

REVIEW OF THE BALANCE OF PAYMENTS OF THE REPUBLIC OF LITHUANIA FOR Q1 2012

*An increase of deficits of foreign trade and income balance along with a decrease in the surplus of the balance of current transfers in Q1 2012 led to a deficit of the **current** account balance (CAD) of the domestic balance of payments of LTL 2.3 billion. A deficit in the current account balance of Q1 2012 exceeded the deficit of 2011 by LTL 670.1 million. A positive figure of the **financial** account balance of the balance of payments amounting to LTL 2.2 billion was generated by growing net foreign direct investment (FDI) and inflows of portfolio investment, as well as by decreasing official reserve assets, thus exceeding the net outflow of other investment.*

Financial liabilities to foreign countries (9.9 %) were increasing in Q1 2012 at a somewhat more rapid pace than foreign assets (6.5 %) quarter-on-quarter. During this period the nominal amount of foreign debt was also growing – net external debt increased by 10.7 % and gross debt – by 7.7 %.

Current account. In Q1 2012, the deficit on the current account of the country's balance of payments amounted to LTL 2.3 billion (–9.2 % of GDP). Quarter-on-quarter, a negative change of CAD in the first quarter of this year made up LTL 1.3 billion, and compared to 2011 – LTL 670.1 million. CAD of LTL 256.3 million (–1.1 % of GDP) was registered in the Q1 2011.

Current account balance

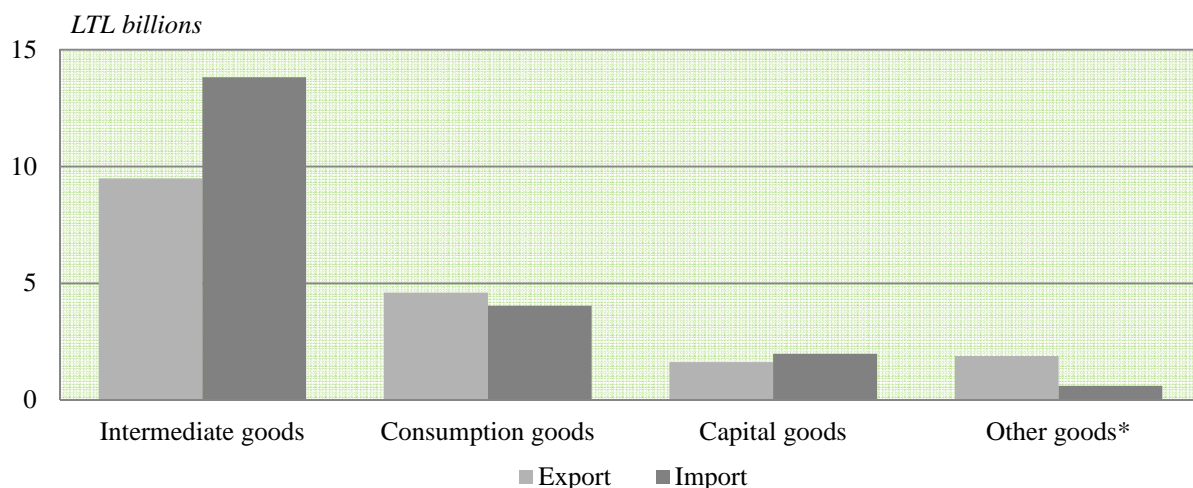
	CAB, LTL millions	CAB to GDP ratio, %
2011	–1,663.63	–1.6
Q1	–256.29	–1.1
Q2	–849.09	–3.1
Q3	493.02	1.7
Q4	–1,051.27	–3.8
2012		
Q1	–2,333.68	–9.2

Foreign trade. In Q1 2012, foreign trade deficit on the country's balance of payments made up almost LTL 2 billion and quarter-on-quarter increased by 61.6 %. Shrinking export of goods (3.8 %) and slightly increasing import of goods (0.3 %)¹ were behind this shift.

Based on the data of the Statistics Lithuania, the largest influence on general changes in foreign trade export quarter-on-quarter was made by shrunk exports of capital and consumer goods, while import changes were caused by increased imports of intermediate goods.

¹ The export and import volumes on the balance of payments were calculated based on FOB prices (see http://www.lb.lt/notes_4).

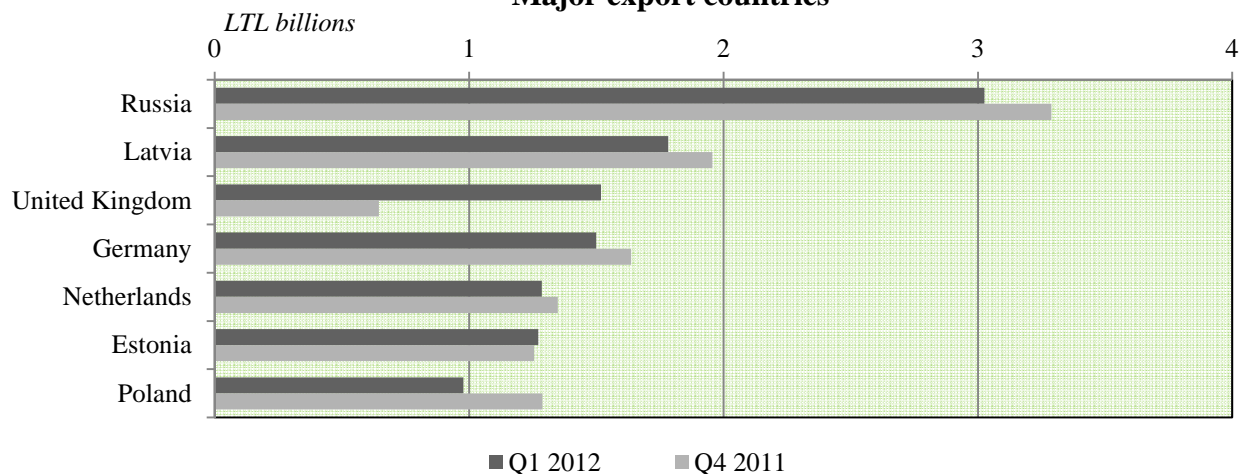
Foreign trade by the classifier of macroeconomic category in Q1 2012



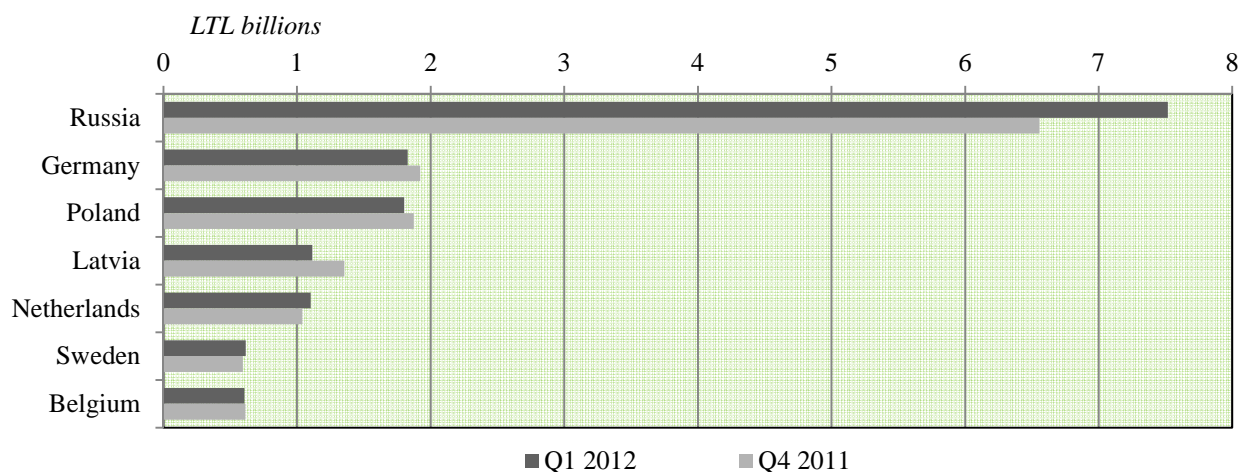
*– motor spirit; passenger motor cars; goods, not elsewhere specified.

In Q1 2012 export of goods to the EU member states went up quarter-on-quarter by 0.3 % and to the CIS countries shrank by 8.5 %. During the period under review, import of goods from EU countries decreased by 5.8 %, while import of goods from the CIS countries expanded by 12.9 %.

Major export countries



Major import countries



Services. In Q1 2012, export of services shrank quarter-on-quarter by 7.1 % and import of services – by approximately 1 %, therefore, the surplus in the balance of services shrank by 24 % and made up LTL 682.6 million. Among the balances of individual services, in Q1 2012 the largest surplus was registered in the road transport balance (LTL 573.5 million) and in the balance of other supporting and auxiliary transport services (LTL 459.8 million), while the largest deficit was observed in the balance of sea transport services (–LTL 385.6 million).

In Q1 2012, export of transport and travel services accounted for 67 % and 15.4 % respectively of the total export of services (in Q4 2011 – 58.2 % and 23.6 %, respectively). Import of transport and travel services made up 64.3 % and 14.2 % respectively of the total import of services (in Q4 2011 – 56.4 % and 20.3 %, respectively).

In Q1 2012, export of services to EU member states accounted for 52.2 % of the total export of services, while import of services from EU member states made up 52.5 % of the total import of services. The export to CIS countries compared to the total export of services accounted for 37.6 % and import from CIS countries compared to total import of services made up 32.8 %.

Changes in export and import of main groups of services and contributions

(Q1 2012 compared to Q4 2011, percentages)

	Export		Import	
	Change	Contribution	Change	Contribution
Changes in total services and contributors to the changes				
Total	-7.1	-7.1	-1.0	-1.0
Transport services	7.0	4.1	12.9	7.3
Travel services	-39.6	-9.4	-30.7	-6.2
Other services	-10.0	-1.8	-9.0	-2.1
Changes in transport services and contributors to the changes				
Total	7.0	7.0	12.9	12.9
Sea transport	-30.3	-2.1	6.2	2.0
Air transport	21.1	1.2	-10.0	-0.7
Railway transport	1.7	0.2	5.7	1.1
Road transport	-3.4	-1.6	5.3	1.2
Pipeline transport	32.0	0.3	299.4 times	8.1
Other transport services	31.1	9.0	6.2	1.2

Income. In Q1 2012, total deficit on the income balance caused by the investment income balance deficit was equal to LTL 1.5 billion. The surplus on the compensation of employees' balance in the income balance amounted only to LTL 7.4 million. Compared to the Q4 2011, the total deficit of the income balance soared by 39.3 %. This shift was caused by a substantially smaller surplus of the compensation of employees balance and increased deficits of all investment income balances.

Total deficit on the income balance for the Q1 2012 grew year-on-year by LTL 510.9 billion or 53.8 %. The same reasons were behind this change.

Current transfers. In Q1 2012, the surplus of the balance of non-repayable current transfers made up LTL 414.8 million (1.6 % of GDP) and in Q4 2011 – LTL 319 billion (1.2 % of GDP). In Q1 2012, transfers from EU support funds made up LTL 769.3 million (3 % of GDP), while workers remittances from abroad totalled LTL 731.6 million (2.9 % of GDP). In Q4 2011, transfers from the EU support funds amounted to LTL 439.7 million (1.6 % of GDP) and workers' remittances from abroad – LTL 886.4 million (3.2 % of GDP).

In Q1 2012, transfers from EU increased quarter-on-quarter by LTL 329.6 million (1.7 times), while workers' remittances from abroad decreased by LTL 154.9 million (17.5 %). Total surplus on the balance of current transfers soared by LTL 95.7 million (30 %).

In Q1 2012, Lithuania's contributions due to EU budget made up LTL 454.7 million (LTL 306.5 million quarter-on-quarter). In Q1 2012, workers' remittances to foreign countries made up LTL 642.2 million, in Q4 2011 – LTL 742.9 million. Contributions to the EU budget increased by LTL 148.2 million, while workers' remittances to foreign countries dropped by LTL 100.7 million, quarter-on-quarter.

Capital and financial accounts. In Q1 2012, the capital account balance (the major source of which is EU structural support funds transfers used to finance investment projects) was LTL 98.2 million (LTL 596.6 million in Q4 2011).

In Q1 2012, net investment inflows to Lithuania in the balance of payments financial account (excluding official reserve assets) made up LTL 977.9 million and in Q4 2011 – LTL 3.6 billion. Net outflow of other investment was behind smaller investment inflows.

Investment flows

(LTL millions)

	Net investment		Lithuania's investment abroad		Foreign investment in Lithuania	
	Q1 2012	Q4 2011	Q1 2012	Q4 2011	Q1 2012	Q4 2011
Total investment flow (excluding official reserve assets)	977.9	3,586.0	-2,583.1	2,195.6	3,561.0	1,390.3
Direct investment	996.9	169.3	-175.6	-111.5	1,172.5	280.9
Portfolio investment	4,287.1	4,226.6	41.1	2,121.5	4,245.9	2,105.0
Equities	-100.4	77.4	-86.1	180.2	-14.3	-102.9
Debt securities	4,387.5	4,149.2	127.2	1,941.3	4,260.2	2,207.9
Financial derivatives	8.4	10.2	45.0	44.8	-36.5	-34.6
Other investment	-4,314.5	-820.1	-2,493.5	140.9	-1,820.9	-961.0
Monetary financial institutions	-3,192.3	-1,478.8	-2,001.2	-479.2	-1,191.1	-999.6
Other sectors	-783.0	399.7	-380.5	443.8	-402.5	-44.1

(+) – a decrease in foreign assets or an increase in liabilities;

(-) – an increase in foreign assets or a decrease in liabilities.

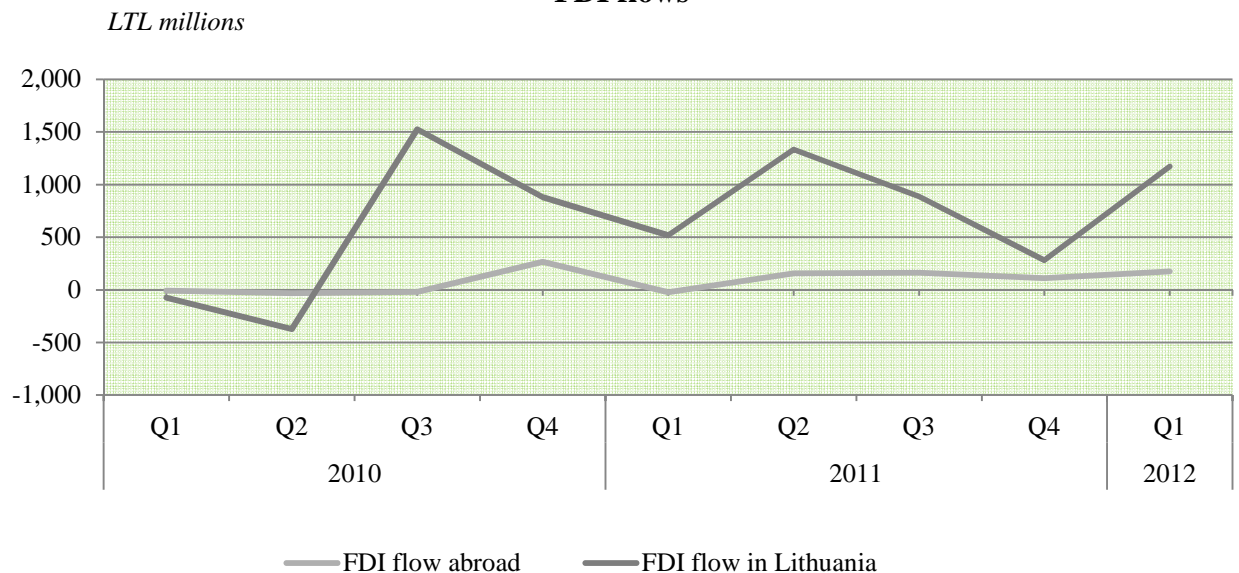
Totals in some rows and columns may not tally with the total investment flow due to rounding.

Direct investment. In Q1 2012, net FDI inflows reached LTL 996.9 million or 3.9 % of GDP. During Q4 2011, net FDI inflows made up LTL 169.3 million or 0.6 % of GDP. In Q1 2012, the flow of net FDI inflows in Lithuania resulted from increased FDI investment in Lithuania.

In Q1 2012, FDI inflows in Lithuania amounted to LTL 1.2 billion (4.6 % of GDP), in Q4 2011 this indicator made up LTL 280.9 million or approximately 1 % of GDP. In four quarters (Q2 2011 – Q1 2012) FDI inflows to Lithuania were equal to LTL 3.7 billion (3.4 % of GDP). In Q1 2012, FDI inflows expanded quarter-on-quarter by LTL 891.7 million due to increasing other capital flows.

In Q1 2012, direct investment abroad of Lithuania's economic entities was increasing and its flow amounted to LTL 175.6 million (this indicator was also increasing quarter-on-quarter to LTL 111.5 million). In four quarters (Q2 2011 – Q1 2012) the amount of this investment abroad went up and its flow made up LTL 607.6 million.

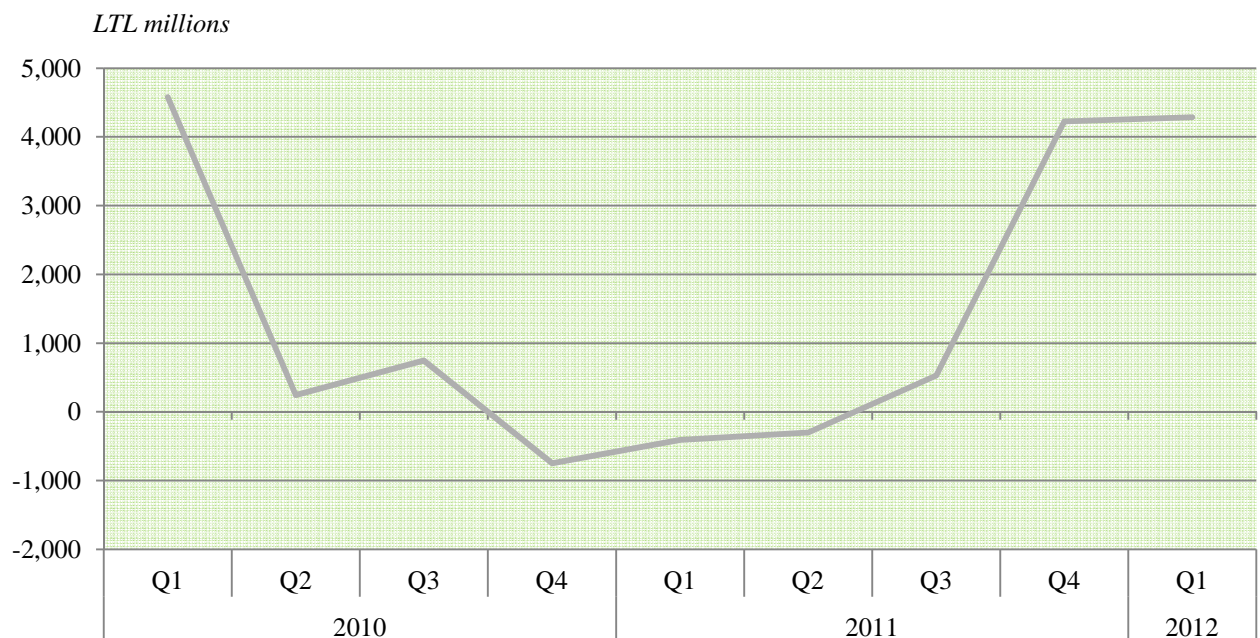
FDI flows



According to the data as of 31 March 2012, accumulated FDI in Lithuania made up LTL 42.9 billion (EUR 12.4 billion) or LTL 13,445 (EUR 3,894) per capita.

Portfolio investment. The net inflows of this type of investments to Lithuania made up LTL 4.3 billion in Q1 2012, while in Q4 2011 – LTL 4.2 billion (LTL 406.1 billion outflow on Q1 2011). Inflows of portfolio investment in Q4 2011 and Q1 2012 were caused by non-resident investment in debt securities issued by general government.

Net flow of portfolio investment



The net outflow of **other investment and financial derivatives** from Lithuania in Q1 2012 was equal to LTL 4.3 billion (LTL 809.9 million in Q4 2011 and LTL 633.8 million in Q1 2011). The outflow of this type of investments in Q1 2012 resulted from increasing foreign investment of monetary financial institutions and shrinking liabilities to non-residents.

Official reserve assets. In Q1 2012, a positive flow of official reserve assets in the balance of payments (LTL 1.3 billion) reflects their decrease, although in Q4 2011 (-LTL 3.3 billion) and within the last four quarters a negative flow of official reserve assets (-LTL 3.6 billion) shows their increase. At the end of Q1 2012, official reserve assets made up

LTL 20.7 billion (about EUR 6 billion). At the end of Q1 2012, accumulated official reserve assets in terms of goods and services import coverage were 2.7 months (3 months at the end of 2011).

International investment position. Data as of 31 March 2012 suggest that the country's accrued total external financial assets amounted to LTL 58 billion and accrued total international financial liabilities made up LTL 120.7 billion. A negative international investment position was equal to LTL 62.7 billion, i.e., Lithuania was a debtor vis-à-vis the rest of the world.

In Q1 2012, Lithuania's external assets expanded by LTL 3.5 billion or 6.5 %, and international financial liabilities – by LTL 10.9 billion or 9.9 %. External assets grew mainly as a result of a significant increase in other investment and portfolio investment, while international financial liabilities increased because of investment into debt securities and changes in direct investment.

Composition of the international investment position (percentage)

	31-12-2011	31-03-2012
Assets	100.0	100.0
Direct investment	9.9	9.9
Portfolio investment	14.9	15.2
Financial derivatives	0.7	0.9
Other investment	34.3	38.4
Official reserve assets	40.2	35.6
Liabilities	100.0	100.0
Direct investment	33.8	35.5
Portfolio investment	26.2	29.0
Financial derivatives	0.3	0.2
Other investment	39.7	35.3

In Q1 2012, Lithuania's gross external debt grew by LTL 6.6 billion or 7.7 %. At the end of March 2012, gross external debt was LTL 92.3 billion or 85.4 % of GDP (in late 2011, the debt-to-GDP ratio made up 80.8 %). At the end of Q1 2012, general government debt made up 41.4 % of gross external debt of Lithuania (36.8% at the end of 2011), of the monetary financial institutions was equal to 29.8 % (against 33.3 % earlier), of other sectors – 11.4 % (against 11.9 % earlier), of direct investment liabilities (indebtedness between domestic and foreign enterprises) – 17.3 % (against 16.7 % earlier). At the end of March 2012, net external debt of Lithuania amounted to LTL 42.3 billion or 39.1 % of GDP (LTL 38.2 billion or 36 % of GDP at the end of 2011).

Statistics Department
of the Economics and Financial Stability Service