

November 2024



The Republic of Lithuania

Investor Presentation

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- 5 Macroeconomic Developments
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- 21 Fiscal Discipline
- 26 Public Debt Management
- 33 Banking Sector



Lithuania Snapshot

Key Facts

Nominal GDP ⁽¹⁾ :	EUR 73,793 mn
Annual real GDP growth ⁽¹⁾ :	0.3 %
Credit ratings:	Moody's: A2 (outlook stable) S&P: A (outlook stable) Fitch: A (outlook stable)
Currency:	Euro (EUR) since 1 January 2015
Government:	centre-left coalition, elected in 2024, has majority in the Parliament (86 seats out of 141)



Lithuania's Path From Independence to a Member of Eurozone: Key Milestones



Notes: (1) Statistics Lithuania, unadjusted nominal GDP as of 31 December 2023 and its real growth for 2023 (14.11.2024)
 Sources: Statistics Lithuania, Ministry of Finance, Moody's Investors Service, Standard & Poor's Financial Services, Fitch Ratings (19.11.2024)



Key Credit Strengths



DYNAMIC ECONOMY

- Lithuania's openness and flexibility have facilitated its **income convergence with its Western European peers**, as it was among the first Euro Area countries to recover to pre-pandemic GDP levels. **Growth is expected to pick up from 2024 onwards**
- The successful implementation of the Recovery and Resilience Plan (RRP) is expected to **fund an investment pipeline that will deepen the structural reform agenda**



POLICY EFFECTIVENESS

- Lithuania's economy has increased its **degree of sophistication, export diversity and international interconnectedness** leveraging on high productivity levels across sectors driven by **technological progress and widening human capital**
- The **high structural flexibility of the Lithuanian labour market facilitates shock absorption** and migration inflows from Ukraine alleviate the decline in the working-age population and improve the demographic outlook



INSTITUTIONAL STRENGTH

- A strong institutional framework, **cross-party political consensus and robust governance**, as reflected in strong World Governance Indicators, are expected to remain after the centre-left coalition led by the Social Democrats is fully formed.
- A **consistent track record of sound fiscal policies and prudent debt management** has helped the country build a fiscal space which has supported the return of inflation to low historic levels after a supply-side inflationary episode in 2022 and 2023



MACRO-FISCAL BUFFERS

- Lithuania has a strong **track record of outperforming budget execution**, as demonstrated in 2023, with a **deficit of 0.8%** versus a projected 4.9% of GDP and **fiscal flexibility that allowed it to redirect expenditures towards social protection** amidst the Covid and Ukraine crises
- As a result, the country **benefits from a moderate government debt burden with low interest expenditures, negligible contingent liabilities and limited foreign currency risk**, and all supported by a liquid domestic capital market



SOUND BANKING SECTOR

- Banking sector profitability doubled in 2023 vs. 2022**. Meanwhile, already **high capitalization levels have strengthened, liquidity metrics are robust and non-performing loans remain significantly below pre-pandemic levels** at 0.56% of GDP as at 31 December 2023
- Lithuania has become **the largest fintech hub in the EU**, as its companies are driving structural changes in the financial system and boosting IT and financial services. Authorities have **taken necessary steps to address potential risks from the maturing fintech sector**



ENERGY AND NATIONAL SECURITY

- National security is ensured by the presence of NATO troops in the Baltics and supported by high defence budget commitments**. The target for military spending was raised from 2.0% to 2.5% of GDP in 2024, and is expected to be increased again to 3.03% of GDP in 2025
- Energy **imports from Russia have been completely suspended since May 2022** and **alternative sources have been successfully secured** to guarantee energy security. Important steps have been taken to ensure domestic electricity generation and trade agreements for fossil fuels

Sources: Ministry of Finance, Moody's Investors Service, Standard & Poor's Financial Services, Fitch Ratings

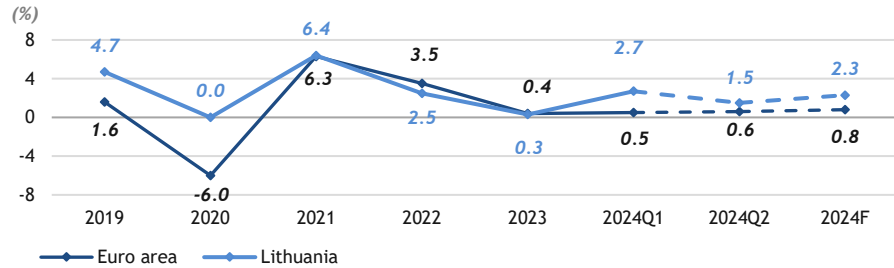


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Lithuania's Economy Proves Resilient to Exogenous Shocks

Real GDP Growth

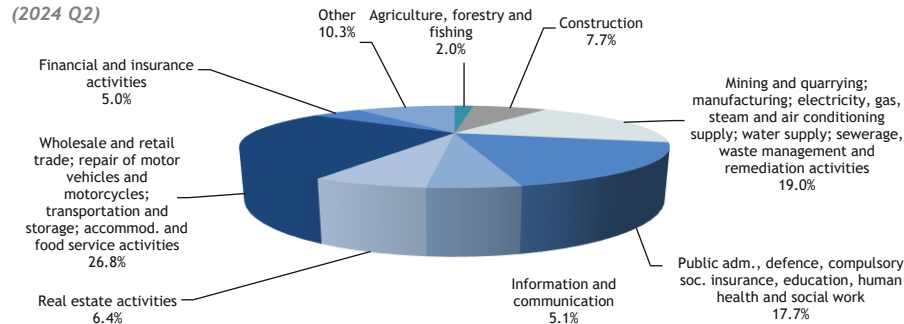


Note: Seasonally and calendar adjusted data; chain linked volumes, percentage change compared to same period in previous year.

Sources: Eurostat (15.11.2024), European Commission's Autumn 2024 Economic Forecast, Ministry of Finance's Economic Development Scenario for 2024-2027 (September 2024).

Composition of Gross Value Added by Sector

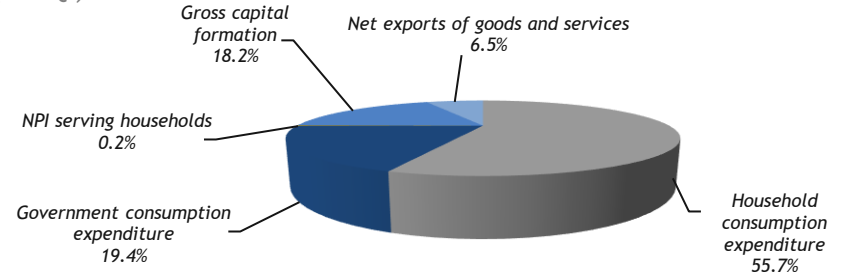
(2024 Q2)



Source: Statistics Lithuania (22.10.2024)

Composition of GDP by Expenditure

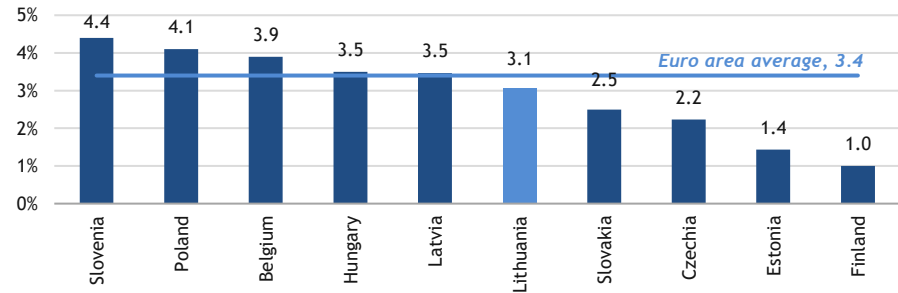
(2024 Q2)



Source: Statistics Lithuania (22.10.2024)

Real GDP Growth Rate in Line with Peers

(%, 2021-2023 3-year average)

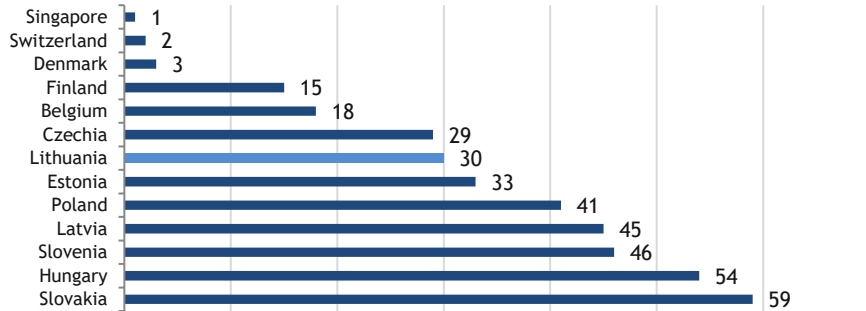


Source: Eurostat (TEC00115, 15.11.2024)



Strong and Improving Governance Indicators

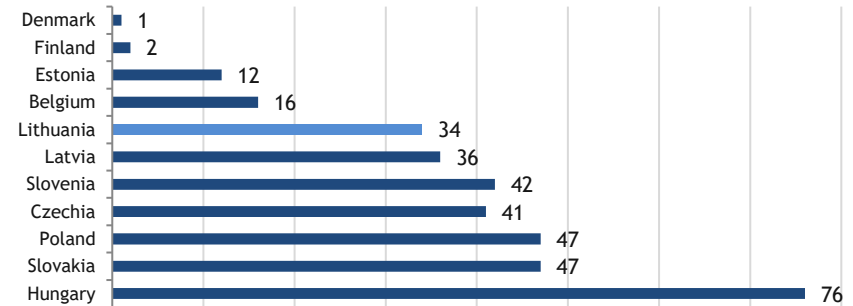
World Competitiveness Ranking 2024



Note: 64 economies are ranked.

Source: <https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/> (14.11.2024)

Corruption Perceptions Index: Ranking 2023

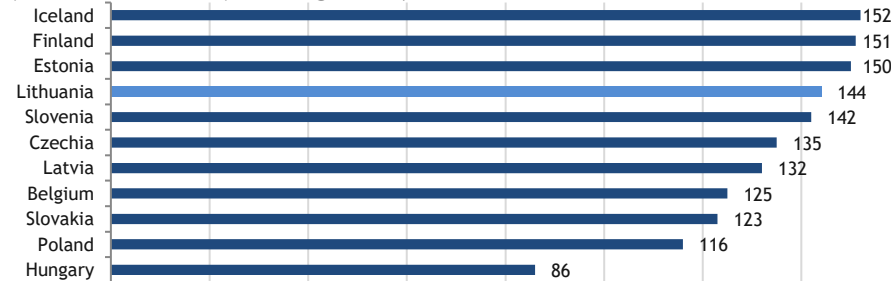


Note: 180 countries are ranked.

Source: <https://www.transparency.org/en/cpi/2023> (14.11.2024)

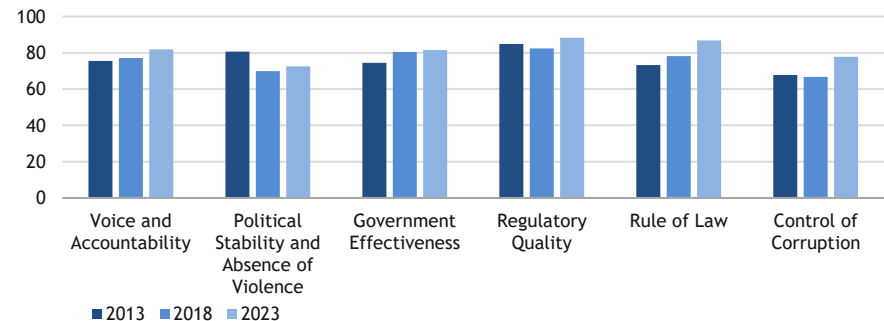
Basel AML Index: Ranking 2023

(152 has the lowest risk, 1 - the highest risk)



Source: <https://index.baselgovernance.org/ranking> (14.11.2024)

Lithuania's World Bank Worldwide Governance Percentile Ranks



Source: World Bank, Worldwide Governance Indicators 2023, <https://info.worldbank.org/governance/wgi/> (14.11.2024)

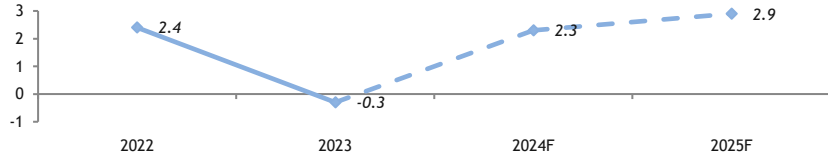


Effective Government Policies to Weather Ukraine Crisis

Russia/Ukraine Conflict had only Moderate Effect on Growth

Russia's aggression in Ukraine will likely continue to have a negative impact on Lithuania's economy through declining exports, a shortage of imported raw materials, an uncertain investment climate and elevated energy prices. The negative impact of these factors on Lithuania is mitigated as Lithuania's trade relations with Russia are much less material than they were a decade ago.

(annual GDP growth, %)



Note: Seasonally and calendar unadjusted data; chain linked volumes, percentage change compared to previous year. (F) Forecasted by the Ministry of Finance at Economic Development Scenario for 2024-2027 (September 2024). Source: Ministry of Finance (12.09.2024)

Defence Spending as a Priority

National security is a key priority as reflected in the 2024 national defence budget set at 2.52% of GDP and the aim of increasing defence spending to 3% of GDP from 2025.

Defence policy is pursued through the joint efforts of the Lithuanian Armed Forces, NATO allies, all state institutions and society. As a member of NATO and the European Union since 2004, Lithuania has the following security guarantees in place:

- Article 5: By focusing on NATO's deterrence and defence efforts, Lithuania works with allies on effective deterrence and, if necessary, to defend with all the means and capabilities needed
- EU Mutual Defence Clause: This binding clause provides that if an EU country is the victim of armed aggression on its territory, the other EU countries have an obligation to aid and assist it by all the means in their power.
- Over recent years, NATO's military presence has expanded in the east of the Alliance. Following Russia's invasion of Ukraine, NATO established four more multinational battlegroups extending all along NATO's eastern flank. Furthermore, NATO expanded to Finland and Sweden, in 2023 and 2024, respectively.

Mutual cooperation has been recently strengthened with Germany's commitment to station a permanent brigade in Lithuania by 2027 and the signing of an MoU between Lithuania and Germany in April 2024 for the building of an ammunition plant in Lithuania.

Source: Ministry of National Defence

Energy Sector Security Away from Russia

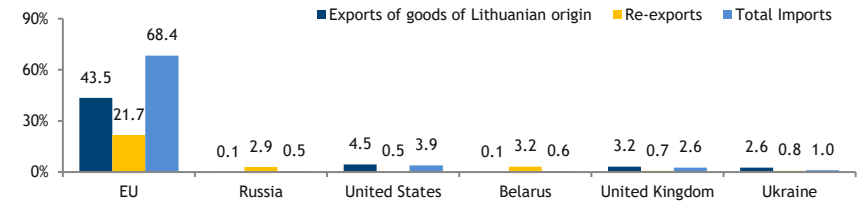
- Gas imports from Russia de facto were stopped on 2 April 2022 and the Parliament made this decision de jure in June 2022. The annual regasification capacity of the Klaipeda LNG terminal is at 39 TWh, which is ample for Lithuania's needs of 20-24 TWh.
- Gas Interconnection Poland-Lithuania (GIPL) is a natural gas infrastructure that connects Polish and Lithuanian as well as Baltic and Finnish natural gas transmission systems with the EU system. GIPL started commercial operations as of 1 May 2022.
- Lithuania's electricity transmission system operator Litgrid performed in April 2023 a successful test decoupling the electricity grid from Russian system, marking a major milestone in the synchronisation of the electrical system with continental Europe which is planned for Q1 2025.
- The Government aims at stronger energy infrastructure and independence to ensure national security and is focused on green energy, with projects like the energy storage system Energy Cell's 200MW or two offshore wind farm projects with a combined capacity of 1.4GW, currently expected to be operational in 2028.

Sources: Ministry of Energy, JSC Amber Grid

Trade Diversification on Several Fronts

Lithuania's trade is primarily with its EU partners, representing more than two thirds of all imports and more than a third of exports. Trade with Russia is limited and has been declining since 2021. Lithuania is further diversifying trade in the Indo-Pacific market as illustrated by recent agreements: establishment of the AUSTRADE in Vilnius (02/2023), new trade agreements signed with Taiwan (01/2023).

(%, 2024 Q1-Q3)



Sources: Bank of Lithuania, Ministry of Foreign Affairs, Ministry of Economy and Innovation, Statistics Lithuania (19.11.2024)



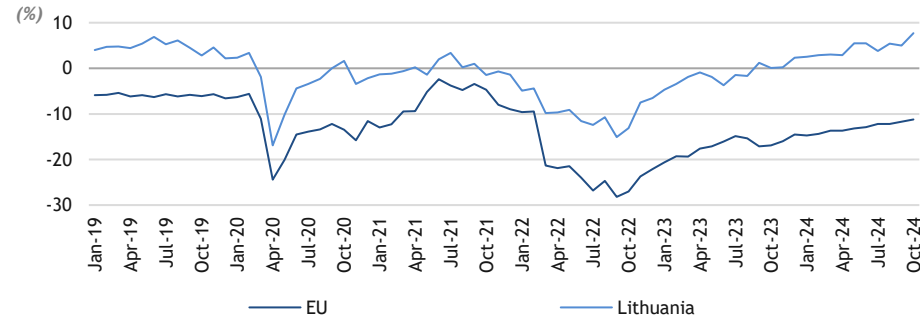
The Financial Situation of Households Remains Solid

Key Highlights

- In 2023, household earnings in Lithuania were 12.6% higher than in 2022, with an increase across all economic activities. However, due to inflation the annual growth of earnings was at 2.1% in real terms. In 2023, the unemployment rate stood at 6.8%, which is 0.9 percentage points higher than in 2022.
- Household deposits continued to increase at a moderate pace: in September 2024, household and non-profit institutions serving households deposits recorded a year-on-year increase of 2.6%.
- Despite high inflation and rise in energy and gas prices and uncertainties related to the protracted Russia-Ukraine war, the consumer confidence continuously increases from historical lows recorded in September 2022.
- The low stock of mortgages (c. 20% of GDP) and the relatively low average loan-to-value ratio has shielded households from the macroprudential policy tightening and contained the impact on their debt service capacity.
- During 2023, the portfolio of loans by monetary financial institutions to households increased by 9.7%, but household indebtedness remained relatively stable due to increased savings and income.

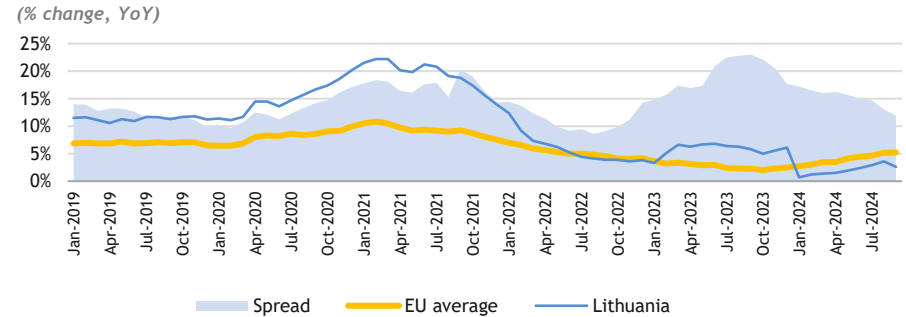
Sources: Statistics Lithuania, Bank of Lithuania (15.11.2024)

Consumer Confidence Indicator



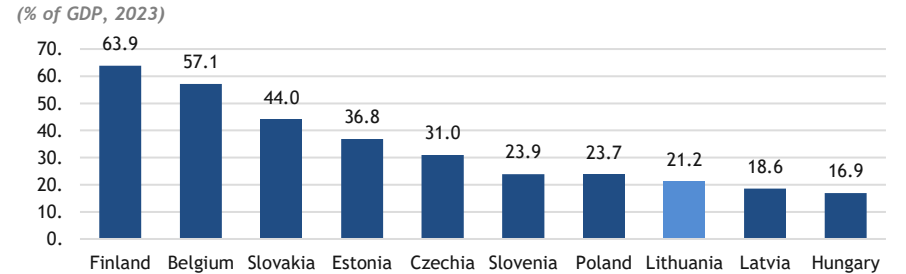
Source: European Commission (15.11.2024)

Household Deposits



Source: ECB Data Portal (15.11.2024)

Household Debt



Note: Household debt, consolidated including Non-profit institutions serving households

Sources: Eurostat (15.11.2024)

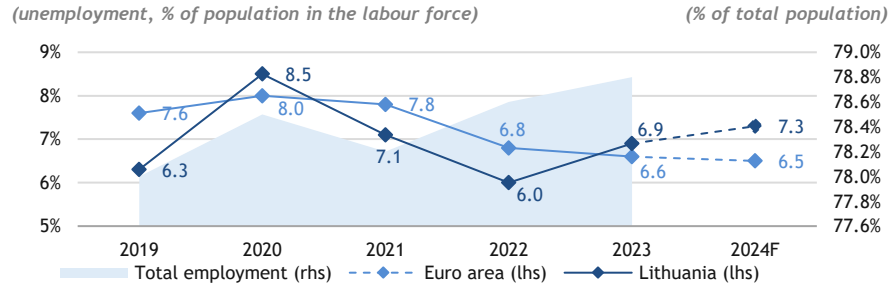


A Flexible Labour Market and Migration Flows Improve Demographics

Flexible Labour Market at the Heart of Economic Resiliency

- Labour market has remained strong throughout the Covid and Ukraine crises, spurring a solid wage growth that has supported domestic demand.
- The structural flexibility of the labour market allows the country to weather shocks. It originates in the 2017 labour code reform that introduced new labour contracts and reduced severance payments, while increasing the benefits and duration of the unemployment insurance. Additionally, wages are largely determined at a firm level.
- Currently, unemployment remains relatively low despite a slight increase at the end of 2023. Meanwhile, employment trends reflect positive migration inflows and authorities' ability to integrate foreigners in the labour market.
- Since Russia's invasion of Ukraine until December 2023, about 80,000 refugees have arrived (representing about 3% of Lithuania's population) and more than one-third have already entered the labour force, limiting labour-market bottlenecks.

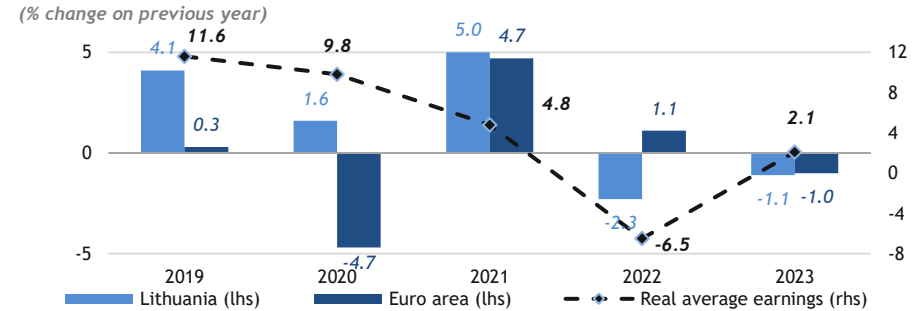
Annual Average Unemployment⁽¹⁾ and Employment⁽²⁾ Rates



Notes: (1) Unemployed aged 15-74; (2) Persons employed aged 15-64

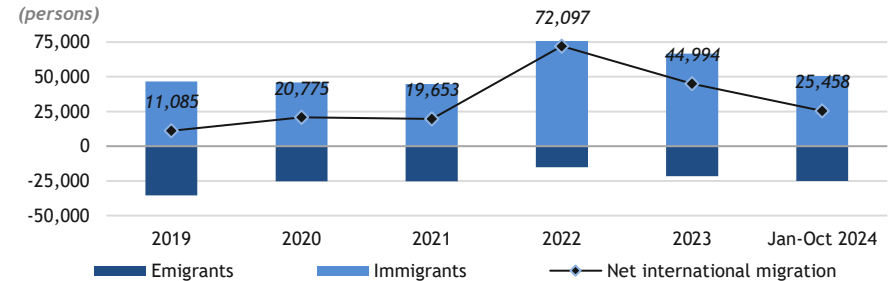
Source: Eurostat (TPS00203), European Commission's Autumn 2024 Economic Forecast, Ministry of Finance's Economic Development Scenario for 2024-2027 (September 2024) (19.11.2024)

Growth of Real Productivity and Real Average Earnings



Sources: Eurostat (NAMA_10_LP_ULC, NAMAQ_10_LP_ULC), Statistics Lithuania (19.11.2024)

Migration Trends



Note: War refugees from Ukraine are included in statistics.

Source: Statistics Lithuania (19.11.2024)



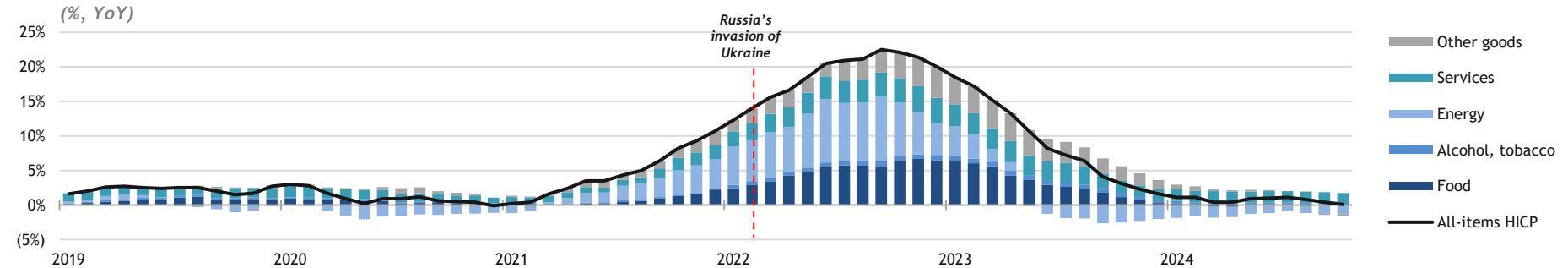
Inflation Gradually Returns to Historic Low Levels

Key Highlights

- The inflation shock related to the war in Ukraine has had a particularly harsh impact on Lithuania and other Baltic economies mainly due to higher exposure to energy prices.
- At the same time, inflation was already comparably high in Lithuania prior to the crisis as very high growth and rising wages put pressure on consumer prices, also historically energy products had a bigger weight in the harmonised index of consumer prices (HICP) basket compared to other EU members.
- This has cushioned to some extent the social impact of the increase in inflation in 2022 and lowered the risk of social pressures. In addition, the rapid increase in per capita incomes and overall spending power has also to some extent muted the social impact of the rising inflation.
- Annual inflation rate peaked in September 2022 and eased to 0.1% as of October 2024. Inflation is expected to decline gradually in 2024 as the more temporary contributors such as energy prices and supply chain bottlenecks dissipate. According to the Ministry of Finance's projections, HICP inflation is expected to decrease to 1% in 2024.

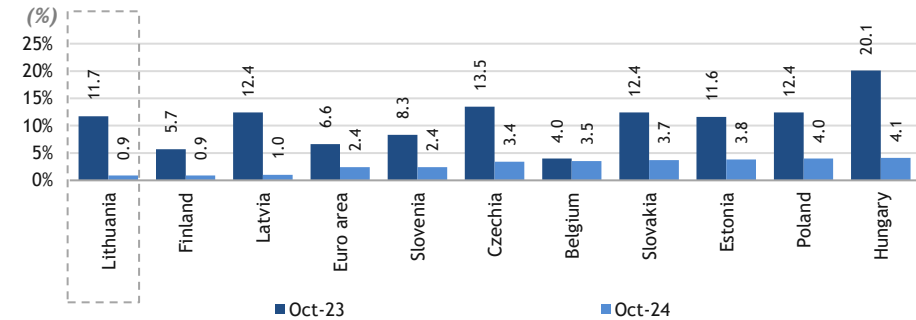
Sources: Eurostat ([PRC_HICP_MANR, 19.11.2024]), Ministry of Finance's Economic Development Scenario for 2024-2027 (September 2024).

Annual Inflation Rate (HICP) and its Composition are Constantly Decreasing



Source: Eurostat ([PRC_HICP_MANR, 19.11.2024])

Moving 12-Month Average Rate of Change Peer Comparison



Source: Eurostat (PRC_HICP_MV12R, 19.11.2024)



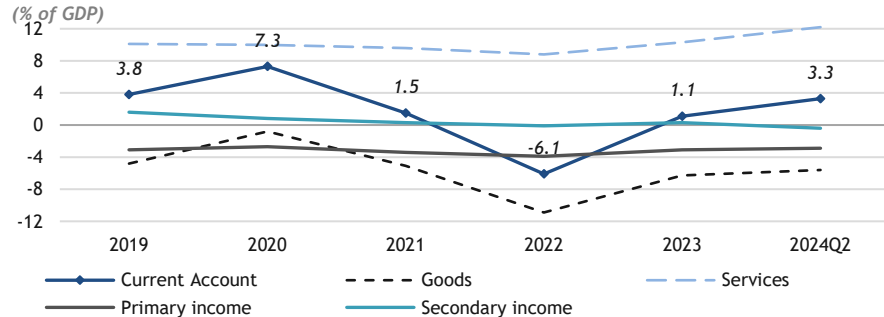
Current Account Surpluses and a High Stock of FDI

Key Highlights

- Over recent years, Lithuania built ample external buffers on the back of strong export performance. Simultaneously, financial and trade linkages with Russia have steadily decreased since its integration into the EU.
- Due to the temporary effect of unusually high energy prices associated with the start of the Ukraine conflict, the current account was in deficit by 6.1% of GDP in 2022.
- Since 2023, dynamics of the current account balance changed its direction and its surplus reached 1.1% of GDP. In Q2 2024, the current account surplus jumped to 3.3% of GDP. It was mainly determined by a rise in the surplus balance of services and declines in primary income deficit and goods deficit.
- As of 30 June 2024, the cumulative foreign direct investment (FDI) rose by 7.1% over the year and amounted to EUR 36.8 billion, or 49.7% of GDP. The largest investors in Lithuania included Germany (EUR 6 bn), the Netherlands (EUR 4.7 bn), and Estonia (EUR 3.7 bn). The largest share of FDI (EUR 13.2 bn) was attracted by companies engaged in financial and insurance activities, recording a 7.2% increase in investment.

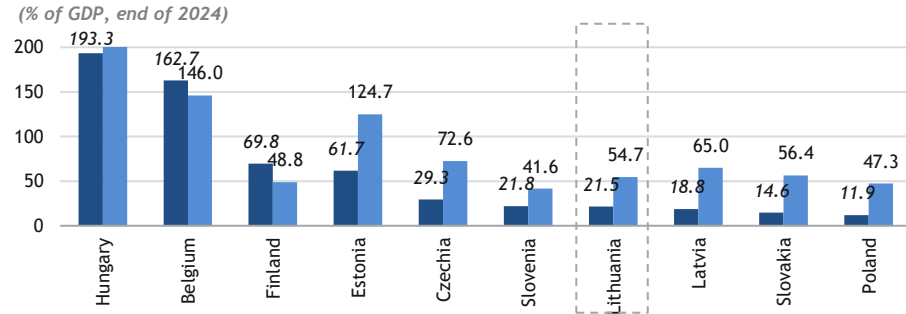
Sources: Bank of Lithuania, Eurostat, Statistics Lithuania (24.10.2024)

Dynamics of Current Account Balance



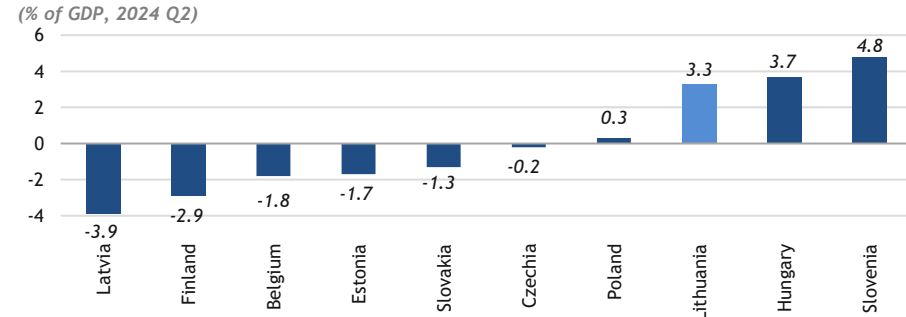
Source: Eurostat (BOP_GDP6_Q, 24.10.2024)

FDI Assets/Liabilities Peer Comparison



Source: Eurostat (BOP_GDP6_Q, 25.10.2024)

Current Account Balance Peer Comparison



Source: Eurostat (BOP_GDP6_Q, 24.10.2024)



Successfully Replacing Trade Links with Russia

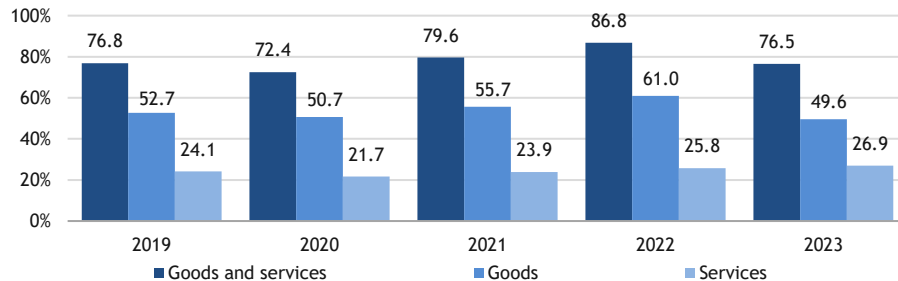
Data for 2023

- As a result of the Ukraine war, Lithuania severed most economic ties with Russia and diversified trade partners, notably within the Indo-Pacific market and towards the rest of the EU.
- During 2023, exports of goods and services decreased by 3.6% comparing to previous year to a total amount of EUR 56.4 bn, comprising EUR 36.6 bn of goods and EUR 19.8 bn of services.
- Lithuania's main export partners are also EU members and in some cases from the Euro Area - namely Poland, Germany, Latvia and Netherlands - helping avoid macroeconomic and monetary policy imbalances within the region.
- The most prominent industries in the export sector were mineral products, products of the chemical and allied industries, machinery and mechanical appliances, electrical equipment.
- Transport, communications and travel (46.8%, 10.5% and 8.2% respectively) accounted for the largest shares of exports of services.

Sources: Eurostat (NAMQ_10_GDP), Bank of Lithuania, Statistics Lithuania (24.10.2024)

Exports

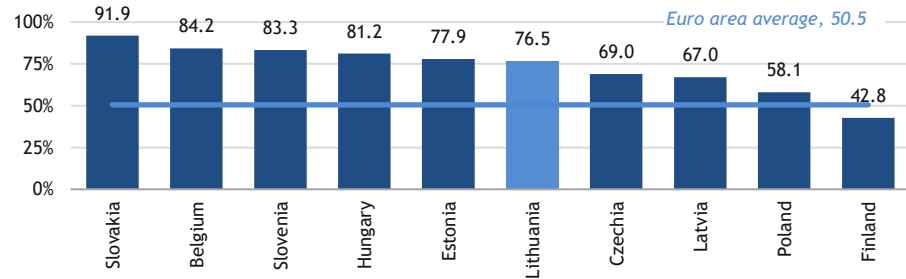
(% of GDP)



Source: Eurostat (NAMA_10_GDP, 24.10.2024)

Lithuania is among EU's most open economies

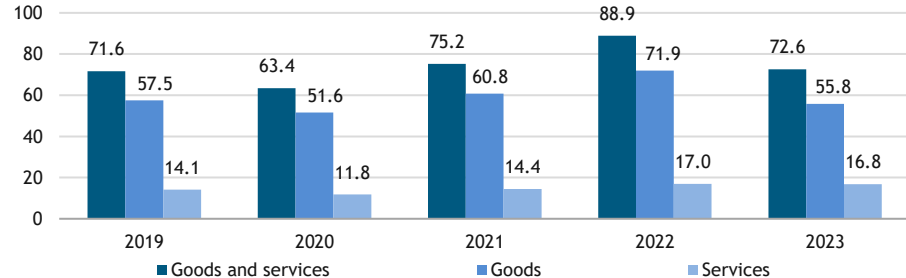
(Exports of goods and services, % of GDP, 2023)



Source: Eurostat (TET00003, 24.10.2024)

Imports

(% of GDP)



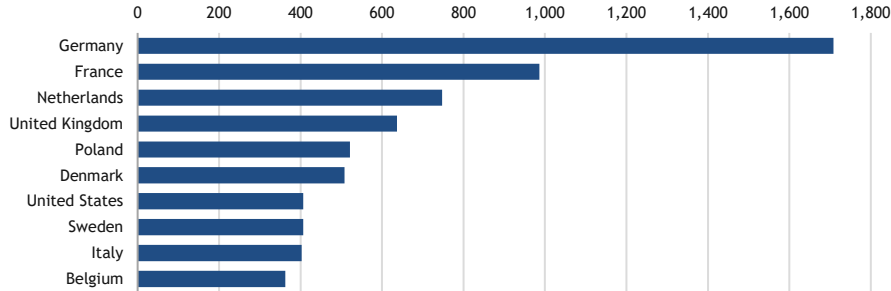
Source: Eurostat (NAMA_10_GDP, 24.10.2024)



A High Value-Added and Diversified Export Sector

Key Partners in Exports of Services

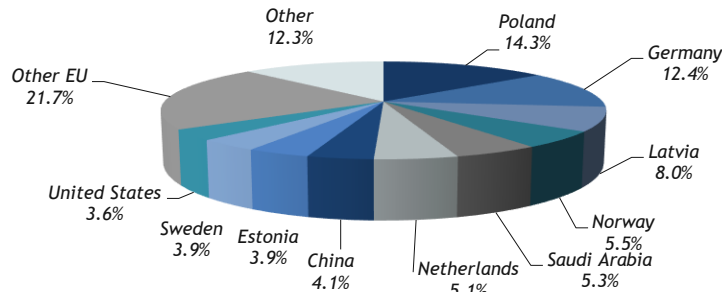
(EUR mn, 2024 H1)



Source: Bank of Lithuania, <https://www.lb.lt/en/export-and-import-of-services-by-country> (26.09.2024)

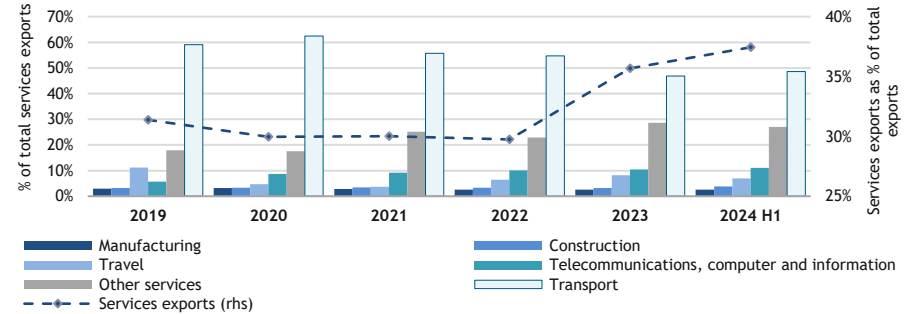
Composition of Imports by Country

(Imports of goods %, 2024 H1)



Source: Statistics Lithuania (12.09.2024)

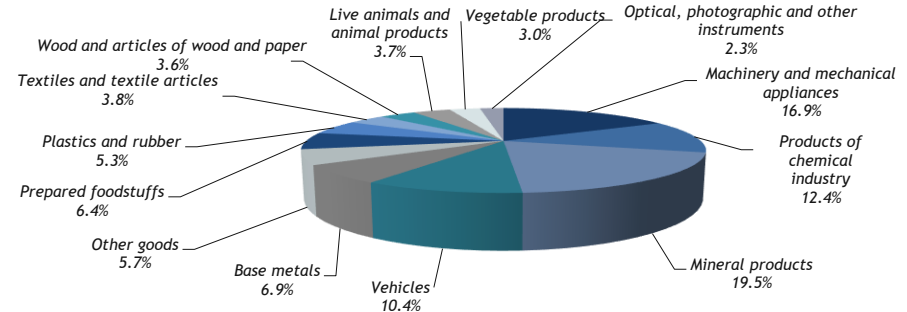
Development of Key Sectors in Exports of Services



Sources: Bank of Lithuania, <https://www.lb.lt/en/balance-of-payments-quarterly> (26.09.2024).

Composition of Imports by Sector

(Imports of goods %, 2024 H1)



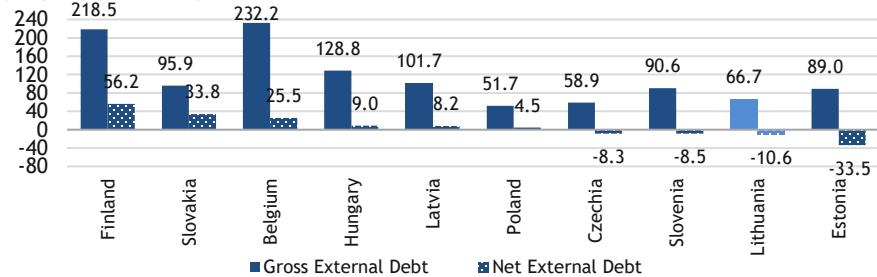
Source: Statistics Lithuania (12.09.2024)



Low and Affordable Levels of Public and Private External Debt

Gross and Net External Debt

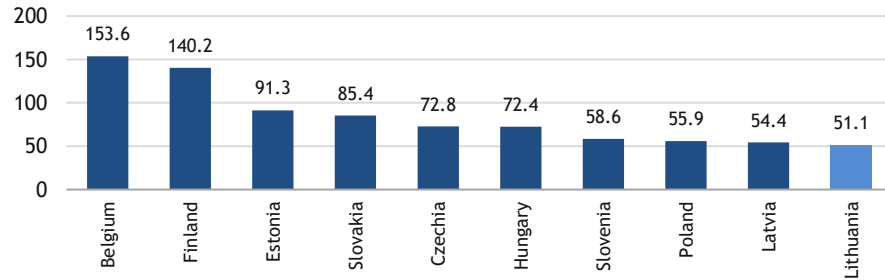
(% of GDP, Q4 2023)



Source: ECB Data Portal and Eurostat <https://ec.europa.eu/eurostat/databrowser/view/tipsii20/default/table?lang=en> (23.10.2024)

Private Sector Debt

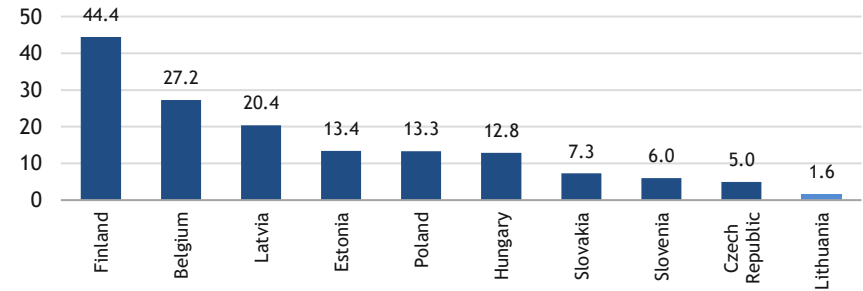
(% of GDP, 2023)



Source: Eurostat (TIPSPD20, 21.11.2024)

Debt Service to Export Ratio

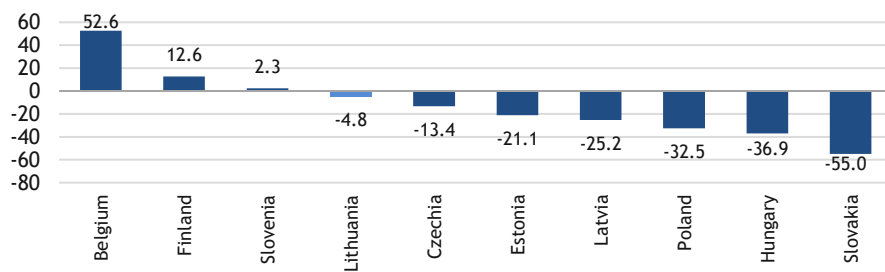
(%, 2023)



Source: Fitch Data Comparator, September 2024

Net International Investment Position

(% of GDP, Q4 2023)



Source: Eurostat (TIPSI40, 24.10.2024)



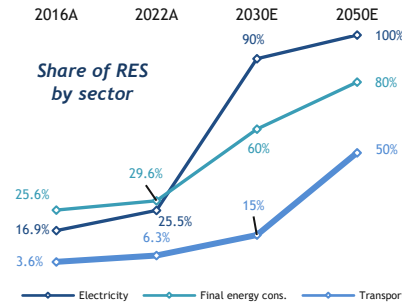
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Ambitious Commitments towards Renewables and Energy Security

Development of Renewable Energy Sources (RES)

- The National Energy Independence Strategy is the master program setting the long-term renewable energy development targets
- Lithuania has already met its 2020 target of 23% of RES in final energy consumption and is on track to meet the 60% target by 2030
- Preparatory works for offshore wind farm development, total capacity of 1.4GW, are planned to be completed in 2024
- Lithuania intends to increase decentralization and promote the role of 'prosumers' in energy production
- New potential uses for biomethane and renewable hydrogen in industry and public transport have been identified
- Electric vehicles will become an important provider of network balancing services through flexible charging and vehicle-to-grid solutions

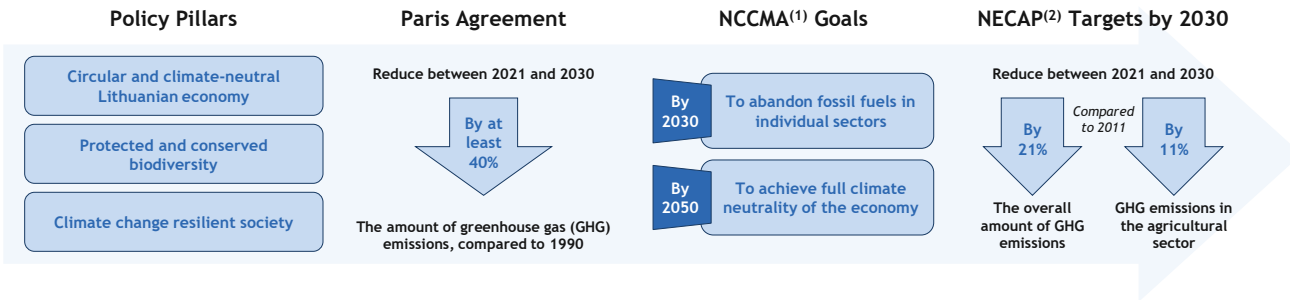


Note: A - Actual, E - Expected
Source: Ministry of Energy (18.01.2024)

Ensuring Energy Security

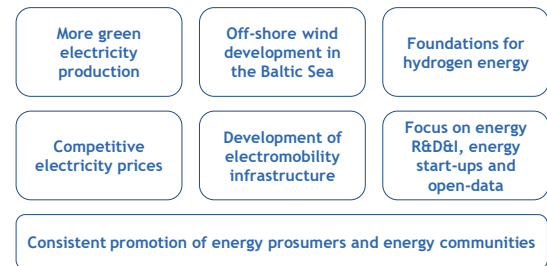
- The Government is strengthening energy infrastructure to ensure national energy security and independence while maintaining its long-term focus on green energy development
- The following initiatives are underway to achieve these objectives:
 - Larger-share of local electricity generation (mainly renewable energy sources (RES) solar and wind power)
 - Increase in renewable fuels production and consumption (biomethane, advanced biofuels, e-mobility)
 - Modern balancing capacity in the electricity transmission system
 - Preserving and developing emergency and power reserves

Policy Pillars defining National Objectives



Note: (1) National Climate Change Management Agenda approved in June 2021; (2) National Energy and Climate Action Plan 2021-2030 to be approved by June 30th, 2024
Source: Ministry of Energy (05.06.2024)

STRUCTURAL OBJECTIVES FOR 'RES' DEVELOPMENT





A Stronger National Electricity Supply to Connect with the EU Grid

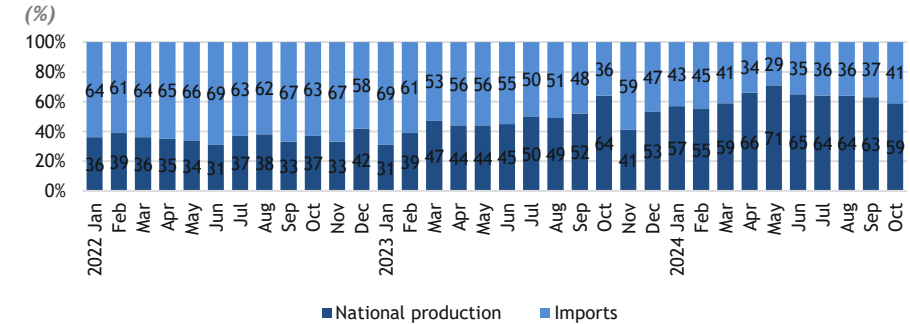
Electricity Synchronisation

- Synchronization of Lithuania's electric power system with the EU energy system 'European Continental Network of ENTSO-E' is expected in February 2025.
- In April 2023, a successful isolated operation test was performed, during which the Lithuanian electricity network was disconnected from the electricity system controlled by Russia. If suddenly disconnected from BRELL energy ring, emergency synchronization would be automatic.
- Since October 2023, the Lithuanian electricity system was strengthened by 200 MW energy storage system, which provides a primary reserve service, voltage control and synthetic inertia services.



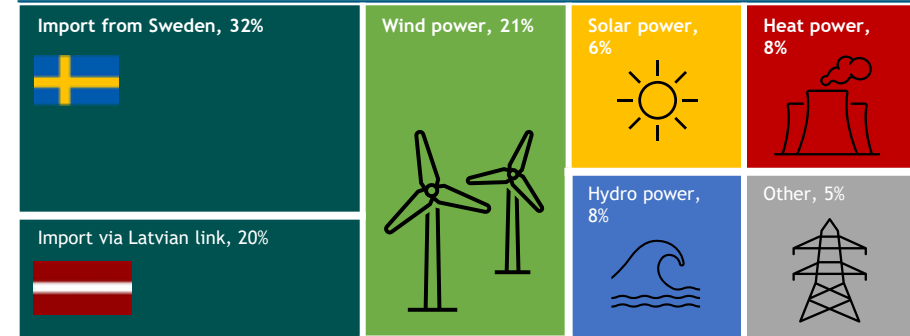
Source: Ministry of Energy, Litgrid (18.01.2024)

National Electricity Production and Imports



Source: Lithuanian Energy Agency (21.11.2024)

Electricity Supply by Sources, 2023



Source: Lithuanian Energy Agency (18.01.2024)



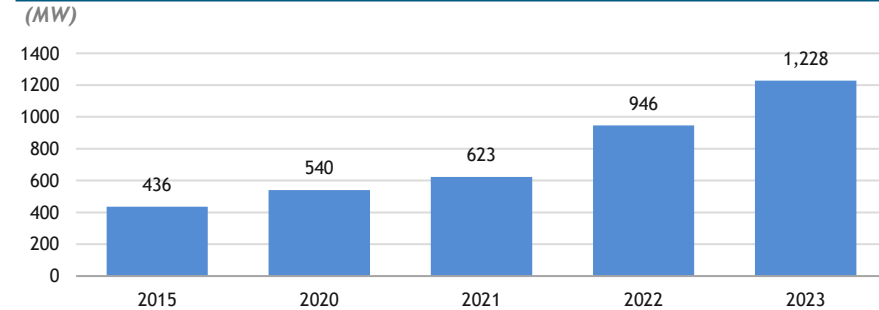
Wind and Solar Energy Leading Lithuania's Renewables Commitment

Key Highlights

- Considering the renewable energy potential of Lithuania in the Baltic Sea, two wind farms, with a combined capacity of 1.4 GW, are planned to be built in the Baltic Sea by 2030.
- The two offshore wind farms will provide half of Lithuania's actual electricity consumption needs and allow the country to be self-sufficient in electricity from local sources.
- UAB „Ignitis Renewables“ together with OW OFFSHORE, S.L. won the tender to build the first wind farm. One such park with an installed capacity of about 700 MW is expected to produce about 3 TWh of green electricity per year, which would ensure up to a quarter of Lithuania's annual electricity needs and further reduce the country's dependence on electricity imports.
- In November 2024, a tender for the right to develop the second 700 MW offshore wind farm was announced. The winner of the tender is expected to be announced in June 2025.
- Because of the state financial aid provided, the solar power plants installed capacity increased more than twice during 2023.

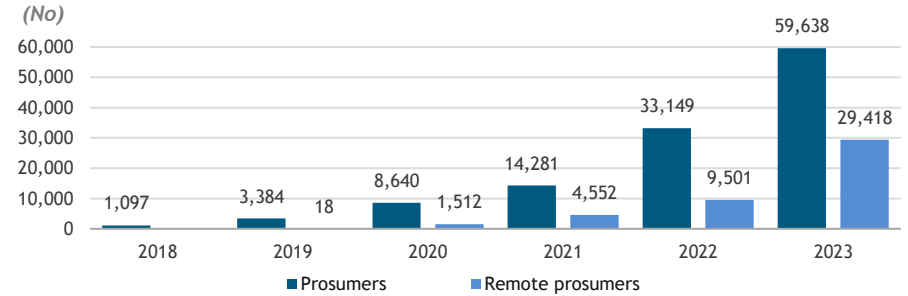
Source: Ministry of Energy, Lithuanian Energy Agency, www.offshorewind.lt (21.11.2024)

Wind Power Plants Installed Capacity



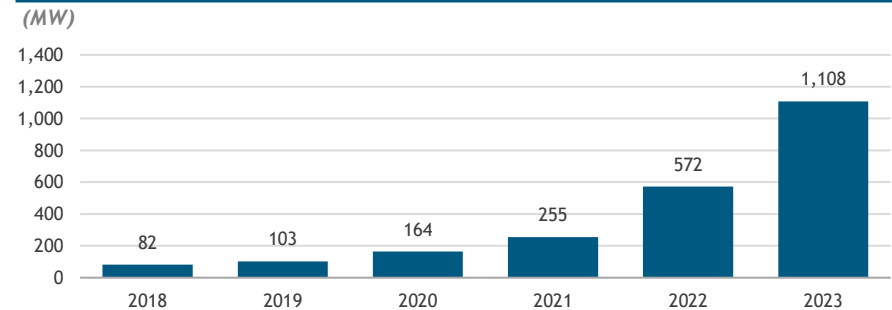
Source: Lithuanian Energy Agency (18.01.2024)

Energy Prosumers



Note: Remote prosumers are prosumers which purchased or rented a part of the solar power plant from solar park.
Source: Lithuanian Energy Agency (18.01.2024)

Solar Power Plants Installed Capacity



Source: Lithuanian Energy Agency (18.01.2024)



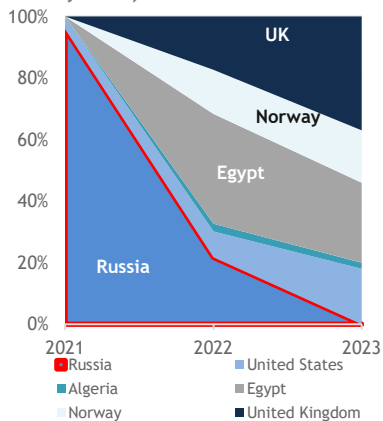
A Determined Strategy to Secure Oil and Gas Supply Away from Russia

- The annual regasification capacity of the Klaipeda LNG terminal is at 39 TWh, which is ample for Lithuania's needs of 20-24 TWh.
- In 2023, crude oil imports amounted to 50.9 mn barrels, and LNG imports were 5 million m³.
- Gas imports from Russia de facto were stopped on 2 April 2022 and the Parliament made this decision de jure in June 2022.
- Gas Interconnection Poland-Lithuania (GIPL) is a natural gas infrastructure that connects Polish and Lithuanian as well as Baltic and Finnish natural gas transmission systems with the EU system. On 1 May 2022, GIPL started commercial operations. The maximum capacity to transport gas from Lithuania to Poland increased to 21 TWh/y and gas transportation capacity from Poland to Lithuania increased to 27 TWh/y.
- Enhancement of Latvia-Lithuania inter-connection (ELLI) was completed in 2023. Project implementation doubled gas transmission capacities between two countries and provide better conditions for the use of Inčukalns Underground Gas Storage.

Source: Ministry of Energy (18.01.2024)

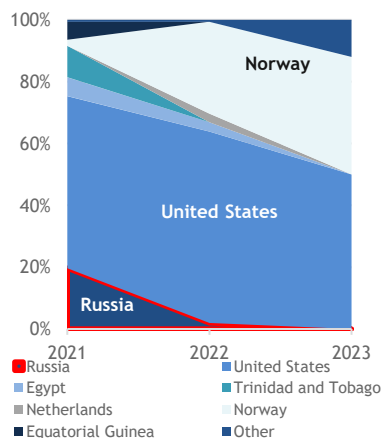
Crude Oil Imports

(Share of total)

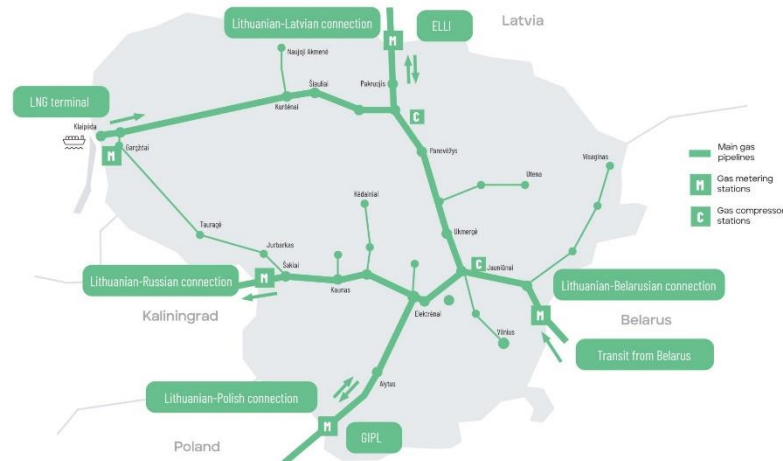


Source: Lithuanian Energy Agency (05.06.2024)

LNG Imports



Gas Network in Lithuania



Source: Ministry of Energy, Amber Grid (17.01.2024)



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Budget Execution and Medium-Term Fiscal Priorities

Overview

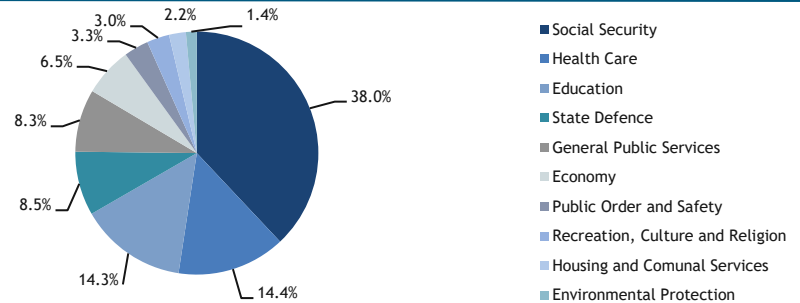
- Lithuania has a tradition of fiscal prudence that has allowed it to deliver strong fiscal outcomes and to maintain debt ratios less than half the average for the euro area and lower than most regional peers.
- In 2023, the General Government (GG)⁽¹⁾ outperformed its targets by a large margin, delivering a deficit of 0.8% of GDP versus the originally budgeted 4.9% of GDP. This performance was achieved without jeopardizing key spending commitments, as energy prices were lower than budgeted, and revenues increased in all subsectors of the GG.
- In 2024, the GG deficit is forecasted to be 2.2% of GDP versus the originally budgeted 3% of GDP.
- The draft Budget Law 2025-2027 was submitted by the Government to the Parliament for the first reading on 18 October 2024.
- It states that the GG deficit will not exceed 3% of GDP⁽²⁾ (as required by the Maastricht criterion over the whole medium term).
- Key spending priorities of Draft State Budget 2025⁽²⁾ are:
 - Increasing personal income - EUR 1.9 bn
 - Strengthening of the national security - EUR 2.5 bn (including the Defence Fund which was established in mid-2024)
 - Investments in the future of Lithuania - EUR 3.6 bn
- The Infrastructure Fund is planned to be set up in 2025 with an investment target of EUR 1 bn in 2025-2027. It will invest in financially viable projects such as defence industry, maritime and airport infrastructure and railway infrastructure, the development of public-private partnership projects such as military infrastructure projects, data centres, energy infrastructure.
- Also, Draft State Budget 2025 foresees the increased funding for Lithuanian roads of EUR 784 mn.

Notes: (1) General Government consolidates the State budget, budgets of 60 municipalities, Social Security Funds and other extra-budgetary funds;

(2) <https://finmin.lrv.lt/en/news/the-government-approves-the-draft-state-budget-for-2025/>

Sources: Ministry of Finance, Statistics Lithuania (22.11.2024)

GG Expenditure according to Draft Budget 2025



Source: Ministry of Finance, <https://finmin.lrv.lt/en/news/the-government-approves-the-draft-state-budget-for-2025/>

Projected Increase in Revenue and Expenditure in 2025⁽¹⁾

Budgets	Revenue		Expenditure	
	by EUR mn	change in %	by EUR mn	change in %
State Budget (incl. EU Funds)	1,000.1	5.9	2,408.3	11.7
State Social Insurance Fund	1,034.5	13.6	850.7	12.1
Compulsory Health Insurance Fund	478.7	13.8	478.7	13.8
Municipal Budgets	832.1 ⁽²⁾	14.2	832.1	14.2

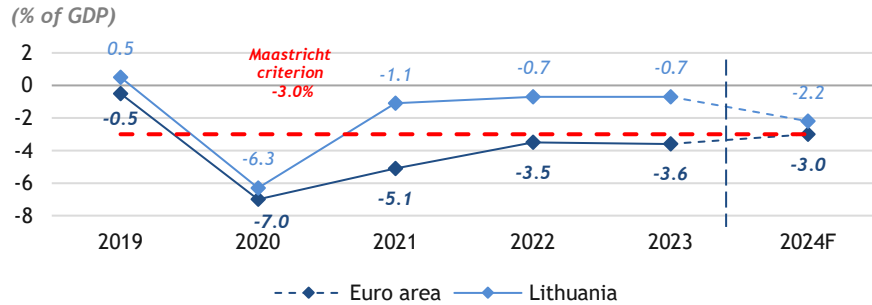
Notes: (1) The increase was calculated compared to approved Budget 2024, (2) In addition, municipalities will be able to borrow additionally up to EUR 112.6 million.

Source: Ministry of Finance (22.11.2024)



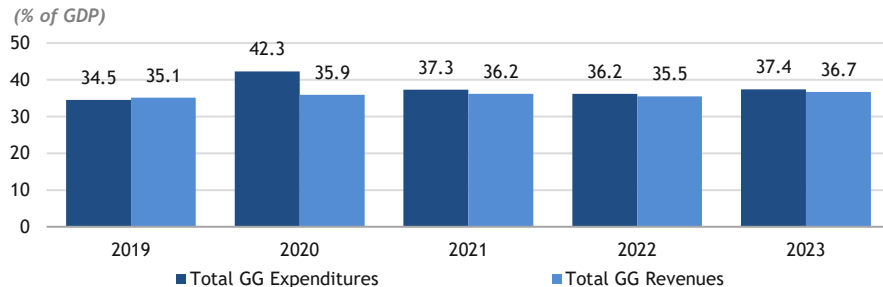
General Government Expenditure and Revenue

General Government Balance, ESA 2010



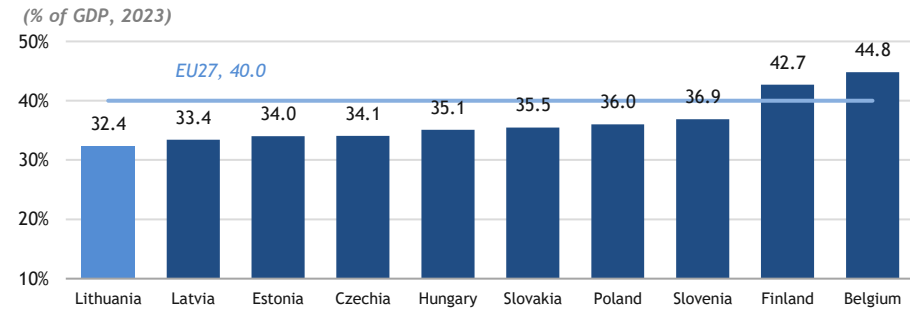
Sources: Eurostat, European Commission's Autumn 2024 Economic Forecast, Ministry of Finance (21.11.2024)

General Government Expenditure and Revenue



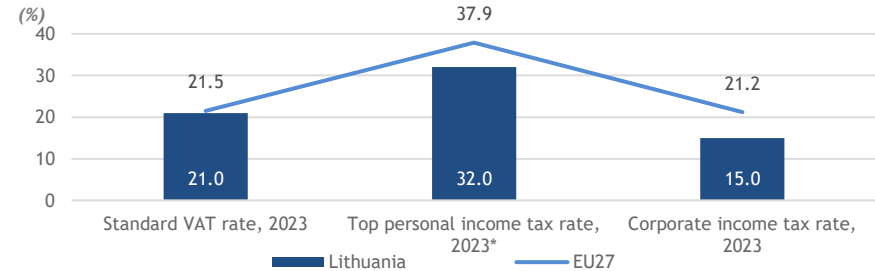
Sources: <https://ec.europa.eu/eurostat/databrowser/view/tec00023/default/table?lang=en>
<https://ec.europa.eu/eurostat/databrowser/view/tec00021/default/table?lang=en>

Tax-to-GDP ratio



Source: Eurostat (21.11.2024)

Rates of Main Taxes



Note: (2) Regular PIT rate is 20%. Top (maximum) PIT rate of 32% is applied on the income amounts exceeding the threshold of EUR 101,094 per calendar year in 2023.

Source: https://ec.europa.eu/taxation_customs/business/economic-analysis-taxation/data-taxation_en (24.10.2024)

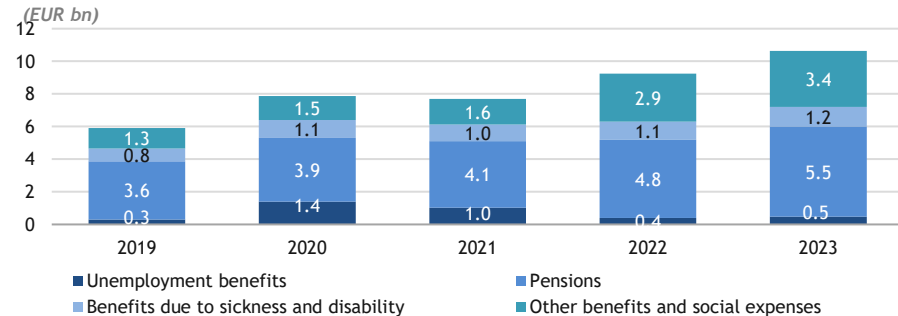


Social Security and Pension System

Social Security

- A major component of the Government's expenditure is social security payments
- The key goal of the social insurance system is to guarantee income of the insured in cases of incapacity for work due to disease, maternity, old-age, disability, and other cases as provided for in the Law on State Social Insurance
- The social insurance system is mainly based on the pay-as-you-go (PAYG) principle. The average rate of the state social insurance contributions payable from the salary of an insured person for pension, sickness, maternity and health insurance is 19.5%
- There are four social security funds in Lithuania:
 - State Social Insurance Fund
 - Compulsory Health Insurance Fund
 - Guarantee Fund (financed by employers' contributions)
 - Long-Term Work Benefit Fund (financed by employers' contributions)

Public Finance Expenditure on Social Security



Sources: Ministry of Finance, www.lietuvsosfinansai.lt (16.04.2024)

Pension System Consists of 3-Pillar Scheme and Other Pensions

First Pillar: Statutory Mandatory Pension Scheme

- Types: old-age, work incapacity, orphans, widow/widower
- Retirement age is being gradually increased until reaches 65 for men and women in 2026
- Required minimum period of insurance: 15 years for old-age; for work incapacity - depends on age
- Old-age pension consists of two components: general (flat rate component with an increase for extra length of insurance above the obligatory period) and individual (pension points, earnings related)
- General part is financed from the general taxes, individual one - on a PAYG basis
- Both the basic pension amount and the pension point value are annually adjusted by the growth of the total wage bill in the economy, averaged over the past three years, the current year, and three forecasted years

Second Pillar: Quasi-Mandatory Funded Pension Scheme

- Introduced in 2004, changed in 2019
- Joining scheme: since 2019 - auto-enrolment with the possibility to opt-out within the specified period, later no opt out is possible until the retirement age
- Contribution rate: 3% (person's contribution calculated based on a person's wage) + 1.5% (State's subsidy calculated based on average wage)
- Investments in pension funds: life-cycle approach
- One centralised public annuity provider - The State Social Insurance Fund

Third Pillar: Voluntary Pension Accumulation

- Financed by individual voluntary contributions, which are tax-deductible

State Pensions (supplementary)

- Non-contributory supplementary payments for some specific groups. Paid from the general budget along with the social insurance pensions:
- Victims of Soviet occupation (exile, Chernobyl's liquidators, soldiers in Afghanistan, etc.)
- Specific occupations (military and interior service, judges, President, ballet dancers, etc.)
- 1st and 2nd degree pensions for specific merits (National Award, donors, mothers with 5 or more children, Olympic Games, etc.)

Social Assistance Pensions

- Minimum guarantee scheme. Old-age, disability and orphans' pensions for those who are not entitled to social insurance pensions and disability pensions for those who are disabled from the childhood

Source: Ministry of Social Security and Labour



EU Funds Support Lithuania's Growth and Reform Agenda

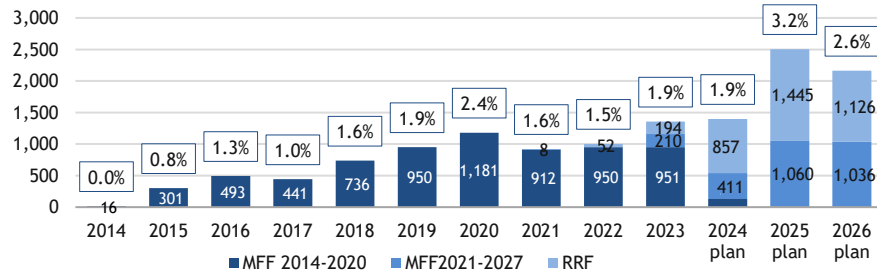
Key Highlights

- Lithuania is a beneficiary of the funds allocated through Cohesion Policy over the period 2021-2027 (IP) amounting to EUR 6.4bn, which together with at least EUR 1.7bn national co-financing would make up to more than EUR 8bn investments towards converging with EU.
- Key current Government's agenda and EU Semester reforms are financed through the extraordinary Recovery and Resilience facility (RRF) from which Lithuania received EUR 2.1bn in direct grants. RRF funds are most notably earmarked for structural reforms in the Green and Digital transformation, respectively 43% and 33% of RRF funds.
- Following the first RRF pre-financing disbursement in August 2021, the second one worth EUR 542mn took place in May 2023. The modification of RRF plan with additional investments of EUR 1.75bn from RRF loan and RePowerEU financing was approved by Commission on 8 November 2023.
- On 27 March 2024, Lithuania has received its first EUR 360 mn loan under the RRF. Together with the advance payment, the total amount was EUR 387 million.
- In addition to Cohesion Policy and RRF funds, Lithuania continues to receive funds allocated through the EU Multiannual Financial Framework (MMF). It is projected that total EU budget contributions to Lithuania will reach EUR 15.6bn for the period 2021-2027, an increase of 23.8% compared to the 2014-2020 period. Thus, Lithuania will receive 3.4 times more from the EU budget than it contributes.

Note: Numbers have been rounded.
Source: Ministry of Finance (17.09.2024).

Payments of EU Funds under Selected Programmes

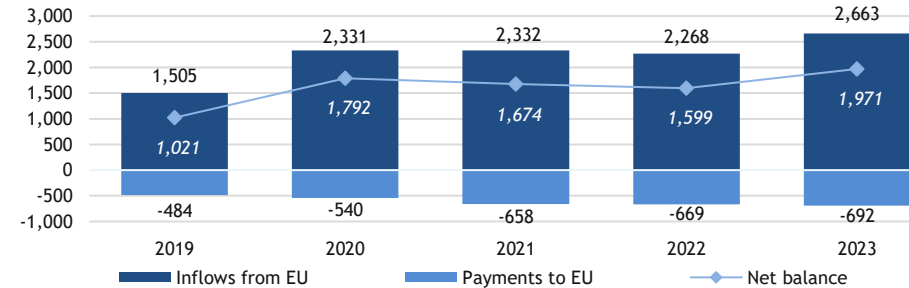
(EUR mn, % of GDP)



Note: Numbers have been rounded.
Source: Ministry of Finance (21.11.2024), Eurostat, World Economic Outlook April 2024

Net Balance of Payments from EU

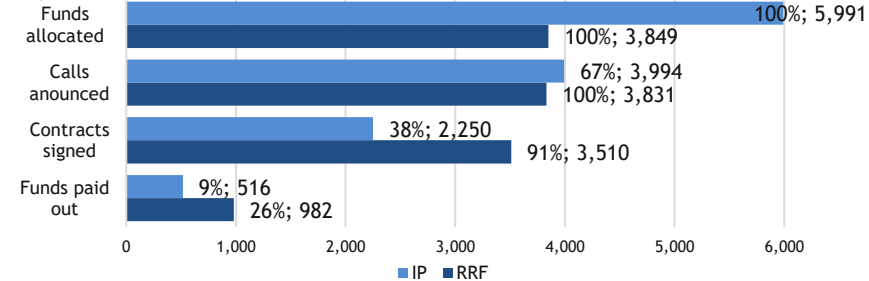
(EUR mn)



Note: Numbers have been rounded and include payments under all programmes with EU.
Source: Ministry of Finance (17.09.2024).

State of Implementation: IP and RRF Funds up to 31 October, 2024

(EUR mn)



Note: Numbers have been rounded.
Source: Ministry of Finance (21.11.2024).

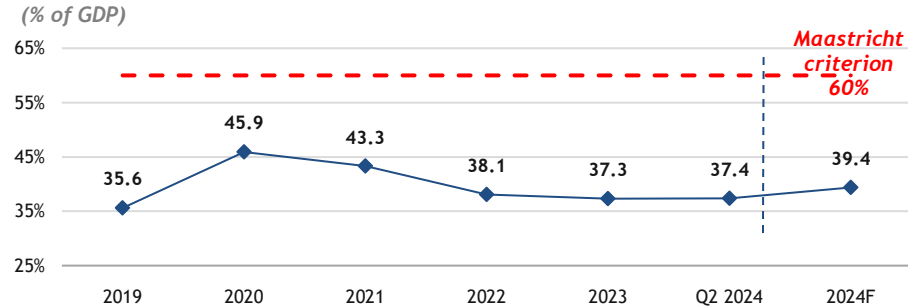


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Relatively Modest Borrowing Needs Result in Stable Debt Level

General Government Debt, ESA 2010



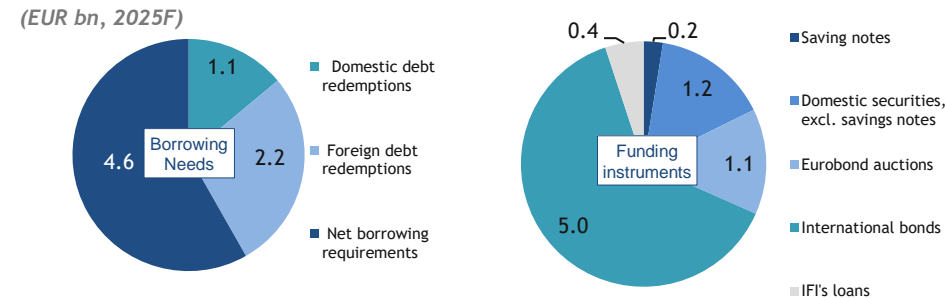
Sources: Eurostat (GOV_10Q_GGDEBT), Ministry of Finance (23.10.2024)

Moderate Government Debt Burden

- General government debt, which increased during Covid-19 crisis, is stabilising
- As of 31 December 2023, Lithuania's gross external debt was 66.7% of GDP for 2023 and net external debt amounted to -10.6% of GDP for 2023 (see Slide 15)
- As of 31 December 2023, General Government debt was approximately EUR 27.6 bn, amounting to 37.3 % of GDP for 2023
- Government annual borrowing needs are expected to be at EUR 7 bn on average in 2024-2027
- As of 31 December 2023, effective interest rate on General Government debt portfolio remains low at 1.6%

Sources: Eurostat (GOV_10Q_GGDEBT), Bank of Lithuania, Statistics Lithuania, Ministry of Finance (22.10.2024)

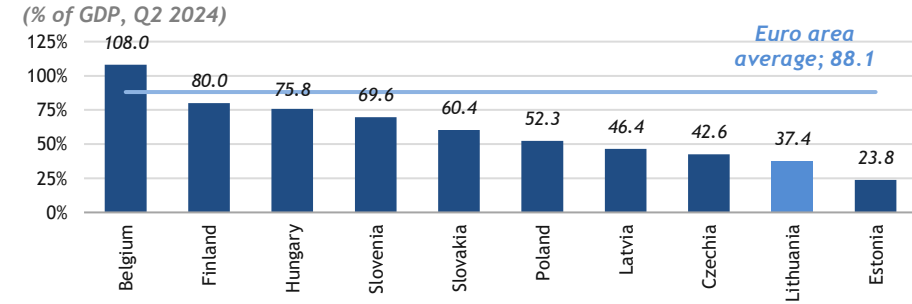
Borrowing Needs and Government Debt Financing



Notes: Numbers have been rounded.

Source: Ministry of Finance, <https://finmin.lrv.lt/en/news/the-government-approves-the-draft-state-budget-for-2025/> (22.11.2024)

General Government Debt



Source: Eurostat (23.10.2024)



Efficient Funding and Debt Management

Borrowing and Debt Management Strategy

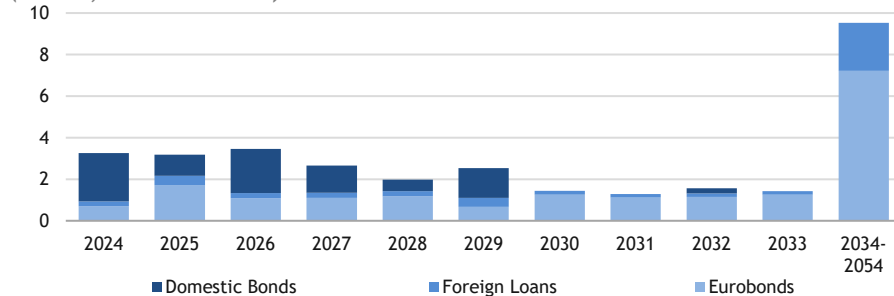
Current debt management objectives set in the Stability Programme of Lithuania for 2023 and valid for 2023-2024:

- Attracting idle funds of entities attributed to general government to the State Treasury
- Focus on investor communication by aiming to maintain current relationships as well as attract new investors
- Seeking acceptable interest rate, refinancing, exchange rate and guaranteed debt risks

Source: Stability Programme of Lithuania for 2023 (29.03.2023)

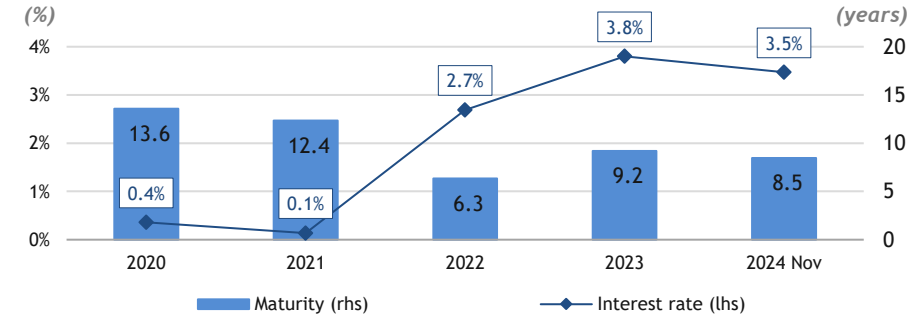
Debt Redemption Profile

(EUR bn, 31 October 2024)



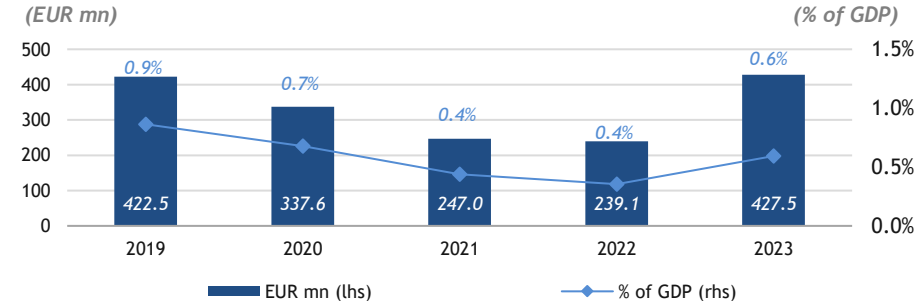
Source: Ministry of Finance (22.11.2024)

Government New Borrowing Metrics



Source: Ministry of Finance (22.11.2024)

Interest Expenditure is still close to Historical Lows



Note: According to ESA 2010 interest expenditure excluding derivative transactions

Source: Statistics Lithuania (25.10.2024)



Debt Limits and Other Liabilities

Relevant Figures for 2024

- The Government's gross borrowing requirement will total up to EUR 5.5 bn in 2024.
- The limit for net change in debt liabilities is set at approx. EUR 2.77 bn in 2024.
- The debt redemptions amount to EUR 3.3 bn in 2024.
- General Government debt is forecasted to reach 39.4% at the end of 2024.

Sources: Law on State Budget 2024 (05.12.2023), Ministry of Finance (25.10.2024).

Borrowing from IFIs

IFI	Purpose of Loan	EUR mn
EU	Support to mitigate Unemployment Risks in an Emergency (SURE) due to the COVID-19 outbreak; Financing of the European RRF measures	1,569.3
EIB	Co-financing of Lithuanian operational programmes	2,127.4
NIB	Financing additional expenditure due to COVID-19 outbreak; Public Sector Efficiency Project and the Housing Renovation Programme	369.4
CEB	Financing additional expenditure due to COVID-19 outbreak; Public Investment Programmes; Multi-Apartment Building Modernisation Programme	600.4

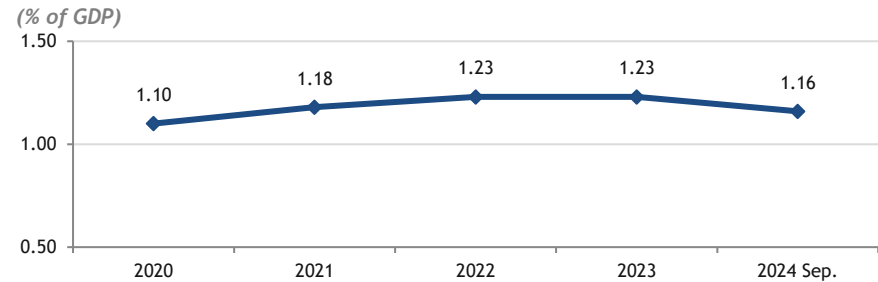
Note: Loans outstanding as of 31 October 2024.
Source: Ministry of Finance

Debt Limits for Borrowing on Behalf of the State

	Limit	As of 30 September 2024
Floating rate debt	10%	0.9%
Residual short-term debt	25%	7.6%
Minimum weighted average residual maturity	≥4 years	8.5 years
Minimum weighted average time to re-fixing	≥3.5 years	8.3 years

Note: Numbers have been rounded.
Source: Ministry of Finance (25.10.2024)

State Guarantees



Source: Ministry of Finance (25.10.2024)



Borrowing: Domestic vs. Foreign Market

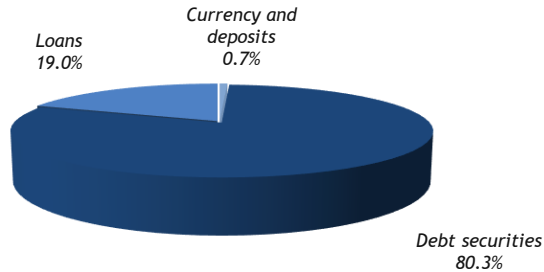
Important Considerations

	Domestic market	EMTN Programme
Law	Lithuanian	English
Documentation	Ministry of Finance decision under the Government decree	Ministry of Finance decision under the Programme
Stock exchange	Nasdaq Vilnius	Luxembourg
Depository	Nasdaq CSD SE	Euroclear/Clearstream
Number of issues outstanding ⁽¹⁾	13	16 Eurobonds (Reg S)
Euro zone Model CACs	Inclusive for all issues after Jan 2015	

Notes: (1) Excluding savings notes, as of 19 November 2024.
Source: Ministry of Finance.

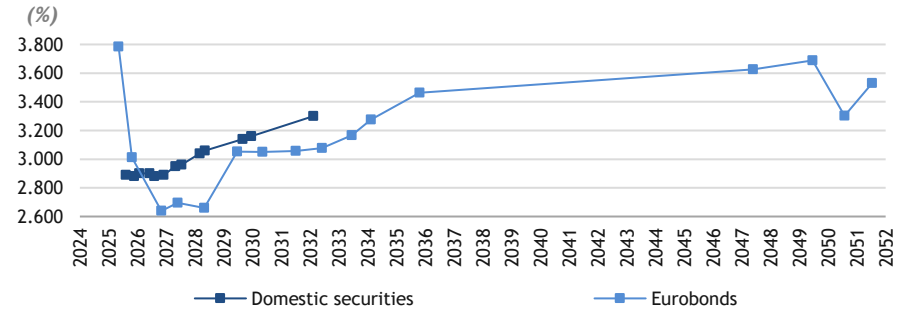
Composition of General Government Debt by Instruments

(30 June 2024)



Source: Statistics Lithuania (25.10.2024)

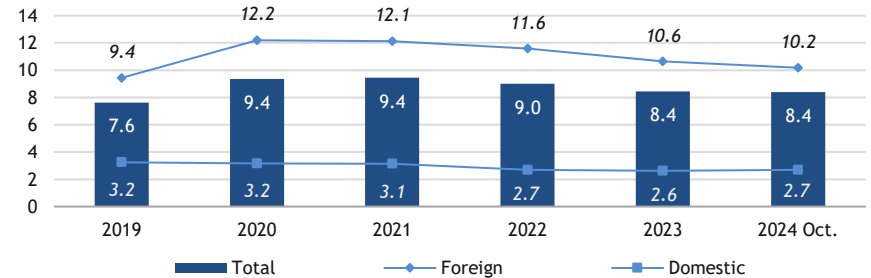
Yield Curves



Note: Average bid yields as of 21 November 2024.
Sources: Ministry of Finance, Bank of Lithuania.

Average Remaining Maturity of Debt on Behalf of the State

(end of period, years)



Source: Ministry of Finance (22.11.2024)



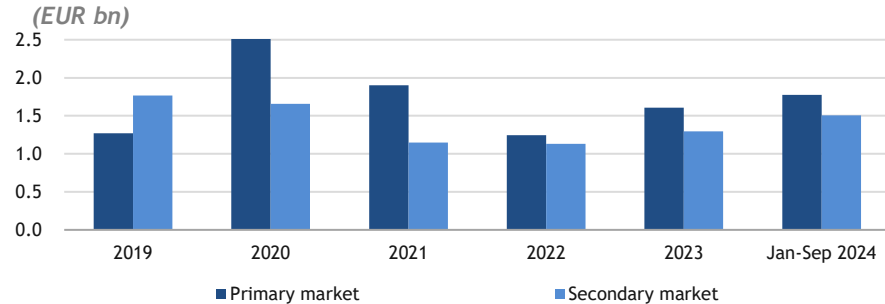
Domestic market (LITHUN)

Domestic Market Infrastructure

- Multi-price auctions every Monday, settled T+2 (domestically registered issues) or T+5 (Eurobond taps) organised by Nasdaq Vilnius
- Seven auction participants (AS "Citadele Banka", Luminor Bank AS, Erste Group Bank AG, AB SEB bankas, AB Šiaulių bankas, "Swedbank" AS, "Swedbank", AB)
- On-the run domestic issues: Aug-2026, Jul-2027, Dec-2029
- In September 2021, the Ministry of Finance began to tap Eurobond issues in the domestic market
- For period August 2023 - September 2024, saving notes were available to retail investors each month. The issuance of 14 saving notes (all 1-year maturity, coupon of 3.0–3.8%) has reached a total of EUR 241 mn.
- In October 2024, issuance of Defence bonds at 2% replaced saving notes.

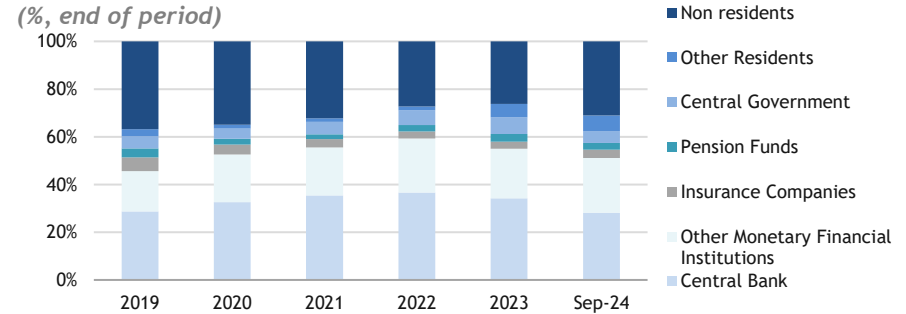
Source: Ministry of Finance (19.11.2024)

Turnover in Primary and Secondary Markets



Note: Eurobond taps not included.
Source: EMAR data, Ministry of Finance (19.11.2024)

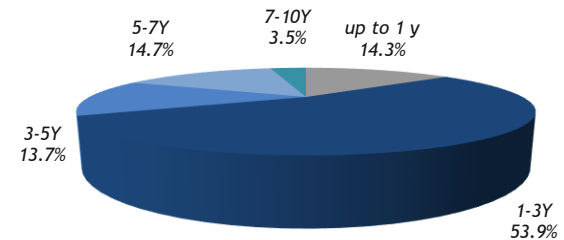
Holder of LITHUN



Note: Eurobond taps not included.
Source: Bank of Lithuania (25.10.2024)

Domestic Government Securities by Residual Maturity

(31 October 2024)

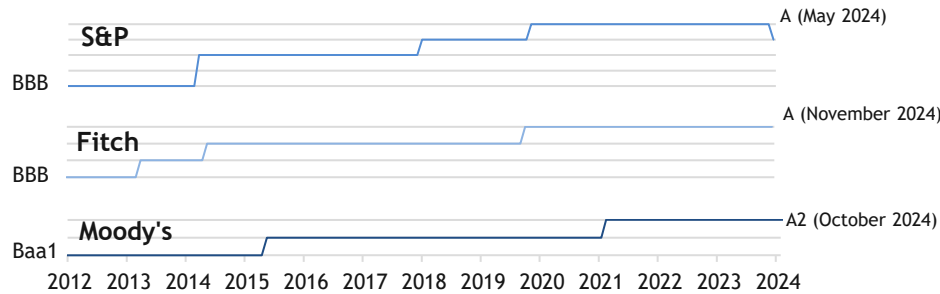


Note: Eurobond taps not included.
Source: Ministry of Finance (19.11.2024)



Solid Ratings Anchored in a Flexible and Credible Policy Framework

Ratings Development since 2012



Sources: Fitch Ratings, Moody's, Standard&Poor's (20.11.2024)

Peer Comparison

	MOODY'S	S&P Global Ratings	FitchRatings
Finland	Aa1 (stable)	AA+ (stable)	AA+ (negative)
Belgium	Aa3 (negative)	AA (stable)	AA- (negative)
Czechia	Aa3 (stable)	AA- (stable)	AA- (stable)
Estonia	A1 (stable)	A+ (stable)	A+ (stable)
Lithuania	A2 (stable)	A (stable)	A (stable)
Slovakia	A2 (negative)	A+ (stable)	A- (stable)
Slovenia	A3 (positive)	AA- (stable)	A (stable)
Latvia	A3 (stable)	A (stable)	A- (stable)
Poland	A2 (stable)	A- (stable)	A- (stable)
Hungary	Baa2 (stable)	BBB- (stable)	BBB (negative)

Sources: Fitch Ratings, Moody's, Standard & Poor's (20.11.2024)

Key Strengths and Risk Factors

Strengths

FitchRatings

“Lithuania’s ‘A’ rating reflects a credible policy framework supported by EU and eurozone membership, moderate government debt, a record of fiscal prudence and governance indicators that are above the median of ‘A’ category peers. Lithuania is a small and highly open economy, with lower GDP per capita income relative to ‘A’ peers.”

MOODY'S

“The credit profile of Lithuania reflects its strong public finances as well as its small but flexible and diversified economy, and a high level of institutional strength.”

S&P Global Ratings

“The ratings on Lithuania remain supported by the country’s generally effective economic policymaking and eurozone membership, as well as moderate government debt and low net foreign indebtedness.”

Sources: Fitch Rating rating action commentary (8 November 2024); Moody’s credit opinion (22 October 2024); Standard&Poor’s research update (31 May 2024)

Risks and Sensitivities

“Lithuania is exposed to an escalation of geopolitical tensions through its borders with the Russian enclave of Kaliningrad and Belarus. [...] Risks appear mitigated by NATO’s mutual defence clause and Germany’s commitment to station a permanent brigade in Lithuania by 2027.”

“[...] strengths are set against demographic challenges stemming from a rapidly ageing population and the exposure to external shocks, including geopolitical risks related to the country’s tense relations with Russia.”

“The effects of protracted war between Russia and Ukraine and broader geopolitical risks will weigh on Lithuania’s small and open economy over the medium term, with an impact on public finances, economic growth, and external competitiveness.”



- 2 Overview
- 5 Macroeconomic Developments
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- 21 Fiscal Discipline
- 26 Public Debt Management
- 33 Banking Sector



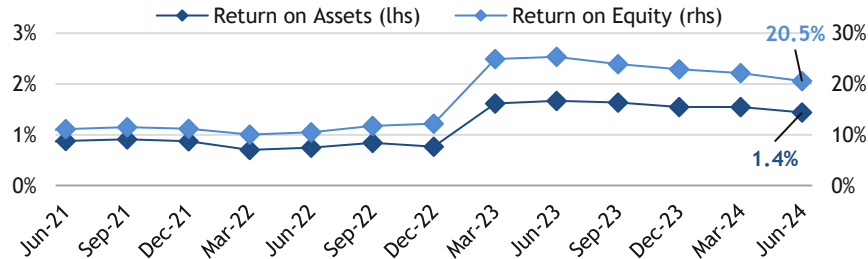
Banking Sector Benefits from Strong Ratios and Nordic Ownership

Key Highlights (as of 30 June 2024)

- 13 banks hold a banking or a specialised bank licence in Lithuania, while 5 banks operate as foreign bank branches accounting for 17.1% of the market
- The banking sector is still dominated by Nordic ownership. Two largest banks (AB SEB bankas and Swedbank, AB) comprise 51.7% of market by assets. The Lithuanian branch of Luminor Bank AS holds the largest share (12.5%) among the foreign bank branches
- As of 30 June 2024, the capital adequacy ratio of the banking sector was at 19.96% (CET1 at 18.62%), liquidity coverage ratio was at 390.21% and leverage ratio was at 6.16%
- In H1 2024, profits in the Lithuanian banking sector continued to be at a record high, as banks and branches of foreign banks earned profits of EUR 520.5 mn, an increase of EUR 5.4 mn (or 1.1%) compared to the same period in 2023.
- According to preliminary estimates, the solidarity contribution paid for H1 2024 stood at around EUR 154 mn. Since the entry into force of the Republic of Lithuania Law on Temporary Solidarity Contribution, banks, branches of foreign banks and other credit institutions operating in Lithuania, which generate significantly higher unexpected net interest income, have already paid about EUR 400 mn to the national budget. The Bank of Lithuania estimates that the total amount of temporary solidarity levies paid for 2023-2025 could be approx. EUR 586 mn.

Source: Bank of Lithuania, Bank Activity Review Q2 2024 (07.11.2024)

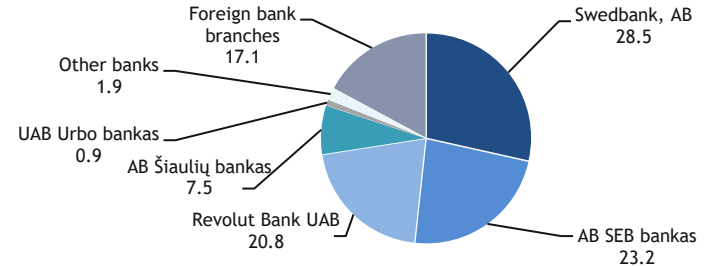
Profitability Ratios



Source: European Banking Authority <https://www.eba.europa.eu/risk-and-data-analysis/risk-analysis/risk-monitoring/risk-dashboard> (08.11.2024)

Banks and Foreign Bank Branches Operating in Lithuania

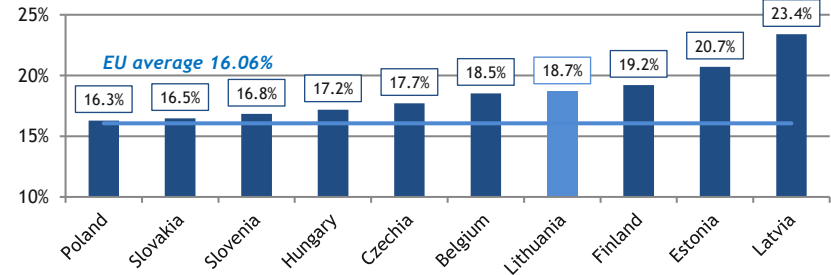
(% of banking system's assets, 30 June 2024)



Source: Bank of Lithuania (08.11.2024)

Banking system CET1 ratio - Peer Comparison

(%, as of Q1 2024)



Source: EBA, <https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard> (08.11.2024)



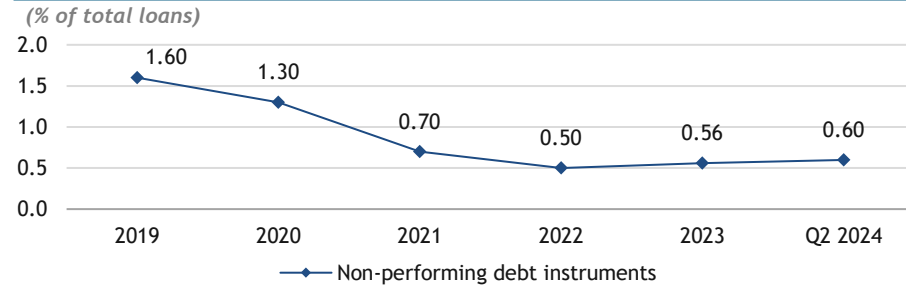
Household Term Deposits Continue to Grow

Banking Sector Successfully Withstood Challenges

- Customer deposits were the largest component in bank financing structure: as of 30 June 2024, they accounted for 81.9% of bank liabilities.
- In Q2 2024, total deposits increased by EUR 1.3 bn (2.6%) to EUR 52.7 bn, but after eliminating the impact of Revolut Group, total deposits declined by over EUR 0.1 bn (0.3%).
- During the reference period, excluding the impact of the Revolut Group, deposits of non-financial corporations and government deposits decreased, while deposits of households and other financial corporations went up.
- In Q2 2024, the loan portfolio increased by EUR 1.1 bn (4.0%) to EUR 29.3 bn and its quality remained largely unchanged.

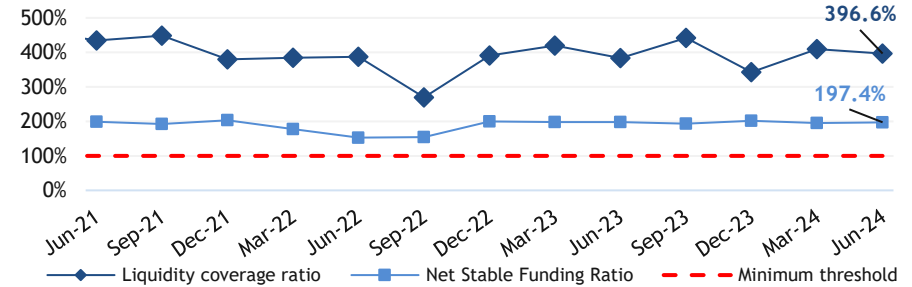
Source: Bank of Lithuania, Bank Activity Review Q2 2024 (08.11.2024)

Non-Performing Debt Instruments



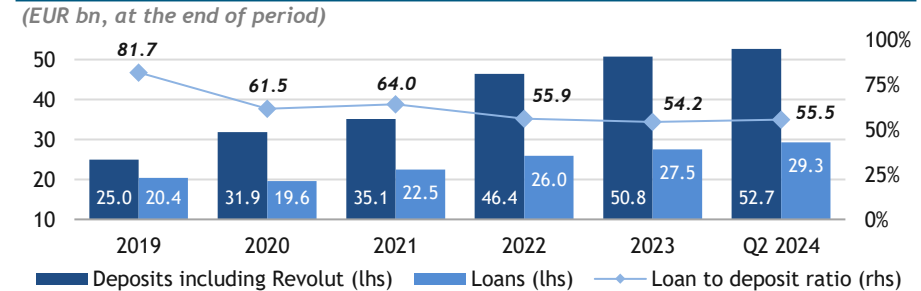
Source: Bank of Lithuania, Bank Activity Review Q2 2024 (08.11.2024)

Liquidity Ratios



Source: European Banking Authority, <https://www.eba.europa.eu/risk-and-data-analysis/risk-analysis/risk-monitoring/risk-dashboard> (08.11.2024)

Deposits and Loans



Source: Bank of Lithuania (08.11.2024)

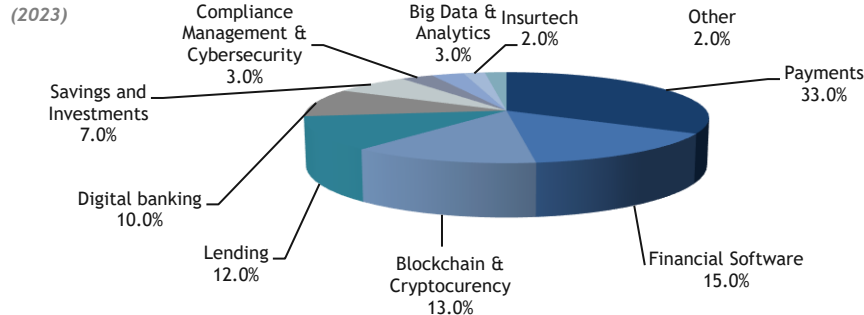


Key Highlights

- 276 Fintech companies and 140 licenced Fintechs operating in Lithuania at the end of 2023.
- In 2023, the Fintech ecosystem in Lithuania has continued to grow and mature.
- Lithuania's appeal as a Fintech hub continues to grow. While the presence of a skilled workforce and a business-friendly ecosystem are also recognised as important, the strong reputation of Lithuania as a trustworthy financial jurisdiction is becoming an equally dominant factor.
- Nearly 7400 people employed in this sector (5.7% growth in 2023).
- Fintechs operating in Lithuania perform these functions: compliance/fraud/risk management, customer support, business development and sales, software development/R&D, etc.

Sources: Bank of Lithuania, EUCLID Register, Invest Lithuania <https://investlithuania.com/report/fintech-report-2023-2024/> (03.04.2024)

Composition by Core Business Activity

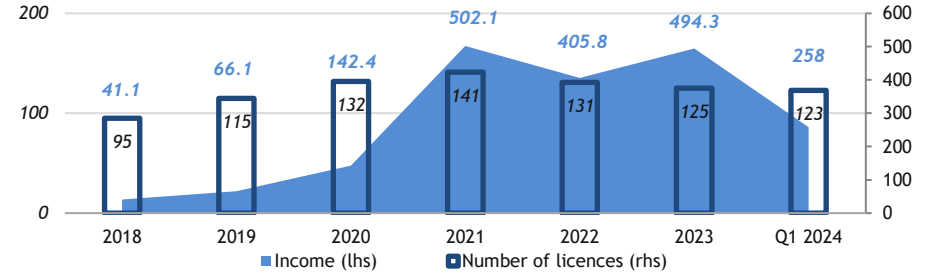


Source: Invest Lithuania <https://investlithuania.com/report/fintech-report-2023-2024/> (03.04.2024)

Growth of EMI and PI

(Licences at the end of period)

(Income during the period, EUR mn)



Source: Bank of Lithuania <https://www.lb.lt/en/reviews-and-publications/category.39/series.3826> (08.11.2024)

National Fintech Guidelines for 2023-2028

- Inviting companies creating innovative solutions to Lithuania
- Fostering the sector's qualitative growth
- Working on publicity to improve Lithuanian Fintech sector's global recognition
- Building competencies that would enable Lithuania to become a Fintech competence hub
- Strengthening risk management procedures to ensure that Lithuania is a safe, secure, and reliable jurisdiction

Source: Invest Lithuania (03.04.2024)



Contacts

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<https://finmin.lrv.lt/en/competence-areas/state-debt-management>

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