

20 December 2011

## BALANCE OF PAYMENTS OF THE REPUBLIC OF LITHUANIA FOR Q3 2011 AND FOR Q1 TO Q3 2011

A surplus of LTL 602.7 million was recorded on the **current** account balance (CAB) of the country's Balance of Payments for Q3 2011 as a result of a decrease in deficits on foreign trade and income balances. Net foreign direct investment (FDI) and portfolio investment inflows were registered on the **financial** account of the balance of payments, but the balance on the financial account was negative (LTL –1.8 billion) as a result of net outflow of other investments and high gains from official reserve assets.

Changes on the financial account of the balance of payments had direct effect on the data in the country's international investment position and gross external debt. Owing to the growth of foreign assets and a decrease in foreign liabilities net foreign debt and gross debt contracted in Q3 by 5.4% and 0.7% respectively.

**Current account.** The CAB of the country's balance of payments showed a surplus of LTL 602.7 million or 2.2% of GDP in Q3 2011 and a deficit of LTL 347 million or –0.4% of GDP in three quarters. For four quarters (Q4 2010 to Q3 2011), the CAB surplus totalled LTL 371 million (0.4% of GDP). After the deficit in Q2 2011, positive change on the CAB made up LTL 1.3 billion in Q3, while the Q1 to Q3 change on the CAB was negative standing at LTL 1 billion after a surplus registered for the corresponding period in 2010.

### CAB and CAB to GDP ratio

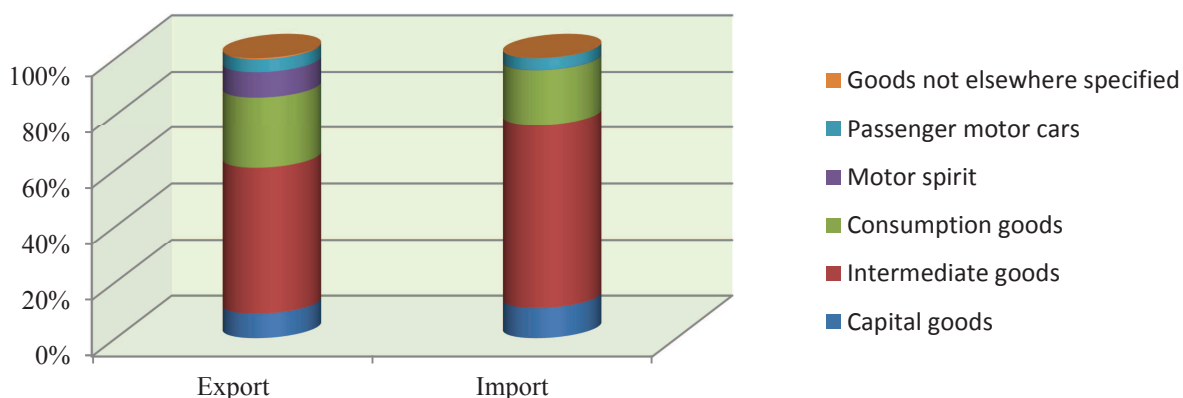
	CAB, LTL millions	CAB to GDP ratio (%)
2010	1 415.05	1.5
Q1	–164.02	–0.8
Q2	1 180.09	4.9
Q3	–318.99	–1.3
Q1–Q3	697.08	1.0
Q4	717.97	2.9
2011		
Q1	–209.20	–0.9
Q2	–740.47	–2.7
Q3	602.70	2.2
Q1–Q3	–346.97	–0.4

**Foreign trade.** In Q3 2011, foreign trade deficit on the country's balance of payments made up LTL 870.2 million, a quarter-on-quarter decrease of 46%. This was due to an increase in export of goods with import of goods staying on the same level. In three quarters this year, export of goods grew year on year at a higher rate than import of goods, and foreign trade deficit increased by 17.8%<sup>1</sup>.

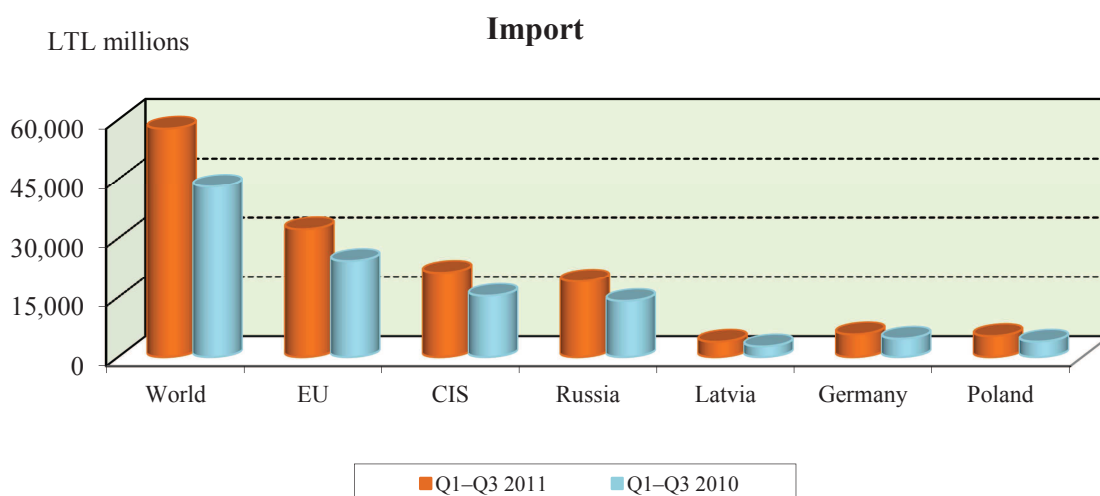
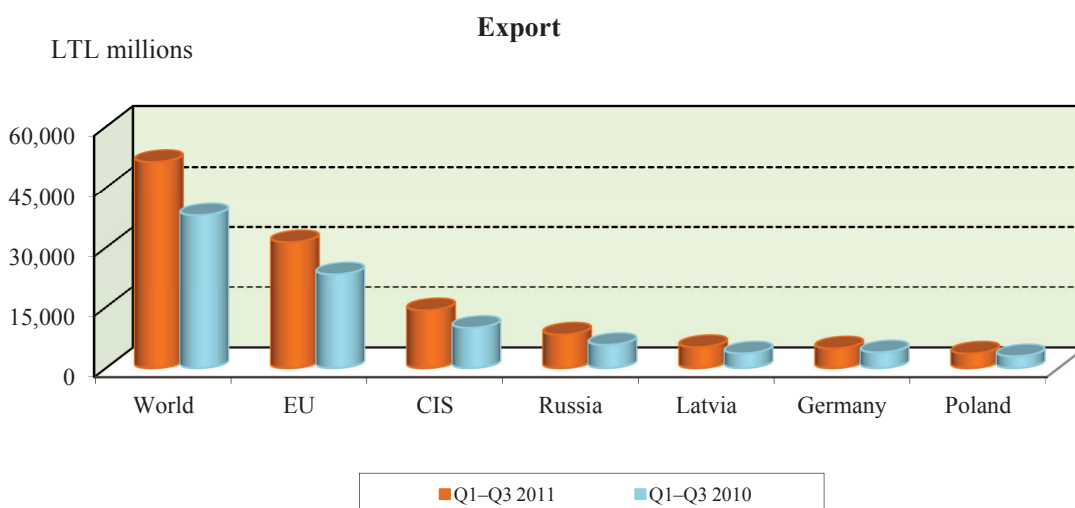
The data of Statistics Lithuania revealed that quarter-on-quarter general changes in export and import in Q3 2011 were driven primarily by an increase in export of intermediary and consumption goods and import of intermediate goods. The year-on-year changes in export and import in three quarters of 2011 were driven largely by the growth in export of intermediate goods and consumption goods, and import of intermediate, capital, and consumption goods.

<sup>1</sup> Export and import volumes on the balance of payments were calculated based on FOB prices.  
(See [http://www.lb.lt/notes\\_4](http://www.lb.lt/notes_4))

## Structure of export and import of main groups of goods by the classifier of macroeconomic categories in Q1 to Q3 2011



In three quarters of 2011, export of goods to EU member states went up year on year by 34.1% and export to CIS countries increased by 43.4%. Import of goods from EU and CIS countries grew during the reported period respectively by 32.9% and 38.4%.



**Services.** In Q3 2011, export of services went up quarter on quarter by 1.2% and import of services decreased by 1.9%, leading to the LTL 1.2 billion surplus on the balance of services, an increase by 7.8%. Within three quarters of 2011, export of services grew year on year by 21%, and import of services grew by 19.9% with total surplus on the balance of services making

up 23.4%. In Q3 2011, the biggest surpluses (of LTL 565.3 million and LTL 558.3 million) among individual balances of services were observed on the balance of road transport services and travel balance, while the biggest deficit (of LTL –339 million) was registered on the balance of sea transport services.

In Q3 2011, export of transport and travel services made up respectively 54.5% and 31.7% of total export of services (in Q3 2010, export of the said types of services accounted respectively for 53.7% and 29.9% of total export of services). Transport and travel services import made up respectively 56.8% and 23.6% of total service import (53% and 28.4% in Q3 2010).

In Q3 this year, export of services to EU countries accounted for 55.3% of total export of services, while import of services from EU countries made up 51% of total import of services. Export to CIS countries made up 33.5% of total export of services, while import from CIS countries accounted for 30.3% of total import of services.

### **Changes in export and import of main groups of services, and contributions to total change**

*Q1 to Q3 2011 compared to Q1 to Q3 2010, percentage*

	Export		Import	
	Change	Contribution	Change	Contribution
<b>Changes in total services and contributors to change</b>				
Total	21.0	21.0	19.9	19.9
Transport services	23.7	13.8	39.9	19.6
Travel services	23.8	6.1	-10.1	-3.0
Other services	6.6	1.1	15.8	3.3
<b>Changes in transport services and contributors to change</b>				
Total	23.7	23.7	39.9	39.9
Sea transport	24.9	1.7	37.1	13.4
Air transport	-3.8	-0.3	-5.5	-0.1
Railway transport	8.0	1.1	36.8	7.1
Road transport	16.0	8.2	18.3	4.9
Pipeline transport	49.6	0.3	38.1	0.0
Other transport services	58.2	12.7	97.5	14.6

**Income.** In Q3 2011, total deficit on the income balance made up LTL 779.5 million; the deficit on the investment income balance made up LTL 952.4 million and the surplus on the compensation of employees balance, a part of the income balance, made up LTL 172.9 million. Total deficit on the income balance went down quarter on quarter by 34.2%. The change was primarily driven by a decrease in the deficit on the balance of FDI income.

Total income balance deficit for the first three quarters in 2011 as compared to the three quarter data in 2010 nearly doubled or increased by LTL 1.4 billion. Also, the change was driven by higher deficit on the foreign direct investment income balance (mainly due to an increase in reinvestments).

**Current transfers.** Surplus on the balance of non-repayable current transfers made up LTL 1.1 billion (3.9% of GDP) in Q3 2011, and LTL 3.4 billion (4.3% of GDP) in Q1 to Q3. In Q3 2011, transfers from the EU support funds made up LTL 933.7 million (3.3% of GDP), while workers remittances from abroad totaled LTL 932.5 million (3.3% of GDP). In three quarters of 2011, transfers from above mentioned sources made up respectively LTL 2.6 billion (3.4% of GDP) and LTL 3.1 billion (3.9% of GDP).

Transfers from the EU support funds increased year on year by LTL 490 million (22.8%), while workers' remittances from abroad grew by LTL 627.7 million (25.6%). Total surplus on the balance of current transfers increased by LTL 408.6 million (13.7%).

Lithuania's contributions due to EU budget made up LTL 237.8 million in Q3 2011 and LTL 796.1 million in three quarters. Workers' remittances to other countries made up LTL 520.8 million in Q3 and LTL 1.5 billion in three quarters this year. Contributions to the EU

budget increased year on year by LTL 24.7 million, while workers' remittances to other countries grew by LTL 647.1 million.

**Capital and financial accounts.** The capital account balance (the major source of which is the EU structural support funds used to finance investment projects) was LTL 1.1 billion in Q3 2011 after LTL 291 million in Q2 2011. The capital account balance for three quarters this year totaled LTL 2 billion, a year-on-year increased by LTL 398.6 million or 24.7%.

Total net outflow of investments from Lithuania on the financial account of the balance of payments (excluding official reserve assets) was LTL 155.2 million in Q3 2011 and LTL 195.9 million in three quarters the same year. The investment drain occurred due to the drain of a net other investments.

### Investment flows

Q3, Q2, and Q1–Q3 2011; LTL millions

	Net investment flows			Lithuania's investment abroad			Foreign investment in Lithuania		
	Q3 2011	Q2 2011	Q1–Q3 2011	Q3 2011	Q2 2011	Q1–Q3 2011	Q3 2011	Q2 2011	Q1–Q3 2011
Total investment flow (excluding official reserve assets)	-155.2	495.8	-195.9	-342.5	-2,063.1	-3,910.5	187.3	2,558.9	3,714.5
Direct investment	687.3	1,140.4	2,401.1	-167.8	-157.5	-304.8	855.1	1,297.9	2,705.9
Portfolio investment	429.6	-451.0	-622.6	517.2	-343.6	-2,032.3	-87.6	-107.4	1,409.7
Equities	-137.8	-644.5	-1,023.4	-255.0	-561.9	-1,147.1	117.2	-82.6	123.7
Debt securities	567.4	193.5	400.8	772.2	218.3	-885.1	-204.8	-24.8	1,285.9
Financial derivatives	5.3	0.8	3.7	38.7	26.0	92.2	-33.4	-25.2	-88.5
Other investment	-1,277.3	-194.4	-1,978.1	-730.6	-1,588.1	-1,665.6	-546.7	1,393.7	-312.5
Monetary financial institutions	-731.4	-1,526.4	-1,967.7	-739.1	-2,205.3	-1,363.7	7.7	678.9	-604.1
Other sectors	-1,080.8	94.4	-1,741.3	-758.5	50.4	-1,556.5	-322.3	44.0	-184.8

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

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

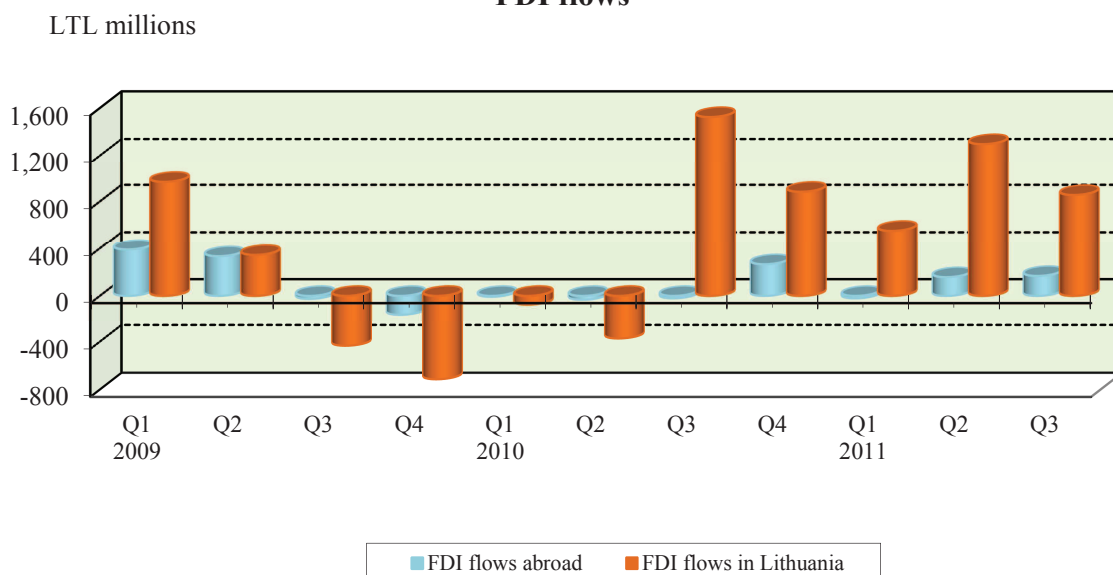
Totals in some lines and columns may not tally with the total investment flow due to rounding.

**Direct investment.** Net foreign direct investment (FDI) inflows made up LTL 687.3 million or 2.5% of GDP in Q3 2011 and LTL 2.4 billion or 3.1% of GDP in three quarters of 2011. In three quarters of 2010, net FDI inflows made up LTL 1.1 billion. In three quarters this year, the flow of net inflow of FDI in Lithuania was the result of positive flow of reinvestments.

FDI inflow in Lithuania was LTL 855.1 million (3.1% of GDP) in Q3 2011 and LTL 2.7 billion (3.5% of GDP) in three quarters of 2011. In three quarters of 2010, FDI inflows to Lithuania made up LTL 1.1 billion (1.5% of GDP).

An increase of foreign direct investments by Lithuanian economic entities abroad was registered in Q3 2011 with their flow reaching LTL 167.8 million and the flow for three quarters reaching LTL 304.8 million.

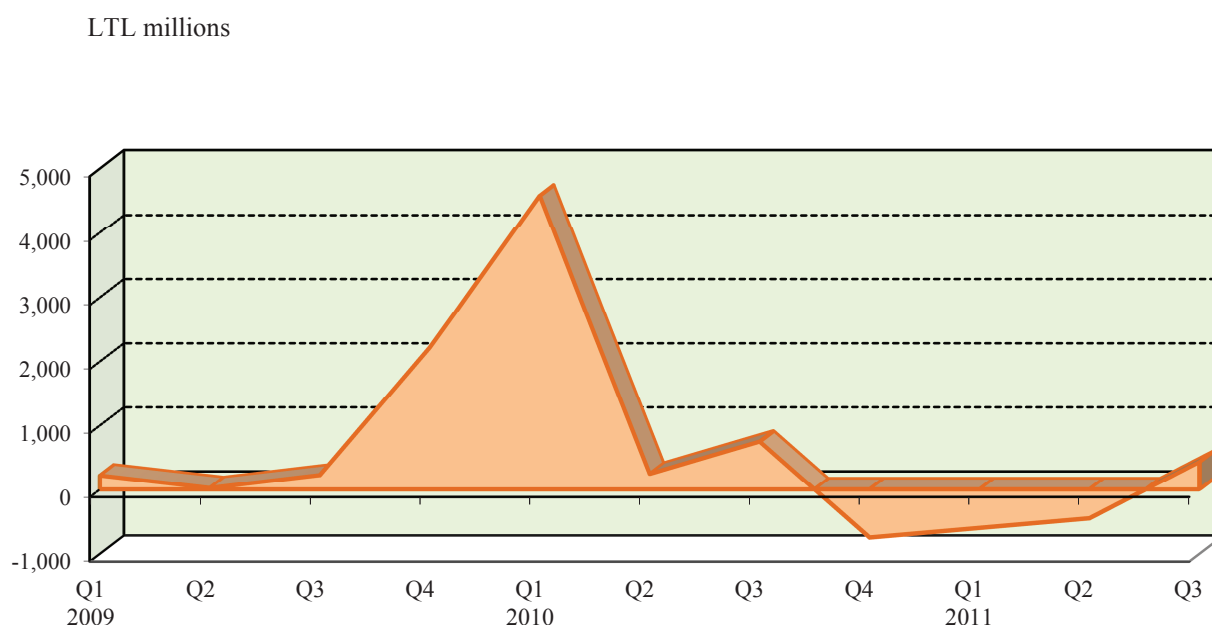
## FDI flows



According to the data as of 30 September 2011, the accrued FDI in Lithuania made up LTL 37.1 billion (EUR 10.7 billion) or LTL 11,557 (EUR 3,347) per capita.

**Portfolio investment.** Net inflow of this type of investments to Lithuania in Q3 2011 amounted to LTL 429.6 million, but an outflow of LTL 622.6 million of portfolio investments from Lithuania was registered in three quarters this year. In three quarters of 2010, net inflow of this type of investments was observed and made up LTL 5.6 billion. The outflow of portfolio investments in three quarters of 2011 was the result of investments into equity securities of non-residents.

## Net flow of portfolio investment



Net outflow of **other investment and financial derivatives** from Lithuania was LTL 1.3 billion in Q3 2011 and LTL 2 billion in three quarters of the same year (in 2010, three-quarter net outflow was LTL 8.1 billion). The outflow of this type of investments in three quarters of 2011 was driven by an increase in investments abroad by MFIs and other sectors, and trade credit of non-residents.

**Official reserve assets.** Negative flow of official reserve assets (of LTL –1.6 billion) in Q3 2011 on the balance of payments signals of their increase. The growth of official reserve assets was also observed in three quarters with their flow reaching LTL –1.4 billion. At the end of Q3 2011, official reserve assets made up LTL 18.7 billion (EUR 5.4 billion) while the good and service import coverage by official reserve assets was 2.7 months at the end of Q3 2011 (3 months at the end of 2010).

**International investment position.** On 30 September 2011, the country's total accrued foreign financial assets equaled to LTL 56 billion and the country's total accrued international financial liabilities amounted to LTL 108.7 billion. Negative international investment position showed LTL 52.7 billion, which means that Lithuania was a debtor vis-à-vis the rest of the world.

In Q3 2011, the country's external assets went up by LTL 1.7 billion or 3.1%, while its international financial liabilities declined by LTL 636.5 million or 0.6%. External assets grew mainly as a result of an increase in official reserve assets, and liabilities declined as a result of a decrease in portfolio investments and other investment liabilities.

**Composition of the international investment position of the Republic of Lithuania**  
(in percentage)

	31-10-2010	30-09-2011
<b>Assets</b>	100.0	100.0
Direct investment	10.1	9.8
Portfolio investment	22.4	21.9
Financial derivatives	0.7	0.5
Other investment	33.6	34.4
Official reserve assets	33.2	33.4
<b>Liabilities</b>	100.0	100.0
Direct investment	33.3	34.1
Portfolio investment	24.1	24.2
Financial derivatives	0.4	0.3
Other investment	42.2	41.4

In Q3 2011, Lithuania's gross external debt went down by LTL 573.3 million or 0.7%, however, an increase of LTL 2.2 billion or 2.6% since the beginning of the year. At the end of September 2011, gross external debt was LTL 85.3 billion accounting for 82.9% of GDP (at the end of 2010, the debt-to-GDP ratio made up 87.4%). At the end of Q3 2011, the contribution of the government sector to the country's gross external debt made up 33.9% (33.8 % at the end of 2010), the contribution of the MFIs sector made up 34.1% (36.1% at the end of 2010), debt of other sectors contributed 13% (13.2% at the end of 2010), while the contribution of direct investment liabilities (debts owned by domestic and foreign enterprises to each other) made up 17.8% (16.2% at the end of 2010). At the end of Q3 this year, the country's net external debt totaled LTL 37.4 billion accounting for 36.3% of GDP (at the end of 2010, it was LTL 37.4 billion or 39.4% of GDP).