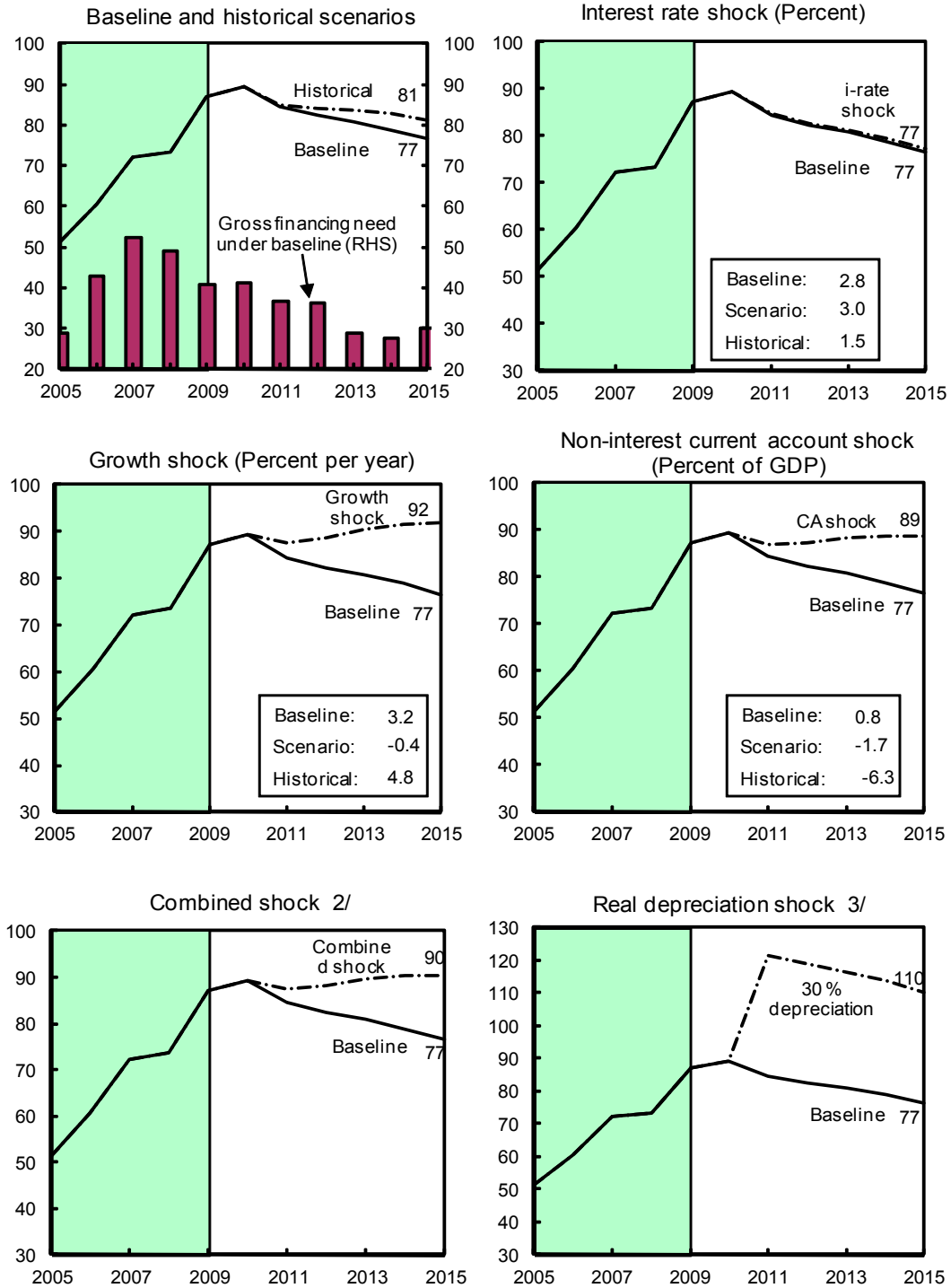


Figure 2. Lithuania: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2010.

INTERNATIONAL MONETARY FUND

REPUBLIC OF LITHUANIA

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the European Department

July 6, 2010

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APPENDIX I. LITHUANIA: FUND RELATIONS
(As of April 30, 2010)

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	0.03	0.02

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	137.24	100.00
Holdings	137.31	100.05

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

	Approval	Expiration	Amount Approved	Amount Drawn
Type	Date	Date	(SDR Million)	(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: Not applicable.

VIII. Implementation of MDRI Assistance: Not applicable.

IX. Current Status of Safeguards Assessments:

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

X. 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 Articles of Agreement and maintains an exchange system free of restrictions on the making of payment and transfers for current international transactions except for those maintained solely for the preservation of

national or international security and which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

XI. Article IV Consultation:

Lithuania is on the 12-month consultation cycle. The last Article IV consultation was concluded on August 7, 2009. The Executive Board assessment is available at <http://www.imf.org/external/np/sec/pn/2009/pn09104.htm> and the staff report and other mission documents at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=23437.0>

XII. FSAP Participation and ROSCs:

An FSAP Update mission was completed on November 19, 2007. Fiscal and statistics ROSCs were completed in November 2002 and December 2002, respectively.

XII. Technical Assistance:

The table on the following page summarizes the technical assistance missions provided by the Fund to Lithuania since 2000.

XIII. Resident Representative: Mark Allen (stationed in Warsaw, Poland).

XIV. Anti-money laundering and combating financing of terrorism:

The money laundering prevention framework is based on the amended Law on the Prevention of Money Laundering and Terrorist Financing, Resolutions of the Government, and Prevention Guidelines for credit institutions confirmed by a Resolution of the Board of the Bank of Lithuania. In 2006, MONEYVAL evaluated Lithuania's AML/CFT framework and concluded that the system was quite sound while suggesting improvements in the implementation of AML/CFT measures. An amended Law on Prevention of Money Laundering and Terrorist Financing was adopted in January 2008. It transposes the Third Anti-Money Laundering and Terrorist Financing Directive 2005/60/EC and Commission Directive 2006/70/EC laying down implementing measures for Directive 2005/60/EC and Regulation (EC) No 1781/2006 relating to information on the payer accompanying transfers of funds. It also incorporates the previous law's provisions that transpose Regulation (EC) No 1889/2005 on controls of cash entering or leaving the European Community as well as 40+9 FATF recommendations.

LITHUANIA: TECHNICAL ASSISTANCE FROM THE FUND, 1998–2010

Department	Issue	Action	Date	Counterpart
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, 2001	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 3–15, 2004	Ministry of Finance
STA	External debt statistics	Mission	Aug 2–4, 2006	Bank of Lithuania
MCM	Stress testing	Mr. Miguel A. Segoviano Basurto	June 11–21, 2007	Bank of Lithuania
STA	External debt statistics	Mission	November 8–19, 2007	Bank of Lithuania
FAD	Public expenditure review	WB mission / Ms. Budina (FAD) participation	April 14–24, 2009	Ministry of Finance
FAD	Tax Administration	Mission	Aug 26–Sept. 8, 2009	Ministry of Finance
MCM/LEG	Bank Resolution/Banking Law	Mission	Sept. 28–Oct. 6, 2009	Bank of Lithuania/Ministry of Finance
FAD	Reform of Social Security and Health Funds	Mission	April 6–20, 2010	Ministry of Finance/State Social Insurance Fund Board
LEG	Capacity Building	Mission	April 30–May 8, 2010	

APPENDIX II: LITHUANIA: WORLD BANK RELATIONS

Lithuania graduated from World Bank financing in Fall 2006, and became an IDA donor during the IDA 15 replenishment. The last Country Partnership Strategy (CPS) was launched at the time of Lithuania's accession to the EU in May 2004. The CPS supported capacity-building for the public sector, sustaining growth through an improved business environment as well as rural development, and reducing social vulnerability. All Bank-financed projects under the last CPS have closed. The last two closed in December 2008—the Klaipeda Port Project which enhanced the efficiency and safety of the Klaipeda port operations, and the Vilnius Heat Demand Management Project (financed by a grant from the Global Environment Facility) which contributed to reducing greenhouse gas emissions from the Vilnius District Heating system.

Following graduation, Lithuania maintained an active dialogue with the Bank and made use of the Bank's post-graduation TA which expired in fiscal 2009. The Bank provided technical assistance to the Government of Lithuania on strengthening support to rural regions to assist the implementation of the EU's rural development programs. The Lithuanian authorities requested use of Bank-financed technical assistance to assist the Ministry of Education and Science in producing and absorbing innovation, research and development to compete more effectively in the European market. Bank engagement has also included the development of a public private partnership framework as well as the development of the consumer protection and pension annuities as part of a region-wide diagnostic review.

More recently, in response to the global crisis, the Bank delivered a number of analytical works to support the Government of Lithuania's efforts to manage the economic downturn. A rapid-response public expenditure review of the social sectors was prepared in May 2009 to help the government prepare the 2010 budget and protect vulnerable citizens through the social safety net. The report recommends fiscal consolidation and reforms that would generate immediate fiscal savings while making social sector spending more efficient and equitable. This work was followed by related technical assistance to help the Ministry of Health identify options to reduce pharmaceutical expenditure. In addition, the Bank prepared a Financial Sector Vulnerability Assessment in early 2010 focusing on the overall credit portfolio and liquidity condition of banks as well as the regulatory framework and institutional measures and the role of bank supervisors.

APPENDIX III. LITHUANIA: STATISTICAL ISSUES

Over the past several years, Lithuania has made good progress in establishing a macroeconomic database. Official data for all sectors are adequate for surveillance purposes.

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 economic and financial information is now available on various websites through the Internet (see section on Dissemination of Statistics, below). A ROSC data module was published in November 2002.

National Accounts

The national accounts are compiled by Statistics Lithuania (SL) (the former Department of Statistics) 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 using both 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 separately in the published figures as the discrepancies are included in the estimates of changes in inventories. The annual and the quarterly national accounts are compiled at previous year prices and chain-linked to 2000. In general, good data sources and sound methods are used for the compilation of the national accounts, but measuring activity in the current volatile environment is proving very challenging. Moreover, difficulties remain in measuring the economic activity of the informal sector. These estimates are compiled at detailed levels of economic activity using fixed coefficients derived from a benchmark surveys conducted in 1996 and 2003, and updated in 2006. A further update of the size of the informal sector is expected to be released in late 2010-early 2011.

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 at a monthly and quarterly frequency, 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. 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). In addition, the MoF has been reporting quarterly and monthly data in the GFSM 2001 format for publication in the IFS.

Monetary and Financial Statistics

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 the MFS are broadly in line with the guidelines of the *Monetary and Financial Statistics Manual (MFSM)*. Following Lithuania's accession to the European Union, the BoL implemented the ECB framework for compiling and reporting monetary data reflecting the ECB regulations and *ESA 95* on sectorization, valuation and classification of financial instruments.

External Sector

The BoL is responsible for compiling balance of payments, international investment position (IIP), external debt and international reserves statistics. The BoL reports quarterly data on balance of payments, IIP and monthly international reserves to STA on a timely and regular basis. Balance of payments data (on a monthly and quarterly basis) are compiled 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 monthly according to the operational guidelines and is hyperlinked to the Fund's DSBB. Since late 2004, the BoL disseminates quarterly external debt data in the World Bank's Quarterly External Debt Statistics (QEDS) database.

Dissemination of Statistics

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

- 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/eng/statistic/index.html>) provides data on monetary statistics, treasury bill auction results, balance of payments, IIP, external debt and other main economic indicators;
- the SL website (<http://www.stat.gov.lt>) provides monthly and 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 government finance statistics (deficit, debt).
- NASDAQ OMX Baltic website (<http://www.lt.omxgroupnasdaqomxbaltic.com/?lang=en>) has includes information on stock trading at NASDAQ OMX Baltic stock Exchange in Vilnius (the former Vilnius Stock Exchange).