SM/99/172
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

July 29, 1999

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Lithuania—Selected Issues and Statistical Appendix**

The following corrections have been made in SM/99/172 (7/13/99):

Page 11, para. 10, line 9: for "again tax" read "against tax"
Page 15, para. 22, line 2: for "excises low growth" read "excises because of low growth"
Page 26, para. 39, line 1: for "measured U.S. dollars" read "measured in U.S. dollars"
Page 38, para. 49, line 9: for "the (ii)" read "the (i)"
Page 44, line 1: for "from Belarus" read "from abroad"
para. 64, line 9: for "US$654 million" read "US$64 million"
Page 53, para. 86, line 5: for "and improved further to"
read "and declined only marginally to"
Page 60, para. 100, line 9: for "unds adopted" read "funds adopted"

In addition, the following tables have been corrected on the basis of additional information received from the authorities following the issuance of the paper to the Executive Board:

Page 9, Table 1
Page 70, Table 11
Page 76, Table 17
Page 88, Table 29
Page 90, Table 31
Page 91, Table 32
Page 96, Table 37

Corrected pages are attached.

Att: (14)

Other Distribution:

Table 1. Lithuania: Key Economic and Financial Indicators, 1995-99

	1995	1996	1997	1998	1999 Act/Est. 1/
	(Percentage changes from previous period)				
Real GDP	3.3	4.7	7.3	5.1	-5.7
Consumer prices					
Period average	39.5	24.7	8.8	5.1	2.4
End of period	35.5	13.1	8.4	2.4	0.6
Broad money	29.0	-3.5	34.1	14.5	20.1
Reserve money	35.0	2.2	32.4	28.8	15.9
Credit to private sector	23.0	-4.4	18.9	16.9	19.0
Currency in circulation	42.9	-0.4	33.5	10.4	13.7
Velocity of broad money	4.8	6.2	6.1	5.4	4.4
Money multiplier 2/	2.3	2.2	2.2	2.0	2.2
Deposit interest rate 3/	17.6	10.6	6.2	7.1	7.3
Lending interest rate 3/	26.2	14.7	12.2	16.7	15.9
	(Percent of GDP)				
Gross national saving	14.5	15.3	16.3	13.4	...
General government	2.4	0.2	2.0	-1.0	...
Non-government	12.1	15.2	14.4	14.4	...
Gross investment	24.7	24.5	26.5	25.5	...
General government	3.8	2.7	2.7	2.7	...
Non-government	20.9	21.8	23.9	22.8	...
General government financial balance 4/	-2.6	-2.5	-0.8	-4.3	-7.0
General government net lending	1.9	2.0	1.0	1.5	-0.3
Consolidated general government fiscal balance 4/	-4.5	-4.5	-1.8	-5.8	-6.7
External current account (incl. transfer)	-10.2	-9.1	-10.2	-12.1	-9.6
External debt 5/	13.7	21.3	25.7	26.3	...
Debt service (in percent of exports of goods and services)	2.5	8.1	10.6	17.3	...
	(In millions of litai at current prices)				
Gross domestic product	24,103	31,569	38,340	42,768	8,997
	(In millions of U.S. dollars)				
Gross domestic product	6,026	7,892	9,585	10,692	2,249
Current account (inc. transfers)	-614	-722	-981	-1,298	-216

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

1/ National accounts, budget, and current account data are preliminary, actuals are for the first quarter; monetary data are actuals for May, and inflation data are actuals for June.

2/ Level in final quarter of calendar year.

3/ In percent; weighted average of rates at commercial banks in December; 1-3 months' maturity.

4/ Includes discrepancy between above and below the line estimates of the financial balance and balances of budgetary organizations not recorded in the above the line numbers. Also includes savings restitution payments.

5/ Includes public, publicly guaranteed, and private external debt.

6. The balance of **net factor incomes** was negative in 1998, reflecting increased payments on external loans and profit remittances. By contrast, the **nonfactor services balance** improved in 1998, boosted by tourism and business services receipts, while the surplus in transfers remained broadly unchanged compared with 1997.

7. In the **financial and capital account** of the balance of payments, 1998 witnessed a sharp increase in foreign direct investment inflows, which covered about three-fourths of the current account deficit. Total FDI inflows amounted to more than US$S900 million and included receipts of US$510 million (almost 5 percent of GDP) from the sale of 60 percent of the shares of Lietuvos Telekomas to strategic Scandinavian investors. Foreign borrowing by the private sector, including trade credits, was lower than in 1997, while public sector borrowing continued to remain high. Specifically, the government returned to the Eurobond market relatively quickly after the Russian crisis, with two small bond issues in November and December 1998. This was followed by placement of a five-year euro 200 million bond issue in March 1999, at 475 basis points over the German bond with the same maturity.[6] Overall, the accumulation of external debt slowed compared to 1997 and the maturity structure remained favorable. In spite of the large current account deficit, the stock of private and public sector external debt increased moderately from 25½ percent of GDP at end-1997 to 26½ percent at end-1998.

8. Various indicators suggest that Lithuania's **external vulnerability** increased in the second half of 1998 in the aftermath of the crisis in Russia and tensions in other emerging markets. The current account deficit widened toward the end of 1998, external debt continued to rise, and access to foreign financing became more costly. However, subsequent developments suggest that external vulnerability has declined (Tables 31 and 32). In general, external competitiveness has remained adequate,[7] and export growth to Western markets has remained strong. The yield spread between Lithuania's 1997 Eurobond and the equivalent U.S. bond, which had risen sharply after the Russia crisis in mid-1998 to more than 700 basis points, fell back to less than 400 basis points in early June 1999. Short-term external financing during 1998 remained low, leaving Lithuania with a relatively small stock of short-term debt (slightly more than 2 percent of GDP). International reserves rose by US$400 million to almost US$1.5 billion at end-1998, improving the reserve coverage relative to short-term external debt and reserve money to 600 percent and 140 percent, respectively.

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[6]In early July 1999, the government placed a five-year euro 50 million Eurobond at 374 basis points over the five-year German bond.

[7]Chapter IV provides a detailed analysis of external competitiveness.

C. Fiscal Developments

9. Fiscal performance deteriorated considerably over the course of 1998, reflecting primarily large increases in budgetary expenditures and onlending operations, which were mostly financed through privatization proceeds.[8] The **fiscal deficit** rose sharply from 2 percent of GDP in 1997 and to 5¾ percent of GDP in 1998 (Tables 26 and 27).[9]

10. Overall **revenue performance** remained favorable during 1998; tax and nontax proceeds rose from 32½ percent of GDP in 1997 to 34 percent of GDP in 1998. This was primarily due to strong growth in **direct tax** collection. Specifically, payroll and personal income tax revenue increased markedly, accounting for 55 percent of total general government revenues in 1998 (Table 28). Officially recorded unemployment did not increase before early 1999, and growth of average wages remained relatively strong, especially relative to GDP, throughout 1998, which resulted in strong revenue growth from the personal income and payroll taxes. By contrast, revenue from the corporate profit tax continued to decline as a share of GDP (1.4 percent in 1998), primarily reflecting greater use of deductions against tax liabilities (e.g., reinvested profits).[10] Despite the strong performance of payroll tax revenues, SoDra's deficit increased by about LTL 120 million (0.3 percent of GDP) during 1998.

11. **Indirect revenue** collection remained broadly stable as a share of GDP in 1998, but fell short vis-à-vis budgetary targets. Despite increased excise tax rates, revenue collection did not increase relative to GDP in 1998. VAT revenue began to weaken in the last quarter of 1998, reflecting the slowdown in the economy. Other revenue, which is derived from property taxation, trade taxes, and other sources (e.g., dividends, fees, fines and penalties), remained broadly stable in 1998.

12. With the exception of increased excise tax rates, **tax policy** remained broadly unchanged during 1998 and the first quarter of 1999 (Appendix I provides a summary of the tax system). Tax revenue collection was boosted by improvements in **tax administration** in 1998, including through better information sharing between the Social Insurance Fund

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[8]The government extended a loan of US$64 million (½ percent of GDP) to the Mazeikiai oil refinery in September 1998, when a foreign lender exercised a put option following the Russian crisis. This loan was rolled over in December 1998 and March 1999. For further details on government support to enterprises see Chapter V.

[9]The IMF definition of the general government includes the state and local governments, as well as extra-budgetary funds such as the social insurance fund (SoDra), the Health Insurance Fund, and the Privatization Fund. The receipt of privatization proceeds is counted as financing, while the spending of such proceeds is counted against the deficit. On this basis, the original budget for 1998 had targeted a fiscal deficit of 3 percent of GDP.

[10]The effective corporate income tax rate has dropped sharply during the past five years.

(SoDra) and the State Tax Inspectorate (STI), closer collaboration between the STI and the Tax Police, concentration of payroll tax collection at SoDra's headquarters, and streamlining of regional tax services. Aiming at a further reduction in tax evasion and contraband activities, the government established an anti-smuggling committee in early 1999.

13. **Current expenditure** increased sharply during 1998, as privatization proceeds were used to finance various government programs, including subsidies to households, support for agricultural and other enterprises, and payments under the Savings Restitution Plan (SRP).[11] Also, outlays on unemployment benefits rose during the second half of the year, weakening the financial position of SoDra. The general government wage bill increased substantially, from 8¾ percent of GDP in 1997 to 10 percent of GDP in 1998. **Capital expenditures**, by contrast, remained below 3 percent of GDP in 1998.

14. In 1998, **the fiscal deficit was financed in large part through foreign borrowing and large privatization proceeds** (from the sale of Lietuvas Telekomas). The government issued Eurobonds equivalent to about LTL170 million in the last quarter of 1998, while around LTL350 million of foreign loans were disbursed during the year as a whole to finance the implementation of capital projects. A substantial part of gross privatization proceeds (totaling approximately LTL 2.3 billion or 5.3 percent of GDP) was used to finance current outlays, onlending operations, and the SRP.

15. The **fiscal deficit in the first quarter of 1999** amounted to 7 percent of period GDP, reflecting a significant weakening in revenue performance due to the crisis in Russia and the slowdown in economic activity, as well as further large SRP payments and net lending operations.[12] Revenue collection from the payroll and personal income tax slumped because of the deceleration in wage growth and rising unemployment. This resulted in a further deterioration of SoDra's financial position, as a deficit of LTL 150 million (1.7 percent of period GDP) was incurred. At the same time, VAT and excise tax revenue proceeds were lower than targeted under the budget because of the decline in imports and the slowdown in domestic activity. The fiscal deficit in the first quarter of 1999 was financed through privatization proceeds and foreign borrowing.

D. The Currency Board and Monetary Developments

16. The **currency board arrangement** has withstood pressures related to the crisis in Russia and tensions in other emerging markets during 1998 and in early 1999. Following the crisis in Russia, the Lithuanian authorities have halted implementation of their strategy to exit

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[11]The SRP compensates losses that State Bank depositors suffered during the hyperinflation in 1991-92.

[12]During the period February-April 1999, the government made SRP payments to households in the amount of LTL 900 million (approximately 2 percent of projected annual GDP).

21. The government plans to introduce a number of changes to the **tax system**, including: (i) reduction in the Corporate Income Tax (CIT) as of 2000, from 29 percent to 24 percent;[19] (ii) reduction in the Personal Income Tax (PIT) from the current level of 33 percent to 31 percent as of 2001 and 25 percent as of 2002, and unification of the PIT rate across most categories of incomes; (iii) introduction of a new real estate tax for properties above a certain nominal value; and (iv) increases in excise rates that would bring the rates in line with those of the EU (for example, excise rates on cigarettes and diesel fuel are scheduled to increase to 56 percent and 32 percent, respectively by 2001).

22. The main elements contributing to an expected reduction in overall revenue in 1999 are the declines in the **tax bases** for VAT and excises because of low growth in retail sales, in payroll tax due to declining wage growth, and income tax owing to an increase in unemployment. The medium-term scenario envisages some increases in these tax bases in relation to GDP with the turnaround in the economy. Also, tax policy changes will affect the tax bases. Specifically, the government has under consideration extending tax breaks to families with children, while, on the other hand, expanding the tax base to include farmers, lottery gains, interest gained on deposits, and dividends paid out to individuals. Also, the revenue intake may be helped by the revoking of all VAT preferences that are not applied in the EU.

23. Some revenue gains should follow from the ongoing strengthening of **tax administration**. In 1998 and early 1999, the authorities have taken steps that will likely result in enhanced tax collection, including the formation of an anti-smuggling unit and improvements in its information systems. The State Tax Inspectorate plans to increase staff training and improve its auditing process. Efforts also are underway to improve the revenue collection of the Customs Department, which is in charge of collecting revenues from the VAT, excises, and trade taxes. The STI in conjunction with the Labor Inspectorate, the Tax Police, and the Social Insurance Fund (SoDra) are coordinating efforts to increase the revenue intake from the payroll tax.

24. A goal of the government is to gradually reduce the burden of the government on the economy, by bringing down labor and capital taxes in the medium term. However, a comparison with other countries suggests that the current tax burden in Lithuania is lower than that of the OECD and Central European transition economies (Table 2). By international standards, marginal labor and capital tax rates and social security contribution rates are low in Lithuania (Tables 3 and 4). These considerations suggest that lowering of tax rates should not be a priority in the period ahead. Indeed, given the government's aim to close the fiscal gap and the expenditure needs discussed below, there is limited latitude for revenue reductions,

[19] The recent decline in the CIT effective tax rate is noteworthy, from 15 percent in 1994 to 7 percent in 1998, against a statutory rate of 29 percent. Greater use of deductions against CIT liabilities, specifically, exemptions of reinvested profits from taxes, are in part responsible for the decline in the effective CIT rate.

and any tax reforms should be designed with a view not to reduce the revenue intake. One possible approach would be to leave the PIT and the CIT rates unchanged, which could result in an increase in revenue by about 1½ percentage point of GDP between 1998 and 2004.

B. Expenditure Prospects and Issues

25. Over the medium term, total expenditure could increase by as much as 3 percentage points of GDP, driven by a number of factors:

- The **upgrading of military defense** as part of the bid to become a NATO member is likely to entail significant budgetary costs.

- The **accession process to the EU** is expected to take several years, and will require implementation of the policies and programs identified in the *Accession Partnership* that was approved by the European Union on March 1998 (see Appendix II). Over the medium term, budgetary costs are likely to increase further due to the required increase in public sector investment on infrastructure, and restructuring of the energy sector. The recurrent expenditure burden on the budget is also likely to increase, reflecting the need to comply with EU standards and the creation of the necessary legal and institutional preconditions for EU membership.

- Based on the current policies, the government will continue to **compensate individuals for savings lost** at the start of the transition process.[20]

- As part of the **land reform and farm restructuring process**, restitution of land ownership and the settlement of claims is scheduled to re-start in 1999.

- **Social transfers** paid through the social insurance fund (SoDra), in the form of old-age, disability, and survivors pensions, unemployment and retraining benefits, family benefits and social assistance to low-income families, are expected to increase over time due to higher unemployment benefits, retraining benefits, and old-age pensions.

- The fiscal burden of the **pension system** is likely to grow. The system support ratio, defined as the number of contributing workers per pensioner was 56 percent in 1996 and is expected to decline rapidly, as employment growth lags the increase in pensioners. Meanwhile, the increase in the share of self-employed in the labor force is likely to reduce the average payroll contributions, since the self-employed are eligible for the full pension and only pay for the basic pension.

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[20]According to the Savings Restitution Law, two-thirds of privatization proceeds are earmarked for restitution of savings lost by individuals to hyperinflation in the early transition period.

understanding the source of the appreciation is crucial for interpreting REER changes. In other words, the REER conveys useful information only to the extent that it can be compared with an estimate of the equilibrium exchange rate. Unfortunately, precise estimates of the latter are not readily available, and the different estimation strategies found in the literature are *usually not applicable to transition economies.*[27]

35. Notwithstanding these shortcomings, the REER is the most frequently used competitiveness indicator. Table 8 and Figure 2 show trade-weighted nominal (NEER) and real effective exchange rate indices for the litas with respect to all trading partners, the European Union (EU), Russia, the Commonwealth of Independent States excluding Russia (CIS), the Central and Eastern European countries (CEE), and the Baltics. Since December 1994, the litas has been steadily appreciating in real terms, with a cumulative real appreciation of 63 percent in April 1999 with respect to all trading partners. A regional disaggregation of Lithuania's trading partners show that the real appreciation was the largest vis-à-vis Russia (81 percent) and the EU (80 percent). The real appreciation vis-à-vis the EU was continuous until the end of 1997; during 1998, the Litas depreciated vis-à-vis the EU, before it again appreciated in late 1998/early 1999. The appreciation with respect to Russia reflects mainly the large devaluation of the ruble in August 1998; in the subsequent period, relative prices vis-à-vis Russia have adjusted somewhat, but not enough to neutralize the nominal devaluation of the ruble.

36. The real appreciation of the litas vis-à-vis the EU may largely reflect the convergence of the REER toward its equilibrium value. Empirical evidence suggests that there was undershooting in the first stage of the transition, followed by relative productivity gains in the tradable sector (the Balassa-Samuelson effect).[28] The real appreciation with respect to the CIS (excluding Russia), the CEE, and the Baltics, on the other hand, raises more concern because there is no strong evidence of initial undervaluation of the litas with respect to these currencies, nor compelling evidence of an equilibrium real exchange rate appreciation caused by a change in fundamentals (such as a relative productivity gain in Lithuania's tradable sector).

37. From mid-1995, the REER appreciation of the litas vis-à-vis all trading partners and the CIS has reflected mainly the appreciation of the U.S. dollar, to which the litas is pegged under the currency board arrangement, against the currency of Lithuania's trading partners (Figure 3). The main source of the real appreciation vis-à-vis the EU was inflation differentials.

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[27] While an estimate of the equilibrium exchange rate for the Litas is not available, an estimate *of the equilibrium U.S. dollar wage is provided below.*

[28] See Halpern and Wyplosz (1997) and Krajnyàk and Zettelmeyer (1998).

Relative unit labor costs

38. Relative unit labor costs (RULC) measures the cost of labor normalized by productivity relative to partner countries, expressed in the same currency. In this chapter, RULC is measured as the wage rate relative to GDP per capita in nominal terms in Lithuania divided by the same ratio in the partner countries. The higher the RULC index, the lower is the competitiveness of Lithuania's labor force. Figure 4 shows the RULC with respect to Estonia and Latvia. In the period from 1994:Q4 to 1996:Q4, the RULC indices indicate a modest loss of competitiveness with respect to Estonia and a gain in competitiveness with respect to Latvia. Starting in the second quarter of 1997, the RULC with respect to both countries edged upwards, reflecting mainly the increased wage growth in Lithuania. It should be noted that the RULC may have declined more recently, reflecting the declining growth in Lithuanian wages following the Russian crisis.

C. Equilibrium U.S. Dollar Wages

39. While developments in average wages measured in U.S. dollars suggest an erosion of the competitive wage advantage that Lithuania had in 1994, Lithuania's U.S. dollar wage was still lower than that of Estonia and Poland in March 1999 (Figure 4). The more pertinent issue is how the actual wage compares to its equilibrium level. In two recent papers, Halpern and Wyplosz (1997) and Krajnyàk and Zettelmeyer (1998), respectively H-W and K–Z hereafter, provide estimates of the equilibrium U.S. dollar wage, defined as the wage level compatible with internal and external balance, for a large sample of countries, including transition economies.

40. The approach pursued by H-W and K–Z is inspired by the way macroeconomic practitioners often form a judgement on the competitiveness of a country, which is by comparing the country's average U.S. dollar wage with that of its competitors. The advantage of adopting the U.S. dollar wage as a competitiveness indicator is that it is readily available for most countries, and is easy to interpret and compare across countries.

41. The methodology in K–Z consists of regressing the U.S. dollar wage for a panel of 85 countries on a set of "fundamentals." The fundamentals include Purchasing Power Parity (PPP) GDP per capita, secondary school enrollment as a proxy for the stock of human capital, and the share of the agricultural sector (jointly with PPP GDP per capita) as a proxy for the level of development.[29] The data period begins in 1990, the earliest starting date of economic

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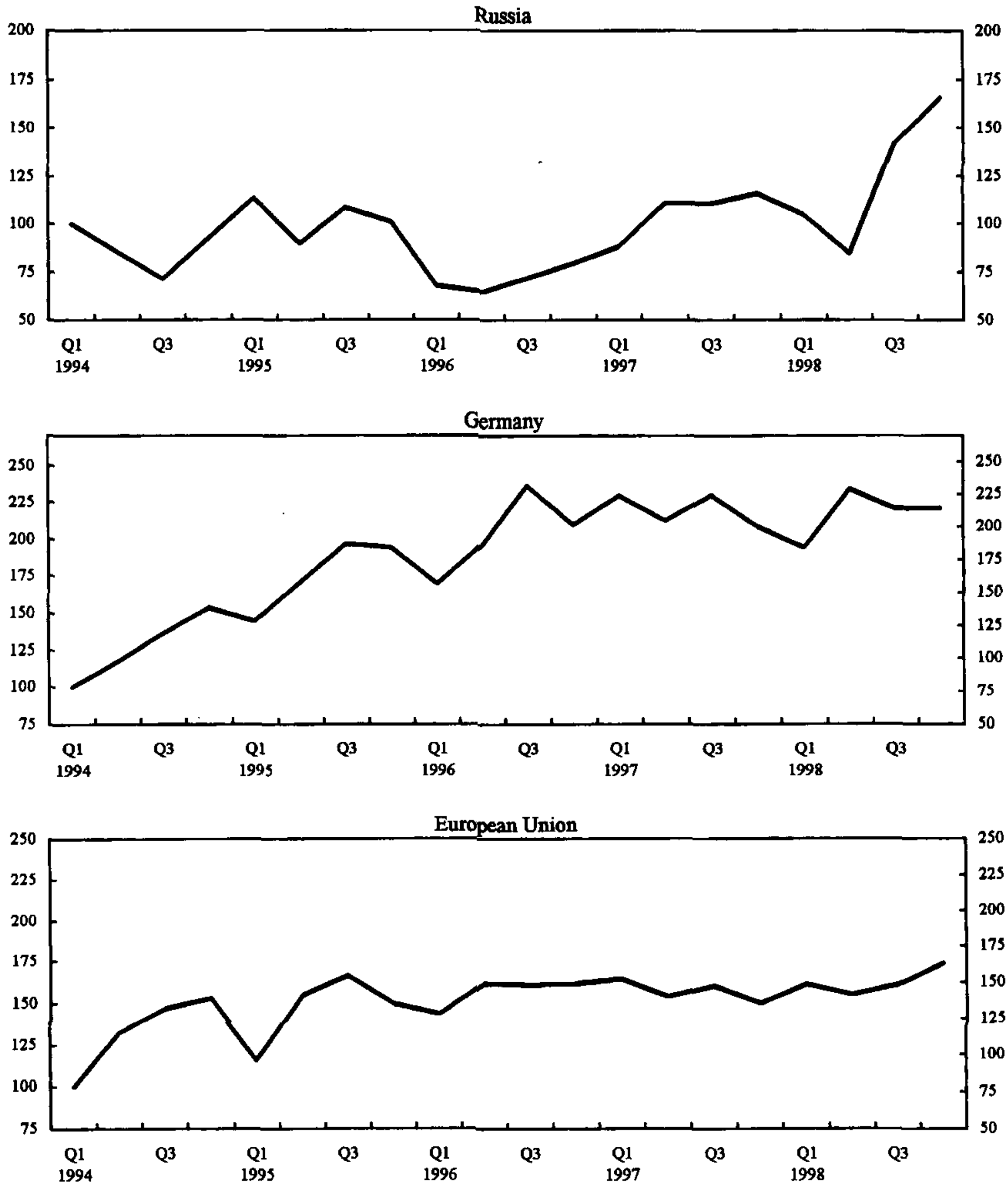
[29]More specifically, the estimated equations have the following general form:

$$w_{\$i,t} = \sum_{j=1}^{3} a_j x_{ij,t} + a_4 oecd + \sum_{\tau=1}^{T} a_{\tau+4} cee_{i,t} + \sum_{\tau=1}^{T} a_{\tau+9} fsu_{i,t} + \mu_i + \epsilon_{i,t}$$

(continued...)

Figure 5. Market Shares of CIS, Baltics, LTU and CEE in Four Markets, 1994-98
(Index Q1 1994 = 100)



Sources: WEO database and Fund staff calculations.

V. STRUCTURAL REFORMS

A. Introduction and Overview

47. This chapter provides an overview of structural reforms during 1998 and early 1999 with a particular focus on privatization, legal framework, reforms in energy and agriculture, and trade policy.[33] Structural reforms in these and other areas are important for creating conditions for high, sustained growth of GDP, promoting nongovernment saving, and reducing the current account deficit. Structural reforms are also important to facilitate compliance with EU directives with the ultimate objective of joining the EU (see Appendix II for an overview of the status of Lithuania's EU accession).

48. During the first 6 years after regaining independence, Lithuania made much progress in structural reforms and transition to a market economy. Important "first-generation" structural reforms—liberalizing external trade and the foreign exchange market, freeing prices, wages, and interest rates, privatizing housing and small and medium-sized enterprises, and putting in place a market-conform legal framework—were largely completed, thereby establishing the basic tenets of a market economy. Structural policies, combined with generally prudent fiscal policies that have underpinned the currency board regime, helped stabilize the economy and achieve positive economic growth from 1995 onwards, although nongovernment saving remained low and the current account deficit increased.

49. Since mid-1998, however, progress in structural reforms has been more modest, and in some areas retrograde steps have been taken. With the exception of privatization and competition policies, the government recently has not followed through with structural reforms to increase the role of the private sector and improve the efficiency in the allocation of resources. As a result, nongovernment saving has remained low, which contributed to a further widening of the current account deficit in 1998. Specifically, following the August 1998 crisis in Russia the government stepped up implicit and explicit support to individual enterprises and sectors.[34] As discussed in greater detail below, such direct and quasi-fiscal support has included the (i) provision of loans at preferential terms and credit guarantees; and (ii) increased protection of agricultural producers and others through higher import tariffs and increased domestic support.[35] More broadly, progress has been limited in 1998 and early 1999

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[33]For a discussion of structural reforms in the financial sector, see Chapter VI. Fiscal issues are discussed in Chapter III.

[34]Such support has contributed to a pronounced deterioration in the fiscal performance during the second half of 1998 and early 1999 (see Chapters II and III).

[35]In addition, Government Resolution No. 1122, approved on September 17, 1998, included a number of additional measures, such as changes in public procurement requirements in favor

(continued...)

60. During the period 1993–June 1999, about 420 bankruptcy cases were initiated, and most of these were handled by courts (Table 36). However, only about 20 percent of these cases were finalized, generally through liquidation, and most cases were completed after the new Bankruptcy Law had become effective in October 1997. In the first half of 1999, bankruptcy proceedings were initiated for a comparatively large number of enterprises, and the authorities expected that many more cases would be initiated later this year, reflecting the impact of the Russia crisis and the slowdown in growth in the Lithuanian economy.

D. Sectoral Reforms: Energy

61. Energy is a key sector in the Lithuanian economy, but it is at the same burdened with large financial and operational problems that have contributed importantly to fiscal and other macroeconomic imbalances in recent years. The range of problems include structural financial difficulties in the parastatals that supply electricity and gas (Lithuanian Power Company, LPC; Lithuanian Gas Company, LGC), weak corporate governance in the oil sector, and overcapacity in electricity production relating to the Ignalina nuclear power facility. Moreover, energy sector reforms have drifted over the past 1–1½ years as the authorities have not been able to adapt and implement a sectoral policy reform program.

62. In the first years after independence was regained, reforms in the energy sector focused on liberalizing retail prices of oil products, increasing the role of private enterprises in the sector and thus fostering competition, and reducing the overuse of energy. Energy sector reforms accelerated after a new government took office at the end of 1996. For example, the Energy Price Commission (EPC) was established with the objective of functioning as an autonomous arbiter of heat, gas, and electricity prices. In mid-1997, new energy tariffs became effective, and the district heating networks, previously part of LPC, were handed over to municipalities.[45] [46] Also, a number of measures were put into place to deal with delinquent customers, including increased use of cutoffs and improved budgeting in public organizations, which resulted in a reduction in the stock of arrears to the energy sector.

63. Energy sector liberalization and restructuring has since made little progress. Electricity and gas tariffs have not been raised since mid-1997, and they currently do not appear to cover costs. The restructuring of LPC has stalled, and its lack of management autonomy and operational inefficiency have remained key problems. However, the new government that took office in May/June 1999 is considering proposals to separate LPC's electricity generation and distribution, and privatize the restructured distribution companies. Arrears to the energy sector from domestic consumers have remained low, although outstanding payments from local and central government budgetary organizations have increased somewhat in the first

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[45]Electricity and district heating tariffs were raised by 10 percent and 25 percent, respectively.

[46]Also, two combined heat and power plants (in Vilnius and Kaunas) were separated from the LPC.

half of 1999 (Table 16). Electricity payment arrears from abroad are much larger and have contributed importantly to the deteriorating financial performance of LPC. As regards the Ignalina Nuclear Power Plant, which covers more than 80 percent of Lithuania's electricity demand and has a large overcapacity, the government is in the process of devising a strategy for its decommissioning.[47] Its closure will have large budgetary implications.

64. In the oil sector, the government intends to enter into an agreement with a strategic investor on the purchase of a 66 percent stake in the conglomerate that comprises the Mazeikiai refinery, the Butinge off-shore terminal, and the pipeline.[48] However, reliance on direct negotiations with a foreign strategic investor have raised concerns over transparency. Oil exports through the recently completed Butinge terminal could provide a strong boost to foreign exchange earnings, while at the same time allowing a possible diversification of crude oil imports. However, for the time being the oil sector is burdened with financial problems, and repayments of foreign loans have been taken over by the government. In September, the government lent US$64 million to the Mazeikiai refinery as a foreign lender exercised a put option; the government's loan has since been rolled over twice. In April 1999, the government borrowed US$75 million abroad, which were on-lent to the Mazeikiai concern as it had to repay another foreign loan.

E. Sectoral Reforms: Agriculture

65. The agricultural sector experienced fundamental changes in the ownership and policy framework in the early transition years. Most of the 1,000 state farms and collectives were dissolved, and their land and assets privatized. (Small family farms have since become the predominant form of production.) Input and output prices were deregulated, subsidies on inputs removed, and quantitative trade restrictions replaced by tariffs. However, following a steep decline in agricultural output during the first few years of the transition, the government reintroduced a variety of measures to support farmers in 1994–95.[49] Import tariffs on agricultural products drifted upwards and domestic support mechanisms were strengthened for main agricultural products during that period. In 1996–97, the government implemented a number of key reforms. Specifically, agricultural export taxes were mostly eliminated, earlier import tariff increases were reversed, agriculture was made subject to the standard VAT rate

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[47]Installed electricity production capacity is more than three times peak demand. Given this overcapacity, there is a large potential for exports.

[48]The agreement was approved by Seimas in June 1999.

[49]Agriculture's contribution to GDP has declined sharply since independence (to less than 10 percent in 1998), but the sector continues to provide employment and income to about 20 percent of the labor force.

group of borrowers is 25 percent. However, in contrast to the EU directive on large exposures, there is not yet a cumulative limit on all large exposures. The centralized database for loans, which registers all loans above LTL 50,000, has been expanded to include loans to subsidiaries. The methodology for calculating the liquidity ratio has recently been strengthened.

Banking sector indicators

86. The commercial banking system has succeeded in building up its capital base and improving the quality of its loan portfolio, and has become profitable. The direct effects of the Russian crisis in August 1998 are reportedly limited. The capital adequacy ratio of locally incorporated commercial banks reportedly increased from 10.8 percent at the end-1997 to 23.8 percent at end-1998, and declined only marginally to 22.7 percent at end-March 1999. This reflects an increase in liable capital of some banks. The leverage ratio was reported to be 14.8 percent at end-March 1999 (Table 9).

87. The quality of the loan portfolio has increased significantly. The share of nonperforming loans declined from 22.2 percent of total loans at end-1997 (excluding State Commercial Bank) to 12.2 percent at end-March 1999 (Figure 7). Moreover, specific provisions of locally incorporated banks declined from 18.5 percent of total loans to 5.6 percent during the same period. The improvement of the quality of the overall loan portfolio should be seen in context of the robust economic growth during the first half of 1998, the closure of the State Commercial Bank in March 1998, and the transfer of bad loans of the Agricultural Bank to the workout unit. It also reflects the fact that the BOL has reviewed banks' credit policies for corporate customers and issued rules regarding credit assessment of retail loans. The BOL has also adopted regulations requiring banks to write off loans that have been classified as losses for two quarters (effective January 1, 1999). The exposure to the construction and real estate sector is relatively modest (less than 7 percent of all loans, see Table 10). About 11.5 percent of all loans are collateralized by real estate. Finally, banks reportedly comply with the prudential regulation for large exposures and lending to connected borrowers.

Box 1: Summary of Prudential Regulations of Commercial Banks

Type	Requirements
Accounting standards	International Accounting Standards (IAS) required since 1996. In 1998, financial statements were for the first tin audited on a consolidated basis.
Minimum capital	Euro 5 million since January 1, 1998.
Capital adequacy ratio	10 percent of risk-weighted assets. EU and BIS methodology used since January 1997. Definition of Tier II capit clarified in 1999. Capital requirements for market risks expected to be implemented by the end of 2000.
Provisioning	
Specific:	Loan classification based on past days due and risk, while provisioning also takes collateral into account: Standar (less than 7 days past due); Watch (7-30 days past due); Substandard (31-90 days past due, 20 percent provisioning); Doubtful (91-180 days past due, 40 percent provisioning); and Loss (more than 180 days past duc 100 percent provisioning). Loans classified as loss for more than six months must be written-off (effective 1999).
General:	According to IAS. General provisions formed from profits after tax.
Maximum lending to single borrower	25 percent of own funds. Large exposures of 10 percent and above reported regularly. No regulation regarding sectorial concentration, but monitored by the BOL. No cumulative limit for all large exposures
Maximum connected lending	Lending to connected persons and insiders, including the auditor, is limited to 10 percent. Lending against own shares/securities prohibited.
Equity investment in nonfinancial institutions	The total sum of investment in a non-financial company may not exceed 10 percent of core capital. Banks are prohibited from acquiring controlling interest in nonfinancial companies. No restrictions on investments in specified financial institutions
Liquidity ratio	30 percent of liabilities maturing within one month. Methodology strengthened (e.g., certain securities can no longer be included as liquid assets), effective July 1, 1999.
Required reserves	10 percent of deposits, including foreign liabilities, not exceeding one year, averaging during maintenance period unremunerated.
Foreign exchange:	Overall open position: 30 percent of own funds; and in one currency: 20 percent of own funds.
Off-site supervision based on CAEL	Monthly submission of balance sheet and key prudential ratios. Quarterly submission of profit and loss statement: The information is used in an early warning system. The BOL may require more frequent submission of information.
On-site supervision based on CAMEL	At a minimum, one annual on-site inspection in addition to the external audit, which both include a review of the loan portfolio. The external auditor is obligated to collaborate with the BOL. The BOL conducts ad hoc inspectio focusing on particular issues.
Y2K	Banks must comply with an action plan and report quarterly. The annual external audit of 1998 and the regular BOL on-site inspections in 1999 include a review of bank preparedness for the Y2K problem
Deposit protection, effective January 1, 1999	Litas: 100 percent up to LTL 10,000; 90 percent from LTL 10,000 to 25,000; 70 percent from LTL 25,000 to 45,000. Foreign exchange: 90 percent up to LTL 10,000; 80 percent from LTL 10,000 to 25,000; 60 percent from LTL 25,000 to 45,000. In May 1999, it was proposed to amend the law on deposit insurance with a view to include branches of foreign banks and to further phase the increase in coverage.
Money laundering	Law on Money Laundering adopted in June 1997, methodology clarified by the BOL.
Sanctions	The BOL can impose sanctions ranging from penalties (paid by individuals); removal of managers, members of t board and council; suspend certain operations; appoint a temporary administrator; and suspend or revoke the license.

companies were licensed in 1998 and one in April 1999.[66] Several banks have established or are in the process of establishing insurance subsidiaries, and many nonresidents have invested in insurance companies. The largest insurance company, Lietuvos Draudimas, which accounted for more than half of the premiums written in 1998, was privatized in May 1999, when 70 percent of the shares were sold to a foreign insurance company.

95. The Law on Insurance of 1996 delegates the authority to supervise insurance companies to the State Insurance Supervisory Authority. The law is currently under review with a view to facilitate compliance with international standards. The Supervisory Authority has about 30 staff members, who analyze the quarterly reports submitted by insurance companies and conduct regular on-site inspection every 1½–2 years, along with ad hoc inspections.

G. Capital Markets

96. The capital market in Lithuania consists of the stock market, which is divided into quoted and unquoted stocks, and the market for government securities.[67]

The stock market

97. The National Stock Exchange of Lithuania (NSEL) was created by government resolution in 1992 and started operating in September 1993. Both equities, which accounted for about 60 percent of the turnover in 1998, and treasury bills are traded at the Stock Exchange. In 1998, several legislative changes affected the Stock Exchange. The Law on Companies was amended, which made dematerialization of public limited companies compulsory. The Law on Public Trading of Securities was also amended with a view to clarifying disclosure requirements and reorganizing the Stock Exchange and the Central Securities Depository from nonprofit companies to profit-seeking public limited companies. In April 1998, continuous trading was introduced and since June 1998, equities have been divided into an Official list, a Current list, and unlisted securities. The Official list includes the most liquid securities and companies that report according to IAS (six securities were listed, in early 1999, including two banks).

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[66] Additional information on insurance companies can be found on: www.finmin.lt.

[67] For a historical overview of the development of the capital markets in Lithuania, see Chapter 11, World Bank (1998), *op. cit.*

98. During 1998, the capitalization of the quoted stocks fell from almost 18 percent of GDP to 10 percent of GDP. This to a large extent reflected the fact that the index of quoted stocks plunged about 41 percent during 1998 and since has remained subdued.[68]

Government securities

99. Government securities mainly consist of treasury bills, but special nontradable restructuring securities and newly introduced savings bonds also exist. Treasury bills are issued with 1-, 3-, 6-, and 12-month maturities and notes with a 2-year maturity.[69] They are auctioned at multiple-price auctions. The secondary market for treasury bills is rather thin, with the result that the authorities are considering introducing a primary dealer system. The yield on treasury bills was relatively stable during the first half of 1998, but immediately after the Russian crisis, banks wanted to remain liquid, and the bids fell short of the offers, resulting in higher interest rates (Figure 8).[70] In April 1999, the government issued its first savings bonds.

The Securities Commission

100. The Securities Commission is charged with regulating and supervising capital markets. With the adoption of the Law on Public Trading in Securities of 1996, it became an autonomous institution directly accountable to Seimas and funded by the government. The Law on Securities, the Company Law, the Law on Investment Companies, and the Code of Ethics of Intermediaries of Public Trading of Securities establish the framework for participants in the capital market. The Commission oversees the Lithuanian Stock Exchange, the Central Securities Depository, brokerage firms, investment companies, and it will also supervise the new private pension funds, according to the law on private pension funds adopted in June 1999 (which will become effective January 1, 2000). Several regulatory changes were adopted during 1998 with a view to complying with the relevant EU directives. For instance, new capital requirements for brokerage firms became effective,

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[68]Additional information on the Stock Exchange can be found on its web-site: www.nse.lt.

[69]The outstanding amount of treasury bills increased from LTL 1.5 billion at end-1997, to LTL 1.6 billion at end-1998, and to LTL 1.9 billion at the end of May 1999. At the end of 1998, the maturity distribution was 6 percent, 21 percent, 44 percent, and 28 percent on 1-, 3-, 6-, and 12-month maturities, respectively. The 12-month maturity was introduced in 1997 and the 24-month maturity was introduced in 1999. Commercial banks' share of total outstanding treasury bills declined from about 84 percent of total outstanding treasury bills at the end of 1997 to 64 percent at the end of 1998. About 20 percent are held by insurance companies, 1½ percent by nonresidents, and about 15 percent by others.

[70]Information on the market for government securities can be found on: www.finmin.lt.

Financial support from the EU

108. The 1998 EU Phare program for Lithuania consists of a "national allocation" of euro 32 million for institution building (about 30 percent) and infrastructure projects (approximately 70 percent), especially in the environment, transport, and energy sectors. Alongside the Phare program, from the year 2000 onwards the EU will provide substantial support to CEE accession candidates in agriculture and under the Instrument of Structural Policies for Pre-Accession (ISPA) in an amount of euro1 billion per year during the period 2000-06 (for all accession candidates).[79]

109. Large additional investments will be required especially in the environment and energy sectors to comply with EU requirements. Although the EU and others can be expected to provide much of the necessary financing through ISPA and other funds, Lithuania will be faced with a considerable additional budgetary burden over the medium term. For example, to access ISPA Lithuania will have to meet additionality requirements, which calls for co-financing and real increases in domestic spending on proposed projects or programs.

[79]Lithuania is also benefitting from an additional allocation of euro4 million for cross-border programs, and from funds that are being provided under the "Catch-up Facility" specifically aimed at supporting Bulgaria, Latvia, Lithuania, Romania, and Slovakia. Further support is being provided through the EIB, the EBRD, and bilateral programs of current EU members.

Table 11 . Lithuania: GDP by Expenditure, 1994-98
(In percent of GDP)

	1994	1995	1996	1997	1998
GDP	100.0	100.0	100.0	100.0	100.0
Domestic demand	106.0	111.8	109.8	110.6	111.9
Consumption	87.6	87.1	85.3	84.0	86.4
Gross investment	18.4	24.7	24.5	26.5	25.5
General government	3.9	3.8	2.7	2.7	2.7
Other	14.5	20.9	21.8	23.9	22.8
Current account	-2.2	-10.2	-9.1	-10.2	-12.1
Export of goods and n.f.s.	55.4	53.0	53.4	54.5	47.4
Imports of goods. and n.f.s.	61.4	64.8	63.2	65.1	59.4
Gross national saving	16.2	14.5	15.3	16.3	13.4
General government	1.6	2.4	0.2	2.0	-1.0
Non-government	14.6	12.1	15.2	14.4	14.4

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

Table 16. Lithuania: Domestic Energy Arrears, 1998-99
(In millions of litai)

	1998				1999	
	Mar.	Jun.	Sep.	Dec.	Mar.	Apr.
Lithuanian Power Company (LPC) claims for electricity						
Total	44.9	41.6	39.0	47.0	57.5	58.8
Industry	15.9	15.9	17.2	24.9	31.6	30.5
Agriculture	6.5	6.2	5.9	6.3	6.2	6.2
Budgetary organizations	8.1	5.8	3.0	2.7	5.7	7.5
Central	2.9	2.4	1.8	1.5	2.4	2.7
Local	5.2	3.4	1.1	1.2	3.3	4.8
Households	2.8	2.8	3.1	3.3	3.6	3.7
Other consumers	11.4	10.9	9.8	9.6	10.4	10.9
Heat Suppliers	0.2	0.0	0.1	0.2	0.2	0.1
Lithuania Gas Company claims for natural gas						
Total	50.4	15.1	17.8	33.8	48.4	48.4
Industry	8.8	4.6	4.0	6.5	3.8	4.4
Agriculture	3.7	2.0	2.0	2.7	5.1	5.8
Services incl. Budgetary organizations	11.0	4.6	4.6	1.7	3.8	3.1
Households	8.3	1.5	1.1	0.2	1.2	0.5
Heat suppliers	18.6	2.5	6.2	22.7	34.6	34.6

Sources: Data provided by Lithuanian Power Company and Lithuanian Gas Company.

Table 17. Lithuania: Prices and Wages, 1996-99

	Consumer Prices	Average Wage		
	Percentage Change	In Dollars	Percentage change m-o-m	Percentage change y-o-y
1996				
January	3.2	159.3	-2.5	52.8
February	2.4	153.5	-3.6	39.9
March	2.3	160.1	4.3	41.9
April	1.3	161.9	1.1	34.7
May	0.3	162.4	0.4	30.1
June	0.4	164.2	1.1	28.2
July	0.1	171.9	4.7	30.2
August	0.0	168.6	-1.9	26.1
September	0.3	172.5	2.3	31.6
October	0.1	176.2	2.2	24.1
November	1.1	173.1	-1.8	21.4
December	0.9	193.6	11.8	16.1
1997				
January	2.8	171.9	-7.8	7.9
February	0.6	174.1	1.3	13.4
March	0.1	188.4	8.2	17.7
April	0.3	187.7	-0.3	15.9
May	0.8	198.7	5.9	22.4
June	0.2	205.5	3.4	25.2
July	1.1	215.4	4.8	25.3
August	0.1	210.3	-2.3	24.7
September	0.3	213.3	1.4	23.7
October	0.4	218.6	2.5	24.1
November	1.1	222.7	1.9	28.7
December	0.4	246.2	10.6	27.2
1998				
January	1.0	227.7	-8.5	32.5
February	0.5	227.6	-0.1	30.7
March	0.4	236.9	4.1	25.7
April	0.5	245.9	3.8	31.0
May	0.6	248.7	1.1	25.1
June	-0.5	256.3	3.1	24.7
July	0.2	261.3	2.0	21.3
August	-0.6	256.2	-2.0	21.8
September	-0.4	260.7	1.8	22.2
October	0.4	260.3	-0.2	19.1
November	0.2	258.4	-0.7	16.0
December	0.1	288.1	11.5	17.0
1999				
January	1.0	258.3	-8.9	13.4
February	0.0	253.0	-2.1	11.2
March	-0.2	262.7	3.9	10.9
April	0.0	267.2	1.7	8.7
May	0.0	267.8	0.2	7.7
June	-0.1	...	...	...

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

Table 28. Lithuania: Monetary Authorities, 1997-99

	1997	1998				
	Dec.	Mar.	June	Sept.	Dec.	Ma
			(In millions of litai, end of period)			
Net foreign assets	3,170.7	3,552.9	3,661	5,094	4,836	4,59
Gold	211.0	211.0	211	211	203	20
Convertible currencies	2,952.1	3,334.2	3,442	4,876	4,625	4,38
Of which : use of IMF credit	1,086.6	1,050.1	997	1,013	1,011	97
Nonconvertible currencies	-0.1	-0.1	0	0	0	
Other foreign assets	7.8	7.8	8	8	8	
Net domestic assets	138.0	-167.9	59	-1,454	-575	-78
Net credit to government 1/	-307.4	-589.5	-310	-1,824	-947	-1,12
Credit to banks	70.3	68.0	51	88	52	6
Credit to private sector	7.6	7.4	7	7	7	
Capital accounts	247.3	219.8	180	117	112	14
Other items net	100.8	107.3	111	138	193	11
Reserve money	3,308.7	3,385.0	3,719.2	3,639.7	4,260.5	3,802.
Currency outside BoL	2,726.2	2,654.9	2,904.2	2,721.9	3,036.2	2,870.
Deposit money banks' deposits	551.3	698.8	801.1	905.6	1,211.8	912.
Reserves in litai	389.9	508.8	488.9	546.4	867.7	564.
Reserves in foreign currency	161.3	189.8	310.8	346.8	344.0	331.
Special deposits	0.1	0.2	1.4	0.1	0.1	0.
Private deposits and deposits of nonmonetary financial institutions	31.3	31.3	14.0	12.2	12.5	19.
			(Percentage change relative to previous year)			
Reserve money	32.4	36.9	30.7	18.0	28.8	12.
Currency outside BoL	36.4	29.4	27.9	13.6	11.4	8.
Net foreign assets	41.0	57.9	39.8	70.5	52.5	29.
Net domestic assets	-45.0	-175.3	-74.2	-1,593.0	-516.9	369.
Net credit to government	184.7	308.0	40.9	407.3	208.0	91.
Credit to banks	-50.5	-57.1	-65.5	-28.5	-25.6	-2.

Source: Bank of Lithuania

1/ Includes counterpart funds.

Table 29. Lithuania: Monetary Survey, 1997-99

	1997	1998				
	Dec	Mar.	June	Sept.	Dec.	
			(In millions of litai, end of period)			
Net foreign assets	3,483	3,296	3,283	4,452	4,292	4
Net domestic assets	3,789	3,845	4,295	3,243	4,035	3
Domestic credit	4,409	4,443	5,150	4,126	5,190	5
Net claims on government 1/	-80	-401	39	-1,341	-505	
Credit to nonprofit public institutions *and nonfinancial public enterprises*	149	152	84	230	352	
Claims on private sector	4,170	4,475	4,717	4,794	4,874	5
Claims on nonbank financial institutions	170	216	312	443	470	
Other items, net	-620	-598	-855	-883	-1,155	-1
Capital accounts	-1,774	-1,845	-2,110	-2,361	-2,579	-2
Other	1,154	1,247	1,255	1,478	1,424	1
Broad money	7,272	7,141	7,578	7,695	8,327	8
Currency outside banks	2,535	2,490	2,726	2,554	2,800	2
Deposits	4,736	4,651	4,852	5,141	5,527	5
			(Percentage change relative to previous y			
Broad Money	34.1	28.6	23.5	13.8	14.5	
Currency outside banks	33.5	26.2	26.1	13.3	10.5	
Net foreign assets	32.0	21.0	2.3	18.3	23.2	
Net domestic assets	36.0	35.8	46.8	8.1	6.5	
Net claims on government	-84.7	-35.7	-105.7	73.1	533.4	
Claims on private sector	18.9	26.2	28.5	28.1	16.9	
Memorandum items:						
Currency/Deposits	0.5	0.5	0.6	0.5	0.5	
Money multiplier	2.2	2.1	2.0	2.1	2.0	
Reserve ratio (percentage, end-of-month)	11.6	15.0	16.5	17.6	21.9	
Velocity	6.1	5.2	5.9	6.0	5.4	

Source: Bank of Lithuania

1/ Includes counterpart funds.

Table 30. Lithuania: Interest Rates at Commercial Banks, 1997-99 1/
(In percent per annum)

	1997				1998				
	Mar	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	M
					(Transactions in domestic currency)				
On loans									
From 1 to 3 months	14.8	12.7	13.4	12.2	10.3	11.7	14.3	16.7	14
From 3 to 6 months	18.8	15.2	13.5	12.8	12.1	11.2	14.0	14.5	1[illegible]
From 1 to 5 years	16.8	14.4	14.4	11.1	13.6	13.2	13.1	10.1	1[illegible]
On deposits									
From 1 to 3 months	9.0	8.8	6.9	6.2	6.1	6.3	6.3	7.1	[illegible]
From 3 to 6 months	9.7	9.4	8.0	6.4	6.7	6.8	6.2	7.4	[illegible]
Over 2 years	11.4	10.0	9.6	7.6	7.5	7.7	7.2	7.2	[illegible]
					(Transactions in foreign currencies)				
On loans									
From 1 to 3 months	16.1	15.3	12.5	10.6	11.0	10.4	10.5	9.4	11
From 3 to 6 months	17.6	14.6	14.2	10.5	11.6	10.0	10.8	11.3	8
From 1 to 5 years	11.3	11.3	10.8	10.2	9.5	9.6	9.9	10.7	11
On deposits									
From 1 to 3 months	5.9	5.2	4.4	4.7	4.2	4.0	3.9	4.3	4
From 3 to 6 months	6.6	6.4	5.3	4.8	4.7	4.7	4.3	4.7	4
Over 2 years	7.0	7.7	6.0	5.0	5.1	5.4	5.1	5.1	9

Source: Bank of Lithuania.

1/ Average annual interest rates on received deposits and on loans granted in a given month.

Table 31. Lithuania: Indicators of Financial Sector Vulnerability, 1997-99
(In percent, unless otherwise indicated)

	1997	1998	
		June	Oct.
Indicators of Financial Sector Vulnerability			
Domestic credit (annual growth)	37.6	59.7	30.4
Commercial bank reserves (in percent of total deposits, end-period)	15.7	19.7	20.9
Cash	4.0	3.7	2.8
Reserves held at the BoL	11.6	16.0	17.6
Of which: Required reserves	8.2	13.6	13.9
Official risk indicators 1/			
Share of non-performing loans in total loans 2/	28.3	19.1	14.1
Risk-based capital asset ratio (capital over risk-weighted assets) 3/	10.8	14.1	18.2
Leverage ratio 4/	5.9	8.6	11.7
Financial sector risk factors 5/			
Share of foreign currency loans in total lending	39.7	48.6	51.2
Share of foreign deposits in total deposits	32.6	35.9	38.2
Share of foreign currency denominated liabilities in total liabilities	33.2	36.4	39.5
Short-term loans in percent of total loans	61.1	55.6	48.9
Demand deposits in percent of total deposits	66.8	64.6	63.4
Share of private credit collateralized by real estate 6/	12.9	13.7	13.3
Share of real estate sector in private credit 6/	4.3	3.5	4.2
Market assessment			
Share prices of financial institutions 7/	210	91	44
Spread between lowest and highest interbank and/or deposit rates 8/ 9/	500	200	200

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

1/ Prudential standards are broadly at international levels, and there is a full program of on-site and off-site supervision.
2/ Includes loans overdue for 31 days. The classification of loans may be adjusted according to the borrower's standing and loan restructuring and refinancing (See Resolution on the Board of the Bank of Lithuania on the Approval of the Regulations for Classification of Doubtful Assets, April 24, 1997 No. 87).
3/ The minimum capital adequacy ratio was aligned with the Basle methodology on January 1, 1997.
4/ Defined as the ratio of total capital to total liabilities; an increase in the ratio indicates improvement.
5/ Deposit money banks.
6/ Percent of total loans.
7/ Vilniaus and Hermis Banks; simple average of share prices.
8/ Interbank loan rate; basis points; end of period.
9/ As of January 1, 1999, the difference between the average of the highest and lowest Vilnius Interbank Offered rate (VILIBOR) and Vilnius Interbank Bid rate (VILIBID).

Table 32. Lithuania: Indicators of External Sector Vulnerability, 1997-99
(In percent of GDP, unless otherwise indicated)

	1997	1998			1999	Date of latest
		June	Oct.	Dec.	Latest Est.	Date
Financial indicators						
Public sector debt 1/	21.2	20.0	21.1	22.5	24.0	Mar. 99
Broad money (percent change, 12-month basis)	34.1	23.5	15.1	14.5	20.1	May 99
Broad money to reserves	1.7	1.6	1.3	1.4	1.6	May 99
Private sector credit (percent change, 12 month basis)	18.9	28.5	25.7	16.9	19.0	May 99
31 day T-bill yield	6.6	7.3	10.3	8.7	7.6	June 99
31 day T-bill yield (real) 2/	-1.8	1.3	6.7	6.3	7.0	June 99
External Indicators						
Exports, goods&svcs.(GS) (percent change, 12-month basis in US$)	24.1	6.2	-6.2	-20.8	-23.1	Mar. 99
Imports GS (percent change, 12-month basis in US$)	25.1	6.4	9.1	-15.5	-21.3	Mar. 99
Current account balance	-10.2	-10.8	-13.1	-14.4	-9.6	Mar. 99
Capital and financial account balance	11.5	8.0	22.1	8.3	...	Dec. 98
Gross official reserves (in mil US$)	1,063	1,163	1,491	1,462	1,355	May 99
Central Bank foreign currency exposure (in mil US$) 4/	1,045	1,126	1,183	1,290	1,053	May 99
Net foreign assets of financial sector (in mil US$) 5/	78	-94	-159	-120	-143	May 99
Short term foreign liabilities of the financial sector (in US$) 5/	...	144	238	245	...	Nov. 98
Foreign currency exposure of the financial sector (in mil US$) 4/ 5/	-1	-91	-186	-128	-81	May 99
In percent of total liabilities	0.0	-3.8	-7.3	-4.8	-2.9	May 99
Official reserves in months of imports of goods and services (GS)	2.1	2.1	2.8	2.8	3.5	Mar.99
Total short term external debt to reserves (in percent) 3/	20.2	19.8	16.8	18.1	...	Dec. 98
Total short term external debt (million US $)	215	230	256	265	...	Dec. 98
Government 1/	54	50	45	136	148	Mar. 99
Enterprises	148	160	140	93	...	Dec. 98
Banks 6/	13	44	71	35	...	Dec. 98
Total external debt 7/	25.7	25.1	25.0	26.3	...	Dec. 98
o/w: Public sector debt	12.0	13.4	14.5	13.4	...	Dec. 98
Total external debt to exports GS	48.6	55.1	52.4	57.3	...	Dec. 98
External interest payments to exports GS	2.7	3.1	2.6	4.6	...	Dec. 98
External amortization payments to exports GS	7.6	15.7	15.1	13.7	...	Dec. 98
Total external debt 8/	34.1	...	...	35.0	...	Dec. 98
Exchange rate (per US$, period average)	4.0	4.0	4.0	4.0	4.0	July 99
REER appreciation (+) (12 month basis) 9/	13.9	6.3	15.6	17.0	23.5	Apr. 99
Financial Market Indicators						
Stock market index, end period 10/	1,863	1,582	1,082	1,089	1,001	July 99
Market capitalization (shares, percent of GDP)	17.9	16.5	13.4	13.8	14.2	May 99
Foreign currency debt rating 11/	BBB-	BBB-	BBB-	BBB-		Dec. 98
Spread of benchmark bonds (basis points, end of period) 12/	105	220	795	499	346	Jun. 99
Memo item: Nominal GDP in mil US $	9,550	10,605	10,605	10,692	10,916	July 99

Sources: Bank of Lithuania, Department of Statistics, National Stock Exchange of Lithuania, Bloomberg, Baltic News Service, Information Notice System.

1/ Public and publicly guaranteed debt.

2/ CPI-based inflation.

3/ Liabilities 1 year and under; remaining rather than original maturity.

4/ Net open position. For commercial banks, includes off-balance sheet foreign currency liabilites, such as short forward position as of July 1998.

5/ Deposit money banks.

6/ From the International Investment Position.

7/ Includes IMF. Excludes trade credits, currency and deposits, and other liabilities.

8/ Includes IMF and trade credits, and currency and deposits, and other liabilities.

9/ CPI-based REER

10/ LITIN-G price index, calculated for all issues that have been quoted in the current trading list in the past three months, exlcuding treasury bills and shares of investment companies.

11/ S&P investment grade rating.

Table 33. Lithuania: Stock of Foreign Direct Investment, by Source Country, 1995-98 1/

	1995	1996	1997	1998
Total (in millions of U.S. dollars)	352	700	1,041	1,625
		(In percent)		
United States	17.2	28.5	25.9	18.7
Sweden	8.5	12.0	12.2	16.9
Finland	3.9	4.7	4.3	10.7
Germany	19.4	13.0	11.2	8.2
United Kingdom	11.5	8.9	7.9	6.8
Denmark	4.5	5.6	6.2	6.6
Luxembourg	1.3	4.3	3.9	4.7
Estonia	1.0	0.9	4.3	4.3
Norway	1.7	2.5	3.1	4.2
Ireland	5.1	4.3	4.9	2.8
Poland	1.5	1.0	0.9	1.8
Russia	6.5	1.8	1.5	1.7
Switzerland	2.5	1.6	1.6	1.7
Austria	2.6	2.1	2.3	1.3
France	1.8	1.3	1.5	1.3
Italy	0.4	0.4	1.4	1.0
Memorandum Item:				
European Union	61.7	58.2	57.0	61.2

Source: Bank of Lithuania; Lithuanian Department of Statistics.

1/ End of period.

Table 36. Lithuania: Bankruptcy Cases, 1993-99

	1993	1994	1995	1996	1997	1
Bankcruptcy cases initiated	6	28	36	76	110	
of which:						
Bankruptcy petitions to courts	2	16	27	69	105	
Out-of court proceedings	4	12	9	7	5	
Bankruptcy cases finalized						
of which:						
Finalized during January 1993-June 199	..	..	..	..	..	
In court	..	..	..	..	..	
Out of court	..	..	..	..	..	
Finalized during July 1998-June 1999:	..	..	..	..	..	
In court	..	..	..	..	..	
Out of court	..	..	..	..	..	

Source: Ministry of Economy.

Table 37. Lithuania: Major Privatization Transactions, 1998-99

Name of company		Authorized capital (million LTL)	Part of sold shares in the authorized capital (%)	Purchase price (million LTL)	Investment planned (million LTL)	Number of jobs
Lietuvos Telekomas	(telecommunications)	814.9	60	2040	884	9,888
Klaipedos Smelte	(shipping)	38	89.51	45	75	731
Vakaru Laivu Remontas	(shipyard)	167.8	92.51	83	80	1,656
Aliejus	(cooking oil)	8.9	70.24	8	8.1	141
Viesbutis Lietuva	(hotel)	26.9	70.04	36	...	297
Vilniaus Pienas	(dairy company)	14.1	70.44	16	10.9	455
Panevezio Stiklas	(glass)	39.9	99.13	1	24	1,100
Alytaus Tekstile	(textiles)	100.2	63.18	12.9	240	3,500
Marijampoles Cukrus	(sugar)	40.2	24.89	12.5	26.5	...
Klaipedos Juru Kroviniu (KLASCO)	(cargo)	128.98	90	200	...	2,432

Source: State Property Fund.