is warranted. A reduction in the ESA '95 budget deficit and in the savings and property restitution payments of 1 percent of GDP could well bring the inflation rate just below, rather than just above, the Maastricht limit. Short-term expenditure

Text Figure 10. Lithuania: Are You Happy or Not That the Euro Could Replace the National Currency?
(In percent of respondents)

Source: *Introduction of the Euro in the New Member States, Wave 2* (Eurobarometer, September 2005).

moderation could be achieved in goods and services, wages (taking into account the need to retain some high-skill employees), health, social assistance, and farm subsidies.

C. Long-Term Fiscal Issues

20. **The authorities agreed with staff that fiscal pressures are set to increase.** The authorities recognize that increased regional competition for foreign investment and the goal of reducing the informal economy are generating pressures to lower tax rates, as staff analysis also confirms (EB/06/[SIP]); moreover, the demand for safety nets and public goods continues to grow. In addition, the authorities' Convergence Program projects that, at the current legal retirement age, the first pillar of the pension system will start running a deficit by 2020 (Box 4). The authorities agreed with staff analysis that, under plausible emigration projections, the pressures on the pension system could start earlier and worsen more rapidly, increasing the urgency of raising the retirement age; also, the rise in doctors' salaries could hurt the financial position of the public health care delivery system.

Box 4. Migration: Implications for Public Finances

Since emigrants are drawn largely from the working-age population, migration will exacerbate the impact of aging on the State Social Insurance Pension Fund. Under current demographic trends and retirement ages of 60 for women and 62.5 for men, the pensioner-to-contributor ratio will increase from the current 73.9 percent to 101.7 percent in 2030. Emigration could bring this ratio to 125.3 percent in 2030. The pension fund budget deficit would then reach 2.7 percent of GDP, of which 1.3 percentage points would be attributable to emigration (Figure 1). Gradually increasing the retirement age for both men and women to 65 by 2020 could bring the deficit down to 0.9 percent of GDP even with high emigration.

Figure 1. Lithuania: Social Insurance Pension System Budget Balance
(In percent of GDP)

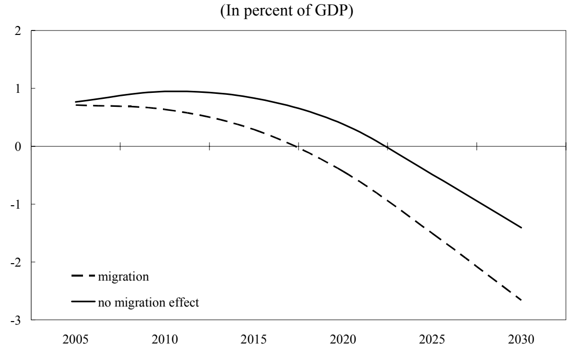
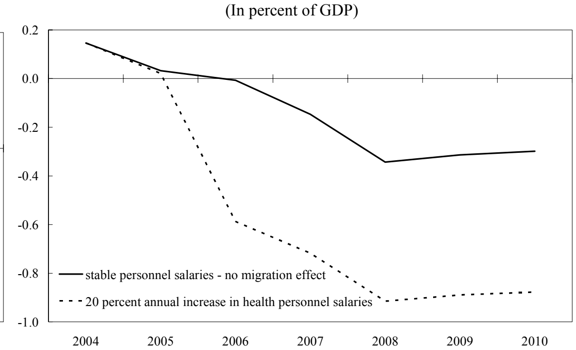


Figure 2. Lithuania: Health Insurance Fund Budget Balance
(In percent of GDP)



Migration also creates challenges for the Health Insurance Fund. A study by the Kaunas University of Medicine reports that 26.8 percent of physicians and 60.7 percent of medical residents interviewed expressed their intention to migrate. In an effort to limit emigration of doctors and nurses, the government has planned annual salary increases of up to 20 percent, subject to the availability of funds. Such a policy, however, could induce a deficit of around 1 percent of GDP in the Health Insurance Fund budget by 2010 (Figure 2).

21. **The authorities remain committed to a medium-term target of 1 percent of GDP for the structural budget deficit (in ESA'95 terms), but staff cautioned that this may not be feasible absent additional efforts.** Concerns regarding the relatively wide tax wedge have led to a planned gradual reduction of the personal income tax (PIT). Especially from 2008 onward, the revenue shortfalls from income tax cuts and the elimination of the social tax (the surcharge on the profit tax) could reduce revenues by about 2 percent of GDP, jeopardizing the deficit target of 1 percent of GDP (Text Table 6). The Convergence Program projects that buoyant revenues—especially from indirect taxes—will partly offset losses from reduced income tax rates. The authorities pointed to progress made in tax administration; the staff responded that, though commendable, a continued increase in the revenue-to-GDP ratio could not be presumed. The authorities noted that the Convergence Program also projects wage restraint.

Text Table 6. Lithuania: Revenue Impact of 2005 Tax Measures
(In percent of GDP)

	2006	2007	2008
Reduction in personal income tax rate from 33 to 27 percent on July 1, 2006, and from 27 to 24 percent on January 1, 2007.	-0.7	-1.3	-2.0
Increase in profit tax (social tax) from 15 to 19 percent from January 1 to December 31, 2006, and to 18 percent from January 1 to December 31, 2007.	0.6	0.4	0.0

Source: Lithuania Ministry of Finance.

22. **To ensure that the downward deficit path envisaged in the Convergence Program is achieved, the authorities agreed that a variety of measures could be helpful.** On the revenue side, reducing exemptions associated with PIT and the VAT should broaden the tax base and help improve administration. Staff cautioned that suggestions to eliminate the social tax earlier than planned may be premature; indeed, making the tax permanent, thus raising the profit tax to 19 percent, may be worth considering. While the authorities agreed that a broad-based property tax would be valuable—not only for cooling down the property market but also for providing municipalities with an independent revenue base—they were concerned that it may not be politically feasible. Staff also noted that the long-proposed vehicle tax deserved continued consideration as did the possibility of caps on social security contributions and payments.

23. **Staff emphasized expenditure rationalization to create space for the provision of needed public goods as well as likely increases in pension and health care expenses.** In line with the technical assistance provided in 2004, staff recommended that the budget and its execution should both be reported on a consolidated basis with consistent classifications, budget preparation information should be provided to municipalities earlier, and a clear sanctions regime should be established to dissuade arrears. The authorities noted that legal changes, approved by parliament, are needed for their implementation. Staff reiterated that, with the deployment of EU funds for enhancing agricultural productivity and EU income transfers to farmers, the need for additional top-up payments from government resources to farmers was reduced. Several options were discussed with respect to expenditure rationalization in health expenditures and social assistance, where, despite progress, the agenda remains a challenging one:

- **Health care.** There was general agreement that further private initiative was possible, allowing for greater price and quality competition, including through selling or leasing surplus public facilities to private enterprises, contracting territorial funds with private providers, and providing a greater role for private insurance companies. Staff emphasized also the formalizing of co-payments for health care (Box 5) and making the criteria for consolidating health care public institutions and the listing of reimbursable pharmaceuticals more transparent.

- **Social assistance.** Staff noted that while individual social benefits are often small, they cumulate, making them expensive to administer and creating, in some instances, disincentives to work (Box 5). In this context, staff viewed with some concern the new system of child benefits, additional to the existing tax exemptions, and the proposed increase in the scope of unemployment benefits and employment subsidies. The authorities pointed to the centralized database of benefits as a first step in providing a unified view of benefits. Staff urged consolidation and improved targeting, reflecting criteria such as poverty alleviation and social insurance.

24. **Staff noted that a more ambitious medium-term expenditure framework (MTEF), integrated into a Fiscal Responsibility Act (FRA), would provide for greater fiscal discipline.** Staff commended the authorities for initial steps taken in operationalizing the MTEF concept within the central government (through budget ceilings for a three-year period). The authorities agreed that these could be usefully supplemented by (i) bottom-up estimates of ongoing expenditure, based on cost drivers of their individual budgets and (ii) detailed presentation to parliament. Such a framework would also help prioritize EU funds. In this context, staff urged more careful scrutiny of spending requests by line ministries and municipalities. The authorities were less enthusiastic this year about adopting an FRA. Staff continued to view an FRA that tightened Ministry of Finance control and monitoring over general government budget preparation and execution as an important tool for fiscal management.

D. Structural Reforms for Competitiveness

25. **Export growth faces new challenges.** On the favorable side, the real exchange rate shows either a modest depreciation (in consumer price terms) or a flat trend (in unit labor cost terms) (Figure 6). Lithuania’s share of world trade has continued to increase. Also, based on the unchanging relative productivity of tradable to nontradable goods and services and the net international investment position (Figure 7), the real exchange rate appears in line with fundamentals. The authorities agreed, however, that the challenges ahead were significant. Price margins are likely to be squeezed in some sectors, such as fertilizers, which rely on gas supplied at increasingly higher prices. The oil refinery Mazeikiu Nafta, which experienced a surge in output and exports of petroleum products, is operating closer to capacity. Rising wage costs are generating more general pressures, not least because of the emigration of workers. Price competition for labor-intensive products, such as textiles, footwear, and furniture, is on the rise. Also, the shift of the export structure toward higher-technology products has slowed (Figure 8).

Box 5. Making Health Care and Social Assistance More Efficient

Though public expenditures for health care are in line with Lithuania's per capita income, the system is under cost pressures and patients often need "informal" payments to gain access. At between 4 and 5 percent of GDP, public expenditure on health is somewhat higher than in the other Baltic countries, but lower than the EU average. Cost pressures are high on account of rising salaries of doctors and needed modernization. Moreover, expenditures are spread thinly over a system with considerable overcapacity, leading paradoxically to rationing of services, especially in urban areas and for key services. As a consequence, queues and informal payments to medical staff are widespread (Tables 1 and 2).

Table 1. Lithuania: Average Informal Payments
(In litas, unless otherwise specified)

	Unofficial Fees	Gifts to Health Care Staff
CIET 2002	164	34
In percent of 2005 average annual wage	0.9	0.2
Questionnaire 2003	177	164
In percent of 2005 average annual wage	1.0	0.9

Sources: Statistics Lithuania; and Community Information, Empowerment and Transparency, *"The Baltic States: Regional Survey on System Leakages in the Health and Licencing Sectors,"* 2002

Table 2. Lithuania: Unofficial Fees for Health Care Services
(In percent of patients who paid unofficial fees)

	State Out-Patient Clinics	State Hospitals
Consultations	9	16
Drugs and medical appliances	5	10
Analysis	14	13
Operations	...	35
Other	86	78

Source: Community Information, Empowerment and Transparency *"The Baltic States: Regional Survey on System Leakages in the Health and Licencing Sectors,"* 2002

Formal co-payments would ease the pressure on HIF resources and make patients more responsible. So far, co-payments have been introduced only for pharmaceuticals. Copayments that average 10 percent of the cost of services would raise roughly LTL 190 million, or 0.3 percent of GDP. This would be roughly equivalent to LTL 45 per service unit, which is well below the average informal payment for health care. Co-payments should not be applied to clearly cost-effective preventive services; a limit should be set on any family's out-of-pocket expenses; and the lowest-income families should be exempted.

Consolidation of social benefits may reduce work disincentives. A low-income family with three children, with a long-term unemployed head of family, is entitled to the social assistance benefit, child benefits, unemployment benefits, housing support, and other benefits (Table 3). The total family income is higher if the family head is long-term unemployed than if she or he is short-term unemployed or working at the minimum wage, once work-related costs (e.g., transport, meals) have been taken into account. Benefit consolidation could be financed by better targeting (see forthcoming Selected Issues Paper).

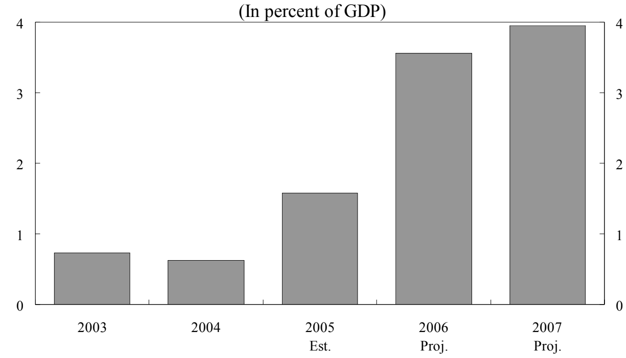
Table 3. Lithuania: Monthly Income of a Couple With 3 Children (aged 7, 5, 2)
(In litas)

	Current Benefit System			Raise and Redistribute State-Supported Income and Abolish Utility Subsidy		
	Long-term unemployed	Short-term unemployed	Minimum-wage employed	Long-term unemployed	Short-term unemployed	Minimum-wage employed
Labor income	0	0	550	0	0	550
Unemployment benefit	0	135	0	0	135	0
Family benefit	138	138	138	138	138	138
Child benefits (2)	100	100	100	100	100	100
Family income	238	373	788	238	373	788
Poverty line	675	675	675	1,000	1,000	1,000
Social assistance benefit	394	272	0	686	565	191
Heating benefit	150	116	13	0	0	0
Water subsidy	30	25	8	0	0	0
Total income	811	786	808	924	937	979
Memorandum items:						
Minimum subjective sufficient income (decile I)				1,055		
Minimum subjective sufficient income (housing with children)				1,700		

Sources: Ministry of Social Security and Labor; and IMF staff estimates.

26. **The authorities view the injection of EU funds as a unique opportunity to maintain high productivity growth through investments in infrastructure and human capital.** They noted that, after a slow start, the use of Structural Funds had picked up, with the strongest pipeline in transport projects, energy efficiency measures, and science and education infrastructure (Text Figure 11 and Box 6). Several considerations in the effective utilization of these funds were discussed:

Text Figure 11. Lithuania: Total EU Grants, Net
(In percent of GDP)



Sources: *Single Programming Document of Lithuania, 2004-2006*; and IMF staff estimates.

- While maintaining the valuable centralization of management of funds in the Ministry of Finance, delegation could be limited to fewer implementing agencies, whose project evaluation and administration skills could be enhanced.

- Special care must be taken in awarding funds to individual companies to avoid creating the perception of political influence in their allocation. Competition for subsidies should not become a substitute for competition in the market place.

- Independence of the project evaluators should be guaranteed by the system.

- Transparency should be ensured by publishing more data on awarded contracts and unsuccessful bids, without compromising sensitive commercial information.

- Caution should be exercised in shifting cofinancing obligations to the private sector through public-private partnerships.

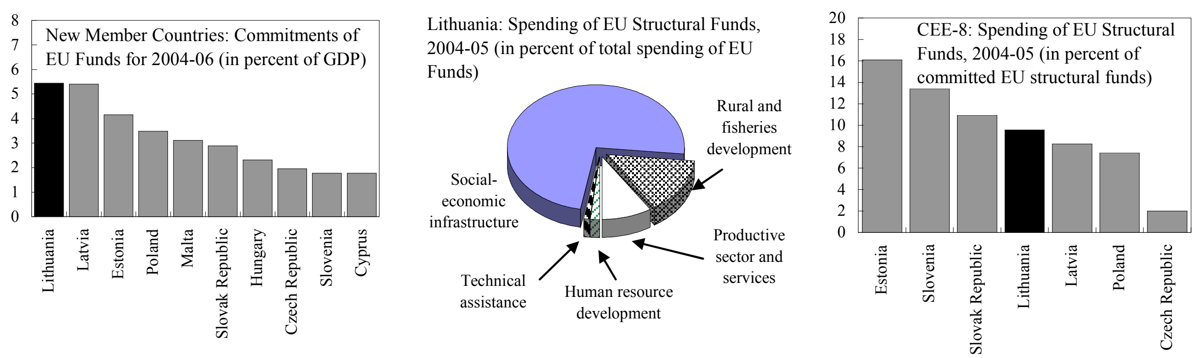
- Looking ahead, the integration of the use of EU funds with structural reforms in such sectors as health and education will maximize their effectiveness.

27. **Staff welcomed the headway Lithuania has made in improving its business climate but noted that the task remained unfinished.** Progress has continued on the reform front, with recent high-profile privatizations. Anticipating the decommissioning of the second unit of the Ignalina nuclear power plant in 2009, the authorities are engaged in increasing domestic electricity supply and are in discussion with neighboring nations to improve energy security, through such initiatives as the Baltic Energy Market. International indices of regulatory burden typically place Lithuania in the middle of the new Central and Eastern European members of the EU. The World Bank's *Doing Business* report gives high marks to Lithuania for ease in setting up new businesses. However, the virtual prohibition of overtime work and the difficulties in hiring temporary workers limit the flexibility of small enterprises which are the dominant source of employment generation. Greater flexibility will be of particular importance in the context of the evolving competitive environment. Investments in effective vocational training and world-class tertiary education are priorities for dealing with skill shortages.

Box 6. Utilization of EU Funds in 2004-06

At an annual average of 5.4 percent of GDP, Lithuania has the largest commitment of EU funds (relative to GDP) among the new member countries, and uptake is increasing gradually. This reflects Lithuania's relatively low per capita income and the large project of decommissioning the Ignalina power plant. In 2005, spending of EU funds amounted to 2.5 percent of GDP, compared with 1.3 percent of GDP in 2004. According to budget projections, spending will accelerate further to 4.3 percent of GDP in 2006 (Table 1). The authorities expect utilization of EU funds to remain high also beyond 2006. Structural funds committed for 2004-06 can be drawn until 2008, and cohesion funds can be drawn until 2010.

Figure 1. New Member Countries and Lithuania: EU Funds



Sources: Lithuanian authorities; European Commission; and IMF staff estimates.

Table 1. Lithuania: Absorption of EU Funds Until 2006
(In millions of euro)

	Commitments 1/	Spending of Funds 2/			Absorption by Years' End (in percent) 3/	
		2004 Act.	2005 Est.	2006 Budget	2005 Est.	2006 Proj.
Total EU funds	3,720	231	516	963	28	54
Pre-accession funds 4/	700	159	65	16	76	79
Post-accession funds	3,020	72	450	947	17	49
Agriculture	819	11	262	376	33	79
Structural funds	930	6	99	308	11	46
Cohesion fund 5/	612	13	73	171	14	42
Internal policies	606	2	9	75	2	14
Budget compensation	53	39	7	7	86	100
Other	...	1	1	10	...	...
Cofinancing	...	54	104	181	...	...

Sources: Lithuanian authorities; European Commission; and IMF staff estimates.
1/ Commitments shown in current prices. For post-accession funds, commitments were made in 1999 prices and amounted to EUR 2,677 milions. In line with EU rules, they are indexed every year by the inflation target of 2 percent to calculate commitments in current prices.
2/ Spending is defined as transfer of received EU funds to spending agencies.
3/ Absorption is defined as spending to date as a share of total commitments.
4/ Spending of pre-accession funds amounted to EUR 311 millions until 2003.
5/ From 2004, ISPA funds are recorded as cohesion funds.

IV. Staff Appraisal

28. **In pursuing long-term growth, the authorities must anticipate and deal with emerging imbalances and longer-term challenges.** Lithuania's impressive run of growth has been fueled by rapid credit growth that has contributed to consumption growth and investment in the property and construction sectors. While these developments represent progress along the catch-up path, they are creating new financial and inflation pressures and vulnerabilities. Longer-term challenges arise from international tax competition, the demand for public goods, aging, emigration, and new competition in export markets, with implications for fiscal goals and international competitiveness. A sustained commitment to addressing these evolving challenges is necessary for continued growth with stability.

29. **In the financial sector, the authorities have taken initial steps to contain aggressive lending practices and should continue with measures to stay ahead of market developments.** The recommendations of the 2001 FSAP have been implemented, and the regulatory and supervisory system is in line with EU guidelines. Steps taken by the BOL to coordinate with foreign supervisors, publish a financial stability report, and provide guidance to banks on prudential lending are all welcome. However, since rapid credit expansion may continue with deterioration in credit quality, the onus now shifts to supervisors to conduct their own forward-looking analysis and ensure—through additional supervisory measures, if needed—that banks' risk management systems are keeping pace with market developments. Continuing to publish and regulate on the basis of the NPL ratio remains essential for consistent tracking of the financial system's health. Disclosure of banks' fees and further efforts to disseminate borrowing guidelines will provide additional consumer protection. Tax measures should be taken to cool down the property market before large vulnerabilities emerge.

30. **Inflation has crept up, and controlling it would be helped by more ambitious medium-term fiscal goals.** At about 3 percent, the yearly inflation rate is still modest, but the risk of reinforcing wage price movement cannot be ruled out. The fiscal stance for 2006 is unhelpfully procyclical. Moreover, at their expected absorption rate, EU funds will add to the stimulus. Therefore, with fiscal restraint as the only available macroeconomic tool, a countercyclical fiscal stance would help contain the incipient inflationary pressures.

31. **Fiscal conservatism would also help signal commitment to early euro adoption.** With a track record of generally prudent macroeconomic policies, structural reforms, and flexible markets, Lithuania stands to benefit from euro adoption. A short delay is unlikely to have a material bearing on risks or prospects, as the currency board, which has served Lithuania well, remains strong. But if inflation continues on its current trajectory, a longer delay is possible. Efforts to ensure early euro adoption are desirable to eliminate the residual uncertainty associated with the currency board and to further benefit from trade and financial ties with the rest of Europe.

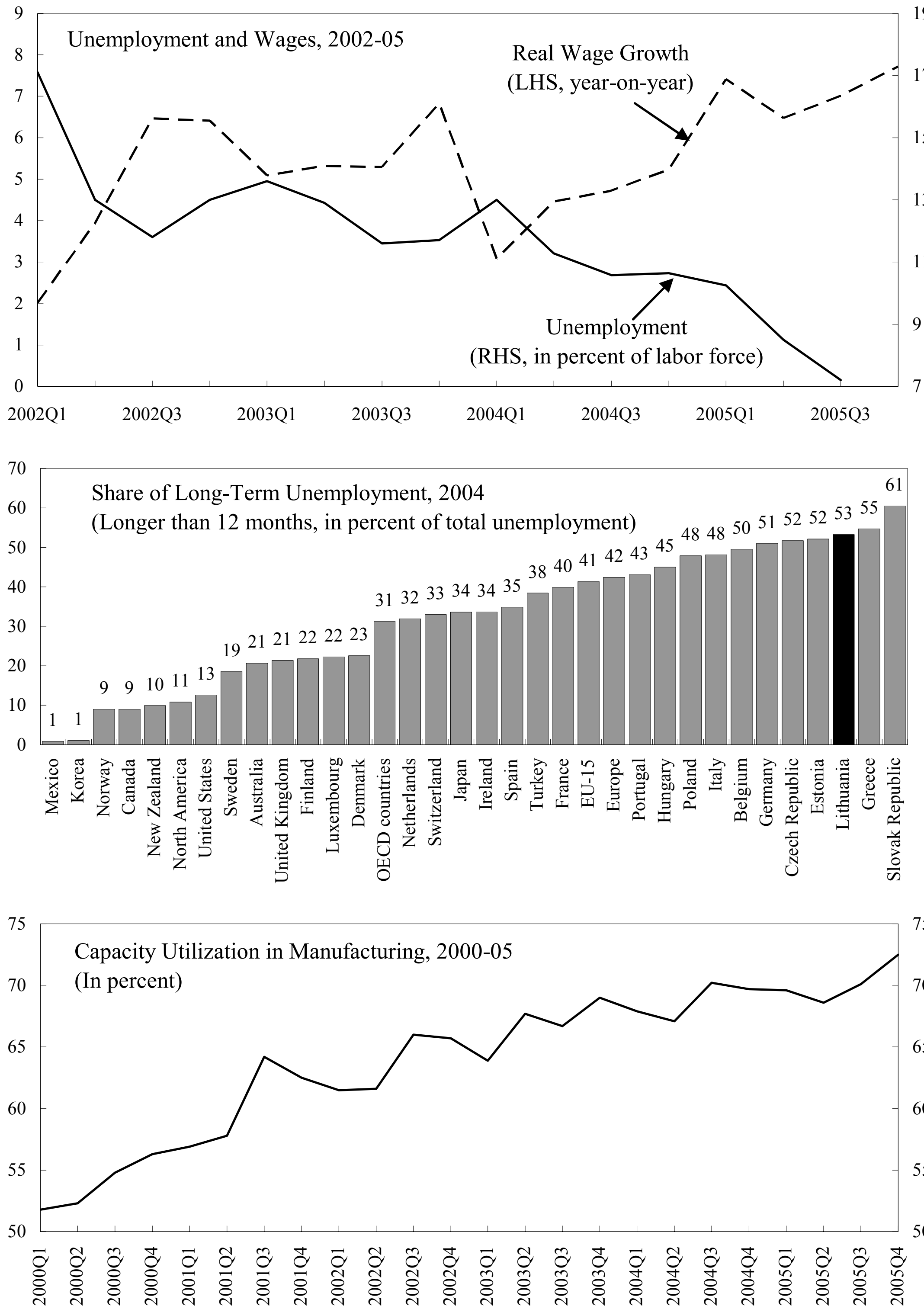
32. **A variety of measures, embedded in a forward-looking procedural framework, are needed to deal with the growing claim on fiscal resources.** With the proposed reduction of the personal income tax rate, the medium-term deficit target of 1 percent of GDP is at risk. On the revenue side, broadening the tax base through reduction of exemptions and

incentives (not least for mortgages), a more far-reaching property tax, and a vehicle tax deserve serious attention. Recent efforts to strengthen tax administration need further reinforcement. On the expenditure side, greater spending efficiency must be the goal. This can be achieved in current spending, including in education, health, and social assistance. For example, the introduction of co-payments for public health services will strengthen patient responsibility, and more competition in service provision will help contain cost and improve quality. In social services, consolidation of benefits will allow for better targeting and reduce incentives to move into long-term unemployment. But these efforts must be placed within a more fully fledged MTEF. In this context, a more careful scrutiny of spending by line ministries and municipalities remains an urgent task. In turn, the MTEF must be integrated with a FRA that creates the necessary checks and balances, not least because, with euro adoption, an important anchor for political commitment to budgetary discipline will be removed.

33. **The single most important influence on Lithuanian competitiveness is likely to be the deployment of EU funds, which, therefore, need to be harnessed carefully.** The real exchange rate appears reasonably valued, and the business climate has continued to improve. Looking ahead, EU funds will provide needed public goods and help raise productivity. Their effectiveness will likely be enhanced by maintaining centralized management in the Ministry of Finance, taking special care to avoid creating the perception of political influence in the allocation of funds, ensuring transparency on contract awards, and integrating the use of EU funds with structural reforms in such sectors as health and education.

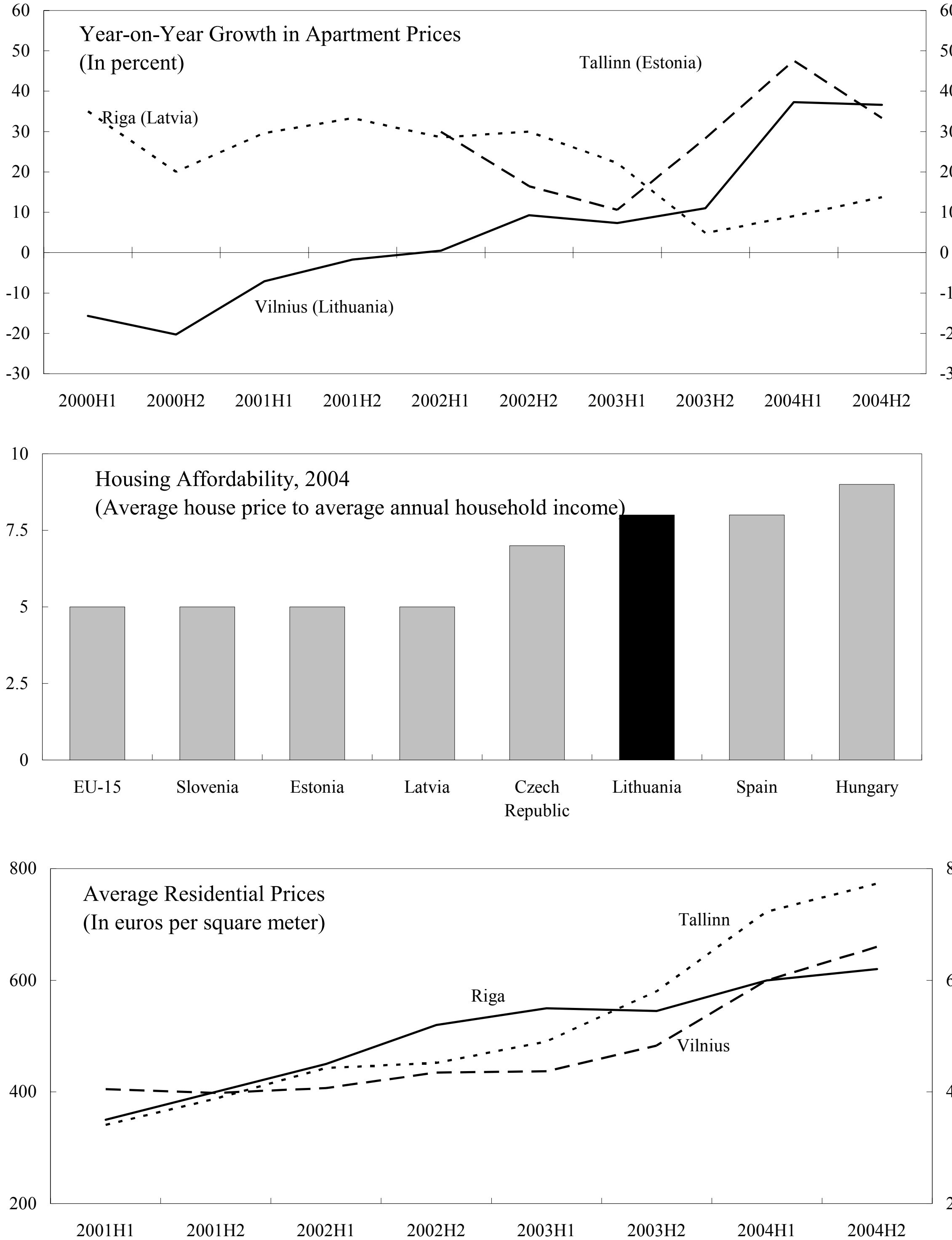
34. Staff recommends that the next Article IV consultation with Lithuania be held on the standard 12-month cycle.

Figure 1. Lithuania: Labor Markets and Capacity Utilization



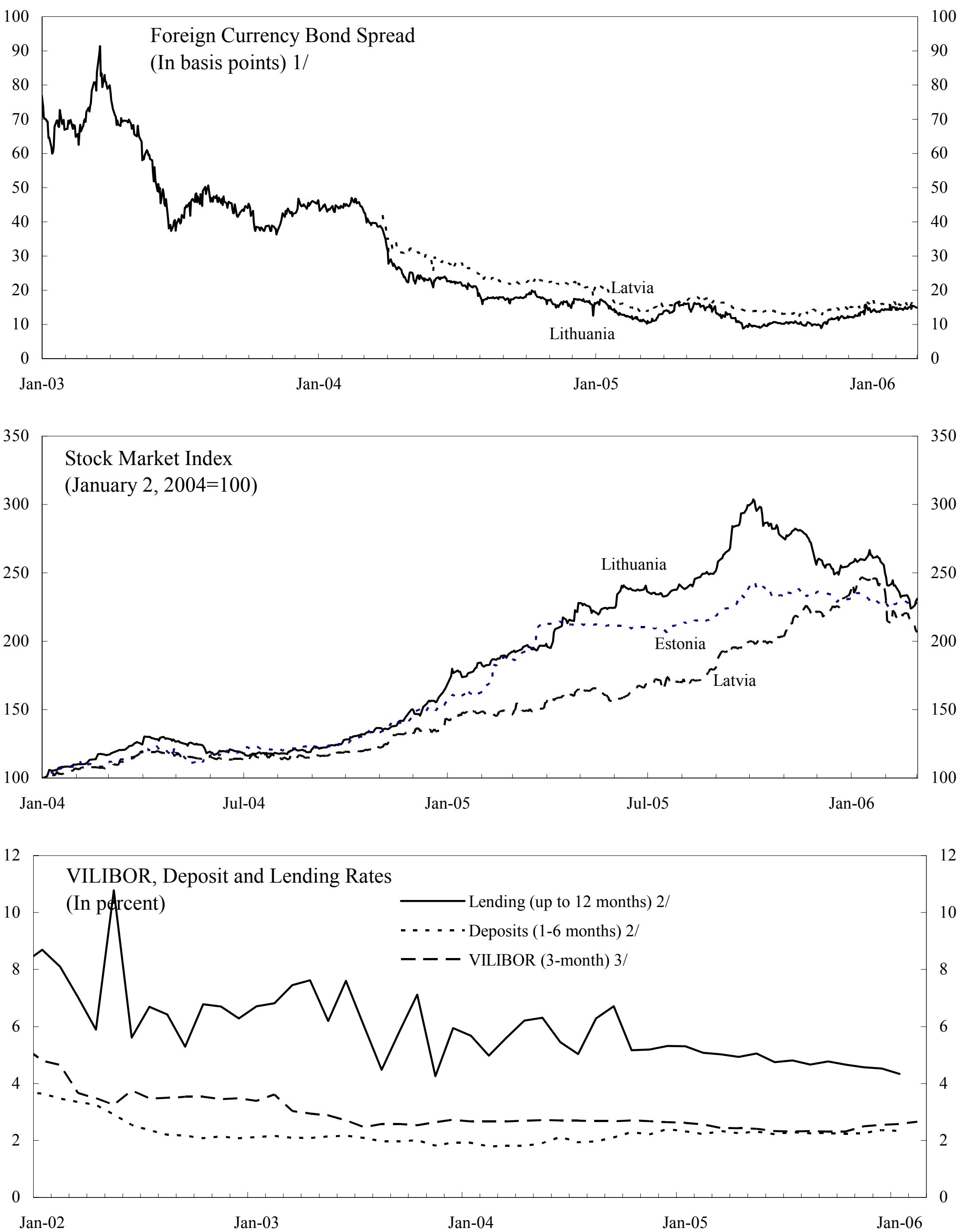
Sources: Lithuanian authorities; OECD; and IMF staff estimates.

Figure 2. Real Estate Markets, 2000-04



Sources: National statistics; World Bank; real estate companies; banks; IMF staff calculations.

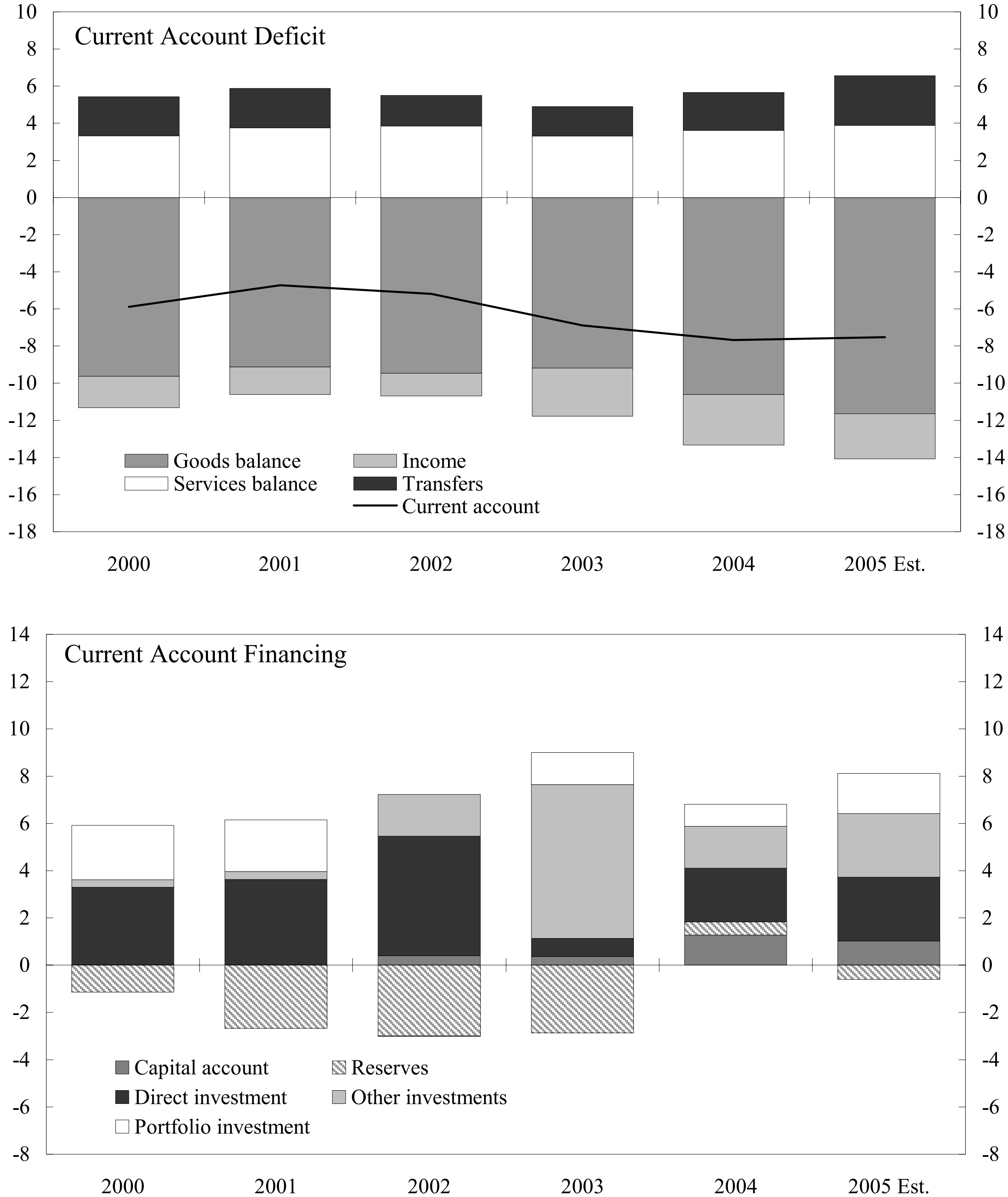
Figure 3. Lithuania: Financial Markets, 2002-06



1/ Yield spread for Lithuanian government bond maturing in 2012 and for Latvian government bond maturing in 2014 over German bonds maturing at the same time.
2/ Original data series ends in December 2004. Similar data were used from 2005 onward to the extent possible.
3/ Vilnius Interbank Offered Rate.

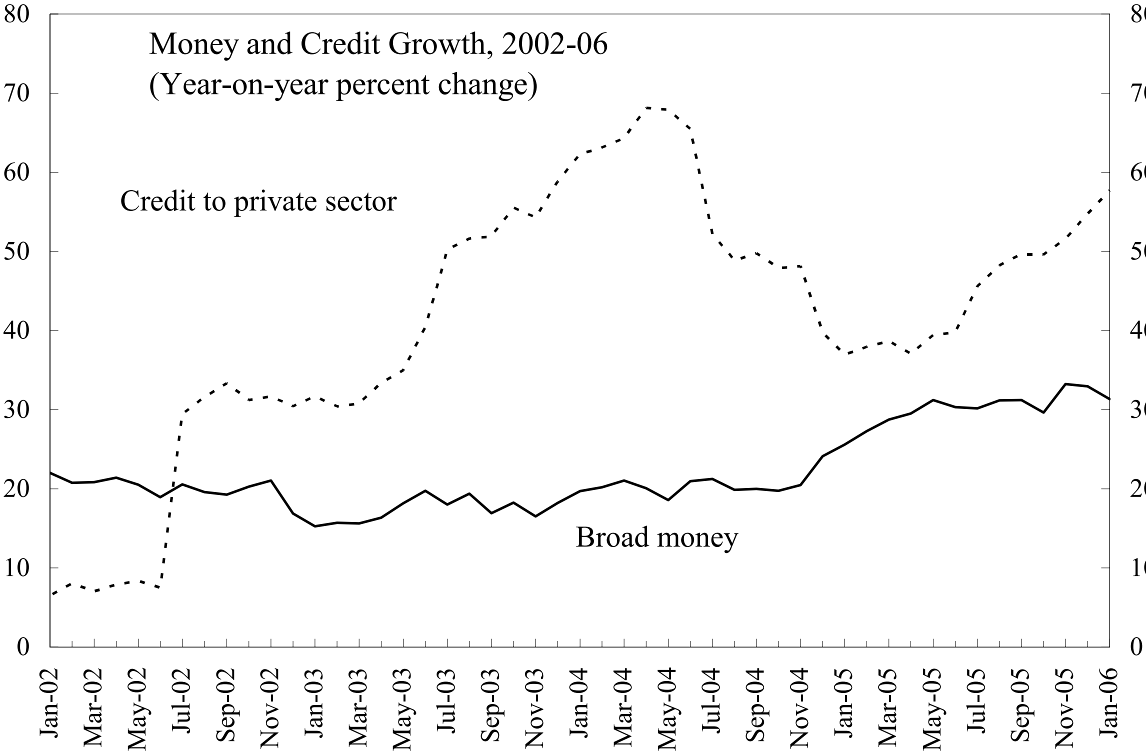
Sources: Bloomberg; Lithuanian authorities; and IMF staff estimates.

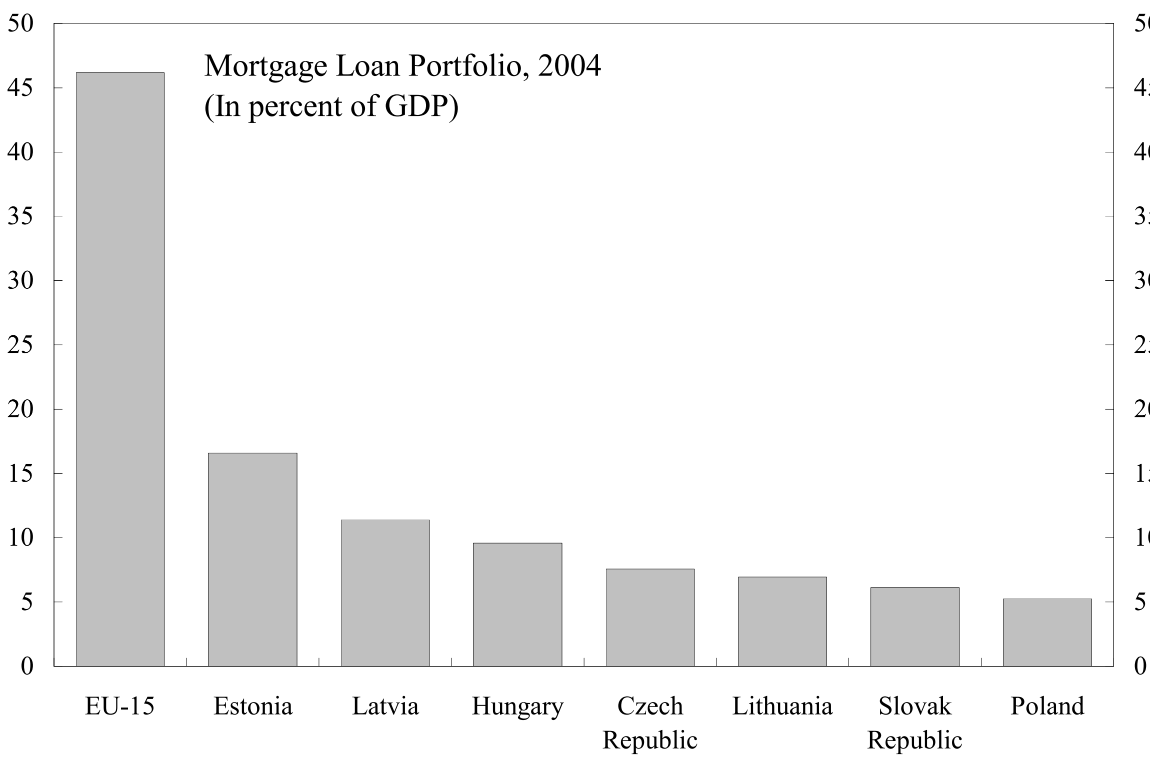
Figure 4. Lithuania: Current Account and Its Financing, 2000-05
(In percent of GDP)



Sources: Bank of Lithuania; and Lithuanian Department of Statistics.

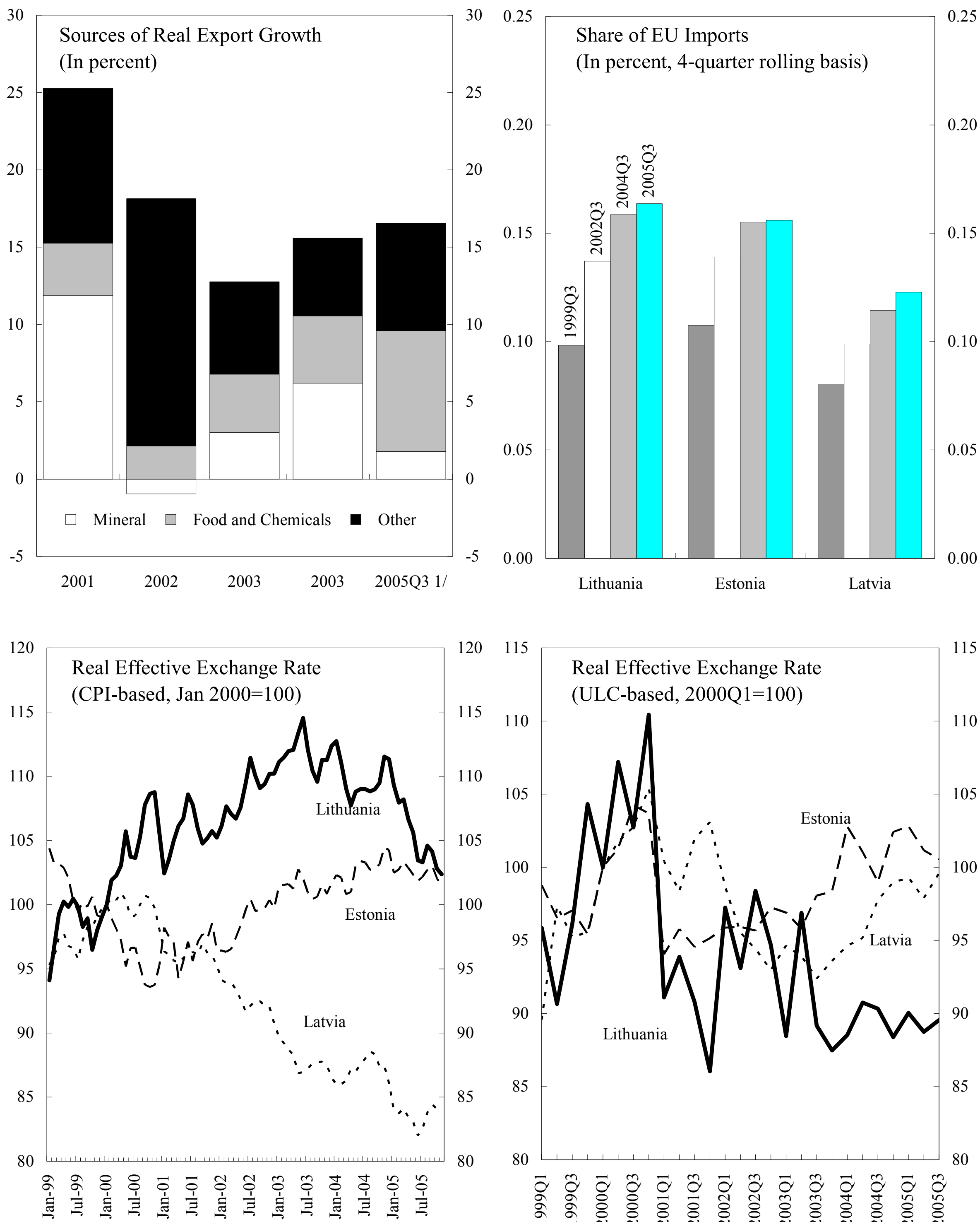
Figure 5. Lithuania: Monetary Aggregates





Sources: Bank of Lithuania; European Mortgage Federation; and IMF staff estimates.

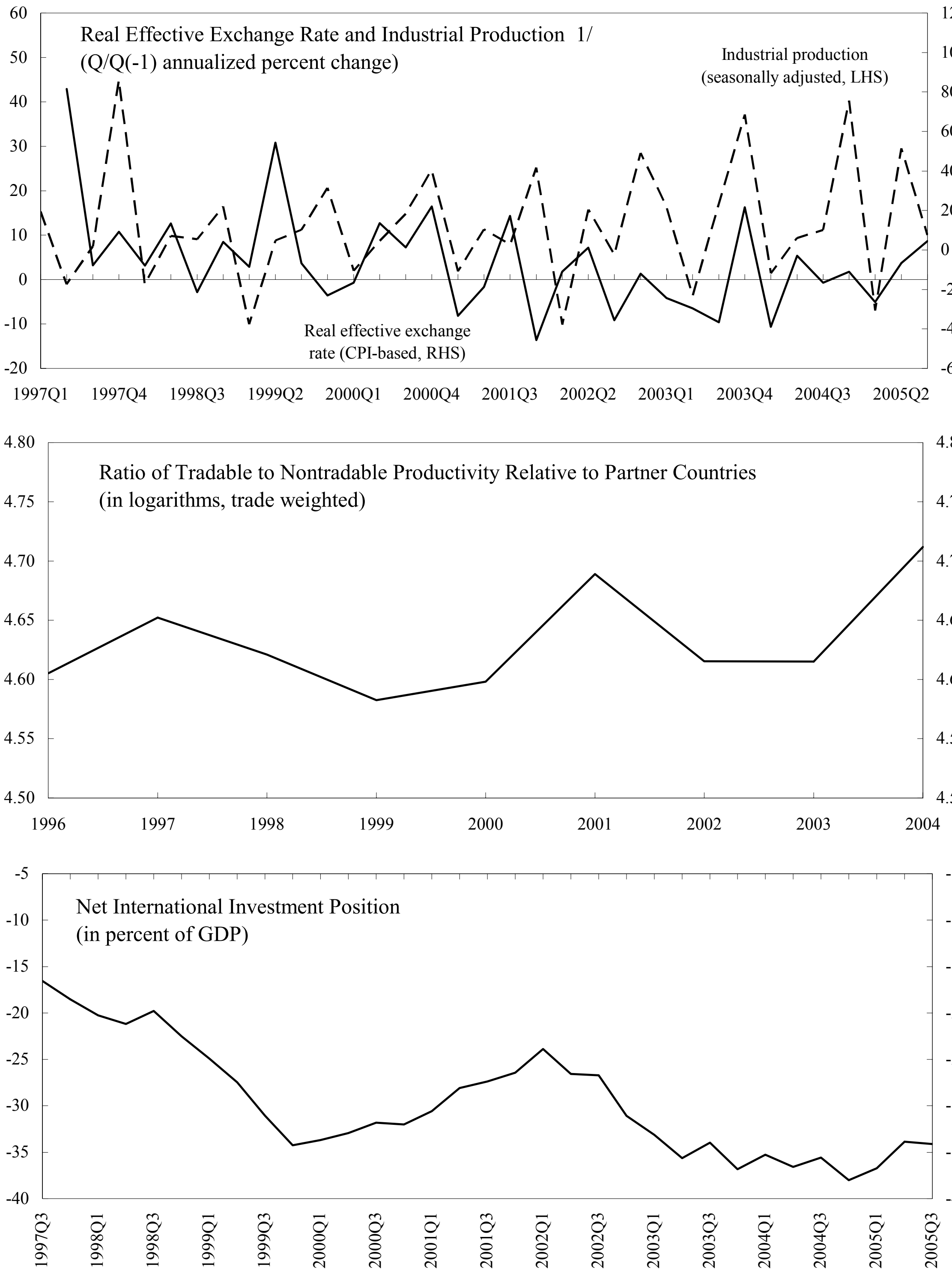
Figure 6. Competitiveness Indicators, 1999-2005



1/ 2005Q3 data covers 2004Q4-2005Q3.

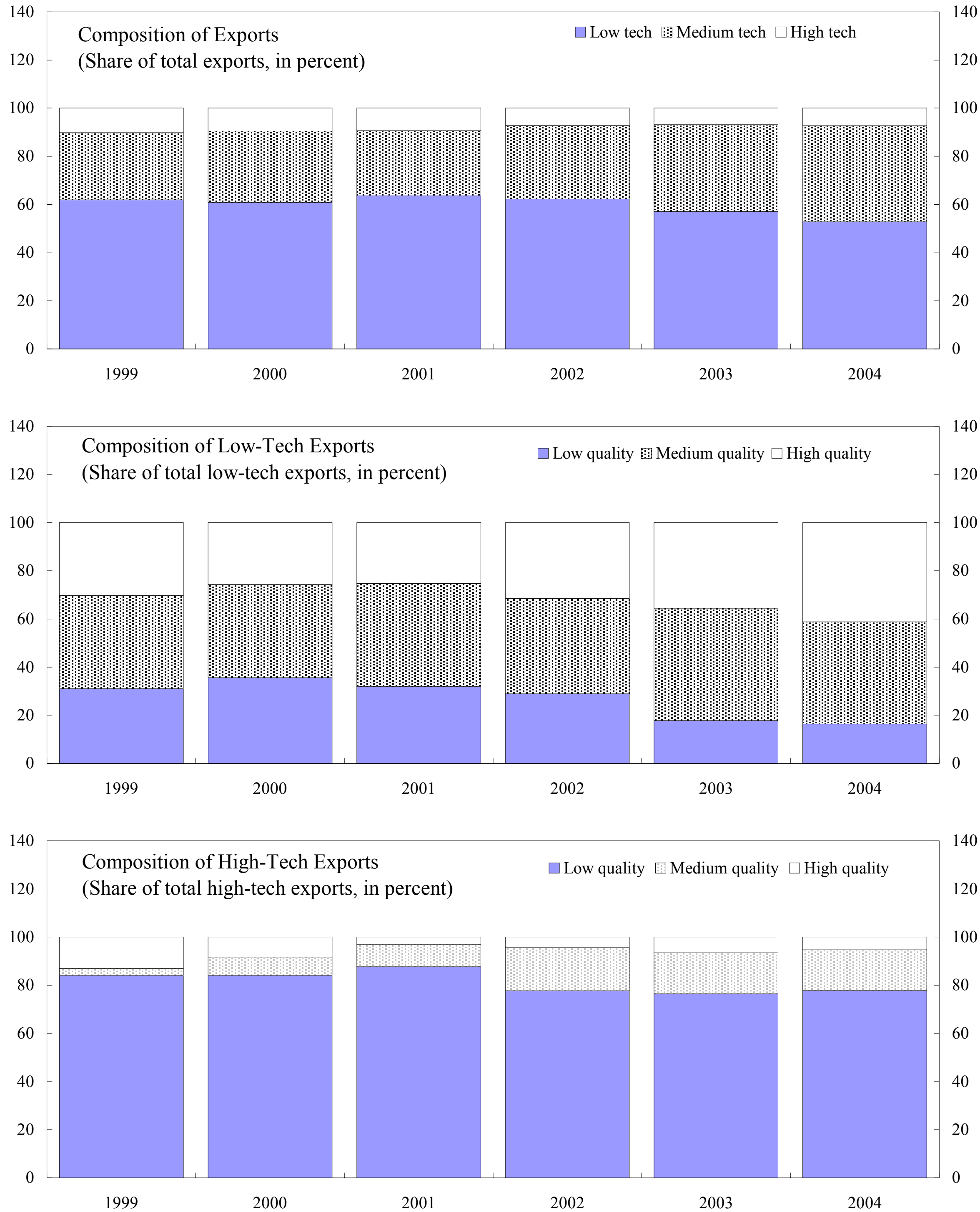
Sources: Information Notice System; IMF staff estimates; and IMF, *Direction of Trade Statistics.*

Figure 7. Lithuania: Selected External Indicators, 1996-2005



Source: Eurostat; Bank of Lithuania; Department of Statistics; and IMF staff estimates.
1/ Positive is real effective depreciation. Real effective depreciation lagged by one quarter.

Figure 8. Lithuania: Position of Exports on the Technology and Quality Ladder, 1999-2004



Source: UN COMTRADE and staff calculations.

Note: Low technology industries include food products, beverages, and tobacco, textiles, leather, wood and paper products, and basic metals. Medium technology industries are chemicals, plastics, and rubber. High technology industries are comprised of machinery, electrical and optical equipment, and transport equipment. Each industry is divided into three quality segments by ranking the products according to their unit values.

Table 1. Lithuania: Selected Macroeconomic Indicators, 2001-07

	2001	2002	2003	2004	2005	2006	2007
					Est.	Projection	
National income, prices, and wages							
Nominal GDP (in millions of litai)	48,563	51,948	56,772	62,440	71,084	80,617	88,622
GDP (in millions of U.S. dollars)	12,141	14,128	18,548	22,456	25,504	27,504	30,295
Real GDP growth (year-on-year, in percent)	6.4	6.8	10.5	7.0	7.5	6.8	6.0
Average CPI (year-on-year change, in percent)	1.3	0.3	-1.2	1.2	2.7	3.1	3.0
End-of-period CPI (year-on-year change, in percent)	2.0	-1.0	-1.3	2.9	3.0	3.5	3.5
GDP deflator (year-on-year change, in percent)	-0.5	0.2	-1.1	2.8	5.9	6.2	3.7
Average monthly wage (in U.S. dollars)	266.4	304.2	381.6	444.1	487.4	510.2	558.4
Unemployment rate (in percent) 1/	17.4	13.8	12.4	11.3	8.3	6.2	5.5
Labor productivity (annual percent change)	10.1	2.6	8.0	7.1	4.4	...	...
Unit labor cost (annual percent change)	-8.3	11.3	16.1	8.6	5.1	...	...
Saving-investment balance (in percent of GDP)							
Gross national saving	15.8	16.8	16.0	16.5	18.1	17.6	17.5
General government	0.3	1.5	1.5	0.7	3.1	3.2	3.2
Nongovernment	15.6	15.3	14.6	15.8	15.0	14.4	14.3
Gross national investment	20.6	22.0	22.9	24.2	25.0	25.3	25.0
General government	2.4	2.9	3.1	3.3	4.4	5.3	5.0
Nongovernment	18.2	19.1	19.8	20.9	20.6	20.1	19.9
Foreign saving	4.7	5.2	6.9	7.7	7.0	7.8	7.5
Nongovernment net savings	-2.6	-3.8	-5.2	-5.1	-5.6	-5.7	-5.6
General government fiscal balance (in percent of GDP) 2/	-2.1	-1.4	-1.7	-2.5	-1.3	-2.1	-1.8
External sector							
Current account balance							
in percent of GDP	-4.7	-5.2	-6.9	-7.7	-7.0	-7.8	-7.5
in millions of U.S. dollars	-574	-734	-1,278	-1,724	-1,771	-2,135	-2,257
Gross official reserves (in millions of U.S. dollars)	1,669	2,413	3,450	3,594	3,816	4,138	4,386
Gross external debt (in percent of GDP)	43.4	43.9	45.0	46.6	48.7	52.6	54.9
Exchange rate (litas/U.S. dollar, period average)	4.0	3.7	3.1	2.8	2.8	...	...
Exchange rate (litas/euro, period average)	3.6	3.6	3.5	3.5	3.5	...	...
Real effective exchange rate (1995=100, increase=appreciation) 3/	160.1	167.7	171.0	170.3	163.8	163.8	163.8
Money and credit							
Reserve money (year-on-year change, in percent)	8.3	20.8	26.6	7.1	27.6	...	...
Broad money (year-on-year change, in percent)	21.4	16.9	18.2	24.1	32.9	...	...
Private sector credit (year-on-year change, in percent)	6.3	30.4	58.8	39.8	54.8	...	...
Money multiplier	3.0	2.9	2.7	3.1	3.2	...	...
Currency/deposits (percent)	29.9	33.9	35.9	30.8	26.8	...	...
Foreign currency deposits/ litas deposits (percent)	74.8	48.4	36.2	35.0	37.3	...	...

Sources: Lithuanian authorities; and IMF staff estimates and projections.

1/ Based on labor force data.
2/ The figures for 2003 include the early repurchase of Lithuania's EFF by the BoL in net lending.
3/ CPI-based, 2000 trade-weighted real effective exchange rate against 17 major trading partners.

Table 2. Lithuania: Balance of Payments, 2001-11

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
					Est.	Projection					
					(In millions of US dollars)						
Current account	-574	-734	-1,278	-1,724	-1,771	-2,135	-2,257	-2,397	-2,551	-2,686	-2,883
Trade balance	-1,108	-1,337	-1,704	-2,382	-2,843	-3,600	-3,953	-4,263	-4,405	-4,617	-4,914
Exports (f.o.b.)	4,889	6,031	7,658	9,305	11,791	13,506	14,959	16,369	17,771	19,115	20,542
Imports (f.o.b.)	5,997	7,368	9,363	11,688	14,634	17,106	18,911	20,632	22,176	23,733	25,457
Non-factor services, net	457	543	614	812	1,053	1,158	1,287	1,417	1,570	1,705	1,839
Credits	1,157	1,479	1,878	2,444	3,105	3,556	3,939	4,310	4,679	5,033	5,409
Debits	700	935	1,264	1,632	2,052	2,399	2,652	2,893	3,110	3,328	3,570
Factor income, net	-180	-174	-482	-612	-625	-710	-789	-887	-989	-1,100	-1,222
Current transfers, net	258	233	294	458	644	1,018	1,198	1,336	1,274	1,326	1,413
Capital and financial account	420	591	1,111	1,533	1,685	2,135	2,257	2,397	2,551	2,686	2,887
Capital transfers, net	1	57	68	287	355	456	495	518	1,023	1,002	1,023
Financial account	419	535	1,044	1,245	1,330	1,679	1,763	1,879	1,528	1,684	1,864
Direct investment, net	439	714	142	510	680	803	855	904	954	1,008	1,067
Assets	-7	-18	-37	-263	-329	-342	-353	-365	-377	-390	-403
Liabilities	446	732	179	773	1,009	1,145	1,208	1,269	1,331	1,398	1,470
Portfolio investment, net	264	-3	252	211	-355	383	394	400	467	458	498
Inflows	238	123	222	431	424	589	620	646	635	591	643
Outflows	26	-126	30	-220	-779	-205	-226	-246	-168	-133	-144
Other capital inflows, net	41	246	1,181	400	1,697	815	762	806	877	947	1,035
Inflows	267	89	1,310	1,081	2,447	1,235	1,222	1,308	1,355	1,378	1,323
Outflows	-225	160	-101	-684	-763	-434	-476	-519	-497	-451	-311
Net errors and omissions	154	143	167	192	86	...	...	...	...	...	...
Change in official reserves (-=increase)	-325	-423	-531	124	-222	-322	-249	-231	-771	-729	-736
Gross official reserves	1,669	2,413	3,450	3,594	3,816	4,138	4,386	4,617	5,388	6,117	6,853
Gross external debt	5,268	6,199	8,338	10,472	12,414	14,458	16,634	18,831	20,918	22,943	24,961
Public and publicly guaranteed	2,332	2,429	2,793	3,136	2,878	3,220	3,568	3,918	4,230	4,470	4,731
Private 2/	2,561	3,116	3,738	4,489	4,425	5,290	6,193	7,128	8,091	9,079	10,096
Net external debt 3/	3,864	4,463	6,202	7,112	8,117	9,586	11,131	12,640	14,147	15,679	17,342
Public and publicly guaranteed	2,332	2,429	2,793	3,136	2,878	3,220	3,568	3,918	4,230	4,470	4,731
Private	1,532	2,034	3,409	3,976	5,238	6,366	7,563	8,722	9,917	11,209	12,612
Short-term gross external debt	1,558	2,123	3,277	3,766	5,460	6,138	6,776	7,535	8,238	8,969	9,752
On an original maturity basis											
Of which:											
Trade credit	862	1,163	1,437	1,644	1,878	2,261	2,685	3,147	3,645	4,177	4,748
Currency and deposits at banks	166	219	388	695	786	963	1,158	1,370	1,602	1,854	2,127
Short-term net external debt 4/	530	740	1,452	1,427	2,796	2,914	2,934	3,017	2,992	2,939	2,877
Debt service 5/	922	1,112	1,586	1,751	2,470	2,877	3,310	3,747	4,163	4,565	4,967
Gross amortization on medium- and long-term debt	721	908	1,347	1,499	2,211	2,575	2,963	3,354	3,726	4,087	4,446
Interest payments	200	205	240	251	259	302	347	393	436	479	521
					(In percent of GDP)						
Current account	-4.7	-5.2	-6.9	-7.7	-7.0	-7.8	-7.5	-7.2	-7.0	-6.8	-6.7
Trade balance of goods and services	-5.4	-5.6	-5.9	-7.0	-7.0	-8.9	-8.8	-8.6	-7.8	-7.4	-7.2
Trade balance, goods	-9.1	-9.5	-9.2	-10.6	-11.1	-13.1	-13.0	-12.9	-12.2	-11.7	-11.4
Trade balance, services	3.8	3.8	3.3	3.6	4.1	4.2	4.2	4.3	4.3	4.3	4.3
Factor income, net	-1.5	-1.2	-2.6	-2.7	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8
Current transfers, net	2.1	1.7	1.6	2.0	2.5	3.7	4.0	4.0	3.5	3.4	3.3
Capital and financial account	3.5	4.2	6.0	6.8	6.6	7.8	7.5	7.2	7.0	6.8	6.7
Capital transfers	0.0	0.4	0.4	1.3	1.4	1.7	1.6	1.6	2.8	2.5	2.4
Financial account	3.4	3.8	5.6	5.5	5.2	6.1	5.8	5.7	4.2	4.3	4.3
Direct investment, net	3.6	5.1	0.8	2.3	2.7	2.9	2.8	2.7	2.6	2.6	2.5
Portfolio investment, net	2.2	0.0	1.4	0.9	-1.4	1.4	1.3	1.2	1.3	1.2	1.2
Other investment, net	0.3	1.7	6.4	1.8	6.7	3.0	2.5	2.4	2.4	2.4	2.4
Gross external debt 1/	43.4	43.9	45.0	46.6	48.7	52.6	54.9	56.8	57.8	58.2	58.1
Public and publicly guaranteed	19.2	17.2	15.1	14.0	11.3	11.7	11.8	11.8	11.7	11.3	11.0
Private 2/	21.1	22.1	20.2	20.0	17.4	19.2	20.4	21.5	22.4	23.0	23.5
Net external debt 3/	31.8	31.6	33.4	31.7	31.8	34.9	36.7	38.1	39.1	39.8	40.4
Public and publicly guaranteed	19.2	17.2	15.1	14.0	11.3	11.7	11.8	11.8	11.7	11.3	11.0
Private	12.6	14.4	18.4	17.7	20.5	23.1	25.0	26.3	27.4	28.4	29.4
Short-term net external debt 4/	4.4	5.2	7.8	6.4	11.0	10.6	9.7	9.1	8.3	7.5	6.7
Debt service, in percent of exports of GNFS 5/	15.2	14.8	16.6	14.9	16.6	16.9	17.5	18.1	18.5	18.9	19.1
Gross amortization on medium- and long-term debt	11.9	12.1	14.1	12.8	14.8	15.1	15.7	16.2	16.6	16.9	17.1
Interest payments	3.3	2.7	2.5	2.1	1.7	1.8	1.8	1.9	1.9	2.0	2.0
Memorandum items:											
Nominal GDP (millions of U.S. dollars)	12,141	14,128	18,548	22,456	25,504	27,504	30,295	33,175	36,193	39,425	42,934
Exports of GNFS (nominal percent change, y-o-y)	18.3	24.2	27.0	23.2	26.7	14.5	10.8	9.4	8.6	7.6	7.5
Imports of GNFS (nominal percent change, y-o-y)	14.8	24.0	28.0	25.3	25.2	16.9	10.6	9.1	7.5	7.0	7.3
USD Exchange Rate (period average)	4.0	3.7	3.1	2.8	2.8	...	...	...	...	...	...
Short-term external debt at remaining maturity (millions of U.S.dollars)	2,242.4	3,160.5	4,362.1	5,856.7	5,889.6	6,632.4	7,335.9	8,156.6	8,920.0	8,638.1	...
Reserve cover of short-term external debt 6/	0.7	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.7	...
Short-term external debt (in percent of gross external debt) 6/	42.6	51.0	52.3	55.9	47.4	45.9	44.1	43.3	42.6	37.7	...
Crude oil price (US$/barrel)	24.3	25.0	28.9	37.8	53.4	60.0	60.8	58.8	57.8	57.0	56.5

Source: Data provided by the Lithuanian authorities; and Fund staff estimates and projections.

1/ Including public debt and debt by banks, monetary authorities, other sectors, and related to direct investment.

2/ Including debt by other sector and related to direct investment.

3/ Gross external debt minus debt securities held abroad and other investments abroad.

4/ Short-term gross external debt excluding trade credits and currency and deposits held abroad.

5/ Debt service excludes amortization of short-term debt. Servicing of short-term debt reflects also the turnover of very short-term claims. The authorities are examining the reasons for a rise in such claims and a STA technical assistance mission is expected to help establish a methodology for their reporting. The stock of short-term debt used for such prudential measures as the reserve to short-term debt ratio is not affected by these developments. Staff projections in the 2004 Article IV staff report indicate that debt service on short-term debt is, on average, on the order of 45 percent of exports of goods and services over the medium term.

6/ At remaining maturity.

Table 3. Lithuania: Summary of Monetary Accounts, 2001-06
(In millions of litai, unless otherwise specified)

	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Dec.	2006 Jan.
Monetary Authority						
Gross foreign assets new definitions	6,629	7,932	9,448	9,028	11,047	11,589
Gross foreign assets (adjusted)	6,423	7,739	9,263	9,028	11,047	11,344
Gross foreign liabilities (new dfinition)	811	594	309	76	26	288
Of which: Use of Fund credit	604	399	123	66	0	0
Net foreign assets	5,818	7,339	9,139	8,952	11,022	11,301
NDA as residual from calculated NFA						
Net domestic assets	-1,538	-2,171	-2,599	-1,951	-2,088	-2,676
O/w: Net credit to government	-1,510	-1,972	-2,237	-1,496	-1,400	-1,962
Credit to banks	15	16	10	10	0	0
Credit to private sector	6	8	10	11	10	10
Credit to non-bank financial institutions	0	0	0	0	0	0
Other items, net	-50	-222	-381	-475	-697	-724
Reserve money	4,280	5,168	6,540	7,002	8,934	8,625
Currency outside the central bank	3,263	4,218	5,132	5,590	6,709	6,455
Currency outside banks	2,920	3,756	4,632	5,121	6,118	5,903
Cash in vaults of banks	343	461	500	468	591	551
Deposit money banks' deposits	1,000	930	1,389	1,389	2,210	2,157
Transaction and required reserves accounts in litai	584	591	991	885	2,210	2,157
Time and special deposits	0	0	0	0	0	0
Required reserves in foreign currency	417	339	398	504	0	0
Private and non monetary financial institutions	17	20	19	23	15	13
Banking Survey						
Net foreign assets	6,426	6,996	6,682	6,731	3,979	3,406
Monetary authority	5,818	7,339	9,139	8,952	11,022	11,301
Banks and other banking institutions	608	-343	-2,457	-2,221	-7,042	-7,895
Net domestic assets	6,265	7,839	10,855	15,034	24,956	25,101
Net claims on government 1/	947	808	159	519	777	278
Monetary authority 2/	-1,510	-1,972	-2,237	-1,496	-1,400	-1,962
Banks and other banking institutions	2,456	2,780	2,397	2,015	2,177	2,240
Credit to non-financial public enterprises	253	198	148	88	167	150
Credit to private sector	5,538	7,221	11,470	16,030	24,814	25,597
Credit to non-bank financial institutions	791	980	1,358	1,896	4,243	4,318
Other items, net	-1,265	-1,369	-2,280	-3,498	-5,046	-5,242
Broad money	12,691	14,835	17,537	21,765	28,935	28,507
Currency outside banks	2,920	3,756	4,632	5,121	6,118	5,903
Deposits	9,771	11,078	12,905	16,644	22,817	22,604
In national currency	5,589	7,465	9,478	12,325	16,616	16,330
Savings deposits	1,765	2,892	3,575	4,974	6,013	6,372
Demand deposits	3,824	4,573	5,903	7,351	10,603	9,958
In foreign currency	4,181	3,614	3,427	4,320	6,200	6,274
Memorandum items:						
Reserve money (yearly percent change)	8.3	20.8	26.6	7.1	27.6	24.8
Broad money (yearly percent change)	21.4	16.9	18.2	24.1	32.9	31.3
Private sector credit (yearly percent change)	6.3	30.4	58.8	39.8	54.8	57.7
Money multiplier	3.0	2.9	2.7	3.1	3.2	3.3
Currency / deposits (percent)	29.9	33.9	35.9	30.8	26.8	26.1
Foreign currency / lita deposits (percent)	74.8	48.4	36.2	35.0	37.3	38.4
Gross official reserves (in millions of U.S. dollars) 3/	1,657	2,335	3,354	3,502	3,793	4,063
Gross official reserves (in millions of euros)	1,920	2,297	2,736	2,615	3,200	3,356
GDP	48,563	51,948	56,772	62,440	71,001	...

Sources: Bank of Lithuania; and Fund staff estimates and projections.

1/ Excludes local government deposits; includes counterpart funds.
2/ Data for 2001 onwards include Treasury accounts, which were moved from commercial banks to the BoL at end-June, 2001.
3/ Gross official reserves for historic data differ from the BOP table because of valuation differences.

Table 4. Lithuania: Summary of Consolidated General Government Operations, 2001-11 1/
(In millions of litai)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
					Est.	Projection					
Revenue	15,386	16,466	17,726	19,938	22,965	27,158	29,109	30,915	35,244	37,983	40,863
Tax revenue	9,781	10,455	11,230	12,379	14,349	16,220	17,330	17,886	19,411	21,061	22,815
Taxes on income and profits	3,785	3,870	4,515	5,429	6,449	7,334	7,502	7,219	7,866	8,558	9,286
Income tax	3,525	3,568	3,731	4,260	4,877	5,168	5,246	5,168	5,633	6,128	6,645
Corporate profit tax	259	302	785	1,169	1,508	2,166	2,256	2,051	2,233	2,429	2,642
Taxes on goods and services	5,614	6,181	6,301	6,599	7,532	8,375	9,266	10,055	10,884	11,790	12,757
VAT	3,544	3,843	3,836	4,006	4,842	5,596	6,212	6,722	7,255	7,842	8,465
Excises	1,629	1,750	1,872	1,905	2,040	2,137	2,349	2,564	2,791	3,036	3,301
Other	441	588	594	688	650	642	705	770	838	912	991
Other tax revenue	383	405	413	351	433	511	562	611	661	713	772
Social security contributions	4,349	4,493	4,851	5,746	6,413	7,231	8,016	8,766	9,707	10,597	11,520
Grants 2/	175	301	389	560	705	2,031	1,919	2,249	3,932	3,932	3,933
Other revenue	1,080	1,217	1,256	1,253	1,498	1,676	1,844	2,013	2,194	2,392	2,595
Expense	15,967	16,261	17,277	19,487	21,219	25,175	27,052	28,441	31,513	33,888	36,406
Wages and salaries, incl. contributions to SoDra	4,605	4,768	4,990	5,545	5,569	6,187	6,671	7,147	7,705	8,182	8,831
Goods and services	2,549	2,798	3,182	2,956	3,797	4,875	5,207	4,968	6,243	7,052	7,667
Grants	20	3	3	332	413	860	921	982	1047	1117	1193
Subsidies	81	126	164	434	604	737	800	834	896	969	1,045
Interest payments	784	719	722	624	552	966	1,104	1,238	1,364	1,537	1,627
Foreign	539	491	480	426	455	507	527	547	578	625	632
Domestic	245	228	242	197	319	452	568	683	776	902	983
Social benefits	6,869	6,856	7,171	7,770	9,449	9,221	9,910	10,820	11,568	12,159	12,919
Other expense	1,057	993	1,046	1,826	836	2,329	2,439	2,451	2,689	2,872	3,123
Net acquisition of nonfinancial assets	422	881	1,137	1,348	2,118	3,094	3,168	3,620	4,770	5,188	5,640
Net lending/borrowing (borrowing (-))	-1,003	-676	-689	-897	-372	-1,112	-1,112	-1,148	-1,040	-1,095	-1,184
Net acquisition of financial assets	-198	358	-493	-646	413	...	...	...	...	...	...
Net incurrence of liabilities	806	1,034	196	251	-40	1,112	1,112	1,148	1,040	1,095	1,184
	(In percent of GDP, unless otherwise specified)										
Revenue	31.7	31.7	31.2	31.9	32.3	33.7	32.8	32.0	33.5	33.2	32.8
Tax revenue	20.1	20.1	19.8	19.8	20.2	20.1	19.6	18.5	18.4	18.4	18.3
Taxes on income and profits	7.8	7.4	8.0	8.7	9.1	9.1	8.5	7.5	7.5	7.5	7.5
Income tax	7.3	6.9	6.6	6.8	6.9	6.4	5.9	5.3	5.3	5.4	5.3
Corporate profit tax	0.5	0.6	1.4	1.9	2.1	2.7	2.5	2.1	2.1	2.1	2.1
Taxes on goods and services	11.6	11.9	11.1	10.6	10.6	10.4	10.5	10.4	10.3	10.3	10.2
VAT	7.3	7.4	6.8	6.4	6.8	6.9	7.0	6.9	6.9	6.8	6.8
Excises	3.4	3.4	3.3	3.1	2.9	2.7	2.7	2.7	2.7	2.7	2.7
Other	0.9	1.1	1.0	1.1	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Other tax revenue	0.8	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Social security contributions	9.0	8.6	8.5	9.2	9.0	9.0	9.0	9.1	9.2	9.3	9.2
Grants 2/	0.4	0.6	0.7	0.9	1.0	2.5	2.2	2.3	3.7	3.4	3.2
Other revenue	2.2	2.3	2.2	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Expense	32.9	31.3	30.4	31.2	29.9	31.2	30.5	29.4	29.9	29.6	29.2
Wages and salaries, incl. contributions to SoDra	9.5	9.2	8.8	8.9	7.8	7.7	7.5	7.4	7.3	7.1	7.1
Goods and services	5.2	5.4	5.6	4.7	5.3	6.0	5.9	5.1	5.9	6.2	6.2
Grants	0.0	0.0	0.0	0.5	0.6	1.1	1.0	1.0	1.0	1.0	1.0
Subsidies	0.2	0.2	0.3	0.7	0.8	0.9	0.9	0.9	0.9	0.8	0.8
Interest payments	1.6	1.4	1.3	1.0	0.8	1.2	1.2	1.3	1.3	1.3	1.3
Foreign	1.1	0.9	0.8	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Domestic	0.5	0.4	0.4	0.3	0.4	0.6	0.6	0.7	0.7	0.8	0.8
Social benefits	14.1	13.2	12.6	12.4	13.3	11.4	11.2	11.2	11.0	10.6	10.4
Other expense	2.2	1.9	1.8	2.9	1.2	2.9	2.8	2.5	2.6	2.5	2.5
Net acquisition of nonfinancial assets	0.9	1.7	2.0	2.2	3.0	3.8	3.6	3.7	4.5	4.5	4.5
Net lending/borrowing (borrowing (-))	-2.1	-1.3	-1.2	-1.4	-0.5	-1.4	-1.3	-1.2	-1.0	-1.0	-1.0
Net acquisition of financial assets	-0.4	0.7	-0.9	-1.0	0.6	...	...	...	...	...	...
Net incurrence of liabilities	1.7	2.0	0.3	0.4	-0.1	1.4	1.3	1.2	1.0	1.0	1.0
Memorandum items:											
GDP (in millions of litai)	48,563	51,948	56,772	62,440	71,084	80,617	88,622	96,717	105,300	114,531	124,540
General government balance incl. restitution payments	-2.1	-1.4	-1.7	-2.5	-1.3	-2.1	-1.8	-1.7	-1.0	-1.0	-1.0
General government debt	22.9	22.3	21.2	19.5	18.6	18.5	18.7	18.8	18.2	17.7	17.3
Foreign debt	16.9	14.9	13.8	13.7	12.8	11.4	10.4	9.6	9.0	8.3	7.7
Domestic debt	6.0	7.4	7.5	5.7	5.8	7.1	8.3	9.1	9.3	9.4	9.5
Cyclically adjusted general government balance (incl. restitution)	-0.1	0.2	-1.4	-2.6	-1.7	-2.9	-2.6	-2.4	-1.7	-1.7	-1.6

Source: Ministry of Finance; Ministry of Social Security; and Fund staff estimates.

1/ The fiscal accounts are presented according to GFS2001, in contrast to previous staff reports which presented fiscal accounts according to GFS1986 (See Government Finance Statistics Manual 2001 Companion Material, IMF, October 2002.) In particular payments for savings restitution (previously projected at 0.8 percent of GDP in 2004 and 0.5 percent of GDP in 2005) are not included in expenditures in the present presentation, but were in previous staff reports. Additionally, social security contributions by the government (previously projected at 19 percent of GDP in 2004 and 1.8 percent in 2005) are included in revenues and expenditures in the current presentation, but were not in previous staff reports.

2/ Grants from EU and related expenditures are not included prior to 2002.

Table 5. Lithuania: Indicators of External and Financial Vulnerability, 2001-06

	2001	2002	2003	2004	2005 Est.	2006 Proj.	Latest Actual	Date of Observation
Financial indicators								
Broad money (year-on-year change in percent)	21.4	16.9	18.2	24.1	32.9	...	31.3	Jan. 2006
Broad money in percent of gross official reserves	191.4	187.0	185.6	241.1	261.9	...	246.0	Jan. 2006
Private sector credit (year-on-year change in percent)	6.3	30.4	58.8	39.8	54.8	...	57.7	Jan. 2006
External indicators								
Current account balance in percent of GDP	-4.7	-5.2	-6.9	-7.7	-7.0	-7.8	-7.0	2005
Exports of GNFS (in millions of U.S. dollars)	6,046	7,510	9,536	11,749	14,895	17,062	14,895	2005
Exports of GNFS (year-on-year change in percent)	18.3	24.2	27.0	23.2	26.7	14.5	26.7	2005
Imports of GNFS (year-on-year change in percent)	14.8	24.0	28.0	25.3	25.2	16.9	25.2	2005
Capital and financial account balance in percent of GDP	3.5	4.2	6.0	6.8	6.6	7.8	6.6	2005
Gross official reserves (in millions of U.S. dollars) 1/	1,669	2,413	3,450	3,594	3,816	4,138	4,075	Jan. 2006
Gross official reserves/short-term debt 2/	0.7	0.8	0.8	0.6	0.6	0.6	0.7	Jan. 2006
Gross official reserves/short-term debt 3/	1.1	1.1	1.1	1.0	0.7	0.7	0.8	Jan. 2006
Gross official reserves/reserve money	156.0	171.7	161.4	142.7	119.0	140.6	134.7	Jan. 2006
Gross official reserves in months of imports of GNFS over the following year	2.4	2.7	3.1	2.6	2.3	2.3	2.9	Jan. 2006
Total gross external debt (in millions of U.S. dollars)	5,268	6,199	8,338	10,472	12,414	14,458	12,414	Dec. 2005
in percent of GDP	43.4	43.9	45.0	46.6	48.7	52.6	48.7	Dec. 2005
of which: Public sector debt (in millions of U.S. dollars)	2,332	2,429	2,793	3,136	2,878	3,220	2,878	Dec. 2005
in percent of GDP	19.2	17.2	15.1	14.0	11.3	11.7	11.3	Dec. 2005
of which: Short-term external debt (in millions of U.S. dollars) 3/	1,558	2,123	3,277	3,766	5,460	6,138	5,460	Dec. 2005
in percent of gross international reserves	93.4	88.0	95.0	104.8	143.1	148.3	143.1	Dec. 2005
in percent of GDP	12.8	15.0	17.7	16.8	21.4	22.3	21.4	Dec. 2005
of which: excluding short-term liabilities of commercial banks	1,033	1,379	1,829	1,999	2,139	2,526	2,139	Dec. 2005
Total net external debt (in millions of U.S. dollars) 4/	3,864	4,463	6,202	7,112	8,117	9,586	8,117	Dec. 2005
in percent of GDP	31.8	31.6	33.4	31.7	31.8	34.9	31.8	Dec. 2005
of which: Public sector debt (in millions of U.S. dollars)	2,332	2,429	2,793	3,136	2,878	3,220	2,878	Dec. 2005
in percent of GDP	19.2	17.2	15.1	14.0	11.3	11.7	11.3	Dec. 2005
Total net external short-term debt (in millions of U.S. dollars) 5/	530	740	1,452	1,427	2,796	2,914	2,796	Dec. 2005
in percent of GDP	4.4	5.2	7.8	6.4	11.0	10.6	11.0	Dec. 2005
External interest payments in percent of exports GNFS	3.3	2.7	2.5	2.1	1.7	1.8	...	...
External amortization payments on medium- and long-term debt in percent of exports GNFS 6/	11.9	12.1	14.1	12.8	14.8	15.1	...	...
Debt service as percent of exports of GNFS 6/	15.2	14.8	16.6	14.9	16.6	16.9	...	...
Real effective exchange rate (year-on-year change in percent, "+" = appreciation) 7/	-4.5	4.7	2.0	-0.4	-3.8	0.0	-3.8	Nov. 2005
Financial market indicators								
Stock market index, end of period 8/	76	85	174	289	449	...	396	Feb. 27, 2006
Foreign currency debt rating 9/	BBB-	BBB	BBB+	A-	A	...	A	Feb. 2006
Memorandum item:								
Nominal exchange rate (litai/U.S. dollar, end-of-period)	4.0	3.3	2.8	2.5	2.9	...	2.9	Jan. 2005
Nominal exchange rate (litai/euro, end-of-period)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	Feb. 2006

Sources: Bank of Lithuania, Ministry of Finance; Department of Statistics; National Stock Exchange of Lithuania; Bloomberg; and Information Notice System.

1/ Gross official reserves reported here differ from the monetary table due to valuation differences.
2/ On an remaining maturity basis, estimated as short-term debt at year-end plus amortization of medium- and long-term debt of the following year.
3/ On an original maturity basis.
4/ Gross external debt minus debt securities held abroad and other investments abroad.
5/ Short-term gross external debt excluding trade credits and currency and deposits held abroad.
6/ Excludes amortization on short-term debt. Servicing of short-term debt reflects also the turnover of very short-term claims. The authorities are examining the reasons for a rise in such claims and a STA technical assistance mission is expected to help establish a methodology for their reporting. The stock of short-term debt used for such prudential measures as the reserve to short-term debt ratio is not affected by these developments. Staff projections in the 2004 Article IV staff report indicate that debt service on short-term debt is, on average, on the order of 45 percent of exports of goods and services over the medium term.
7/ CPI-based REER against the 17 major trading partners in 2000.
8/ VILSE index.
9/ S&P investment grade rating.

Table 6. Lithuania: Financial Sector Indicators, 2000-05

(In percent, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005
Private sector credit (year-on-year change) 1/	-6.1	6.3	30.4	58.8	39.8	54.8
Claims on private enterprises (in millions of litas)	4,526	4,769	5,925	8,909	11,390	16,004
of which: share of foreign currency loans	60.5	61.0	53.7	60.4	62.4	65.6
Claims on private enterprises (year-on-year change)	-5.2	5.4	24.2	50.4	27.8	40.5
Share of claims on private enterprises in total private sector credit	86.9	86.1	82.1	77.7	71.1	64.5
Claims on individuals (in millions of litas)	611	741	1,268	2,531	4,600	8,754
of which: share of foreign currency loans	46.8	44.2	26.6	29.3	42.5	55.5
Claims on individuals (year-on-year change)	-12.9	21.4	71.1	99.5	81.8	90.3
Share of claims on individuals in total private sector credit	11.7	13.4	17.6	22.1	28.7	35.3
Required reserves (in percent of total reserves)	71.6	83.2	84.8	69.1	88.9	75.9
Official risk indicators						
Nonperforming loans to total gross loans 2/	10.0	6.7	5.3	2.4	2.1	2.5
Regulatory capital to risk-weighted assets 3/	17.2	16.3	15.2	12.6	11.4	10.0
Liquid assets (Core) to short-term liabilities 4/	40.8	37.8	29.3	30.6	34.7	32.9
Financial sector risk factors of deposit money banks						
Share of foreign currency private sector credit in total private sector	66.1	58.8	49.1	53.8	57.1	62.5
Share of foreign currency deposits in total deposits	45.6	42.8	32.6	26.6	26.0	27.2
Short-term private sector credit in percent of total private sector credit	37.1	29.9	26.6	22.3	15.0	11.4
Demand deposits in percent of total deposits	38.7	39.1	41.3	45.7	44.2	46.5
Bank profitability 5/						
Return on Assets	0.4	-0.2	1.0	1.2	1.2	1.3
Return on Equity	3.9	-1.6	9.2	12.0	13.8	16.6
Market assessment						
Spread between VILIBID and VILIBOR 6/	263	200	185	86	40	23
Net open position in foreign exchange to capital 7/	0.4	2.5	-1.2	6.6	-0.9	1.8
Total private sector credit (in millions of litai) 8/	5,209	5,538	7,221	11,470	16,030	24,814
Total resident deposits (in millions of litai) 8/	7,797	9,771	11,078	12,905	16,644	22,817
Average annual interest rate on litai loans to enterprises 9/	13.0	9.4	6.6	6.5	5.7	...
Average annual interest rate on litai loans to households 9/	14.3	9.8	10.9	7.0	6.4	...

Sources: Bank of Lithuania; and National Stock Exchange of Lithuania.

1/ Includes claims on private enterprises, households, and nonprofit institutions by monetary authorities, deposit money banks, and other banking institutions.
2/ Includes foreign bank branches. Includes loans overdue for 31 or more days. Unconsolidated data. Data for 2005 as of end-September 2005.
3/ Foreign bank branches are excluded. Data for 2005 as of end-September 2005.
4/ Core liquid assets comprise currency and financial assets available on demand or within 3 months or less. Data for 2005 as of end-September 2005.
5/ Net income before extraordinary items and taxes. Data for 2005 as of end-September 2005, annualized.
6/ Interbank rates; basis points. End-year spread between the overnight Vilnius Interbank Offered rate (VILIBOR) and the overnight Vilnius Interbank Bid rate (VILIBID).
7/ Excluding foreign bank branches. Since June 1, 2000, maximum in foreign currency and precious metals is 25 percent of a bank's capital. Maximum in each currency is 15 percent.
8/ From banking survey, including monetary authorities, deposit money banks, and other banking institutions.
9/ Average annual interest rate on 1-3 month loans in litai.

Table 7. Lithuania: Macroeconomic Framework, 2001-11

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
					Est.			Projection			
Gross national saving	15.8	16.8	16.0	16.5	18.1	17.6	17.5	18.3	18.4	18.8	19.3
General government	0.3	1.5	1.5	0.7	3.1	3.2	3.2	3.5	5.0	5.0	5.0
Nongovernment	15.6	15.3	14.6	15.8	15.0	14.4	14.3	14.8	13.4	13.8	14.2
Gross national investment	20.6	22.0	22.9	24.2	25.0	25.3	25.0	25.5	25.5	25.6	26.0
Foreign saving 1/	4.7	5.2	6.9	7.7	7.0	7.8	7.5	7.2	7.0	6.8	6.7
Consolidated general government fiscal balance 2/	-2.1	-1.4	-1.7	-2.5	-1.3	-2.1	-1.8	-1.7	-1.0	-1.0	-1.0
Current account balance	-4.7	-5.2	-6.9	-7.7	-7.0	-7.8	-7.5	-7.2	-7.0	-6.8	-6.7
Gross external debt	43.4	43.9	45.0	46.6	48.7	52.6	54.9	56.8	57.8	58.2	58.1
Debt service (in percent of exports of goods and nonfactor services) 3/	15.2	14.8	16.6	14.9	16.6	16.9	17.5	18.1	18.5	18.9	19.1
Memorandum items:											
Nominal GDP (in millions of litas)	48,563	51,948	56,772	62,440	71,084	80,617	88,622	96,717	105,300	114,531	124,540
Real GDP growth (year-on-year, in percent)	6.4	6.8	10.5	7.0	7.5	6.8	6.0	5.8	5.8	5.8	5.8
Average CPI (year-on-year change, in percent)	1.3	0.3	-1.2	1.2	2.7	3.1	3.0	2.7	2.5	2.5	2.4
End-of-period CPI (year-on-year change, in percent)	2.0	-1.0	-1.3	2.9	3.0	3.5	3.5	2.7	2.5	2.5	2.4

Sources: Lithuanian authorities; and IMF staff estimates and projections.

1/ Negative current account balance
2/ General government net lending/borrowing (ESA95) and including savings and restitution payments.
3/ Excludes amortization on short-term debt. Servicing of short-term debt reflects also the turnover of very short-term claims. The authorities are examining the reasons for a rise in such claims and a STA technical assistance mission is expected to help establish a methodology for their reporting. The stock of short-term debt used for such prudential measures as the reserve to short-term debt ratio is not affected by these developments. Staff projections in the 2004 Article IV staff report indicate that debt service on short-term debt is, on average, on the order of 45 percent of exports of goods and services over the medium term.

Table 8. Lithuania: Financial Soundness Indicators (All Banking System, Consolidated Data), 2000-05

	2000	2001	2002	2003	2004	2004 Sept.	2005 Sept.
	(In percent, unless otherwise specified)						
Capital adequacy							
Regulatory capital to risk-weighted assets *1/	17.2	16.3	15.2	12.6	11.4	11.9	10.0
Regulatory tier I capital to risk-weighted assets *1/	12.5	12.1	11.4	9.7	8.6	9.3	7.4
Capital to assets	10.6	9.9	10.4	9.1	7.9	8.5	7.3
Asset quality							
Nonperforming loans net of provisions to capital *2/ 3/	28.5	21.3	21.1	11.7	12.6	11.7	16.4
Nonperforming loans to total gross loans *2/ 3/	10.0	6.7	5.3	2.4	2.1	2.1	2.5
Sectoral distribution of loans to total loans *2/							
Agriculture	2.0	1.6	2.1	1.9	2.1	2.1	2.7
Manufacturing	25.9	23.2	21.8	22.1	17.7	19.1	17.0
Electricity, gas, water supply	7.7	7.5	7.3	7.6	6.4	5.8	4.7
Construction	3.2	3.0	4.0	3.2	2.9	2.9	4.4
Wholesale and retail trade	21.4	21.8	20.2	19.2	15.7	16.1	15.3
Hotels and restaurants	1.3	1.2	1.6	1.7	1.6	1.6	1.6
Transport, storage, communications	5.5	6.2	5.0	2.9	2.3	2.5	3.0
Financial intermediaries	7.1	9.8	10.6	10.7	10.8	11.7	10.3
Real estate and renting	4.9	5.6	6.8	7.6	9.8	8.6	12.4
General government	8.9	7.8	4.3	2.4	4.1	3.7	1.7
Other	12.0	12.3	16.3	20.7	26.6	25.8	27.0
Residential real estate loans to total loans	...	...	11.0	12.9	16.1	15.5	19.0
Large exposures to capital 1/ 4/ 5/							
Number of large exposures 1/ 4/	68.0	88.0	81.0	83.0	78.0	83.0	99.0
All large exposures to capital 1/ 4/	87.5	164.9	118.3	125.7	105.5	115.4	134.5
Connected lending to capital 1/ 5/	1.3	2.5	1.9	1.1	11.9	11.6	...
Earnings and profitability							
Return on equity (Net income to average capital) *6/ 7/	3.9	-1.6	9.2	12.0	13.8	13.5	16.6
Return on assets (Net income to average total assets) *6/ 7/	0.4	-0.2	1.0	1.2	1.2	1.2	1.3
Interest margin to gross income *	56.6	52.2	50.4	48.9	50.1	49.8	50.1
Noninterest expenses to gross income *	81.7	92.7	83.8	82.6	74.2	74.8	68.1
Trading and foreign exchange gains (losses) to gross income	11.1	8.7	13.5	9.5	7.2	6.9	7.5
Personnel expenses to noninterest expenses	43.2	40.3	40.8	36.9	33.2	33.1	31.9
Spread between reference lending and reference deposit rate 6/ 8/	7.2	6.6	5.5	4.7	3.9	3.9	3.5
Liquidity							
Liquid assets (Core) to total assets *9/	32.6	31.7	24.0	24.1	26.4	25.0	24.6
Liquid assets (Core) to short-term liabilities * 9/	40.8	37.8	29.3	30.6	34.7	32.9	32.9
Spread between highest and lowest interbank rate 10/	9.6	5.9	9.0	3.9	1.7	2.0	1.3
Customer deposits to total non-interbank loans	145.9	143.7	130.2	92.2	84.9	84.0	80.6
Foreign exchange risk							
Foreign-currency-denominated loans to total loans 2/ 11/	67.1	60.6	51.0	54.8	58.7	57.7	62.5
Foreign-currency-denominated liabilities to total liabilities 2/ 11/	54.7	52.6	44.5	45.8	45.4	47.0	49.7
Net open position in foreign exchange to capital *1/	0.4	2.5	-1.2	6.6	-0.9	0.0	1.8
Equity risk and exposure to derivatives							
On balance (assets) position in equities to capital 12/	10.5	8.5	5.8	6.2	6.1	6.2	5.6
Gross assets position in financial derivatives to capital	...	...	0.3	0.5	0.8	0.3	1.2
Gross liabilities position in financial derivatives to capital	...	...	2.1	2.1	0.8	0.3	0.4

Source: Bank of Lithuania.

* Core financial soundness indicators.

General notes:
A. FSI calculations were based on the definitions in Compilation Guide on Financial Soundness Indicators, except if otherwise stated.
B. Sector level data was compiled by data aggregating. Adjustments to the sector-level balance sheet and income statement in order to eliminate intra-sector positions, transactions and gains and losses were not made. Adjustments for goodwill were not made.
C. Most FSI were derived from supervisory consolidated (cross sector) data and comprise all banks and foreign bank branches, incorporated in Lithuania. Thus, if not otherwise stated, the sum of banks' Capital and reserves and Bank branches funds received from the head office were used as capital in the ratios for the whole banking system.

1/ Without foreign bank branches.
2/ Unconsolidated data.
3/ The increase in the ratios as of September, 2005 is to a large extent attributable to the reclassifying of the loans to some enterprises in some industries after they have encountered some financial difficulties.
4/ Large exposure - means loans granted to the borrower the net value of which equals to, or exceeds, 10 per cent of bank capital that is calculated having regard to the national Rules for Calculating Capital Adequacy. In this particular case Loan - means all bank's monetary claims to the borrower, acquired shares (contributions or other portions of equity), reflected in the bank balance-sheet and off-balance sheet items, also monetary obligations of the bank recognised in the bank's off-balance.
5/ Exposures to affiliated entities and other connected counterparties means connected lending.
6/ As of September of 2004 and 2005, data is annualised.
7/ Net income before extraordinary items and taxes.
8/ Excluding loans and deposits to / from credit and financial institutions.
9/ Core Liquid Assets comprise currency and financial assets available on demand or within 3 months or less.
10/ Information is based on interbank deals of all maturities (mostly overnights) made between resident banks in national currency litai within the last quarter of the period.
11/ The major part of foreign currency loans and foreign currency liabilities are in Euros. Due to the Currency board arrangement and pegging litai to Euro this does not represent such foreign exchange risk as it would be in the other cases.
12/ ***N.B.*** *On-balance assets position in equities is used instead net open position in equities.*

Table 9. Lithuania: External Debt Sustainability Framework, 2001-2011
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	43.4	43.9	45.0	46.6	48.7	**52.6**	**54.9**	**56.8**	**57.8**	**58.2**	**58.1**	**-5.9**
Change in external debt	1.0	0.5	1.1	1.7	2.0	3.9	2.3	1.9	1.0	0.4	-0.1	
Identified external debt-creating flows (4+8+9)	-1.1	-6.0	-4.3	-2.4	-0.7	1.9	1.9	1.7	1.5	1.3	1.3	
Current account deficit, excluding interest payments	3.1	3.7	5.6	6.6	5.9	6.7	6.3	6.0	5.8	5.6	5.5	
Deficit in balance of goods and services	5.4	5.6	5.9	7.0	7.0	8.9	8.8	8.6	7.8	7.4	7.2	
Exports	49.8	53.2	51.4	52.3	58.4	62.0	62.4	62.3	62.0	61.3	60.4	
Imports	55.2	58.8	57.3	59.3	65.4	70.9	71.2	70.9	69.9	68.6	67.6	
Net non-debt creating capital inflows (negative)	-3.5	-5.1	-0.8	-2.2	-2.1	-2.8	-2.7	-2.6	-2.5	-2.4	-2.4	
Automatic debt dynamics 1/	-0.7	-4.7	-9.2	-6.7	-4.6	-1.9	-1.7	-1.7	-1.8	-1.8	-1.9	
Contribution from nominal interest rate	1.6	1.4	1.3	1.1	1.0	1.1	1.1	1.2	1.2	1.2	1.2	
Contribution from real GDP growth	-2.6	-2.5	-3.5	-2.6	-3.1	-3.0	-2.9	-2.9	-3.0	-3.1	-3.1	
Contribution from price and exchange rate changes 2/	0.2	-3.6	-6.9	-5.2	-2.5	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.2	6.5	5.4	4.0	2.7	2.0	0.5	0.1	-0.5	-0.9	-1.3	
External debt-to-exports ratio (in percent)	87.1	82.5	87.4	89.1	83.3	84.7	88.0	91.1	93.2	95.0	96.2	
Gross external financing need (in billions of US dollars) 4/	3.6	6.3	9.2	11.9	26.0	31.4	35.9	40.5	45.0	49.3	53.7	
in percent of GDP	29.7	44.8	49.8	52.9	101.9	114.3	118.5	122.1	124.3	125.0	125.0	
Scenario with key variables at their historical averages 5/						**52.6**	**52.7**	**52.3**	**51.2**	**49.7**	**48.0**	**-8.3**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.4	6.8	10.5	7.0	7.5	6.7	6.0	5.8	5.8	5.8	5.8	
GDP deflator in US dollars (change in percent)	-0.5	9.0	18.8	13.2	5.7	1.0	3.9	3.6	3.2	3.0	3.0	
Nominal external interest rate (in percent)	4.1	3.9	3.9	3.0	2.5	2.4	2.4	2.4	2.3	2.3	2.3	
Growth of exports (US dollar terms, in percent)	18.3	24.2	27.0	23.2	26.8	14.5	10.8	9.4	8.6	7.6	7.5	
Growth of imports (US dollar terms, in percent)	14.8	24.0	28.0	25.3	25.3	16.9	10.6	9.1	7.5	7.0	7.3	
Current account balance, excluding interest payments	-3.1	-3.7	-5.6	-6.6	-5.9	-6.7	-6.3	-6.0	-5.8	-5.6	-5.5	
Net non-debt creating capital inflows	3.5	5.1	0.8	2.2	2.1	2.8	2.7	2.6	2.5	2.4	2.4	

Source: IMF staff estimates.

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. Lithuania: Public Sector Debt Sustainability Framework, 2000-2010
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	**Debt-stabilizing primary balance 9/**
1 **Baseline: Public sector debt 1/**	22.9	22.3	21.2	19.5	18.6	**18.5**	**18.7**	**18.8**	**18.2**	**17.7**	**17.3**	**-0.3**
o/w foreign-currency denominated	16.9	14.9	13.8	13.7	12.8	11.4	10.4	9.6	9.0	8.3	7.7	
2 Change in public sector debt	-0.8	-0.5	-1.1	-1.7	-0.8	-0.1	0.1	0.1	-0.5	-0.5	-0.5	
3 Identified debt-creating flows (4+7+12)	1.6	-1.7	-2.6	0.3	1.3	-0.3	0.0	-0.1	-0.7	-0.7	-0.7	
4 Primary deficit	0.5	-0.1	-0.1	0.4	-0.3	0.2	0.0	-0.1	-0.3	-0.4	-0.4	
5 Revenue and grants	31.7	31.7	31.2	31.9	32.3	33.7	32.8	32.0	33.5	33.2	32.8	
6 Primary (noninterest) expenditure	32.1	31.6	31.2	32.4	32.1	33.9	32.8	31.9	33.2	32.8	32.5	
7 Automatic debt dynamics 2/	0.3	-2.9	-2.5	-0.9	1.1	-0.3	0.1	0.2	-0.2	-0.1	-0.1	
8 Contribution from interest rate/growth differential 3/	0.3	0.0	-0.2	0.2	-0.8	-0.3	0.1	0.2	-0.2	-0.1	-0.1	
9 Of which contribution from real interest rate	1.8	1.5	2.0	1.5	0.5	0.8	1.1	1.2	0.8	0.8	0.8	
10 Of which contribution from real GDP growth	-1.4	-1.4	-2.1	-1.3	-1.3	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	
11 Contribution from exchange rate depreciation 4/	0.0	-2.9	-2.4	-1.1	1.9	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.8	1.3	0.0	0.7	0.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
13 Privatization receipts (negative)	-1.0	-0.5	-1.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	1.9	1.7	1.4	1.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	-2.4	1.1	1.5	-2.0	-2.2	0.2	0.2	0.2	0.2	0.2	0.2	
Public sector debt-to-revenue ratio 1/	72.1	70.4	68.0	61.0	57.7	55.0	56.8	58.8	54.5	53.5	52.6	
Gross financing need 6/	12.6	7.1	7.7	9.2	5.4	5.8	3.8	4.2	2.4	2.4	2.2	
in billions of U.S. dollars	1.5	1.0	1.4	2.1	1.3	1.5	1.1	1.4	0.8	0.9	0.9	
Scenario with key variables at their historical averages 7/						**18.5**	**19.8**	**21.2**	**22.5**	**23.8**	**25.2**	**-0.1**
Scenario with no policy change (constant primary balance) in 2005-2010						**18.5**	**18.9**	**19.3**	**19.2**	**19.3**	**19.3**	**-0.3**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.4	6.8	10.5	7.0	7.5	6.7	6.0	5.8	5.8	5.8	5.8	
Average nominal interest rate on public debt (in percent) 8/	7.4	7.1	8.5	10.9	9.1	11.6	10.7	10.4	7.5	8.0	8.0	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	7.9	6.9	9.6	8.1	3.2	5.3	7.0	7.2	4.6	5.2	5.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	20.8	19.9	9.0	-12.9	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	-0.5	0.2	-1.1	2.8	5.9	6.3	3.7	3.2	2.9	2.8	2.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.5	5.0	8.9	11.1	6.4	12.8	2.8	2.6	10.0	4.5	4.7	
Primary deficit	0.5	-0.1	-0.1	0.4	-0.3	0.2	0.0	-0.1	-0.3	-0.4	-0.4	

Source: IMF staff estimates.
1/ General government gross debt.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. 8-year historical averages due to lack of consistent general government debt data for 1995-1996.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

LITHUANIA: FUND RELATIONS
(As of January 31, 2006)

I. Membership Status: Joined April 29, 1992; Article VIII.

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	144.20	100.00
Fund holdings of currency	144.18	99.99
Reserve position	0.02	0.01

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Holdings	0.05	N/A

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Stand-by	8/30/2001	3/29/2003	86.52	0.00
Stand-by	3/8/2000	6/7/2001	61.80	0.00
EFF	10/24/1994	10/23/1997	134.55	134.55

VI. Projected Payments to Fund: None

VII. Implementation of HIPC Initiative: N/A

VIII. Current Status of Safeguards Assessments:

Under the Fund's safeguards assessment policy, Bank of Lithuania (BOL) was subject to an assessment with respect to the Stand-By Arrangement, which was approved on August 30, 2001 and expired on March 29, 2003. A safeguards assessment of the BOL was completed on December 10, 2001. The assessment identified certain weaknesses and proposed appropriate recommendations as reported in EBS/01/211. The BOL has decided to implement these recommendations under a timetable agreed with the Fund.

IX. Exchange Arrangements:

The currency of Lithuania is the litas. From April 1, 1994 to February 1, 2002, the litas was pegged to the U.S. dollar at LTL 4 per U.S. dollar under a currency board arrangement. Since February 2, 2002 the litas has been pegged to the euro at LTL 3.4528 per euro. Lithuania joined the European Union (EU) on May 1, 2004, and ERM II on June 28, 2004. Lithuania has accepted the obligations of Article VIII of the Fund’s Article of Agreement and maintains an exchange system free of restrictions on the making of payment and transfers for current international transactions.

X. Article IV Consultation:

Lithuania is on the 12-month consultation cycle.

XI. FSAP Participation and ROSCs:

FSAP work program is completed. STA ROSC, and Fiscal ROSC have been recently completed.

XII. Technical Assistance:

The following table summarizes the technical assistance missions provided by the Fund to Lithuania since February 1997.[2]

[2] For technical assistance before 1997, see previous reports.

LITHUANIA: TECHNICAL ASSISTANCE FROM THE FUND, 1997-2004

Department	Issue	Action	Date	Counterpart
FAD	Treasury operations	Mr. Ramachandran	Feb/Mar. 1997	Ministry of Finance
FAD	Treasury operations	Mr. Ramachandran	Jun. 1997	Ministry of Finance
FAD	Treasury operations	Mr. Ramachandran	Aug/Sep. 1997	Ministry of Finance
STA	Balance of payments statistics	Mr. Allen	Aug/Sep. 1997	Department of Statistics
FAD	Treasury operations	Mr. Ramachandran	Nov/Dec. 1997	Ministry of Finance
MAE	Monetary policy and banking supervision	Mission	Dec. 1997	Bank of Lithuania
STA	National accounts and balance of payments	Mr. Gschwindt de Gyor	Dec. 1997	Department of Statistics
FAD	Treasury operations	Mr. Ramachandran	Jan. and April 1998	Ministry of Finance
STA	Multipurpose statistics	Mr. Allen	Resident Advisor, 1997-98	Department of Statistics, Bank of Lithuania, and Ministry of Finance
STA	Balance of payments	Mr. Gschwindt de Gyor	April 1999	Department of Statistics and Bank of Lithuania
FAD	Expenditure policy	Mission	June/July 99	Ministry of Finance
FAD	Treasury operations	Mission	November 1999	Ministry of Finance
MAE	Monetary policy	Mr. Ketterer	Resident Advisor, May 1997-November 1999	Bank of Lithuania
STA	Balance of payments statistics (also covering Latvia)	Mr. Buxton	Resident Advisor, October 1999–October 2000	Bank of Lithuania
LEG	Bankruptcy legislation	Mr. Dimitrachkov	March 2000	Ministry of Economy
FAD	Establishment of Fiscal Reserve Fund	Mission	July 2000	State Privatization Fund
MAE	Multi-topic	Mission	March 2001	Bank of Lithuania
FAD	Tax policy issues	Mission	June 13-26	Ministry of Finance
STA	ROSC	Mission	May 8-22, 2002	Department of Statistics, Ministry of Finance, and Bank of Lithuania
FAD	ROSC	Mission	July 10-23, 2002	Ministry of Finance
FAD	Treasury Operations	Mr. Ramachandran	Nov 22-Dec 5 2004	Ministry of Finance
FAD	Decentralization	Mission	Dec 3-Dec 15 2004	Ministry of Finance

XIII. Resident Representative: N/A

LITHUANIA: STATISTICAL ISSUES

Over the past several years, Lithuania has made good progress in establishing a macroeconomic database. Official data for all sectors are generally of sufficiently good quality to support economic analysis.

Lithuania subscribed to the Special Data Dissemination Standard (SDDS) in May 1996, and its metadata have been posted on the Fund's Dissemination Standards Bulletin Board (DSBB) since April 1997. Lithuania meets the SDDS specifications for coverage, periodicity and timeliness of the data, and for the dissemination of the advance release calendars. A significant amount of information is now available on various websites through the Internet (see section on Dissemination of Statistics, below). A ROSC Data Module was completed in November 2002.

National Accounts

The national accounts are compiled by the Department of Statistics (DOS) in accordance with the guidelines of the *European System of Accounts 1995* (*ESA 95*). Quarterly GDP estimates at current and at constant prices are compiled both from the production and expenditure approaches. GDP estimates by production are considered to be more reliable than the corresponding estimates by expenditure, but no statistical discrepancies between these two estimates are shown in the published figures as the discrepancies are included in the estimates of changes in inventories. In general, good data sources and sound methods are used, for the compilation of the national accounts, but difficulties remain in measuring the economic activity of the informal sector. These latter estimates are compiled at detailed levels of economic activity using fixed coefficients derived from a benchmark survey conducted in 1996. The base year for the fixed price series was changed to 2000 in early 2003.

Price Data

Since December 1998, CPI weights have been updated annually. The monthly CPI is available in the second week following the reference month. The producer price index is calculated according to the chain-linked Laspeyres formula with weights updated every year.

Public Finance

Data on the central government budget execution are available quarterly, although these data are subject to frequent revisions. The ongoing treasury project is expected to improve fiscal data quality substantially. However, further work is needed to clarify the treatment of public health care providers and of EU transactions, and the consolidation procedure for government operations. Monthly and quarterly data on consolidated central government are not reconciled because they are on different recording basis. A new classification, incorporating the *GFSM2001* was approved in mid-2003. Since then, the MoF has been reporting to STA general government's annual data on an accrual and cash basis (except for local governments, which are still on a cash basis) for publication in the *Government Finance Statistics Yearbook* (GFSY).

Money and Banking

The Bank of Lithuania (BoL) reports monetary and financial statistics (MFS) to STA on a timely and regular basis. The scope, concepts and definitions of monetary statistics are broadly in line with the guidelines of the *Monetary and Financial Statistics Manual (MFSM)*. In compliance with the ECB requirements on pre-accession countries, the BoL's Banking and Monetary Statistics Division generally follows ECB regulations (*1995 ESA*) on sectorization, valuation and classification of financial instruments.

External Sector

The BoL is responsible for compiling the balance of payments, the international investment position, the external debt and the international reserves statistics. The BoL compiles balance of payments statistics on a monthly and quarterly basis using the format recommended in the *Balance of Payments Manual*, fifth edition (*BPM5*). The monthly data correspond to several key balance of payments components, compiled on the basis of a sample survey covering the public sector, commercial banks, and some nonfinancial private sector institutions. The Data Template on International Reserves and Foreign Currency Liquidity is disseminated according to the operational guidelines and is hyperlinked to the Fund's DSBB.

Dissemination of Statistics

The Lithuanian authorities publish a range of economic statistics through a number of publications, including the DOS's monthly publication, *Economic and Social Developments,* and the BoL's monthly *Bulletin*. A significant amount of data are available on the Internet:

- Lithuania's metadata for data categories defined by the Special Data Dissemination Standard are posted on the IMF's DSBB (http://dsbb.imf.org);
- The BoL website (http://www.lbank.lt) provides data on monetary statistics, treasury bill auction results, balance of payments, the international investment position, and main economic indicators;

- The DOS website (http://www.std.lt) provides quarterly information on economic and social development indicators;

- The MoF (http://www.finmin.lt) home page includes data on the national budget, as well as information on laws and privatization; and

- The National Stock Exchange website (http://www.nse.lt) has information on stock trading.

LITHUANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF MARCH 17, 2006

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	Mar. 15, 06	Mar. 15, 06	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb. 28, 06	Mar. 15, 06	M	M	M		
Reserve/Base Money	Feb. 28, 06	Mar. 15, 06	M	M	M	O, LO, LO, LO	O, O, LO, O, O
Broad Money	Jan. 31, 06	Feb. 28, 06	M	M	M		
Central Bank Balance Sheet	Feb. 28, 06	Mar. 15, 06					
Consolidated Balance Sheet of the Banking System	Jan. 31, 06	Feb. 28, 06					
Interest Rates[2]	Mar. 15, 06	Mar. 15, 06	M	M	M		
Consumer Price Index	Feb. 06	Mar. 06	M	M	M	O, O, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q3/05	Dec. 05				LO,LO,LO,O	O,O,O,O,O
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Q3/05	Dec. 05	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3/05	Dec. 05	M	M	M		
External Current Account Balance	Jan. 06	Mar. 06	Q	Q	Q	O, O, LO, O	O, O, O, O, O
Exports and Imports of Goods and Services	Q4 2005	Mar. 06	M	M	M		
GDP/GNP	Q4/05	Feb. 06	Q	Q	Q	O, LO, O, LO	O, LO, LO, LO, O
Gross External Debt	Q3/05	Dec. 06	Q	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC (published on November 22, 2002, and based on the findings of the respective missions that took place during May 8-22, 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Reflects the assessment provided in the data ROSC (published on November 22, 2002, and based on the findings of the respective missions that took place during May 8-22, 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 06/51
FOR IMMEDIATE RELEASE
May 4, 2006

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2006 Article IV Consultation with the Republic of Lithuania

On May 1, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Lithuania.[1]

Background

Following exceptional economic progress, based on macro stability and economic flexibility, imbalances and cautionary signals have emerged. Centered around nontraded goods production, GDP grew 7.5 percent in 2005. Most indicators suggest a tightening of resource use: a declining unemployment rate, high capacity utilization, and buoyant asset prices. Through external price shocks, adjustment of administered prices, and domestic demand pressures, inflation has been on the rise, creating the risk that the Maastricht inflation reference rate will be exceeded and euro adoption delayed beyond the targeted January 1, 2007.

The economy has continued to receive stimulus from the combination of fiscal and European Union (EU) expenditures. The stimulus in 2005 would have been greater absent some unexpected, one-off revenue gains, especially for the value added tax (VAT) and profit tax revenues. The reorganization of tax administration in late 2004 yielded further revenue gains. Fiscal pressures, however, are set to increase as expenditure pressures will arise from aging and public sector wage increases to discourage emigration, and as the elimination of the social tax reduces revenues from 2008. To offset these fiscal pressures, a widening of the tax base and expenditure rationalization will be needed.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The current account deficit has remained sizable, with significant reliance on bank and market-based financing to cover it. External indebtedness, however, is among the lowest in the new Central and Eastern European members of the EU (the CEE-8). The accumulating short-term debt is composed of trade credits and lending by parent banks to the Lithuanian subsidiaries. As such, while the reserve cover of short-term debt is lower than conventionally accepted threshold values, the sound reputation of the foreign banks and their long-term relationships with the Lithuanian banking system mitigate the rollover risk.

Rapid credit growth has supported growing household appetite for mortgages and corporate demands in non-traded sectors. While financial sector earnings and liquidity ratios held steady, asset quality and capital adequacy indicators deteriorated somewhat in 2005. The competition among banks to satisfy the demand for credit has led to more aggressive lending practices, as seen in narrow interest margins and increasing loan-to-value and debt-to-income ratios of new loans.

Increased use of EU funds has revealed the need to harness them carefully to ensure that they improve competitiveness. The real exchange rate appears fairly valued and export growth has been sound. Lithuania has also made significant advances in improving its business climate. Nevertheless, export growth faces new challenges as capacity constraints are reached in the oil refining industry and international competition in labor-intensive goods increases. In per capita terms, Lithuania is to receive substantial EU funds and their absorption is expected to rise steeply in the next few years. Effective use of these funds for developing public goods, without distorting market competition, will help maintain competitiveness.

Executive Board Assessment

Directors welcomed the continued rapid growth with low inflation, and observed that Lithuania's performance over the past five years ranks among the best within the European Union (EU). Directors attributed this impressive outcome to strong macroeconomic policies, firmly supported by the currency board arrangement that has served the economy well, the implementation of wide-ranging structural reforms, and integration with the EU. They noted that generally flexible product and labor markets, as well as the strong international trade and financial links, have laid the foundation for Lithuania's success in the euro zone with sustained, productivity-based growth.

Directors cautioned, however, that imbalances are emerging and that longer-term challenges have to be addressed. Consumption as well as investment in the property and construction sectors have grown rapidly, contributing to inflation and new financial vulnerabilities. Longer-term challenges are also likely to arise from international tax competition, the demand for public goods, emigration, and pressures on international competitiveness.

Most Directors noted that external shocks, administered price changes, and domestic demand pressures had caused the inflation rate to pick up in 2005, and rise above the Maastricht reference value. A few Directors pointed out that the rise in price levels could also reflect changes in relative prices related to EU integration. It remains a close call whether the inflation rate will fall below the Maastricht reference value in time for the euro to be adopted in January 2007. In this context, a number of Directors considered that the rise in inflation may delay euro adoption. Directors agreed that a year's delay is unlikely to concern financial markets: the currency board, fiscal policy, and the process of trade and financial integration with Europe could be expected to stay on course. More generally, Directors encouraged the authorities to ensure that the right policies are in place to achieve early euro adoption, in order to benefit further from trade and financial ties with the rest of Europe.

Most Directors stressed that a more ambitious fiscal goal would help contain the rise in the price level. They noted that the fiscal stance envisaged for 2006 is procyclical and suggested reducing the projected 2006 budget deficit. Fiscal restraint would also help signal a commitment to early euro adoption.

Directors welcomed the steps taken by the authorities to contain vulnerabilities from aggressive lending practices. They took note of the Bank of Lithuania's efforts to increase coordination with foreign supervisors, publish a financial stability report, and provide guidance to banks on prudential lending. The implementation of the measures recommended in the 2001 FSAP has also been helpful. At this point, Directors did not see the need for administrative measures to slow the pace of credit growth. Instead, Directors encouraged the authorities to conduct forward-looking supervision. In particular, the authorities should ensure that banks' risk management systems keep pace with market developments. Directors urged the authorities to take measures to cool down the property market, encourage disclosure of bank fees, disseminate borrowing guidelines, and continue to report and regulate on the basis of the nonperforming loan ratio. Directors welcomed the planned FSAP update, which they considered would serve to strengthen financial sector surveillance and allow a more forward-looking approach to identifying vulnerabilities. In this context, a regional perspective and cooperation were seen as important.

Directors suggested that the risks from accumulating external short-term debt need close monitoring. Nevertheless, they agreed that there are important mitigating factors. In particular, they noted that the short-term debt mainly comprises trade credits and lending from reputable foreign banks to their Lithuanian subsidiaries.

Directors called for measures to address the growing medium-term fiscal pressures. They observed that the planned personal income tax cuts will weaken the revenue base from 2008 onward. These cuts would put at risk the medium-term target of a structural deficit of 1 percent of GDP. Several Directors underscored that the tax base could be increased by eliminating exemptions related to mortgages, by introducing a more far-reaching property tax and a vehicle tax, and by strengthening tax administration.

Directors encouraged the authorities to aim for greater expenditure efficiency, including in the social sector. In the health sector, the introduction of co-payments would formalize the existing system of informal payments and strengthen patient responsibility. Increased competition would help contain the cost and improve the quality of health care delivery. In the area of social assistance, consolidation and improved targeting of the currently fragmented system would reduce incentives to move into long-term unemployment.

Directors noted that these measures needed to be embedded in a more fully fledged medium-term expenditure framework (MTEF). In this context, Directors called for stricter scrutiny of expenditures by line ministries and municipalities. Directors encouraged integration of the MTEF into a Fiscal Responsibility Act that could help fiscal discipline.

Directors noted that export growth would face new challenges. The real exchange rate appears broadly in line with fundamentals. However, price competition for labor-intensive goods is intensifying, while rising domestic wages are adding to cost pressures. Directors stressed that EU funds could help enhance competitiveness and, therefore, need to be harnessed carefully. Maintaining centralized management of these funds in the Ministry of Finance would support their effective use. Directors encouraged the authorities to ensure transparency of contract awards and to integrate the allocation of EU funds with structural reforms, for example in the social sector.

Republic of Lithuania: Selected Economic Indicators

	2001	2002	2003	2004	2005
Real Economy	(In percent)				
Real GDP growth	6.4	6.8	10.5	7.0	7.5
CPI inflation (end of period)	2.0	-1.0	-1.3	2.9	3.0
Unemployment rate (end of year)	17.4	13.8	12.4	11.3	8.3
Public Finance	(In percent of GDP)				
General government overall balance	-2.1	-1.4	-1.7	-2.5	-1.3
Total general government debt	22.9	22.3	21.2	19.5	18.6
External general government debt	16.9	14.9	13.8	13.7	12.9
Money and Credit	(Year-on-year percent change)				
Reserve money	8.3	20.8	26.6	7.1	27.6
Broad money	21.4	16.9	18.2	24.1	32.9
Private sector credit	6.3	30.4	58.8	39.8	54.8
Balance of Payments	(In percent of GDP; unless otherwise specified)				
Trade balance	-5.4	-5.6	-5.9	-7.0	-7.3
Current account balance	-4.7	-5.2	-6.9	-7.7	-7.2
Gross international reserves (in millions of U.S. dollars)	1,669	2,413	3,450	3,594	3,816
Exchange Rates	(Litai per U.S. dollar)				
Exchange rate (period average)	4.0	3.7	3.1	2.8	2.9
Exchange rate (end of period)	4.0	3.3	2.8	2.5	2.9

Sources: Lithuanian authorities; and IMF staff estimates.