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(セッション2-1)

How to Overcome Worldwide Economic and Financial Crisis?

Lithuanian government cut expenditures and increased taxes as a response to crisis



- Government reduced total expenditure plan for 2009 by LTL 2.5 bn (EUR 730 mn), or by 9%, compared to initial budget proposal made in October 2008.
- Most important changes in main taxes include:
 - Increase in VAT rate from 18% to 21% (in two steps), abolishment of most of VAT subsidies;
 - Increase in profit tax rate from 15% to 20% (planned to be abolished beginning with 2010);
 - Increase in excise duties for tobacco, fuel and alcohol;
 - Decrease in personal income tax rate from 24% to 21%.

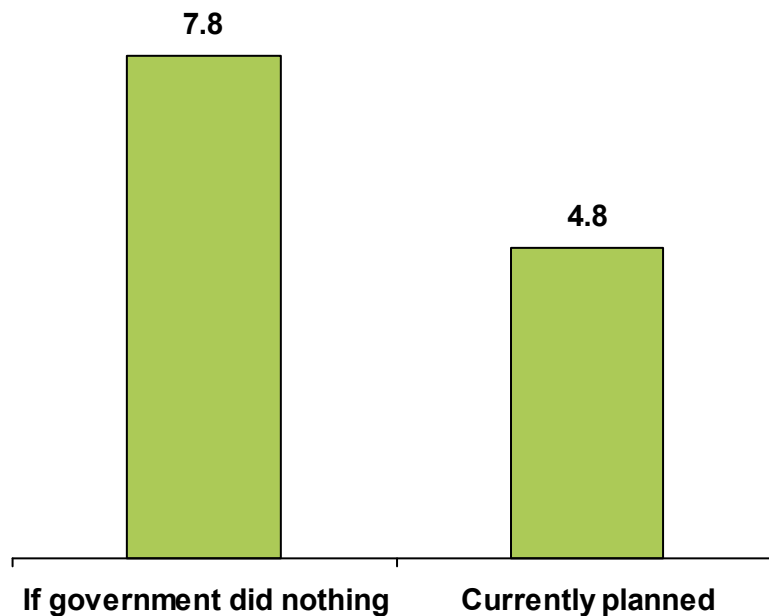
Economic stimulation plan is also there, although some parts of it are progressing slowly

Economic Stimulation Plan envisages:

- Mechanisms of business financing;
- Support for renovation of public buildings (hospitals, schools, kindergartens etc.) and old multi-storey buildings;
- Accelerated absorption of EU funds;
- Improving business environment;
- Support for exporters (covering export credit insurance expenses etc.) and increased attention for attraction of foreign investment.

Lithuanian government applied tightening measures seeking to escape financial troubles

Deficit of national budget in 2009
(LTL bn)



- If government did not apply tightening measures, Lithuania would have much higher budget deficit, while financing it is not cheap

Source: Ministry of Finance, calculations of SEB Bank.

Budget deficit is the toughest obstacle to introduction of euro at the moment

Execution of Maastricht criteria in October 2009




Criterion	Reference value	Lithuania	Latvia	Estonia	Poland	Hungary	Lithuania fails to meet since
Inflation	0.9%*	5.4	5.3	1.8	3.9	3.8	March 2006
Public balance	>=-3% of GDP	-3.2	-4.1	-2.7	-3.9	-3.4	2008
State debt	<=60% of GDP	15.6	19.5	4.8	47.1	73.0	-
Long-term interest rates	6.58%*	13.47	11.45	8.21	6.08	9.35	January 2009
Currency stability	+/-15%**	0.0	+1.0 -0.9	0.0	+25.9 -17.3	+28.3 -7.5	-

* Estimate of SEB Bank.

** For Baltic States, deviation from central rate; for Poland and Hungary – largest deviation from currency exchange rate to euro since November 1, 2007. Negative sign shows appreciation of currency.

Source: ECB, Eurostat, Reuters Ecowin, calculations of SEB Bank.

All three Baltic countries are eager to introduce euro as soon as possible, but realistic expectations go as far as 2012-2014

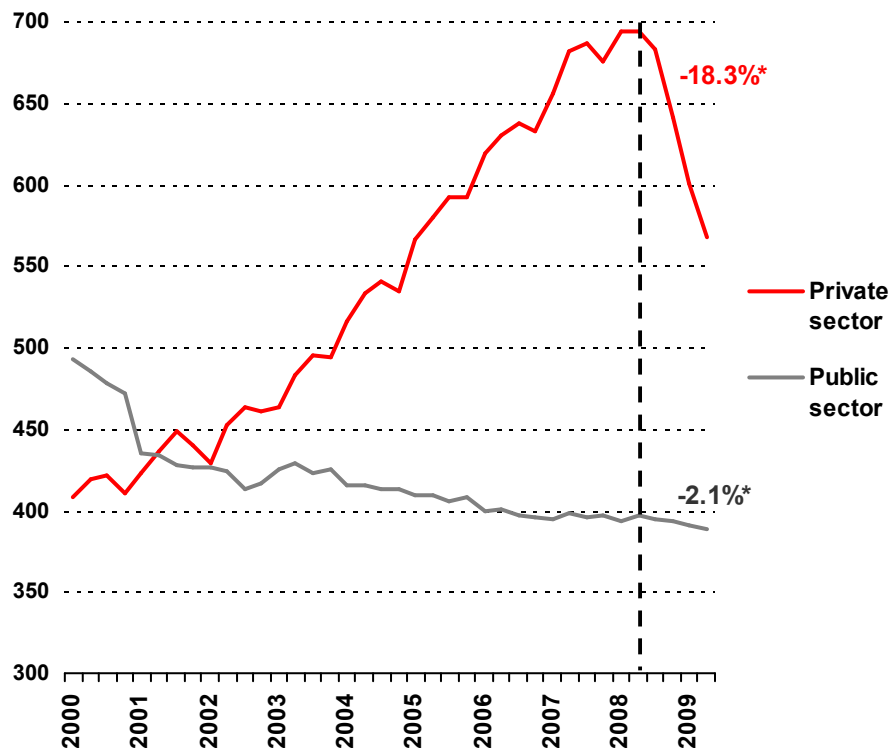
		ERM-II entrance	Earliest realistic euro introduction
	Estonia	2004	2012
	Lithuania	2004	2014
	Latvia	2005	2014

In one month, Lithuania's main power plant will be closed

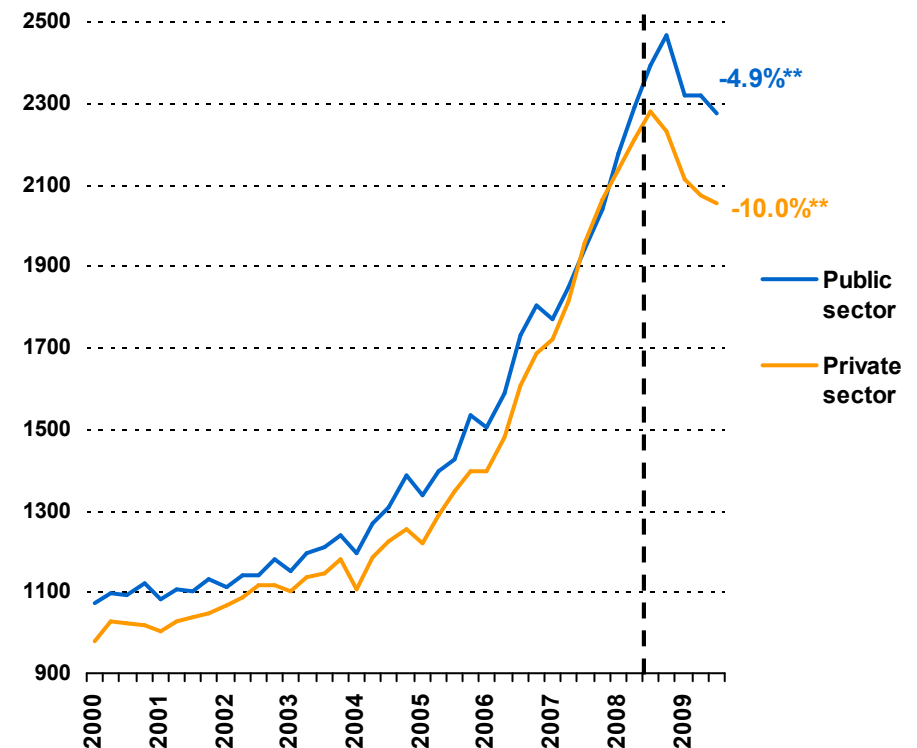
- On December 31, 2009, Ignalina Nuclear Power Plant will be closed according to agreement with European Union. Consequently, electricity is expected to appreciate by 30%.
- The shutdown will push up consumer inflation by 1.75 percentage points in 2010, 0.75 p.p. owing directly to electricity price increase and 1.0 p.p. to second-round effects.
- Due to the closure, GDP development rate will be 1.0 percentage point lower in 2010 compared to non-closure scenario.
- In 2012-2013, Elektrėnai thermal power plant will introduce additional generating capacities, which will allow electricity to cheapen by roughly 30%.

In mid-2009, private business was already deep into the process of cutting labour costs while public institutions were a way behind

Average number of employees in full-time units



Average monthly wages and salaries (LTL)



* Change in 2Q 2009, compared to 2Q 2008.

** Change in 3Q 2009, compared to 3Q 2008.

Source: *Statistics Lithuania*, calculations of SEB Bank.

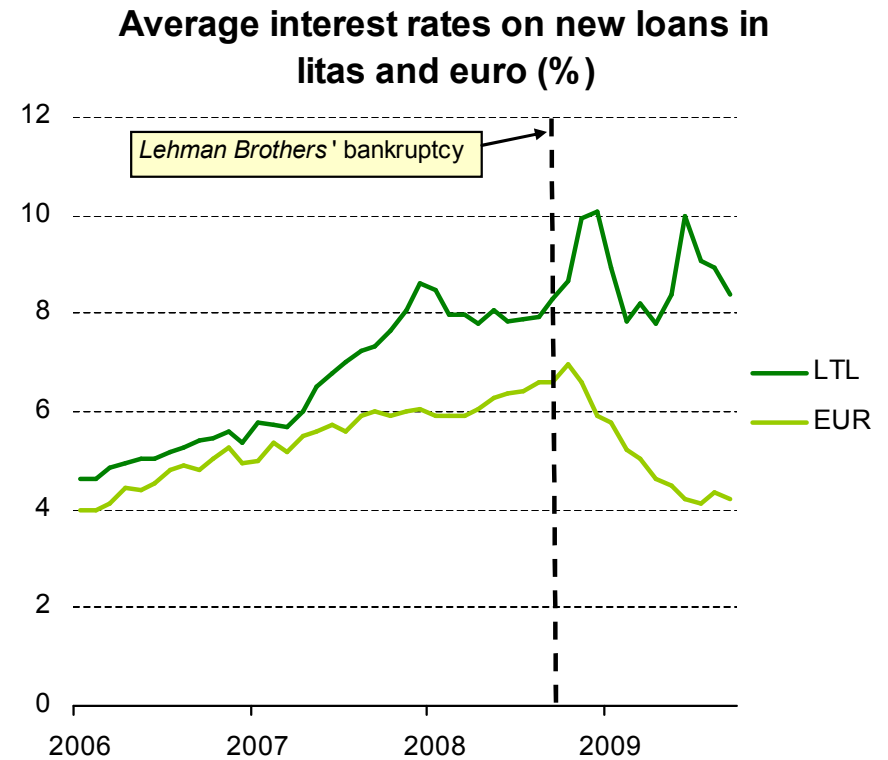
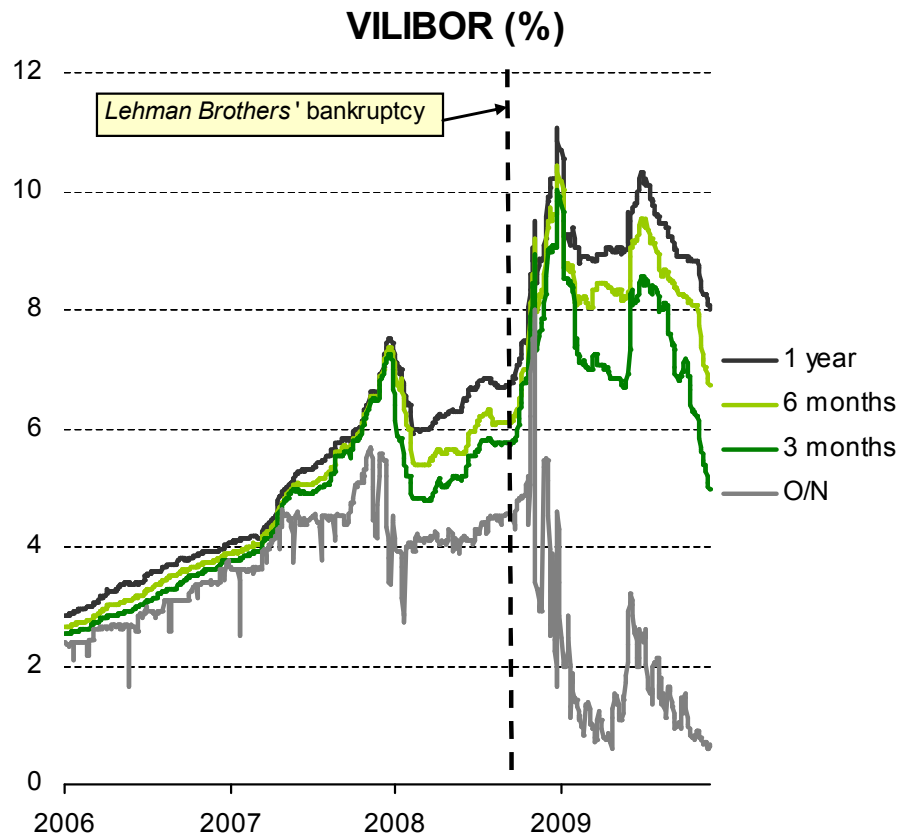
Banks immediately reacted to shock in global financial market

Response of commercial banks to crisis continue to encompass:

- Making a cushion of huge specific provisions;
- Writing-down overdue loans and cleaning up balance sheets;
- Providing new loans very cautiously.

It should be noted that adjustments take place not only on macroeconomic, but also on microeconomic level

Credit crunch caused by global turbulences now is getting easier in Lithuania



Source: Bank of Lithuania.

Despite damage brought by global financial crisis, there are several fundamental reasons to invest in Lithuania



Advantages:

- Membership in EU, Schengen area, NATO;
- Attractive geographical location and know-how of dealing both with Western partners and companies from ex-Soviet Union countries;
- Skilled and inexpensive labour force, knowledge of foreign languages;
- Competitive business operation costs and relatively low taxation;
- Globally leading in niches of hi-tech sectors (biotechnology, lasers etc.)

Drawbacks:

- Small domestic market.

Thank you for your attention!