INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved a stand-by credit for Lithuania, authorizing drawings up to the equivalent of SDR 56,925 million (about US$82 million) over the next 11 months to support the Government's economic and financial program. This is the first use of IMF credit by Lithuania, which became a member of the IMF on April 29, 1992 with a quota 1/ of SDR 69 million (about US$100 million).

Lithuania has already taken important steps over the past two years to transform its economy into a market-based system, to establish macroeconomic stability, liberalize prices, and privatize the state sector, and to maintain a disciplined fiscal policy and reform the banking system. The authorities recognize, however, that further measures will be needed to ensure the successful completion of the transformation and to set the stage for sustainable growth.

The Lithuanian economy is currently experiencing a strong decline in real GDP, which fell more than 30 percent from the beginning of 1990 through mid-1992, owing primarily to disruptions in trade with the states of the former U.S.S.R. and to the impact of a sharp deterioration in its terms of trade. The external situation also became more difficult with the increase of oil import prices toward world market levels and with Russia's decision to require advance payment for oil shipments. Inflation has been extremely high, with the level of consumer prices rising about 2,200 percent from the beginning of 1991 through July 1992.

The Government of Lithuania has formulated a comprehensive reform program for the year ending June 1993, which the stand-by credit supports. Its most pressing objective is to stabilize the economy and adjust quickly to the deterioration in the external terms of trade. The authorities have broken away from the ruble area and have introduced a new currency. They are determined to maintain sound fiscal and monetary policies supported by a restrictive incomes policy. The program seeks to slow down the monthly rate of inflation to about 2 percent by the end of the program period and to limit the fall in real GDP to about 22 percent for the program year.

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1/ A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

The program envisages the following structural reforms: continue the price liberalization process; strengthen budgetary controls and create a government securities market to provide a source of non-inflationary financing; reform the financial sector and monetary policy instruments; further liberalize the exchange and trade system; develop competition in the economy through antimonopoly policy, privatization of state enterprises and restitution of property; transform enterprises remaining in the state sector into independent, commercially oriented enterprises; strengthen the legal and institutional framework for commercial activity; and improve the statistical infrastructure and institutional framework for monitoring economic developments and evaluating economic policy.

Under the program, the authorities have undertaken to design the social safety net (pensions, unemployment, family, sick-pay, and other social assistance benefits) in accordance with the Government's budgetary limitations. They also plan to design and implement an effective system for channeling social benefits to the most vulnerable groups of the population.