

October 2023



# The Republic of Lithuania: Investor Presentation

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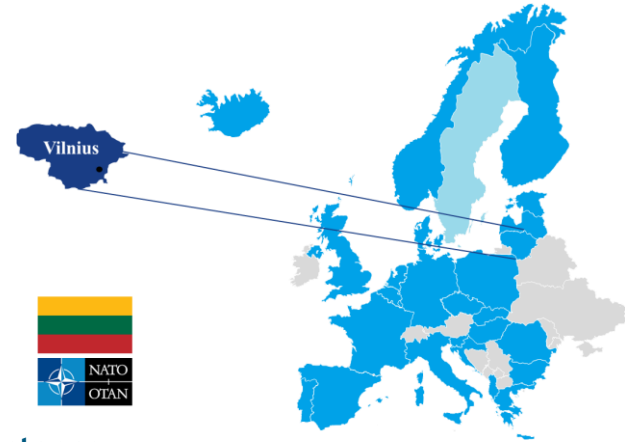
**Fiscal Discipline**

**Public Debt Management**



## Key Facts

Nominal GDP <sup>(1)</sup> :	EUR 66,791 mn
Annual real GDP growth <sup>(1)</sup> :	1.9 %
Credit ratings:	<b>Moody's:</b> A2 (outlook stable) <b>S&amp;P:</b> A+ (outlook negative) <b>Fitch:</b> A (outlook stable)
Currency:	Euro (EUR) since 1 January 2015
Government:	centre-right coalition, elected in 2020, has majority in the Parliament (72 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 2022 and its real growth for 2022 (21.09.2023)

Sources: Statistics Lithuania, Ministry of Finance, Moody's Investors Service, Standard & Poor's Financial Services, Fitch Ratings (21.09.2023)



# Key Credit Strengths



## Political Stability

- Historically strong cross-party political consensus on important policy priorities
- Strong institutional framework allows delivery of credible and effective reforms
- Consistent track record of sound fiscal policies and prudent debt management



## Resilient economy

- Diversified economy and export mix with high productivity levels across sectors
- Open and flexible economy reduces impact of exogenous shocks
- An investment pipeline supported by EU funds that will deepen the structural reform agenda



## Healthy financial system

- Banking system with large capital and liquidity buffers and a sustainable financing structure
- Largest Fintech hub in the EU becoming increasingly mature boosting financial and IT services
- Improved monitoring of the fintech sector by the Bank of Lithuania



## Fiscal soundness

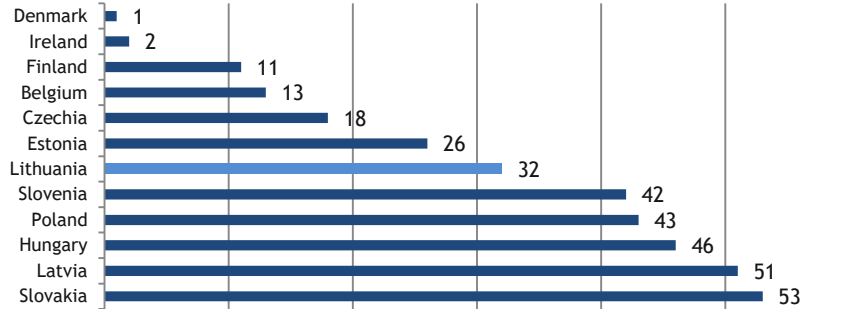
- Moderate government debt burden with low interest expenditures, and a supportive domestic market
- Very limited contingent liabilities and foreign currency risks
- Fiscal and debt flexibility to address the social needs arising from the Covid and Ukraine crises

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



# Strong Governance Indicators

## World Competitiveness Ranking 2023

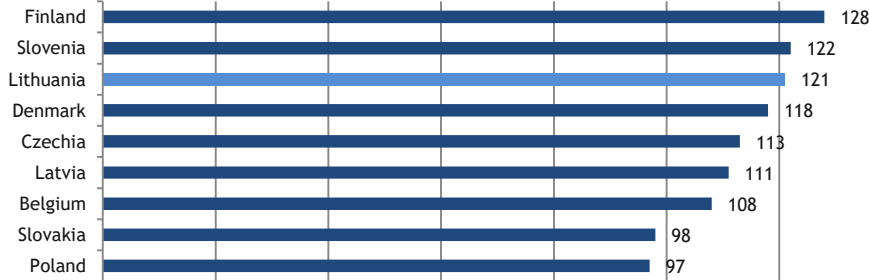


Note: 64 economies are ranked.

Source: <https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/> (21.09.2023)

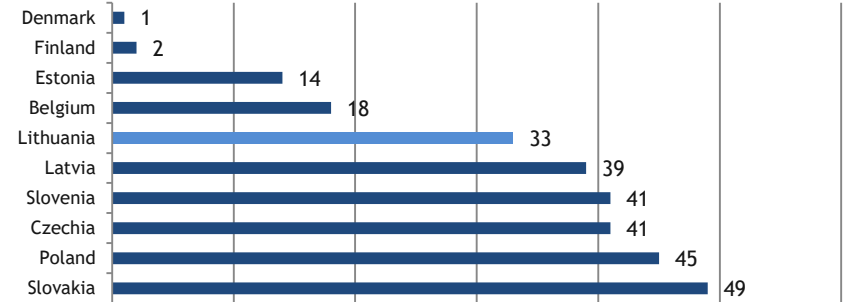
## Basel AML Index: Ranking 2022

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



Source: <https://index.baselgovernance.org/ranking> (21.09.2023)

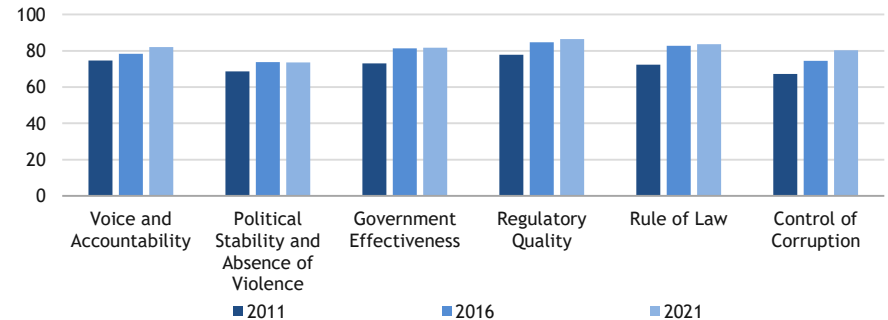
## Corruption Perceptions Index: Ranking 2022



Note: 180 countries are ranked.

Source: <https://www.transparency.org/en/cpi/2022> (21.09.2023)

## Lithuania's World Bank Worldwide Governance Rankings



Source: World Bank, Worldwide Governance Indicators 2021, <https://info.worldbank.org/governance/wgi/> (28.09.2023)



# Effective Management of Covid-19

## Swift Response to Mitigate the Impact of the Global Pandemic

During the pandemic, the Government applied different containment measures, including two quarantine regimes. All restrictions have been lifted already. Currently, the main indicators are as follows:

- Total cases of Covid-19: 1,329,540
- 14-day case notification rate per 100,000 inhabitants: 135.9
- Weekly growth rate of the pandemic: -4.6%
- Uptake of at least one vaccine dose: 68.5% of population
- Intensive Care Unit (ICU) occupancy by Covid-19 cases: 0

Note: More detailed information on the impact of Covid-19 on the population, business and economy is available on website of Statistics Lithuania (in Lithuanian only): <https://osp.stat.gov.lt/covid19-statistika/itaka-ekonomikai>  
Source: Official Statistics Portal, as of 28 September 2023, <https://osp.stat.gov.lt/covid-dashboards>

## Financing the Measures in 2020-2022

- Several loans from international financial institutions were taken:
  - EUR 1,099 mn from the EU (SURE)
  - EUR 400 mn from the NIB
  - EUR 200 mn from the CEB
- No specific Covid-19 measures are foreseen in Law on Budget 2023

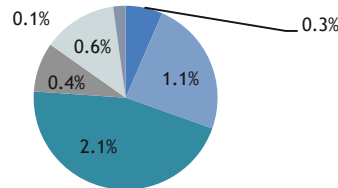
Source: Ministry of Finance.

## Expenditure Measures in

(% of GDP)

- Compensation of employees
- Intermediate consumption
- Social benefits
- Subsidies
- Capital formation
- Capital transfers
- Other

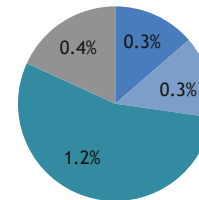
2020



Expenditure measures affecting the General Government balance

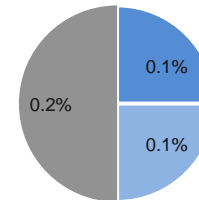
EUR 2.23 bn (4.5% GDP)

2021



EUR 1.28 bn (2.3% GDP)

2022



EUR 0.3 bn (0.4% GDP)

Notes: Percentage was calculated based on the GDP amounting to: 2020 - EUR 48,794 mn; 2021 - EUR 56,179 mn; 2022 - EUR 66,918 mn. Numbers have been rounded.

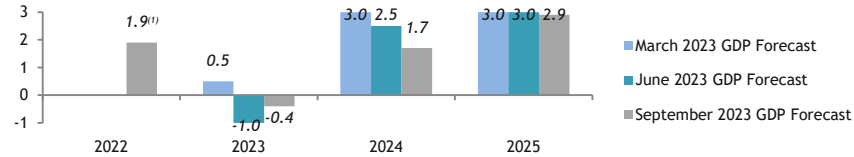
Sources: Ministry of Finance, Stability Programme for Lithuania 2023 (28.04.2023).



# Lithuania is Resilient to Russia/Ukraine Developments

## Positive Growth Sustained Despite Russia/Ukraine Conflict

Russia's aggression in Ukraine will likely have a negative impact on Lithuania's economy through declining exports, a shortage of imported raw materials, an uncertain investment climate and rising 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



Note: Seasonally and calendar unadjusted data; chain linked volumes, percentage change compared to previous year. (1) Actual data.

Source: Ministry of Finance (21.09.2023)

## Defence Spending as a Priority

National security is a key priority as reflected in the 2023 national defense budget set at 2.52% of GDP with the possibility to increase defense appropriations to 3% of GDP if necessary.

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

Source: Ministry of National Defence

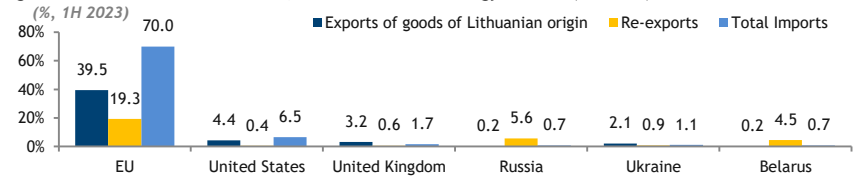
## Energy Sector Security Away from Russia

- 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 IPS/UPS system, marking a major milestone in the synchronisation of the electrical system with continental Europe
- 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 the 2 offshore wind farms 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 about 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), MOU signed with South Korea (10/2022), appointment of the head of the Taiwanese trade mission and signature of bilateral agreements in the semiconductor, laser and biotechnology sectors (08/2022).



Sources: Bank of Lithuania, Ministry of Foreign Affairs, Ministry of Economy and Innovation, Statistics Lithuania (21.09.2023)



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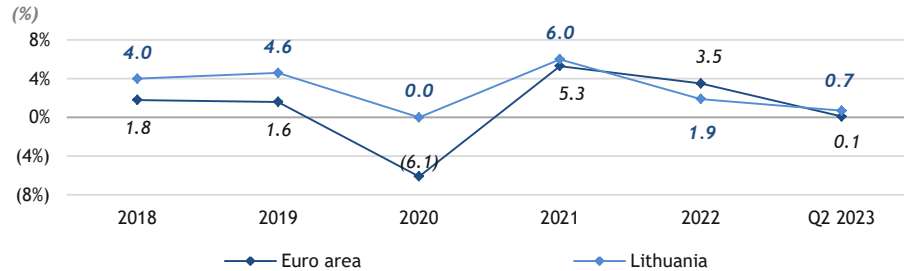
Fiscal Discipline

Public Debt Management



# Economic Recovery from COVID-19 Pandemic

## Real GDP Growth

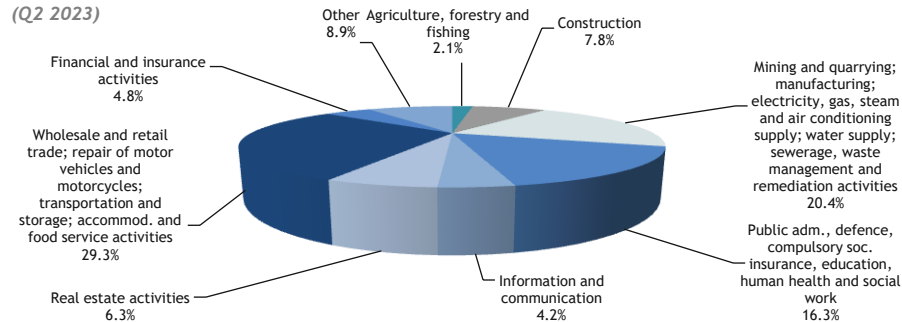


Note: Seasonally and calendar adjusted data; chain linked volumes, percentage change compared to same period in previous year.

Sources: Eurostat (25.09.2023)

## Composition of Gross Value Added by Sector

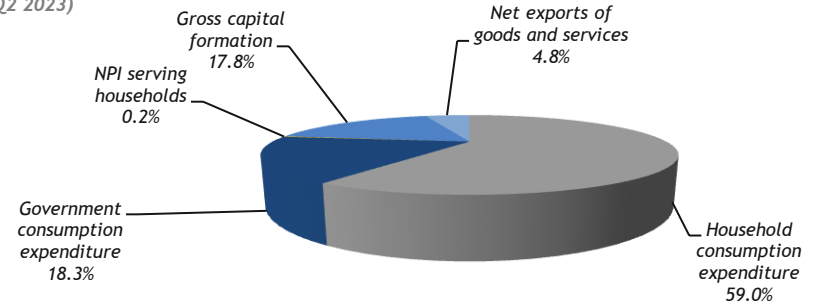
(Q2 2023)



Source: Statistics Lithuania (25.09.2023)

## Composition of GDP by Expenditure

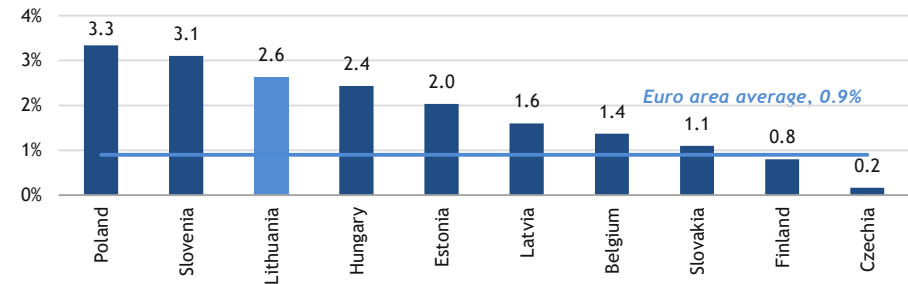
(Q2 2023)



Source: Statistics Lithuania (25.09.2023)

## Real GDP Growth Rate Compares Strongly to Peers

(%, 2020-2022 3-year average)



Source: Eurostat (TECO0115, 25.09.2023)



# Well-Diversified Exports (I)

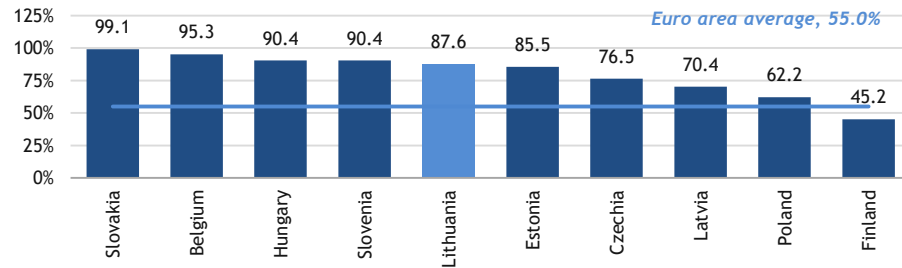
## Data for 2022

- 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
- Exports of goods and services increased by 29% from the previous year to a total amount of EUR 58.4bn, of which EUR 41.1bn of goods and EUR 17.3bn of services
- Lithuania's main export partners are also EU members and in some cases from the Euro Area - namely Latvia, Poland and Germany - 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
- Lithuania allowed Taiwan to open a "representative office" while maintaining open trade channels with China

Sources: Eurostat, Statistics Lithuania (29.09.2023)

## Exports of Goods and Services Peer Comparison

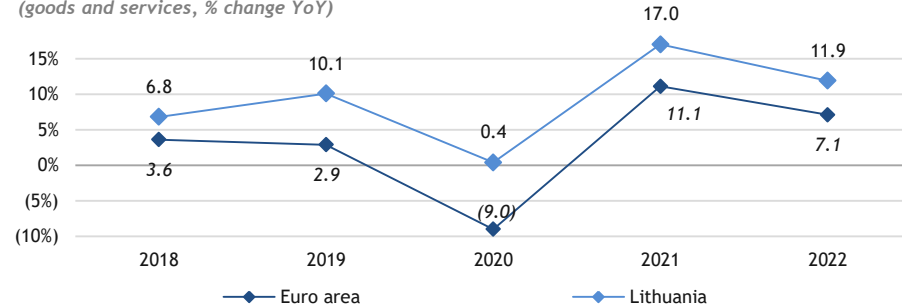
(% of GDP, 2022)



Source: Eurostat (TET00003, 29.09.2023)

## Real Exports Percentage Change

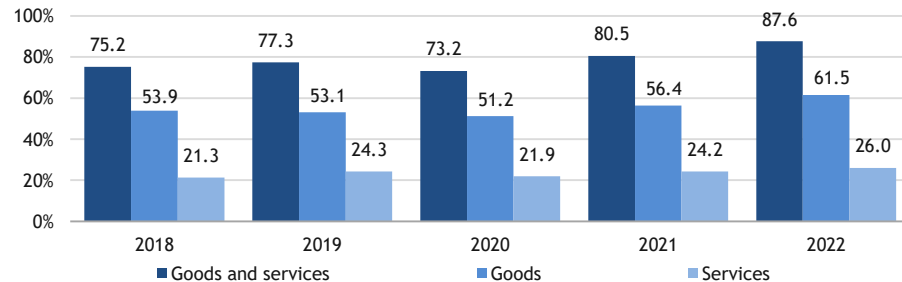
(goods and services, % change YoY)



Source: Eurostat (NAMA\_10\_GDP, 29.09.2023)

## Exports

(% of GDP)

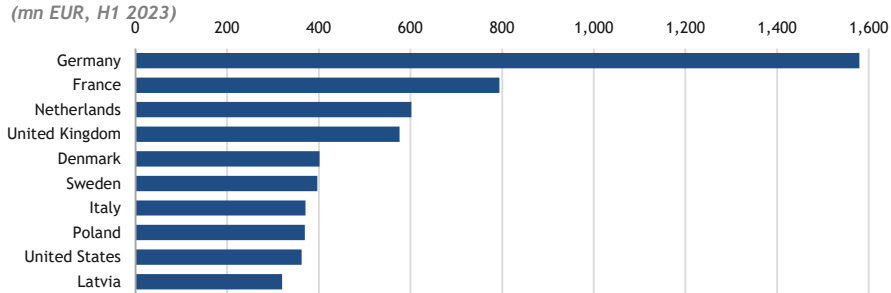


Source: Eurostat (NAMA\_10\_GDP, 29.09.2023)



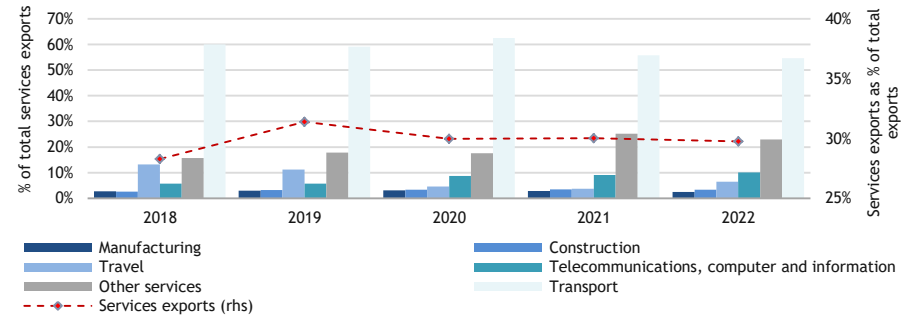
# Well-Diversified Exports (II)

## Key Partners in Exports of Services



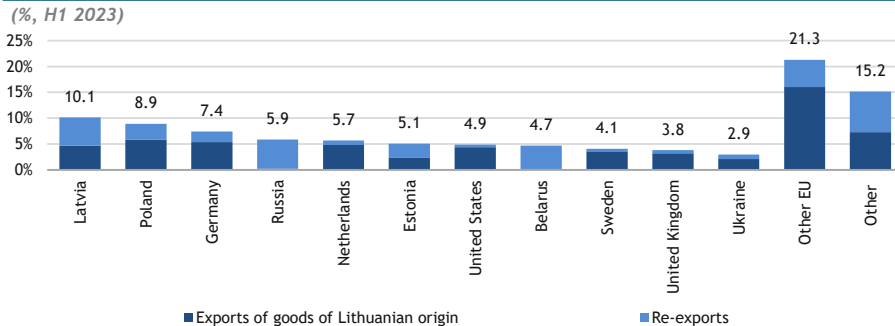
Source: Bank of Lithuania, <https://www.lb.lt/en/export-and-import-of-services-by-country> (29.09.2023)

## Development of Key Sectors in Exports of Services



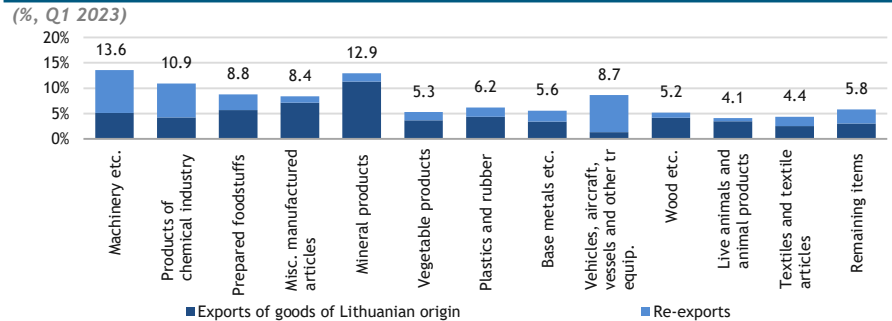
Sources: Bank of Lithuania, <https://www.lb.lt/en/balance-of-payments-quarterly> (29.09.2023)

## Composition of Total Exports of Goods by Country



Source: Calculation of the Ministry of Finance based on exports data of Statistics Lithuania (29.09.2023)

## Composition of Total Exports of Goods by Sector

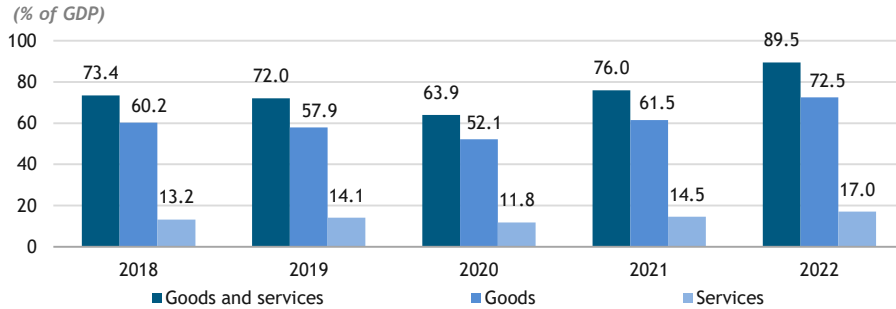


Source: Calculation of the Ministry of Finance based on exports data of Statistics Lithuania (18.07.2023)



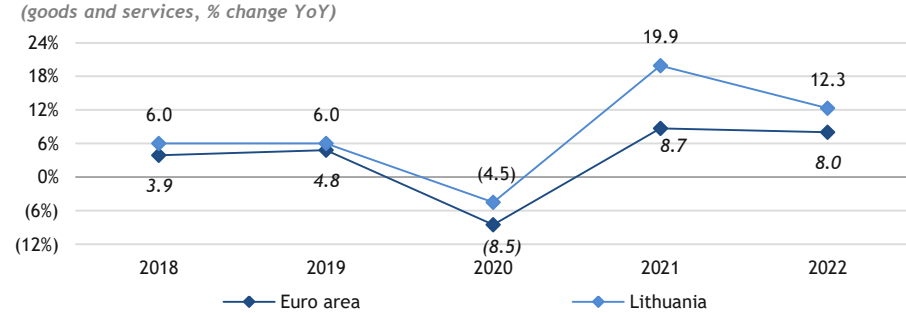
# Composition of Lithuania's Imports

## Imports



Source: Eurostat (NAMA\_10\_GDP, 29.09.2023)

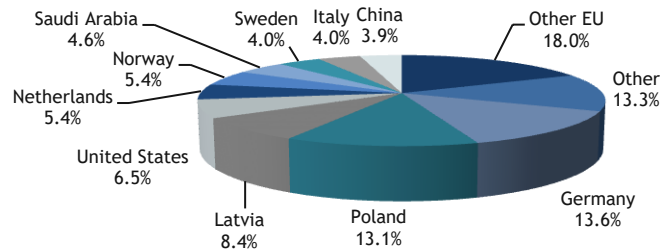
## Real Imports Percentage Change



Source: Eurostat (NAMA\_10\_GDP, 29.98.2023)

## Composition of Imports by Country

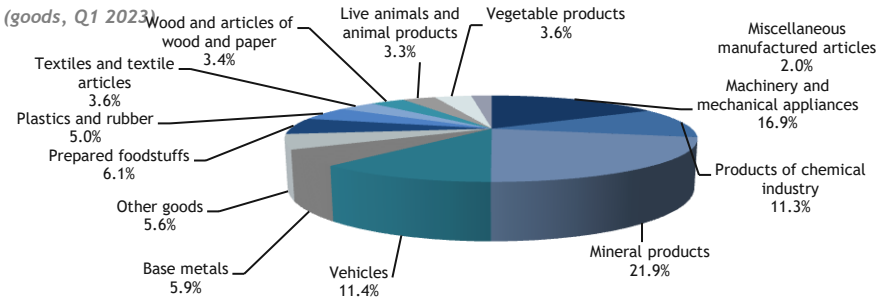
(goods, H1 2023)



Source: Statistics Lithuania (29.09.2023)

## Composition of Imports by Sector

(goods, Q1 2023)



Source: Statistics Lithuania (29.08.2023)



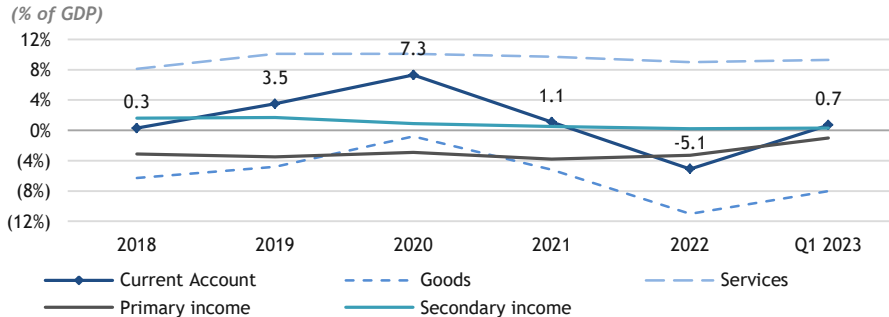
# Balance of Payments

## Key Highlights

- Lithuania has built over recent years 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 European Union
- In 2021, the current account surplus decreased significantly, down from 7.3% to 1.1% of GDP, due to the contraction in foreign trade surplus and an increase of primary income balance deficit, which were not offset by surplus balances of services and secondary income
- In 2022, the current account was in deficit by 5.1% of GDP. The deterioration of the current account balance was mainly due to higher energy prices in 2022
- According to Bank of Lithuania's September 2023 projections, the current account deficit is expected to be 0.0% of GDP in 2023.
- At the end of 2022, cumulative foreign direct investment (FDI) in Lithuania amounted to EUR 29.7 bn or 44.4% of GDP, with Germany (€5.6 bn), Sweden (€3.2 bn), Estonia (€3.1 bn) and the Netherlands (€2.5 bn) as largest contributors

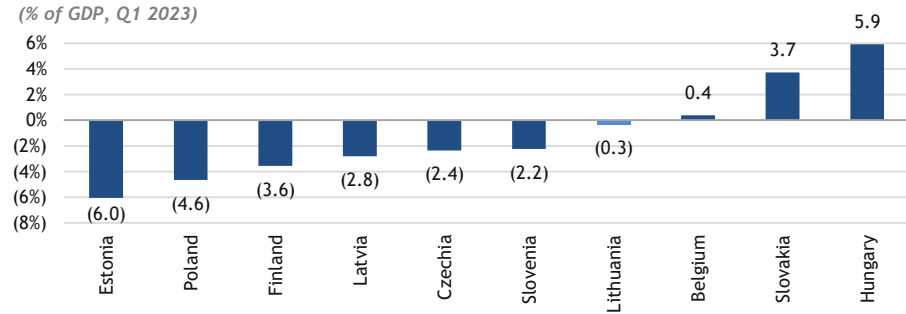
Sources: Bank of Lithuania, Eurostat, Statistics Lithuania (26.09.2023)

## Dynamics of Current Account Balance



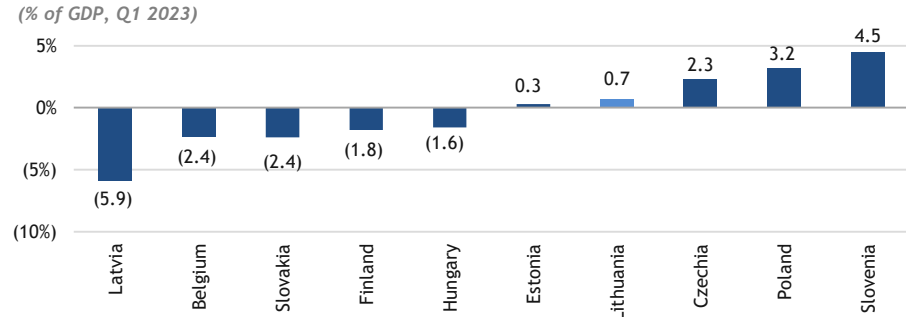
Source: Eurostat (BOP\_GDP6\_Q, 28.08.2023)

## Net FDI Flows Peer Comparison



Source: Eurostat (28.08.2023)

## Current Account Balance Peer Comparison



Source: Eurostat (28.08.2023)



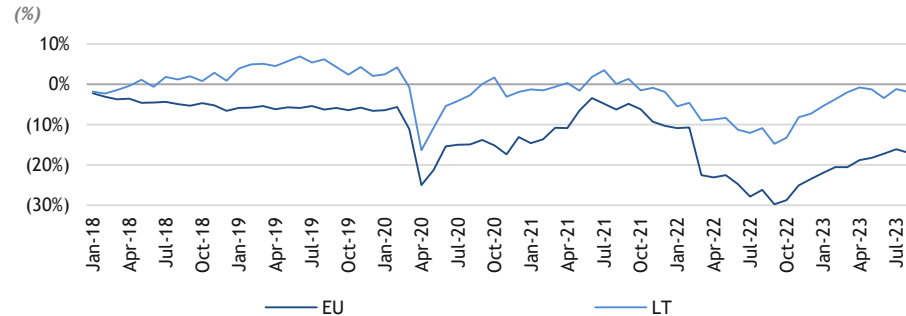
# Overall Financial Situation of Households Remains Solid

## Key Highlights

- In 2022, household earnings were 13% higher than in 2021, with an increase across all economic activities. However, due to high inflation the annual growth of earnings was at (6.7%) in real terms. In 2022, the unemployment rate stood at 5.9%, which is by 1.2 percentage points lower than in 2021
- Household deposits continued to increase at a moderate pace: in December 2022, household deposits recorded a year-on-year increase of 3.6%.
- 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
- In 2022, the portfolio of loans by monetary financial institutions to households slightly increased, mostly due to active provision of housing and consumer loans. However, the household indebtedness remained relatively stable due to increased savings and income
- High energy prices and inflation poses new challenges to households and their financial stability, causing a decline of household purchasing power which accompanied by historical increase of EURIBOR interest rates can put additional pressure on their debt servicing capacity

Sources: Statistics Lithuania, Bank of Lithuania (26.09.2023)

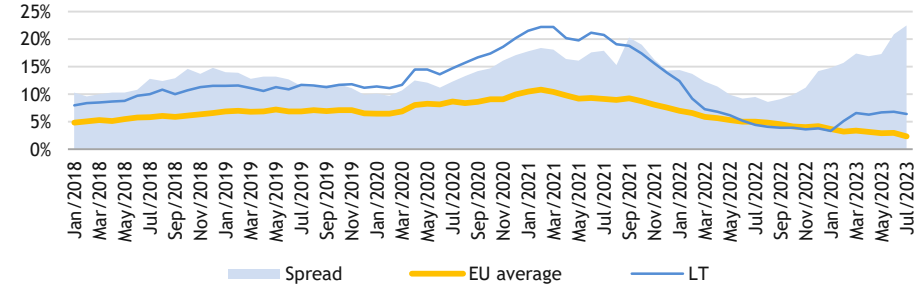
## Consumers Confidence Indicator



Source: European Commission (26.09.2023)

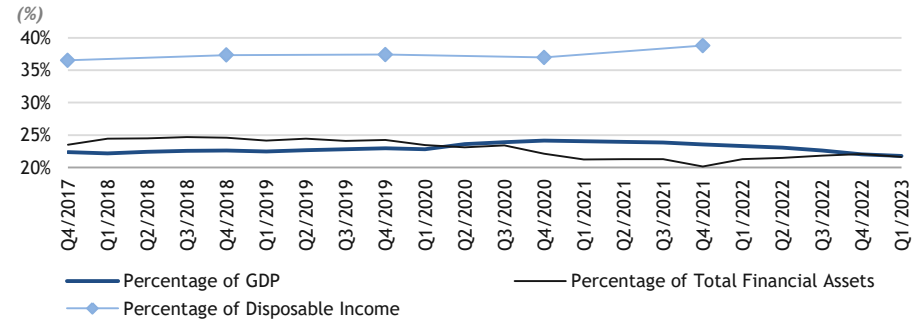
## Household Deposits

(% change, YoY)



Source: ECB Data Portal (26.09.2023)

## Household Debt



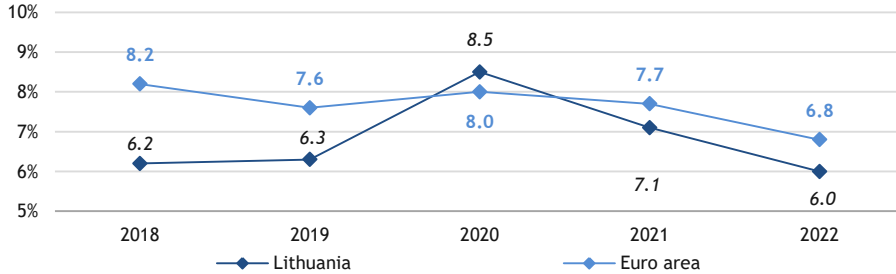
Sources: Statistics Lithuania, Bank of Lithuania (26.09.2023) - Latest available data



# Labour Market Developments

## Annual Average Unemployment Rate<sup>(1)</sup>

(% of population in the labour force)

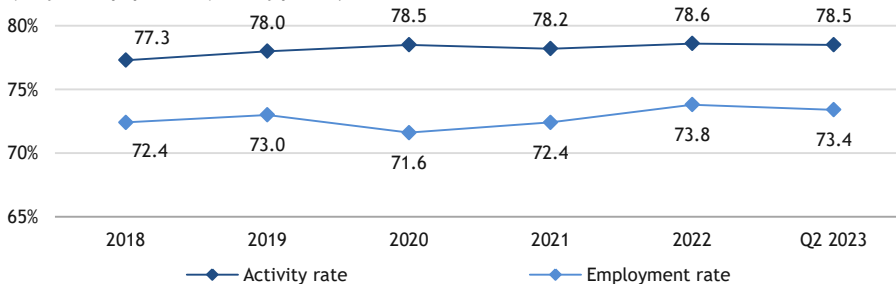


Note (1): Unemployed aged 15-74

Source: Eurostat (TPS00203, 27.09.2023)

## Activity and Employment Rates<sup>(2)</sup>

(% of total population, end of period)

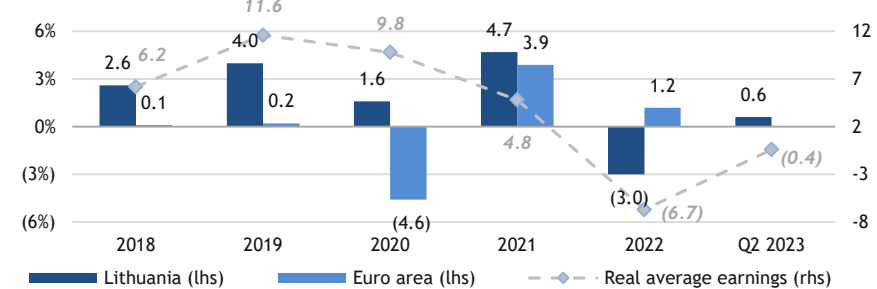


Note (2): Active aged 15-64 and employed aged 15-64

Source: Eurostat (27.09.2023)

## Growth of Real Productivity and Real Average Earnings

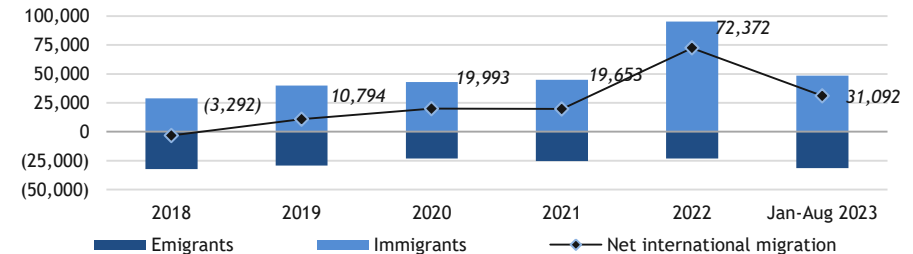
(% change on previous year)



Sources: Eurostat (NAMA\_10\_LP\_ULC), Statistics Lithuania (27.09.2023)

## Migration Trends

(persons)



Note: War refugees from Ukraine are included in statistics for year 2022-23.

Source: Statistics Lithuania (27.09.2023)



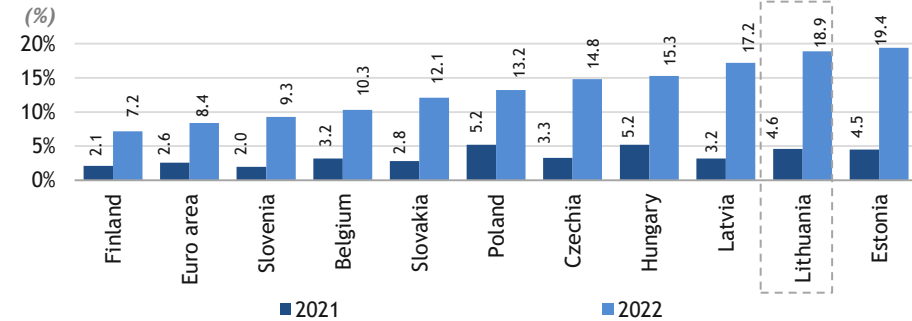
# Inflation is on a Downward Trend

## Key Highlights

- The inflation shock related to the war in Ukraine has had a particularly harsh impact on Lithuania and other Baltic economies due mainly 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 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
- Inflation peaked in September 2022 and eased 4.1% as of September 2023. Inflation is expected to decline gradually in 2023 and 2024 as the more temporary contributors such as energy prices and supply chain bottlenecks dissipate
- According to the Ministry of Finance's projections, average annual inflation (HICP) is expected to decrease to 9% in 2023

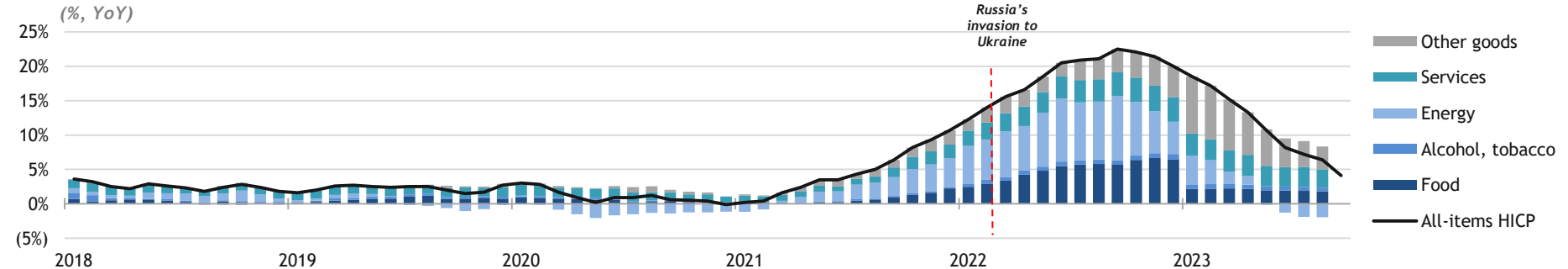
Sources: Ministry of Finance, Economic Development Scenario for 2023-2026 (September 2023).

## Annual Average Inflation (HICP) Peer Comparison



Source: Eurostat (PRC\_HICP\_MV12R, 29.08.2023)

## Annual Inflation and its Composition are Constantly Decreasing



Source: Eurostat ([PRC\_HICP\_MANR, 28.09.2023], Statistics Lithuania)

# Development of Energy Sector Is Key Priority for the Government



## Government Commitments to ensure 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
- No oil, gas and electricity is imported from Russia. During the last decade Lithuania achieved a major integration of electricity grids with Nordic and European markets and developed alternative supply capabilities of Oil and Gas via sea terminals:
- Lithuania's Orlen Lietuva oil terminal and refinery, owned by Polish PKN Orlen, stopped Russian oil imports in 2022. All imports of oil come from Middle East, Africa and other destinations
- LNG terminal in Klaipėda ensures energy security for Lithuania and the Baltic Region. Via the terminal, gas is imported from the US, Norway and other countries
- Gas interconnector between Poland and Lithuania (GIPL) integrates Baltic and Northern market into the EU's gas network
- Electricity can be imported via interconnectors with Sweden (NordBalt), Poland (LitPol Link) and Latvia

Sources: The Programme of the 18th Government of the Republic of Lithuania, Government Resolution No XIV-72 of 11 December 2020, Ministry of Energy (28.09.2023)

## Electricity Sector

- Synchronization of Lithuania's electric power system with the EU energy system - European Continental Network of ENTSO-E is expected by February 2025.
- In April 2023, an isolated operation test was performed, during which the Lithuanian electricity network was disconnected from the IPS/UPS system controlled by Russia. If suddenly disconnected from BRELL energy ring, emergency synchronisation would be automatic
- From mid-2023 the Lithuanian electricity system will be strengthened by energy storage system (4 units of 50 MW - total 200 MW), which will provide a primary reserve service, voltage control and synthetic inertia services and contribute to the integration of electricity production from renewable energy sources into the electricity system
- The Automatic Generation Control system, which is expected to be fully operational in 2023, will provide automatic frequency restoration and balance control of the electrical system, thus ensuring the reliability of the Lithuanian electricity grid

Source: Ministry of Energy (28.09.2023)

## Gas Sector

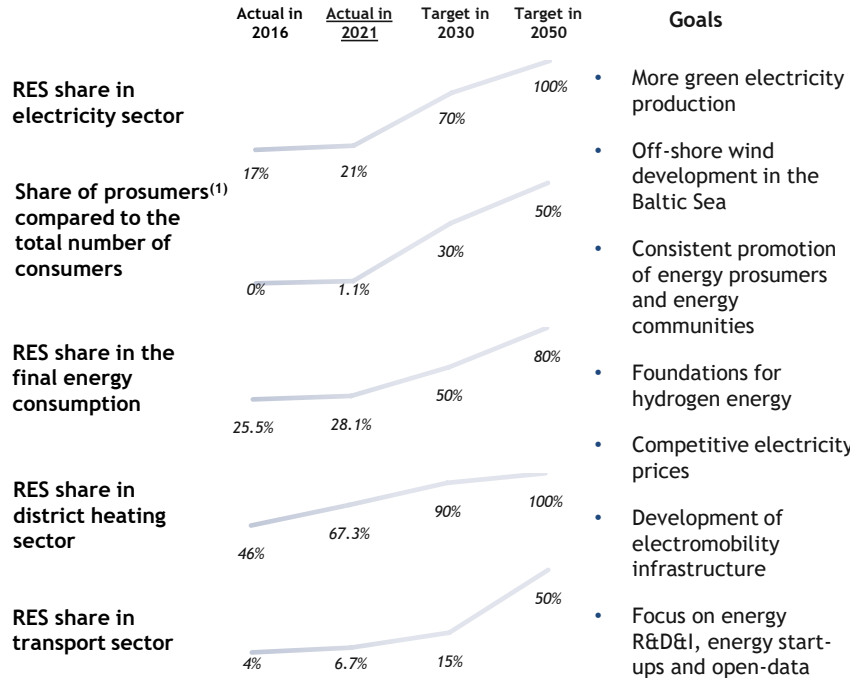
- The annual regasification capacity of the Klaipėda LNG terminal is at 39 TWh, which is ample for Lithuania's needs of 20-24 TWh
- Gas imports from Russia de facto were stopped on 2 April 2022 and the Parliament made this decision de jure in June 2022
- Gas Interconnection Poland-Lithuania (GIPL) is 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
- It is expected that the enhancement of Latvia-Lithuania inter-connection (ELLI) to be completed in 2023 will increase gas transmission capacities between two countries and provide better conditions for the use of Inčukalns Underground Gas Storage. Works on the Lithuanian side have already been completed as of December 2022

Source: Ministry of Energy (28.09.2023)



# Ambitious Move Towards Renewables

## Ambitions for the Development of Renewable Energy Sources (RES)



Note: (1) Customer who both consumes and produces energy, thanks to new renewable power connected technologies  
 Source: Ministry of Energy (18.05.2023)

## Lithuania is Moving towards Renewables

- Lithuania is implementing the development of RES on the basis of the National Energy Independence Strategy, which sets long-term energy targets
- Lithuania has already met its 2020 renewable energy target of 23% of RES in final energy consumption and is on good track to meet the 2030 target of 50%
- For the period from 2020 to 2030, it is estimated that investments in wind and solar power generation plants will be most attractive to investors due to their economic attractiveness and easy installation
- Special focus on 'energy prosumers' (50% share of prosumers compared to all prosumers by 2050). For the period until 2030, Lithuania is going to increase the level of decentralisation and to enable consumers to produce electricity by themselves. Lithuania has developed a unique system of remote or virtual power plants which allows anyone to become a prosumer quickly and easily
- It is planned to complete preparatory works by 2024 for offshore wind development, total capacity of 1.4GW. Investors will be selected by tender process. One tender is already announced on 30 March 2023, another will take place in Autumn 2023. The Ministry of Energy performs preparatory works for autumn tender, i.e. performs necessary surveys and studies of the territory put on tender, to enable potential tender participants to offer competitive prices. Lithuania is also open to cross-border cooperation on the off-shore wind projects
- Electric vehicles will become an important provider of network balancing services through flexible charging and vehicle-to-grid solutions. In order to encourage vehicle owners to participate, Lithuania plans to roll out at least 54 000 private charging points by 2030
- In the medium to long term period, the potential is seen for biomethane and renewable hydrogen in industry and public transport. It is planned to increase the consumption of renewable gases up to 5.2%<sup>(1)</sup> in the final energy consumption in the transport sector by 2030

Note: (1) This target is set in the Law on Alternative Fuels.  
 Source: Ministry of Energy



Introduction

Macroeconomic Developments

**Banking Sector**

Fiscal Discipline

Public Debt Management



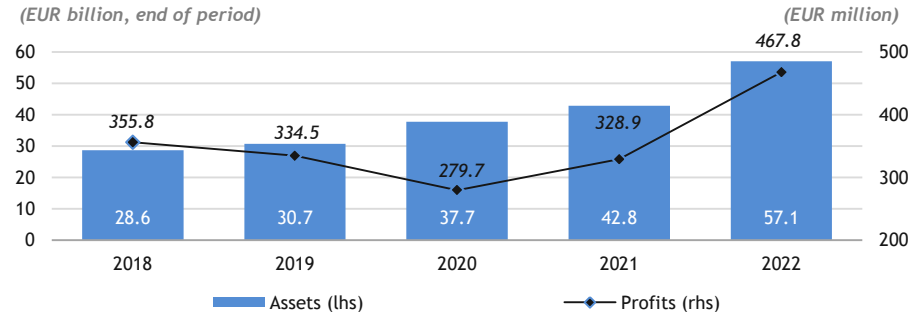
# Banking Sector Benefits from Strong Ratios and Nordic Ownership

## Key Highlights (as of 1 April 2023)

- 13 banks hold a banking or a specialised bank licence in Lithuania, while 6 banks operate as foreign bank branches accounting for 18.8% of the market
- The banking sector is still dominated by Nordic ownership. Two largest banks (AB SEB bankas and Swedbank, AB) comprise 54.0% of market by assets. The Lithuanian branch of Luminor Bank AS holds the largest share (14.1%) among the foreign bank branches
- As of 1 April 2023, the capital adequacy ratio of the banking sector was at 20.39% (CET1 at 20.15%), liquidity coverage ratio was at 390% and leverage ratio was at 6.1%
- Customer deposits were the largest component in bank financing structure: as of 1 April 2023, they accounted for 82.8% of bank liabilities
- In Q1 2023, profits of the banking sector continued to grow significantly; during this quarter banks and foreign bank branches earned EUR 258.4 million, i.e. almost 2.6 times more than during Q1 2022.

Source: Bank of Lithuania, Bank Activity Review Q1 2023 (Lithuanian only) (29.08.2023)

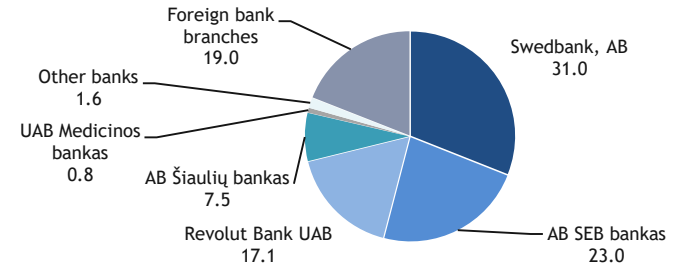
## Assets and Profits of the Banking System



Source: Bank of Lithuania (29.08.2023)

## Banks and Foreign Bank Branches Operating in Lithuania

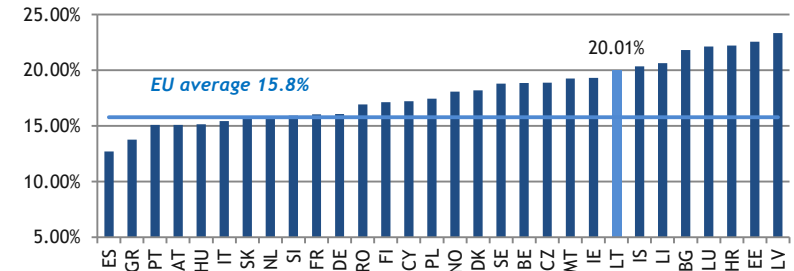
(% of banking system's assets, 1 April 2023)



Source: Bank of Lithuania (29.08.2023)

## Banking system CET1 ratio - Peer comparison

(%, as of Q1 2023)



Source: EBA, <https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard> (29.08.2023)



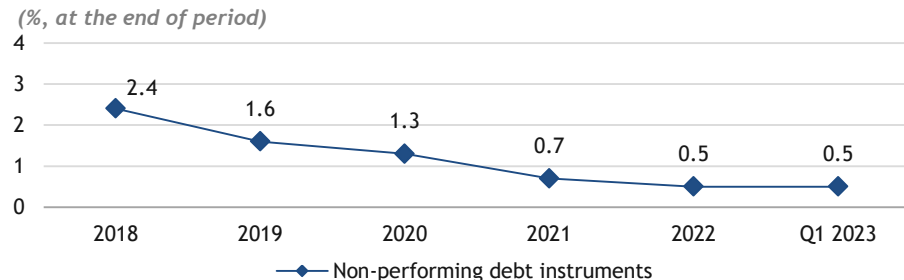
# Deposit Growth Outpaces Lending

## Banking Sector Successfully Withstood Challenges Posed by Pandemic

- Bank deposits increased 27.6% in 2020, lost some momentum in 2021 with a moderate growth of 10.2%, and regained pace in 2022 with a 32.2% yoy increment
- Under the circumstances of the coronavirus pandemic, banks directed their lending mainly to housing loans, which continued to grow fast, while lending to businesses contracted. In 2021, the loan portfolio to households and businesses grew by 10.8% and 18.5%, respectively. In 2022, these loans continued to grow by 13.6% and 16.7%, respectively. Meanwhile in Q1 2023, loans to households increased by 2.1%, and loans to businesses decreased by 1.6%
- Over 2022, the volume of forborne loans gradually declined (by 0.6 percentage points) and accounted for 1.7% of the total loan portfolio

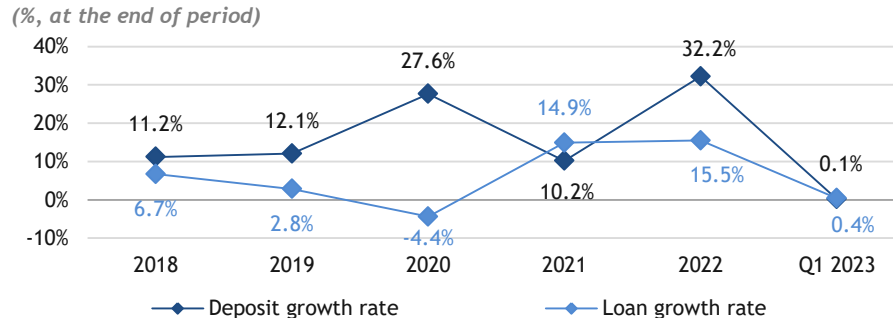
Source: Bank of Lithuania, Bank Activity Review Q4 2022 <https://www.lb.lt/lt/apzvalgos-ir-leidiniai/category.39/series.171>, Bank Activity Review Q1 2023 (Lithuanian only) (29.09.2023)

## Non-Performing Loans on a Downward Trend



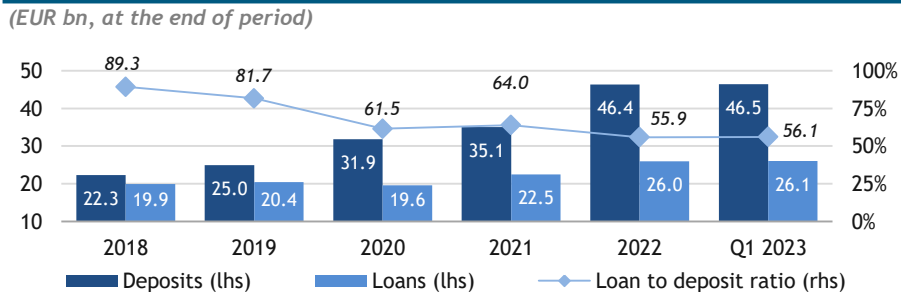
Source: Bank of Lithuania, <https://www.lb.lt/en/fss-key-financial-system-indicators> (29.09.2023)

## Deposit and Loan Growth Rates



Source: Bank of Lithuania (29.09.2023)

## Deposits and Loans



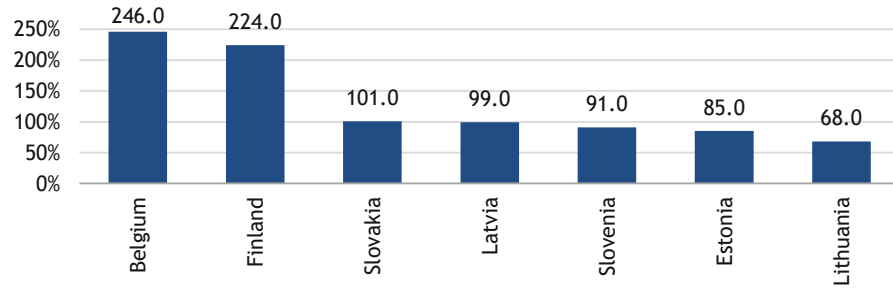
Source: Bank of Lithuania (29.09.2023)



# Relatively Low External Debt

## Gross External Debt

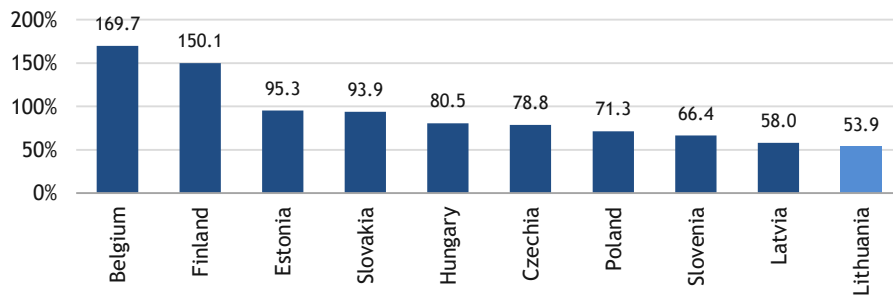
(% of GDP, Q1 2023)



Source: Calculations based on data of European Central Bank and Eurostat (28.09.2023)

## Private Sector Debt

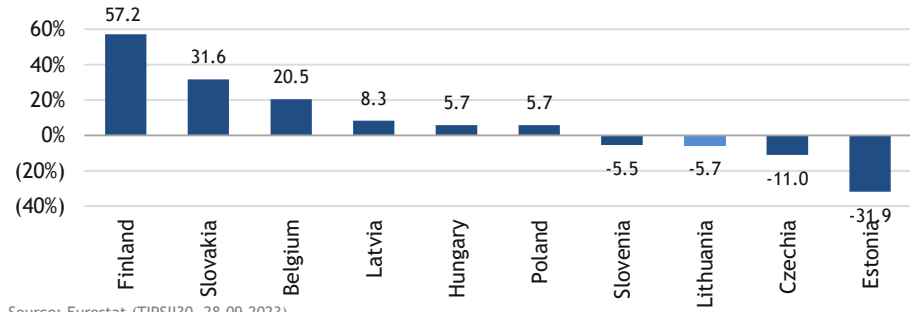
(% of GDP, 2021)



Source: Eurostat (TIPSPD20, 28.09.2023) Latest data available

## Net External Debt

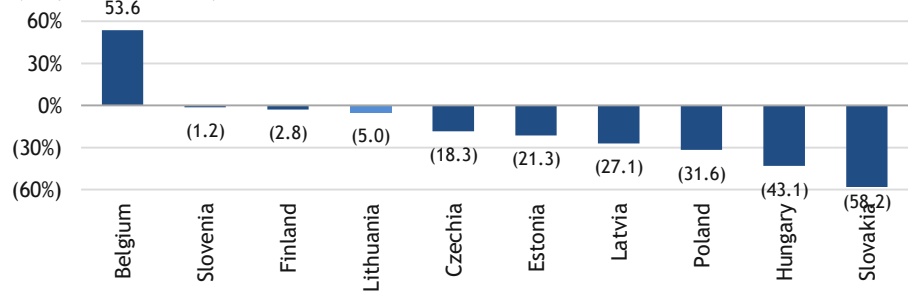
(% of GDP, Q1 2023)



Source: Eurostat (TIPSI130, 28.09.2023)

## Net Investment Position

(% of GDP, Q1 2023)



Source: Eurostat (TIPSI140, 28.09.2023)



# Growing Fintech Hub

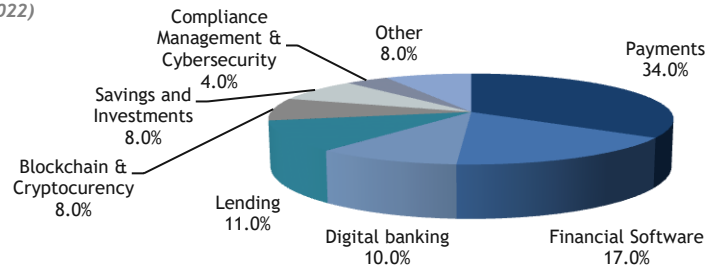
## Key Highlights

- 131 licenced Fintech participants (84 electronic money institutions (EMI) and 47 payment institutions (PI)) at the end of 2022
- Lithuania has cemented its leadership as the EU's biggest and most vibrant Fintech hub, hosting the largest number of licensed Fintech service providers across the European Union
- More than 7000 people employed in this sector (19% growth in 2022)
- Fintechs operating in Lithuania perform these functions: business development and sales (90%), compliance/fraud/risk management (88%), customer support (86%), finance and accounting (76%), legal (66%), etc.

Sources: Bank of Lithuania, EUCLID Register, European Banking, Invest Lithuania, (19.05.2023)

## Composition by Core Business Activity

(2022)

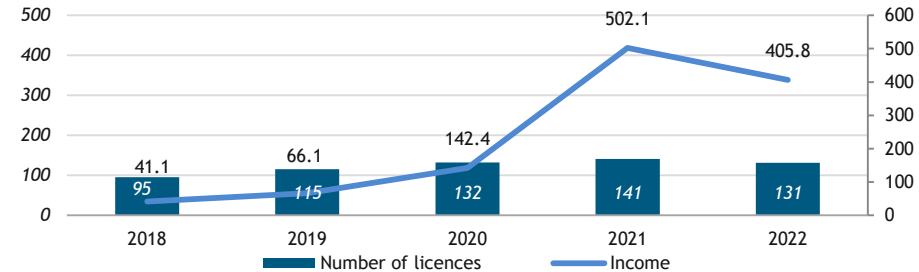


Source: Invest Lithuania (19.05.2023)

## Impressive Growth of EMI and PI

(Licences at the end of period)

(EUR mn)



Source: Bank of Lithuania <https://www.lb.lt/en/reviews-and-publications/category.39/series.3826> (19.05.2023)

## 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 (19.05.2023)

# Anti-Money Laundering Practices: Supervision of AML/CTF Compliance in 2022



<b>Supervised Market Participants</b>	19 banks	61 credit unions	84 electronic money institutions	47 payment institutions	27 crowdfunding and peer-to-peer platform operators	46 financial brokerage firms and management companies	9 life insurance undertakings	21 currency exchange operators	
<b>Supervisory Actions</b>	20 inspections	1 horizontal analysis	9 sectoral risk analyses	9 compliance meetings	>140 meetings	14 enforcement measures			
						2 licenses revoked	3 fines (€250,000)	2 warnings	4 operational restrictions

## Guidelines and reviews for financial market participants

Answers to FAQs

The letters by the Bank of Lithuania drawing the attention of FMPs to ML/TF risks

An overview of the implementation of international sanctions in financial institutions

## Priority Areas



Implementation of international sanctions



Cooperation  
 • Compliance meetings  
 • AML centre



Inspections and analyses



Fraud prevention



Training  
 • Trainings of the Centre of Excellence in Anti-Money Laundering

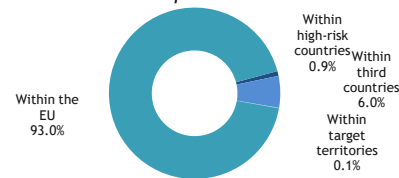


Guidelines and recommendations

Source: [www.lb.lt/en/prevention-of-money-laundering-and-terrorist-financing](http://www.lb.lt/en/prevention-of-money-laundering-and-terrorist-financing)

## Overview of clients and payments in the financial sector

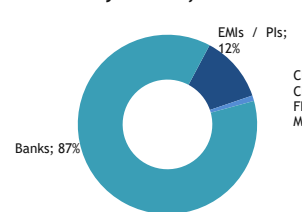
Market share by customer turnover/ value of payment operations



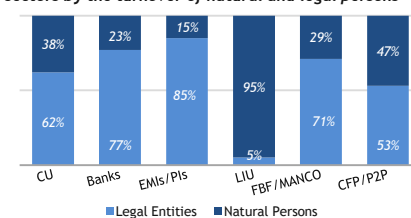
Top countries by value of payment operations



By number of customers



Distribution of payment operators/ asset value between sectors by the turnover of natural and legal persons



EMIs/PIs - electronic money and payment institutions, LIU - life insurance undertakings, CU - credit unions, CFP/P2P - operators of crowdfunding and peer-to-peer lending platforms, FBF/MANCO - financial brokerage firms and management companies



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# Medium-Term Target Is to Reduce General Government Deficit

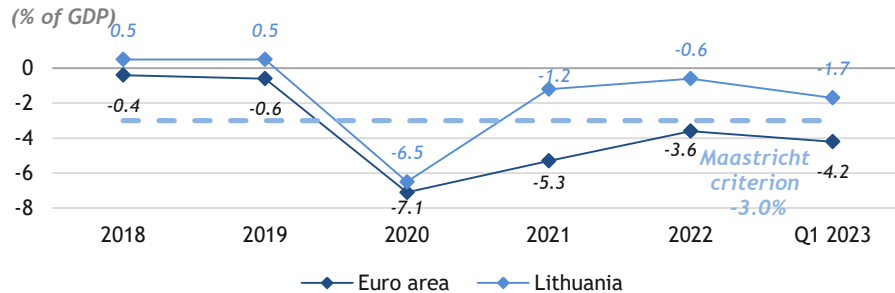
## Key Highlights on the GG fiscal developments

- Lithuania successfully reverted the pandemic-induced 2020 General Government (GG)<sup>(1)</sup> deficit of 6.5% of GDP, to a lower-than-peers 1.2% in 2021
- The Budget Law 2022, adopted in December 2021, approved a GG deficit cap of 3.3%
- In Spring 2022, the budget of 2022 was amended, introducing a package of support measures to face the impact of the Russia's war against Ukraine such as rising energy prices, the spillover effects on the domestic economy of sanctions on Russia and others. The aid measures were estimated at EUR 1,726 m euros or 2.9% of GDP<sup>(2)</sup>. The Stability Programme of Lithuania for 2022 reflected that showing -4.9% of GDP GG balance projection for 2022
- The outcome data shows that GG deficit for 2022 amounted to 0.6% of GDP, i.e. a much better result than planned, as the need for these aid measures was significantly smaller and the overperformance of general government revenues was observed

Notes: (1) General Government consolidates the State budget, budgets of 60 municipalities, Social Security Funds and other extra-budgetary funds; (2) Law on Budget 2022 (as amended).

Sources: Ministry of Finance, Statistics Lithuania (18.05.2023)

## General Government Balance, ESA 2010



Sources: Statistics Lithuania, Eurostat (GOV\_10A\_MAIN, 21.07.2023)

## Fiscal Discipline

- Sustainable medium-term GG finances and stable development of the economy are defined by the Stability and Growth Pact and the Constitutional Law on the Implementation of the Fiscal Treaty as the key targets of fiscal policy (EU and national fiscal rules)
- Under exceptional circumstances since March 2020, application of the EU and national fiscal rules have been suspended. Suspension remains in place until the end of 2023
- Year 2021:** good economic performance and duly targeted and gradual withdrawal from COVID-19 related measures, allowed the Government to create the necessary fiscal space to address the new challenges arising at the beginning of 2022
- Year 2022:** fiscal policy was adjusted throughout the year due to uncertainty emanating from Russia's war against Ukraine; Government set a package of measures aiming to help people and businesses in the environment of rapidly rising energy prices, integrate people fleeing from Russia's military actions in Ukraine and address the Lithuania's security needs
- Year 2023:** The 2023 budget was approved with GG deficit of 4.9% of GDP<sup>(3)</sup>, taking into account the estimated cost of measures on energy prices of 2.5% of GDP<sup>(5)</sup>. Recent projections show decrease in GG deficit to 2.2% of GDP. As energy prices stabilize and even decrease, it is likely that a part of the allocated funds for the measures will not be used. Currently, no energy price related measures are applied, however, Government stands ready to help most vulnerable groups of population in case prices rise again
- National fiscal rules will be applicable as of the start of 2024 if necessary. Fiscal policy is planned to be as prudent as possible with the aim being to safeguard medium and long term fiscal sustainability. The fiscal space will be used in a cautious manner<sup>(4)</sup>
- Fiscal position to ensure debt to GDP ratio to stay well below 60% of GDP Maastricht criteria over the medium term
- As uncertainty is still very high due to Russia's war against Ukraine and the development of the energy crisis, fiscal policy can be adjusted if needed

Notes: (3) 2023 Draft budgetary plan of Lithuania (17.10.2022), Law on Budget 2023 (22.11.2022); (4) Stability Programme of Lithuania for 2023 (26.04.2023); (5) Estimation of revenue and expenditure measures, on the accrual basis.  
Sources: Ministry of Finance



## Overview <sup>(1)</sup>

- On November 22<sup>nd</sup>, 2022, the Seimas adopted the Law of Budget 2023, which was subsequently signed by the President on December 1<sup>st</sup>, 2022
- Law on Budget 2023 and related laws include measures for:
  - Softening the increase in energy prices - EUR 1,833.2 mn in 2023, as well as investments of EUR 1,400 mn in 2023-2025
  - Increasing household support - EUR 1,582.2 mn
  - Increasing Security budget - EUR 308.5 mn
  - Investments for the future of Lithuania - EUR 2,901.7 mn

Note: (1) Data provided in this slide, except for a graph on GG balance, is based on the cash basis

Source: Ministry of Finance (07.02.2023)

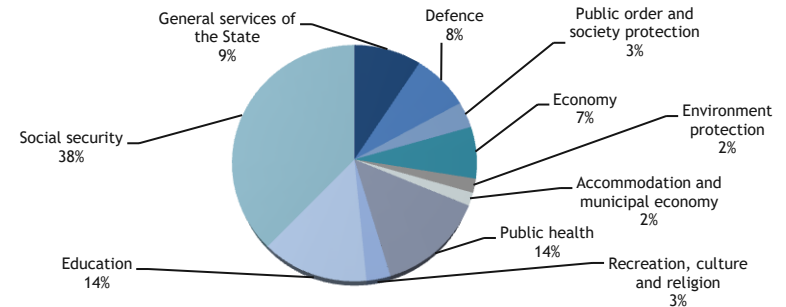
## Revenue and Expenditure in 2023

Budgets	Revenue		Expenditure	
	EUR mn	Change in %	EUR mn	Change in %
State Budget (incl. EU Funds)	15,544.6	2.8	18,632.5	3.6
<i>of which: EU funds and other international financial support</i>	3,144.4	-3.8	3,566.4	7.2
State Social Insurance Fund	6,652.0	11.2	6,416.3	13.6
Compulsory Health Insurance Fund	3,049.9	9.3	3,049.9	9.3
Municipal Budgets	5,019.5	12.7	5,117.0	13.5

Note: Change was calculated compared to approved Budget 2022. Data provided is based on the cash basis.

Source: Ministry of Finance (07.02.2023)

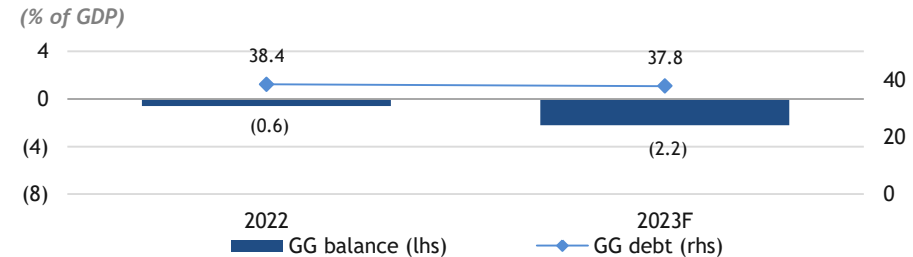
## Planned Public Expenditure by Function in 2023 (excl. EU funds)



Note: Public Finance includes the State budget, budgets of 60 municipalities and Social Security Funds. Data provided is based on the cash basis.

Source: Ministry of Finance (07.02.2023)

## General Government Balance and Debt Projections, ESA 2010



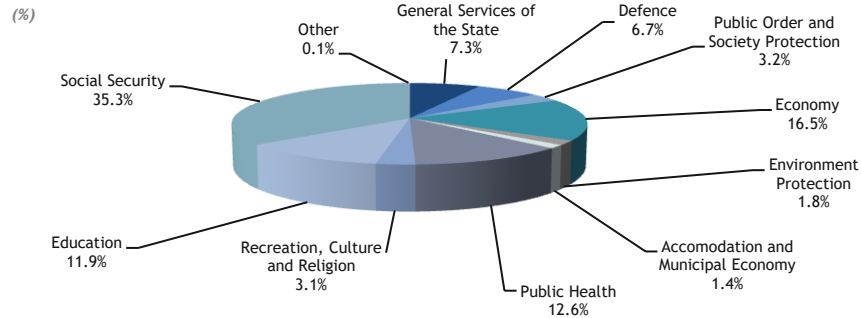
Note: Stability Programme of Lithuania for 2023 (26.04.2023). GDP used for the calculations: EUR 66,918.2 mn for 2022; EUR 73,829.7 mn for 2023.

Source: Ministry of Finance



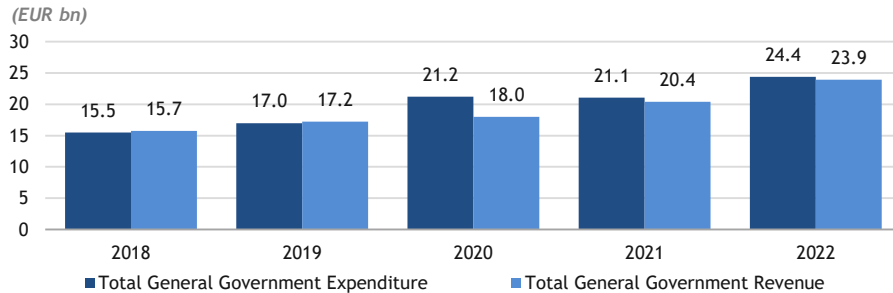
# General Government Expenditure and Revenue

## General Government Expenditure<sup>(1)</sup> 2022 by Function



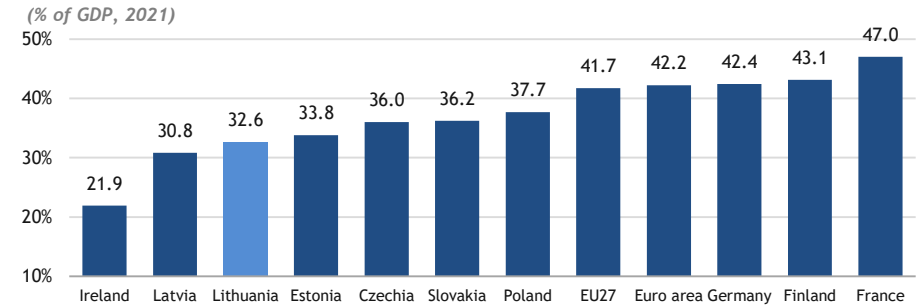
Note: (1) Public Finance includes the State budget, budgets of 60 municipalities and Social Security Funds.  
Sources: Ministry of Finance, [www.lietuvosfinansai.lt](http://www.lietuvosfinansai.lt) (15.05.2023)

## General Government Expenditure and Revenue



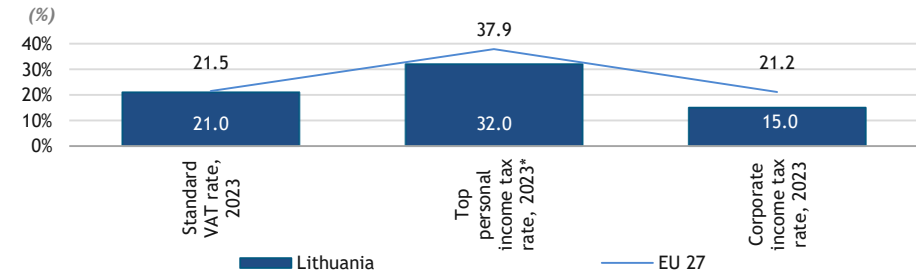
Sources: Eurostat (15.05.2023)

## Tax-to-GDP ratio



Source: Eurostat (28.09.2023) Latest data available

## 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](https://ec.europa.eu/taxation_customs/business/economic-analysis-taxation/data-taxation_en) (19.07.2023)

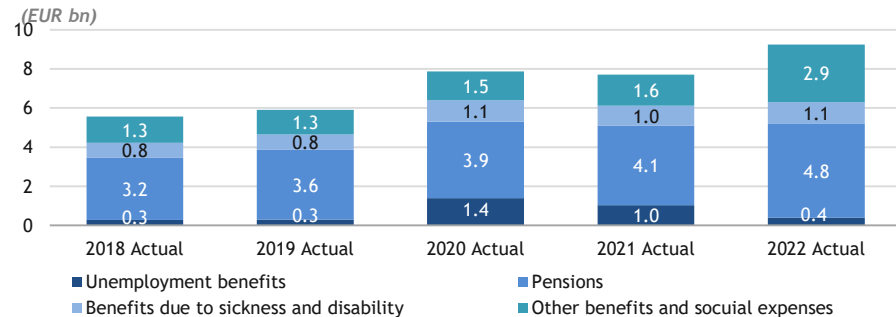


# Social Security and Pension System

## 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.lietuvosfinansai.lt](http://www.lietuvosfinansai.lt) (05.04.2023)

## 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 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.)
- I and II 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

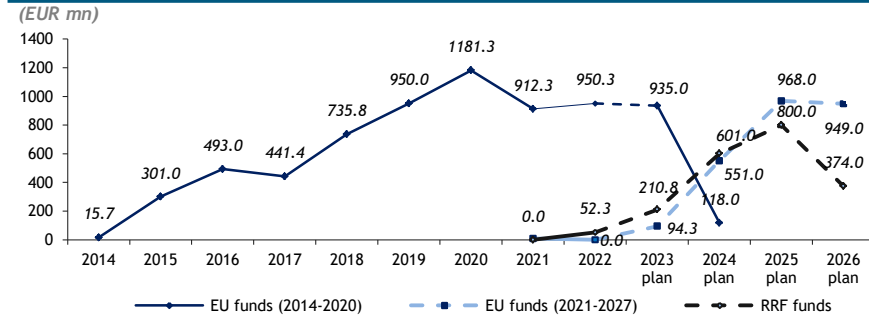
## Key Highlights

- Lithuania is a beneficiary of the funds allocated through Cohesion Policy over period 2021-2027 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 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
- Currently, RRF is being updated with additional investments of EUR 1.94bn from RRF loan and RePowerEU financing. Officially RRF amendment was submitted on 30 June 2023.
- In addition to Cohesion Policy and RRF funds, Lithuania continues receiving funds allocated through the EU Multiannual Financial Framework (MMF). It is projected that total EU budget contributions to Lithuania 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.

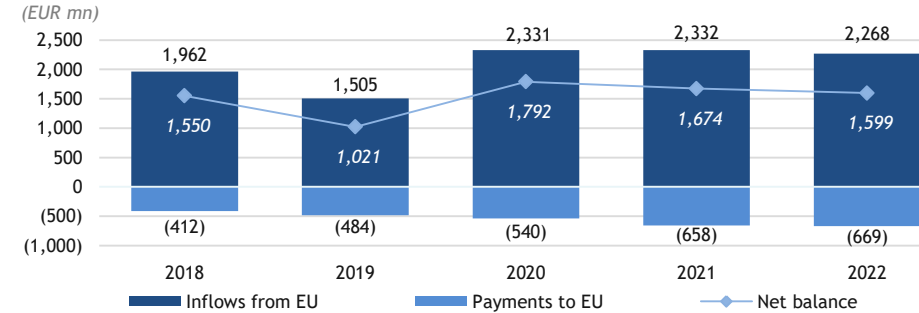
## Payments of EU Funds under Various Programmes



Note: Numbers have been rounded. Data are presented as of 31 August, 2023

Source: Ministry of Finance (25.09.2023).

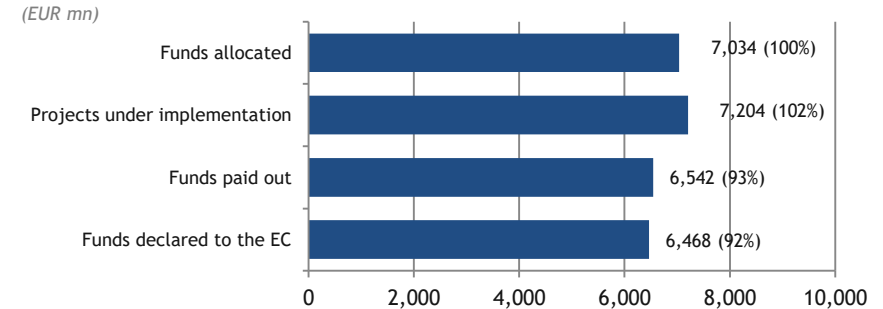
## Net Balance of Payments from EU



Note: Numbers have been rounded.

Source: Ministry of Finance (25.09.2023).

## State of Implementation: OP EU Funds up to 31 August, 2023



Note: Numbers have been rounded.

Source: Ministry of Finance (25.09.2023).



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Introduction

Macroeconomic Developments

Banking Sector

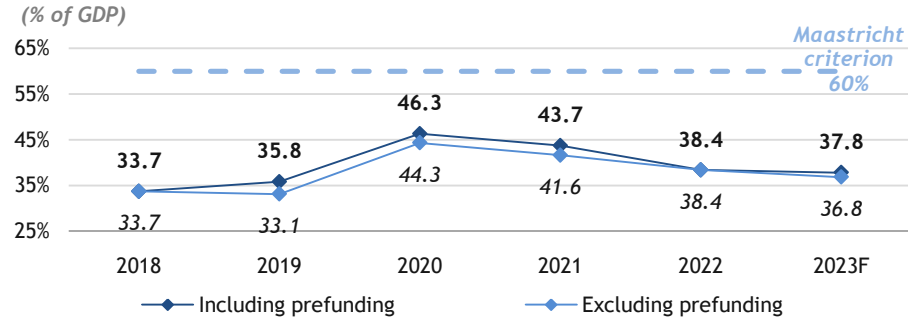
Fiscal Discipline

**Public Debt Management**



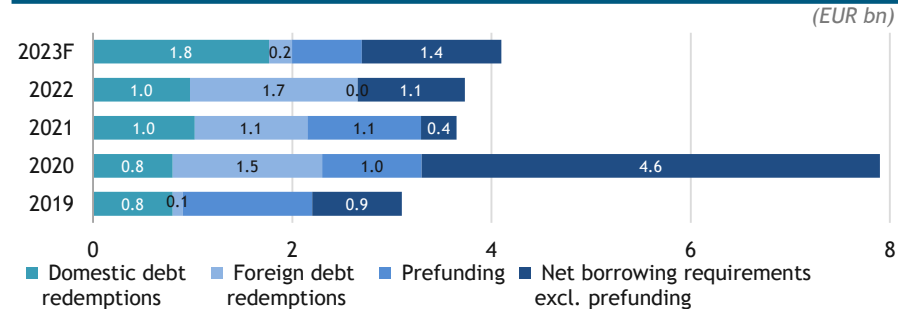
# Relatively Modest Borrowing Needs Result in Stable Debt Level

## General Government Debt, ESA 2010



Sources: Eurostat (GOV\_10Q\_GGDEBT; 12.05.2023), Stability Programme of Lithuania for 2023 (29.04.2023)

## Borrowing Needs Have Been Modest



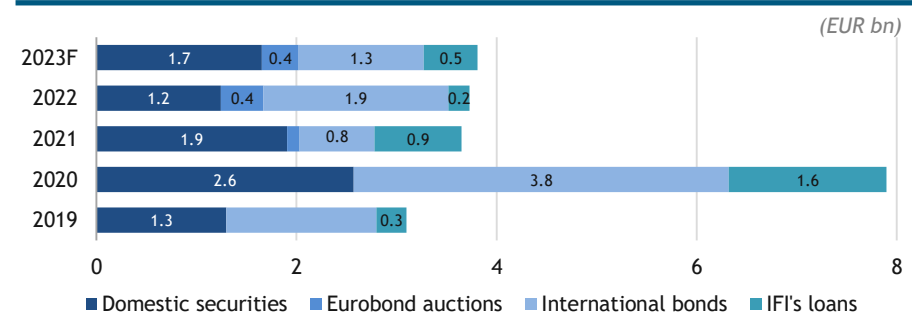
Notes: Numbers have been rounded.  
Source: Ministry of Finance (20.07.2023)

## Moderate Government Debt Burden

- General government debt, which increased during Covid-19 crisis, is stabilising
- As of 31 December 2022, Lithuania's gross external debt was 67.8% of GDP and net external debt amounted to -6.0% of GDP
- As of 31 March 2023, General Government debt was approximately EUR 26.2 bn, amounting to 38.4 % of GDP
- Government annual borrowing needs are expected to be at EUR 4.9 bn on average in 2024-2026
- As of 31 March 2023, effective interest rate on debt portfolio remains low at 1.0%

Sources: Eurostat (GOV\_10Q\_GGDEBT), Bank of Lithuania, Ministry of Finance (20.07.2023)

## Government Debt Financing



Notes: Numbers have been rounded.  
Source: Ministry of Finance (29.09.2023)



# Efficient Funding and Debt Management

## Borrowing and Debt Management Strategy

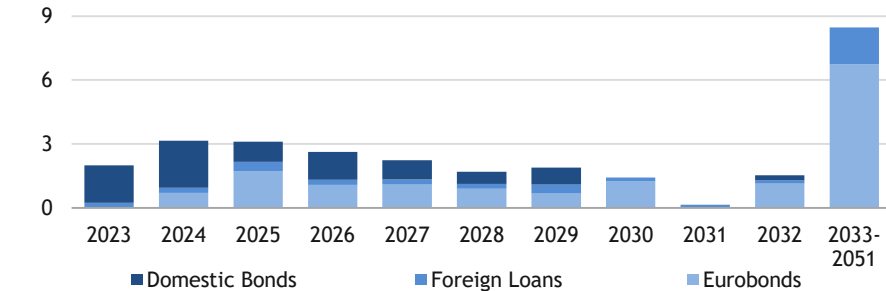
Current debt management objectives set in the Stability Programme of Lithuania for 2023:

- 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 (29.04.2023)

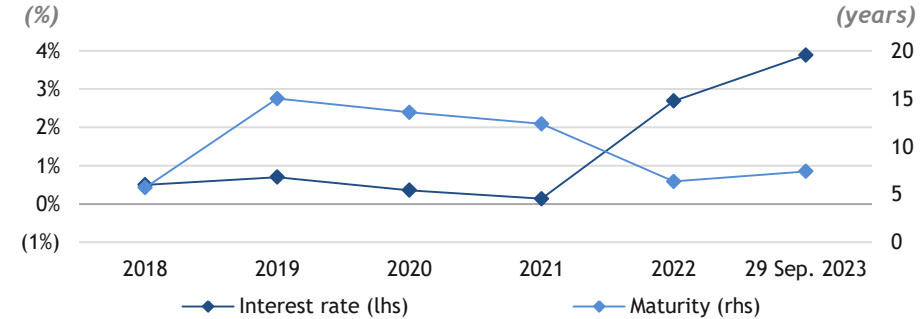
## Debt Redemption Profile

(EUR bn, 31 August 2023)



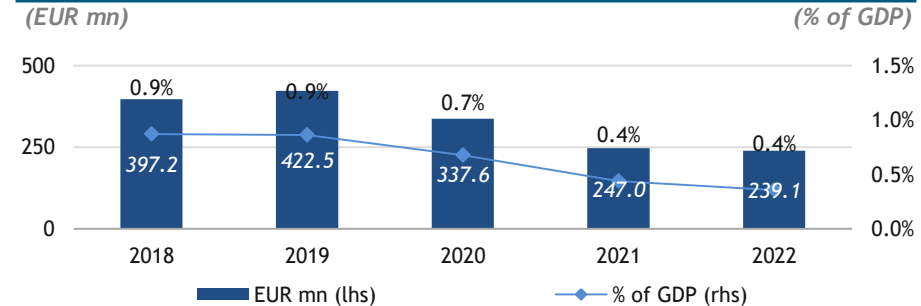
Source: Ministry of Finance (21.09.2023)

## Government New Borrowing Metrics



Source: Ministry of Finance (29.09.2023)

## Interest Expenditure at Historical Lows



Note: According to ESA 2010 interest expenditure excluding derivative transactions

Source: Statistics Lithuania (01.09.2023)



# Debt Limits and Other Liabilities

## Relevant Figures for 2023

- The limit for net change in debt liabilities is set at approx. EUR 4.8 bn in 2023
- The limit for 2023 also includes prefunding for the redemption of the Jan-2024 Eurobond (EUR 700 mn)
- The debt redemptions (after derivative transactions) amount to EUR 2.0 bn in 2023

Sources Ministry of Finance (15.05.2023).

## 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	1,099.0
EIB	Co-financing of Lithuanian operational programmes	1,980.5
NIB	Financing additional expenditure due to COVID-19 outbreak; Public Sector Efficiency Project and the Housing Renovation Programme	431.9
CEB	Financing additional expenditure due to COVID-19 outbreak; Public Investment Programmes; Multi-Apartment Building Modernisation Programme	573.3

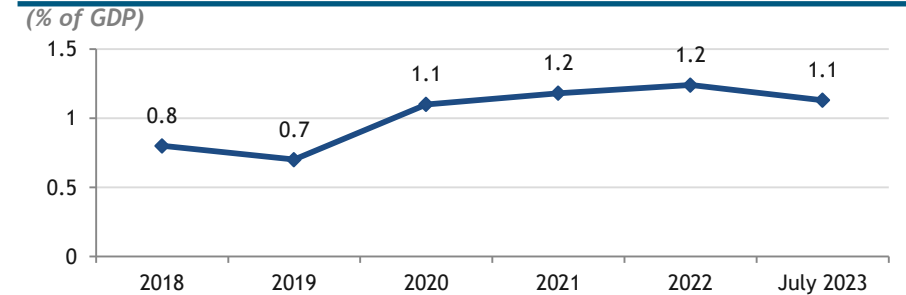
Note: Loans outstanding as of 31 August 2023.  
Source: Ministry of Finance

## Debt Limits for Borrowing on Behalf of the State

	Limit	As of 31 August 2023
Floating rate debt	10%	1.2%
Residual short-term debt	25%	11.0%
Minimum weighted average residual maturity	≥4 years	8.8 years
Minimum weighted average time to re-fixing	≥3.5 years	8.7 years
Guaranteed debt/GDP ratio (31 July 2023)	5%	1.1%

Note: Numbers have been rounded.  
Source: Ministry of Finance (29.09.2023)

## State Guarantees



Source: Ministry of Finance (29.09.2023)



# Borrowing: Domestic vs. Foreign Market

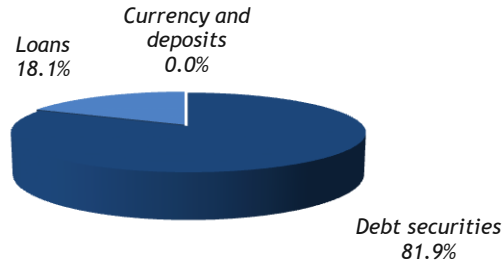
## Important Considerations

	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 <sup>(1)</sup>	17	15 Eurobonds (Reg S)
Euro zone Model CACs	Inclusive for all issues after Jan 2015	

Notes: (1) Excluding savings notes, as of 21 September 2023.  
Source: Ministry of Finance.

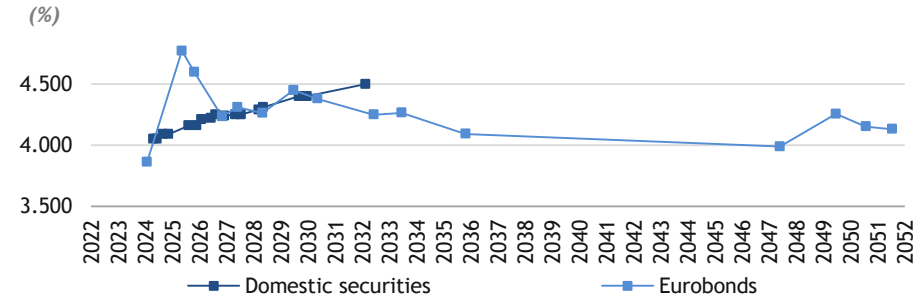
## Composition of General Government Debt by Instruments

(31 March 2023)



Source: Statistics Lithuania (20.07.2023)

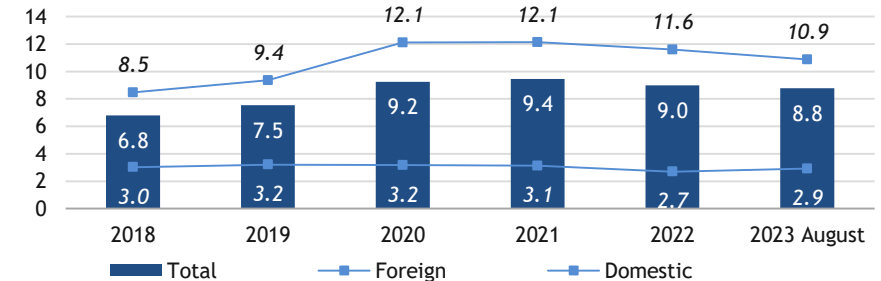
## Yield Curves <sup>(2)</sup>



Note: (2) Average bid yields as at 28 September 2023.  
Sources: Ministry of Finance, Bank of Lithuania, Bloomberg.

## Average Remaining Maturity of Debt on Behalf of the State

(end of period, years)



Source: Ministry of Finance (29.09.2023)



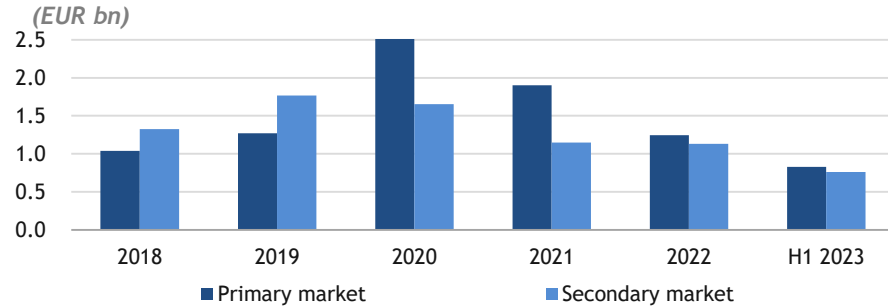
# Domestic market (LITHUN)

## 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
- Since August 2023, saving notes are available for retail investors each month. The first 1-year term issue at 3.7% amounted to EUR 65.6 mn. Currently, retail investors can invest at 3.8%.

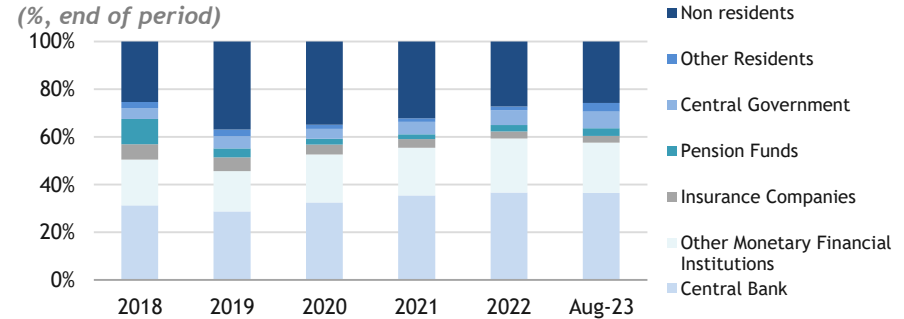
Source: Ministry of Finance (28.09.2023)

## Turnover in Primary and Secondary Markets



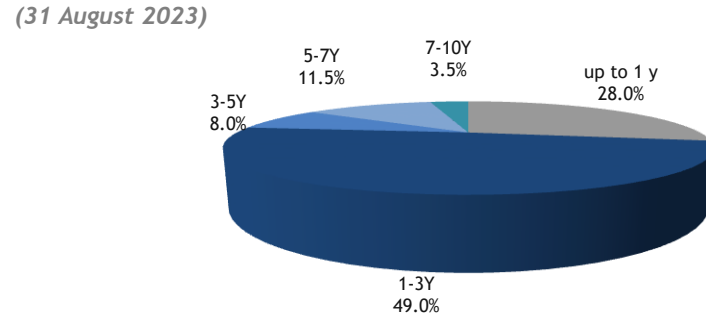
Note: Eurobond taps not included.  
Source: EMAR data, Ministry of Finance (28.09.2023)

## Holder of LITHUN



Note: Eurobond taps not included.  
Source: Bank of Lithuania (27.09.2023)

## Domestic Government Securities by Residual Maturity

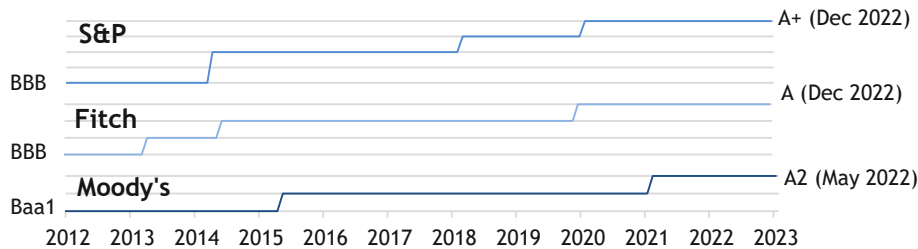


Note: Eurobond taps not included.  
Source: Ministry of Finance (29.09.2023)



# Lithuania Maintains Credit Upside in Relation to Peers

## Ratings Development since 2012



Sources: Fitch Ratings, Moody's, Standard&Poor's (25.08.2023)

## Key Strengths and Risk Factors

### Strengths

Fitch: "Lithuania is a small and open economy, but the resilient export sector, and low private sector indebtedness should help mitigate negative repercussions from the war in Ukraine and high inflation."

Moody's: "The credit profile of Lithuania reflects its small but flexible and diversified economy, as well as a high level of institutional strength. [...] Government debt remains moderate despite the fiscal impact of the pandemic and debt affordability remains very strong."

S&P: "The country will meet electricity needs from local power generation and imports from [...] non-Russian suppliers. This puts Lithuania in a secure position in light of wider EU efforts to transition to hydrocarbon from other sources and risks of disruptions to flow from Russia."

Sources: Fitch Rating Report (2 December 2022); Moody's Credit Opinion (16 May 2023); Standard&Poor's report (2 December 2022)

### Risks and Sensitivities

Fitch: "Lithuania reports the lowest interest payments / revenues ratio among 'A' rated peers but interest expenses will gradually rise due to ECB monetary tightening and higher risk premiums."

Moody's: "[...] These 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 [...]."

S&P: "The country benefits from its membership in the EU, the euro area, and NATO. However, despite these critical anchors, its creditworthiness could come under pressure should the conflict impose new economic, external, or fiscal costs."

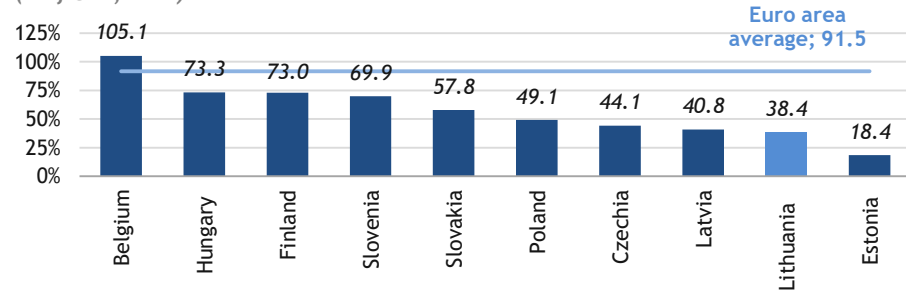
## Peer Comparison

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

Sources: Fitch Ratings, Moody's, Standard & Poor's (21.09.2023)

## General Government Debt

(% of GDP, 2022)



Sources: Eurostat (GOV\_10DD\_EDPT1) (28.09.2023)



# Contacts

## Lithuanian Treasury

Lukiškių 2, LT-01512 Vilnius, Lithuania

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

Bloomberg: LITHUN, LITHGB

### Director of State Treasury

Rasa Kavolytė

[treasury@finmin.lt](mailto:treasury@finmin.lt)

### Senior Advisor at State Treasury

Audrius Želionis

[treasury@finmin.lt](mailto:treasury@finmin.lt)

### Borrowing and Investment Division

Toma Sasnauskienė

[bid@finmin.lt](mailto:bid@finmin.lt)

### Liquidity and Risk Management Division

Daiva Raščiauskaitė

[lrvs@finmin.lt](mailto:lrvs@finmin.lt)

