LITHUANIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF FEBRUARY 22, 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	Feb 22, 07	Feb 22, 07	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan. 31, 07	Feb. 5, 07	M	M	M		
Reserve/Base Money	Dec. 31, 06	Jan. 15, 07	M	M	M	O, LO, LO, LO	O, O, LO, O, O
Broad Money	Dec. 31, 06	Feb. 15, 07	M	M	M		
Central Bank Balance Sheet	Dec. 31, 06	Jan. 15, 07	M	M	M		
Consolidated Balance Sheet of the Banking System	Dec. 31, 06	Feb. 15, 07	M	M	M		
Interest Rates[2]	Feb. 22, 07	Feb 22, 07	M	M	M		
Consumer Price Index	Jan. 07	Feb. 07	M	M	M	O, O, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q3/06	Dec. 06	Q	Q	Q	LO,LO,LO,O	O,O,O,O,O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Q3/06	Dec. 06	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3/06	Dec. 06	M	M	M		
External Current Account Balance	Q3/06	Jan. 07	Q	Q	Q	O, O, LO, O	O, O, O, O, O
Exports and Imports of Goods and Services	Dec. 06	Jan. 07	M	M	M		
GDP/GNP	Q4/06	Feb. 07	Q	Q	Q	O, LO, O, LO	O, LO, LO, LO, O
Gross External Debt	Q3/06	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).

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IMF Executive Board Concludes 2007 Article IV Consultation with the Republic of Lithuania

On March 26, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Lithuania.[1]

Background

The catch-up in per capita income toward the European average, underpinned by robust productivity growth, has been impressive. With this success, however, imbalances have also appeared. On the demand side, growth has been maintained by the nexus of consumption growth, rising real wages, and declining unemployment. Recent growth rates of 7½ percent may be unsustainable if rising wages erode international competitiveness. The annual average inflation rate has picked up to 3¾ percent and will likely remain above the Maastricht reference value as long as demand pressures continue and prices converge to European levels.

The fiscal stance has added to demand pressures. Strong revenue overperformance contributed to a small narrowing of the general government deficit on a cyclically adjusted basis. However, when the impact of EU funds is included, the aggregate of government and EU-related operations continued to provide an economic stimulus of ½ percent of GDP in 2006.

The current account deficit widened significantly to 12¼ percent of GDP in 2006. The principal cause was rapid growth in nominal imports, but production shortfalls at the oil refinery also

[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.

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contributed to the widening deficit. Nevertheless, export performance was strong with rising export market share and a continued switch from low- to medium-technology goods. FDI inflows (about 5½ percent of GDP) were boosted by the government's partial sale of the oil refinery and EU funds financed a further 1¼ percent of GDP of the current account deficit. Reserves increased to 57 percent of short-term debt in December 2006.

Despite continued rapid credit growth, buffers in the financial system appear sufficient to cover bank-specific risks. Banks' capital adequacy ratio has increased to 10¾ percent of risk-weighted assets following capital injections in late 2006. Nonperforming loans have modestly increased to 1 percent of total loans at end-2006, but the deterioration was of a nonsystemic nature. Aggregate stress tests indicate that a three-to-five-fold increase in nonperforming loans would not reduce the banking system's capital below the regulatory minimum.

Executive Board Assessment

Executive Directors welcomed the continued bright prospects of the Lithuanian economy, its potential for income catchup with other EU countries, its resilience to shocks, and its ability to climb the technology and quality ladder.

Directors noted that early precautionary measures could ensure that the substantial progress made so far is preserved. GDP growth has been maintained by the nexus of consumption growth, rising real wages, and falling unemployment. Directors expressed concern that the high rate of growth may be unsustainable, if wage increases outpace productivity growth and undermine international competitiveness. Pointing to rising inflation, Directors cautioned that euro adoption in 2009 or 2010 remains uncertain, and advised adoption of a more precautionary stance in four areas: fiscal consolidation; tax and expenditure reforms; measures to further strengthen the financial sector; and structural measures to moderate wage growth and enhance productivity growth.

Directors generally recommended a more ambitious fiscal adjustment, with most advocating a front-loaded fiscal consolidation, combined with a move to medium-term structural balance. Such a consolidation would help cool the economy, contain macroeconomic imbalances, improve prospects of euro adoption, and increase future policy flexibility.

Directors advised a variety of tax, expenditure, and procedural fiscal reforms to enhance fiscal sustainability and accountability. They noted that eliminating tax exemptions—which currently accrue in substantial measure to those who do not need support—would broaden the tax base and make the tax system fairer. Consideration could also be given to an earned income tax credit, which if properly designed, could enhance the simplicity and efficiency of the tax and social benefit system, while better targeting income support to low-income families. Directors reiterated the need for improving expenditure efficiency in the social sector, especially health care and the social benefit system. Directors welcomed the authorities' plans to introduce a Fiscal Responsibility Act (FRA), especially if it includes greater budget transparency and scrutiny of the budgeting process. They recommended that a more ambitious medium-term expenditure framework be embedded into any FRA.

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Directors agreed that buffers in the financial system appear sufficient to cover nonsystemic risks. Nevertheless, they expected the Financial Sector Assessment Program update in late 2007 to provide further analysis of the effects on the financial sector of a macroeconomic slowdown, including a correction in the real estate market. Directors also cautioned that the variance in the strength and performance of banks requires continued vigilance in supervision.

Directors noted that further improvements in the business climate are needed to increase investment. These should focus on strengthening labor market flexibility, clarifying land property rights and land use procedures, and streamlining assessments of business compliance with regulatory standards.

Directors praised the authorities' plans to enhance the absorption of EU funds. They noted that the planned simplification of claim verification and procurement regulation, especially for small projects, is in line with practices in other countries in the region. Complementing these measures with an enhanced role of the Ministry of Finance in project selection would increase accountability.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2007 Article IV Consultation with Lithuania is also available.

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