

20 December 2010

REVIEW OF THE BALANCE OF PAYMENTS OF THE REPUBLIC OF LITHUANIA FOR Q3 AND THREE QUARTERS OF 2010

A decrease in the surplus of current transfers balance and a surge in the deficits on income and foreign trade balances led to a deficit on the **current** account balance (CAB) of the country's balance of payments for Q3 2010. Nevertheless, a surplus of LTL 1.1 billion was registered on the CAB for three quarters in 2010. The **financial** accounts for Q3 and three quarters in 2010 were negative (LTL -173 million and LTL -2.8 billion respectively) largely due to the other investment outflow from Lithuania and the growth of official reserve assets.¹

Current account. In Q3 2010, the deficit on the CAB of the country's balance of payments amounted to LTL 231.6 million accounting for -0.9% of GDP. Quarter on quarter the negative balance change made up LTL 1.4 billion. The surplus on CAB for three quarters this totalled LTL 1.1 billion (1.6% of GDP), a 1.3% increase compared to the corresponding period in 2009.

CAB and CAB to GDP ratio

	CAB, LTL millions	CAB to GDP ratio (%)
2009	3,896.10	4.3
Q1	-98.65	-0.5
Q2	337.74	1.4
Q3	877.71	3.7
Q1-Q3	1,116.80	1.6
Q4	2,779.30	12.1
2010		
Q1	190.03	0.9
Q2	1,172.57	4.9
Q3	-231.56	-0.9
Q1-Q3	1,131.04	1.6

Changes on CAB and composite balances. Contributions to changes on CAB

A. Q3 2010 to Q2 2010

	Q3 2010, LTL millions	Q2 2010, LTL millions	Change (%)	Contribution (%)
Current account balance	-231.56	1,172.57	-119.7	-119.7
Trade balance	-1,282.54	-862.64	48.7	-35.8
Balance of services	987.21	776.34	27.2	18.0
Income balance	-840.63	-359.84	133.6	-41.0
Balance of current transfers	904.40	1,618.71	-44.1	-60.9

B. Q1-Q3 2010 to Q1-Q3 2009

	Q1-Q3 2010, LTL millions	Q1-Q3 2009, LTL millions	Change (%)	Contribution (%)
Current account balance	1,131.04	1,116.80	1.3	1.3
Trade balance	-3,031.32	-2,429.48	24.8	-53.9
Balance of services	2,495.73	1,186.83	110.3	117.2
Income balance	-1,462.80	-531.56	175.2	-83.4
Balance of current transfers	3,129.43	2,891.01	8.2	21.4

¹ The change in the data on current and financial accounts in Q3 2010, compared to previously published data for July-September 2010, was revised based on detailed quarterly reports from enterprises.

Foreign trade. According to the data of the Statistics Lithuania, in Q3 2010 export of goods increased quarter-on-quarter by 10.2%, import of goods went up by 12.9%, while foreign trade deficit grew by 37.3%. Export and import of goods, excluding mineral products, went up respectively by 12.8% and 13.6%. In three quarters of 2010, export and import of goods grew year on year by 28.5% and 28.9% respectively, and foreign trade deficit surged by 32.2%.

Regarding individual groups (according to the classifier of macroeconomic categories), an increase in export and import of intermediary goods had the biggest impact on the developments in export and import of goods in Q3 2010.

Changes in export and import of main groups of goods and contributions to total change

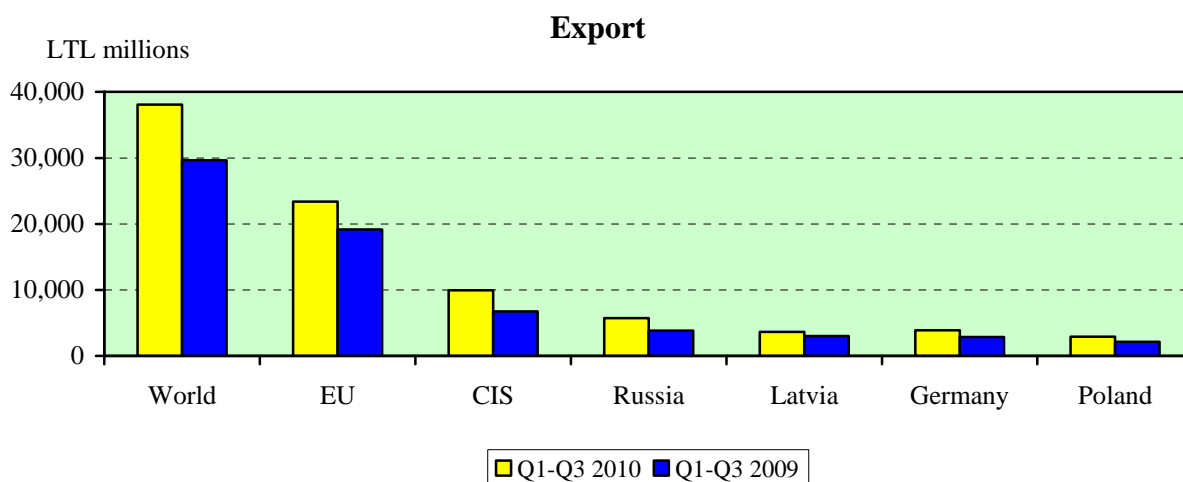
A. Q3 2010 compared to Q2 2010; %

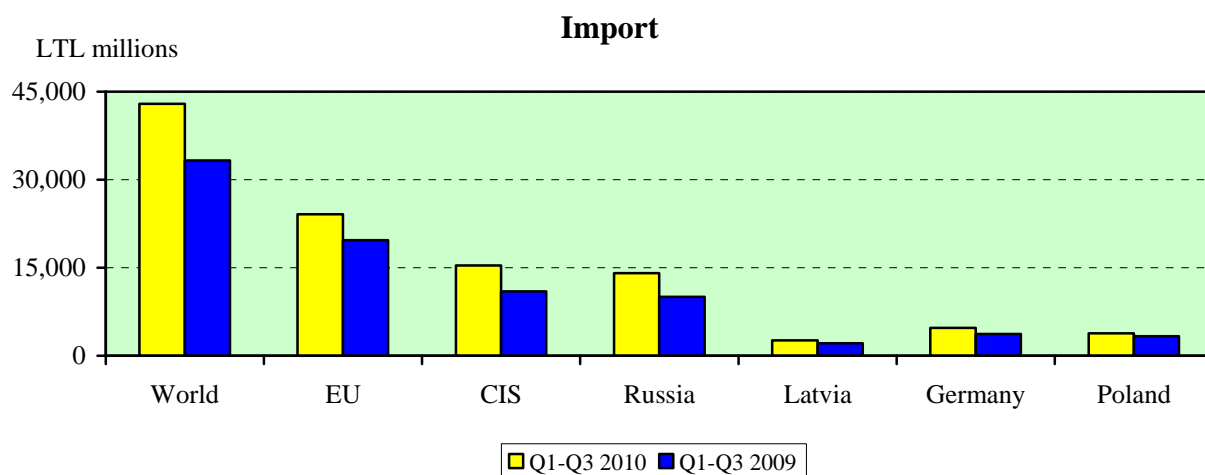
	Export		Import	
	Change	Contribution	Change	Contribution
All goods	10.2	10.2	12.9	12.9
Investment goods	13.9	1.3	36.5	3.7
Intermediate goods	10.0	5.1	10.3	6.7
Consumer goods	17.2	4.6	11.0	2.3
Motor spirit	-5.8	-0.6	-13.2	0.0
Passenger motor cars	-5.9	-0.2	4.3	0.1
Other goods	-0.3	0.0	505.4	0.1

B. Q1–Q3 2010 compared to Q1–Q3 2009; %

	Export		Import	
	Change	Contribution	Change	Contribution
All goods	28.5	28.5	28.9	28.9
Investment goods	38.2	3.5	32.8	3.3
Intermediate goods	30.3	15.1	36.4	22.2
Consumer goods	18.3	5.5	9.1	2.3
Motor spirit	44.9	3.6	753.4	0.3
Passenger motor cars	24.5	0.7	37.0	1.0
Other goods	40.7	0.1	-71.2	-0.2

In Q3 2010, export of goods to EU countries was higher quarter on quarter by 10.7%, while export of goods to CIS countries went up by 22.8%. Imports of goods from EU countries grew by 13.1% and imports from CIS countries went up by 11.1%. During three quarters this year, export of goods to EU member states and CIS countries increased year on year by 22.1% and 46.8% respectively. Import of goods from EU countries grew during the reported period by 22.5% and import from CIS countries jumped by 40.3%.





Services. In Q3 2010, export of services increased quarter on quarter by 3.3%, and import of services went down by 5.5%; consequently, total surplus of the balance of services went up by 27.2% (LTL 210.9 million). In three quarters of the current year, export of services increased year on year by 18.1%, while import of services went down by 1.2%. The surplus on the balance of services rose by 110.3% to LTL 2.5 billion.

In three quarters of 2010, export of transportation and travel services accounted respectively for 56.8% and 27.3% of the total services export (for three quarters of 2009, export of the said groups of services respectively accounted for 55.5% and 28.6% of total services export). Import of transportation and travel services accounted respectively for 47.3% and 32.2% of the total services import (for three quarters of 2009, import of the said groups of services made up respectively 35.2% and 40.2% of total services import).

In Q3 2010, export of services to EU countries made up 59.7% of the total export of services, while import of services from EU countries accounted for 52.8%. Export to CIS countries made up 31% of the total export of services, whereas import from CIS countries comprised 31.3% of the total import of services.

Changes in export and import of main types of services and contributions to total change Q1–Q3 2010 compared to Q1–Q3 2009; %

	Export		Import	
	Change	Contribution	Change	Contribution
Changes in total services and contributions to change				
Total	18.1	18.1	-1.2	-1.2
Transportation services	20.9	11.6	32.9	11.6
Travel services	12.8	3.7	-20.8	-8.4
Other services	18.0	2.8	-17.8	-4.4
Changes in transportation services and contributions to change				
Total	20.9	20.9	32.9	32.9
Sea transport	0.0	0.0	43.6	14.5
Air transport	-2.9	-0.2	11.7	0.4
Railway transport	4.0	0.6	30.7	6.1
Road transport	29.0	14.0	31.3	8.5
Pipeline transport	67.9	0.3	-30.7	0.0
Other transport services	30.9	6.2	20.8	3.4

Income. In Q3 2010, total deficit on income balance made up LTL 840.6 million. The investment income balance made up LTL 1 billion, and the surplus on the compensation of employees balance, a part of the income balance, made up LTL 183.8 million. Total deficit on income balance went up quarter on quarter by 133.6%. The change was largely driven by the deficits on foreign direct investment and other investment income balances. In three quarters of

the current year, the country's total income balance deficit made up LTL 1.5 billion, up year on year by LTL 931.2 million.

Current transfers. In Q3 2010, the surplus on non-repayable current transfers balance totalled LTL 904.4 million. During the period, transfers from EU support funds made up LTL 409.9 million or 1.6% of GDP, while workers' remittances from abroad made up LTL 969.9 million or 3.9% of GDP. Transfers from the EU decreased quarter on quarter by LTL 724.1 million (63.9%), whereas the transfers of individuals from abroad went up by LTL 72.9 million (8.1%). In three quarters of 2010 the surplus on the balance of current transfers amounted to LTL 3.1 billion, a year-on-year increase of LTL 238.4 million (8.2%), while transfers from the EU support funds decreased by 19.9% and transfers by private individuals grew by 45.1%.

The amount of calculated contributions to the EU budget for Q3 2010 totalled LTL 239.9 million and for three quarters of 2010 they made up LTL 771.4 million. Transfers of private individuals to other countries respectively made up LTL 262.3 million and LTL 887.8 million.

Capital and financial accounts. In Q3 2010, net flow of non-repayable capital transfers (the major source of which is the EU structural support funds used to finance investment projects) made up LTL 376.4 million, while in three quarters of the current year they totalled LTL 1.7 billion, a year-on-year decreased by LTL 735.3 million or by 30.4%.

In Q3 2010 the financial account balance totalled LTL -173.1 million (in Q1 2010 was LTL -834.6 million, and in Q2 it was LTL -1.8 billion). Financial account balance for three quarters of the current year totalled LTL -2.8 billion. The negative flows in the financial account indicate of the capital outflow from Lithuania. The negative flow on the financial account balance decreased quarter on quarter by 90.5%, and the flow for three quarters, compared to the corresponding period in 2009, declined by 15.6%.

Investment flows

2010 Q3, Q2 and Q1-Q3; LTL millions

	Net investment flows			Lithuania's investment abroad			Foreign investment in Lithuania		
	Q3	Q2	Q1-Q3	Q3	Q2	Q1-Q3	Q3	Q2	Q1-Q3
Total investment flow (excluding official reserve assets)	1,003.4	-2,340.8	-1,825.5	-302.0	-147.8	-1,394.7	1,305.3	-2,193.0	-430.8
Direct investment	1,546.4	-384.2	1,088.9	60.8	-18.7	67.3	1,485.6	-365.5	1,021.6
Portfolio investment	803.8	-90.6	5,482.4	-1,002.8	740.4	-633.1	1,806.6	-831.0	6,115.5
Equity securities	-631.6	-433.4	-566.5	-709.9	-385.8	-703.0	78.3	-47.5	136.5
Debt securities	1,435.4	342.8	6,048.9	-292.9	1,126.3	69.9	1,728.3	-783.5	5,979.0
Financial derivatives	-92.0	-41.3	-182.4	-	-	13.5	-92.0	-41.3	-196.0
Other investment	-1,254.9	-1,824.7	-8,214.3	640.0	-869.6	-842.4	-1,894.9	-955.1	-7,371.9
Monetary financial institutions	83.8	-1,422.1	-4,002.4	1,065.8	-1,202.4	920.8	-982.0	-219.7	-4,923.3
Other sectors	-1,286.8	-1,372.0	-3,599.1	130.1	-654.7	-779.2	-1,416.9	-717.3	-2,819.9

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

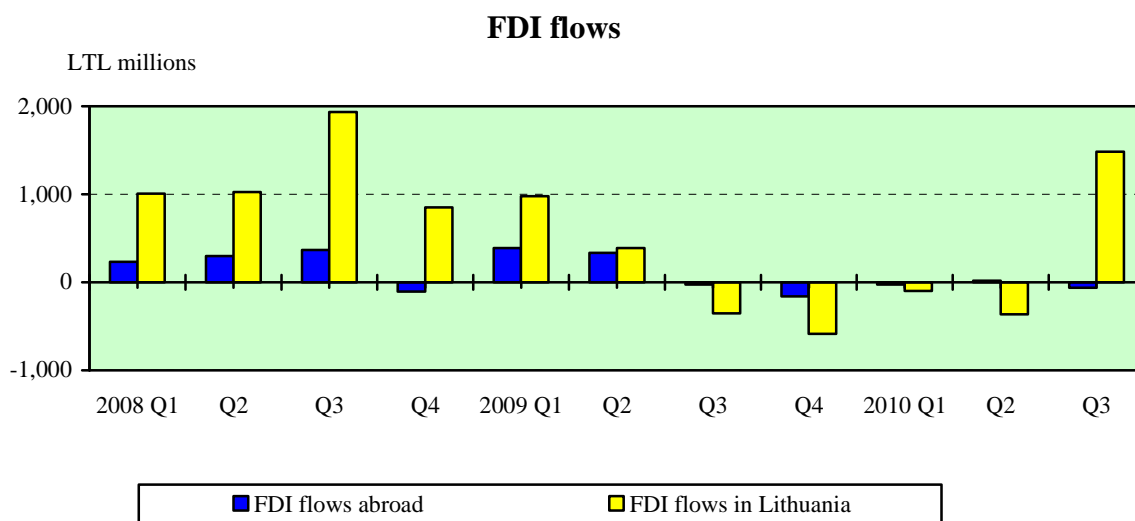
(-) – an increase in foreign assets or a decrease in liabilities.

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

Direct investment. In Q3 2010, net foreign direct investment (FDI) flow made up LTL 1.5 billion showing their inflow to Lithuania. Net FDI flow for three quarters totalled LTL 1.1 billion, while net FDI inflow for the corresponding period a year ago was LTL 315.4 million.

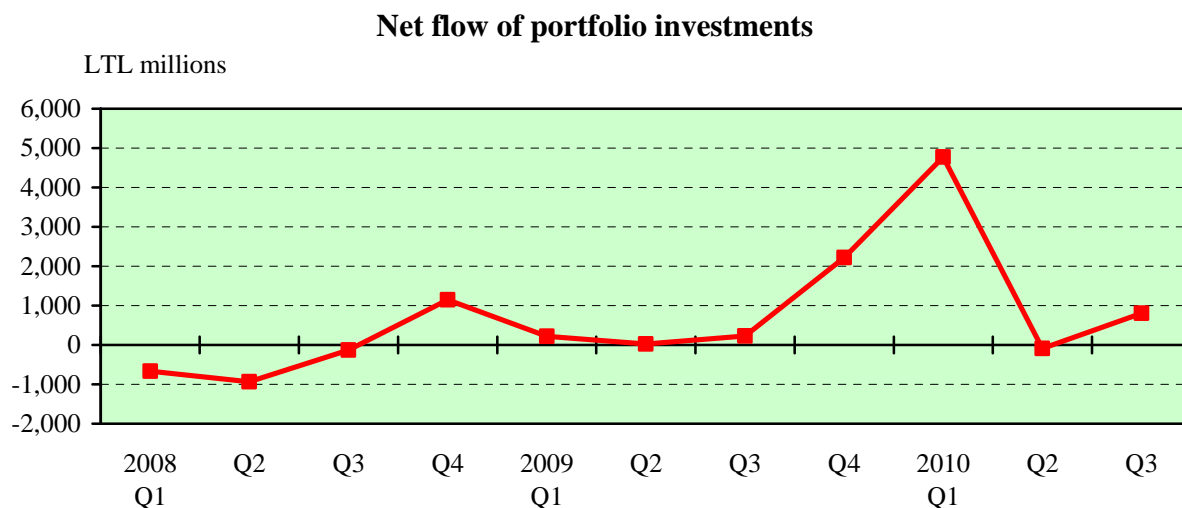
FDI flow in Lithuania made up LTL 1.5 billion for Q3 2010 and LTL 1 billion for three quarters of the current year, the same amount as in the corresponding period of 2009. FDI inflow in Lithuania for Q3 of the current year was driven by an increase in investments into equity capital and reinvestments.

Lithuania's FDI flow abroad in Q3 this year totalled LTL 60.8 million and in three quarters it made up LTL 67.3 million, which showed their decrease.



According to the data as of 30 September 2010, accrued FDI in Lithuania made up LTL 34.2 billion (EUR 9.9 billion) or LTL 10,484 (EUR 3,036) per capita.

Portfolio investment. Net inflow of these investments into Lithuania was LTL 803.8 million in Q3 2010 and LTL 5.5 billion in three quarters of 2010. Portfolio investment inflow into Lithuania both for Q3 and three quarters of 2010 were driven by inflows from the placement of debt securities by general government.



Net flow of other investments and financial derivatives for Q3 2010 made up LTL -1.3 billion showing their outflow from Lithuania (in Q1 the outflow totalled to LTL 5.2 billion, and in Q2 it made up LTL 1.9 billion). In three quarters of the current year, the net outflow of these investments was LTL 8.4 billion, a year-on-year increase of LTL 4 billion or 1.9 times. The investment outflow was the result of a decrease in liabilities of MFIs and other sectors.

Official reserve assets. In Q3 2010 the flow of the country's official reserve assets on the balance of payments amounted to LTL -1.2 billion, which signalled of their increase. At the end of Q3, official reserve assets made up LTL 17 billion (EUR 4.9 billion). At the end of Q3 2010,

the accumulated official reserve assets in terms of good and service import coverage was 3.3 months (3.7 months at the end of 2009).

International investment position. On 30 September 2010, the country's total accrued external financial assets made up LTL 51.9 billion and total accrued international financial liabilities amounted to LTL 105.4 billion. Negative international investment position totalled LTL 53.5 billion, i.e. Lithuania was a debtor vis-à-vis the rest of the world.

In Q3 2010, Lithuania's external assets went up by LTL 2.1 billion or 4.3%, and its international financial liabilities by LTL 1.8 billion or 1.8%. External assets grew mainly as a result of an increase in official reserve assets and portfolio investments abroad, while liabilities increased as a result of a hike in portfolio investment liabilities and foreign direct investment in Lithuania.

Composition of the international investment position of the Republic of Lithuania
(in percentages)

	31-12-2009	30-09-2010
Assets	100.0	100.0
Direct investment	11.4	9.3
Portfolio investment	21.7	22.7
Financial derivatives	0.2	0.8
Other investment	34.0	34.4
Official reserve assets	32.7	32.8
Liabilities	100.0	100.0
Direct investment	32.5	32.4
Portfolio investment	16.7	24.0
Financial derivatives	0.4	0.5
Other investment	50.4	43.1

In Q3 2010, Lithuania's gross external debt surged by LTL 539.4 million or 0.7%, however, an increase of LTL 2.1 billion or 2.6% since the beginning of the year. At the end of Q3 2010, Lithuania's gross external debt was LTL 81.9 billion accounting for 88.8% of four-quarter moving sum of GDP (at the end of 2009, the debt-to-GDP ratio made up 87.2%). At the end of Q3 2010, the contribution of the MFIs' sector to the country's gross external debt made up 38.8% (46.1% at the end of 2009), the contribution of government sector made up 32.5% (23.4% at the end of 2009), and debt of other sectors contributed 12.7% (16.1% at the end of 2009), while the contribution of direct investment liabilities (debts owned by domestic and foreign enterprises to each other) made up 15% (14.0% at the end of 2009). At the end of Q3, the country's net external debt totalled LTL 38.2 billion accounting for 41.4% of GDP (at the beginning of the year it made up LTL 37.4 billion or 40.8% of GDP).