

MINISTRY OF FINANCE OF THE REPUBLIC OF LITHUANIA

**STATE DEBT
OF THE REPUBLIC
OF LITHUANIA
2001**

Vilnius
2002

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This bulletin about the state debt is an annual publication of the Ministry of Finance, which gives an overview of state debt developments over 2001, outlines economic and financial situation of the country, presents statistical and analytical data about domestic and external state debt.

Overview of the Lithuanian economy. The macroeconomic situation in Lithuania in 2001 has significantly improved in comparison to that in 2000. For the last two years, the growth of economy has been accelerating. By provisional data, the economic growth in 2001, having reached 5.9 per cent, has surpassed all economic expectations.

According to the Department of Statistics of the Republic of Lithuania, the annual inflation in 2001 was 1.3%.

The key driving force for the GDP growth in 2001 was export performance that has improved over the last two years. This was stimulated, among other factors, by a rapid recovery of the demand in major foreign trade partners of Lithuania–Latvia and Russia, and by export of oil products to Great Britain.

Preliminary data of the Department of Statistics of the Republic of Lithuania indicates that exports in 2001 amounted to LTL 18,332.0 mill.; imports – LTL 25,413.2 mill.; trade deficit stood at LTL 7,081.2 mill. Over the year, exports grew by LTL 3,094.5 mill. (20.3 %), imports grew by LTL 3,587.2 mill. (16.4 %).

The growth of imports was driven by the increasing domestic consumption, whereas the growth of exports – by increased volumes of exports to the European Union, Russia and Latvia.

According to the data of the Bank of Lithuania, international official reserves of Lithuania in December 2001 totalled USD 1,669.2 mill. Over 2001, the reserves have increased by USD 310.6 mill.

In 2001, the current account deficit stood at 4.8 per cent of the GDP. Compared to 2000, the current account deficit in 2001 was reduced by LTL 404.6 mill. (15%) and comprised LTL 2.29 bn. Principally, this reduction was the result of the reduction of foreign trade deficit.

A very important factor contributing to the macroeconomic stability of the country was the second Memorandum of Economic Policies signed in 2001 between the Government of the Republic of Lithuania and the International Monetary Fund. The Memorandum was signed with the aim to maintain the Currency Board Arrangement, to continue fiscal consolidation and to implement structural reforms. The general government fiscal deficit accounted for 2.7 per cent of the GDP in 2000, and by preliminary estimations for 2001, it fell to 1.9 per cent of the GDP.

As of 31 December 2001, foreign direct investments in Lithuania amounted to LTL 10,661.9 mill., which was LTL 3,062 per capita or 14.5 per cent more than in 2000.

Change of the Cabinet of the Government of the Republic of Lithuania in July did not have much impact either on the domestic capital market or the Government securities (hereinafter-GS) market. The average interest rate decreased by 290 basis points in comparison to that in 2000. The lowest official interest rate was 4.0 per cent (for 12-month treasury bills), whereas the highest one was 10.494 per cent (for 2-year bonds). In 2001, the maturity of Government securities denominated in Litas was being further increased. For the first time ever, 7-year bonds and 2-year saving notes were issued.

Commercial banks set their interest rates on loans on the basis of average interest rates on GS. At the end of last year, the average annual interest rate was 8.13 per cent on loans issued in Litas (11.89 per cent in 2000), and 5.66 per cent on loans in foreign currencies (10.62 per cent in 2000).

In 2001, the international rating agency "Fitch" upgraded Lithuania's ratings placed on long-term and short-term loans in foreign currencies (to BBB- and F3, respectively). The rating set by "Standard & Poor's" for long-term foreign loans remained BBB-, by "Moody's" – Ba1. Economic development outlook was assessed as stable.

II.

STATE DEBT AND ITS STRUCTURE

STATE DEBT OF THE
REPUBLIC OF LITHUANIA, 2001

As of 31 December 2001, the stock of state debt to domestic and foreign lenders amounted to LTL 12,903.7 million, and the total debt accounted for 26.9 per cent of the estimated GDP (LTL 47,968 million).

The state debt is classified into the direct debt, i.e. liabilities taken on behalf of the State, and contingent, i.e. liabilities guaranteed by the State. The direct and contingent debt is further divided into domestic, i.e. liabilities denominated in Litas, and foreign, i.e. liabilities denominated in foreign currencies.

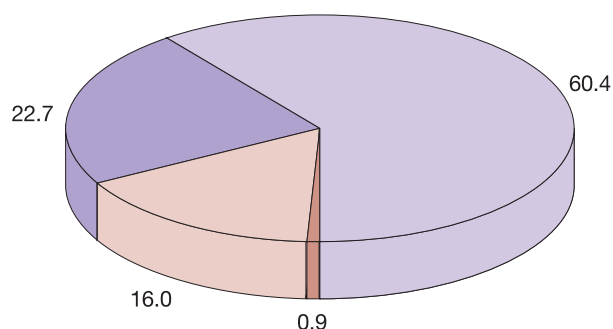
Direct liabilities (those taken on behalf of the State in Litas or foreign currencies) increased by LTL 182 million and amounted to LTL 10,723.8 million, of which: domestic debt – LTL 2,928.2 mill., or 22.7 per cent of the total debt, foreign debt – LTL 7,795.6 mill., or 60.4 per cent (Diagram 1).

Contingent liabilities (loans guaranteed by the State in Litas or foreign currencies) fell by LTL 3 million in 2001 and amounted to LTL 2,179.9 million, of which: domestic debt – LTL 119.2 mill., or 0.9 per cent of the total debt, foreign debt – LTL 2,060.7 mill., or 16.0 per cent of the total debt.

Structure of State Debt as of 31.12.2001, in per cent

Diagram 1

Direct debt: domestic foreign
Contingent debt: domestic foreign



Direct domestic debt (liabilities denominated in Litas) as of end-2001 amounted to LTL 2,928.2 million or 22.7 per cent of the total state debt. The structure of the domestic state debt was as follows: Government securities – LTL 2,656.5 mill., state debt assumed under laws of the Republic of Lithuania – LTL 213.9 mill., and debt to the stock company Bank “Hansa-LTB” – LTL 57.8 mill. (Diagram 2).

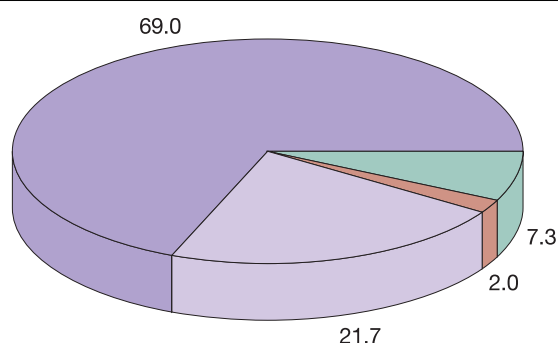
In 2001, the State issued the following debt in Litas-denominated GS: T-bills in the amount of LTL 727.9 mill., saving notes in the amount of LTL 166.8 mill., and bonds in the amount of LTL 680 mill. Over the same period, redemption of T-bills was LTL 1,094.5 mill., saving notes LTL 123.7 mill., bonds and special purpose GS – LTL 183 mill.

As of end-year, the stock of short-term GS (T-bills and saving notes) was LTL 634.7 million or 21.7 per cent of the total direct domestic debt; long-term liabilities (saving notes, bonds, loans and other) – LTL 2,293.5 million or 78.3 per cent of the total direct domestic debt.

Direct Domestic Debt by Instrument as of 31.12.2001, in per cent

Diagram 2

Long-term GS Short-term GS Debt to Hansa-LTB AB
State debt assumed by laws of Lithuania



Direct foreign debt (government liabilities denominated in foreign currencies) grew in 2001 only by LTL 15.8 million (Diagram 1), and as of 31 December 2001 was LTL 7,795.6 million or 60.4 per cent of the total state debt.

As of end-year, all direct liabilities of the State in foreign currencies were long-term.

In 2001, the State borrowing in foreign currencies reached nearly LTL 902 million, and LTL 616.5 million was repaid to foreign lenders. Bonds and long-term loans were main borrowing instruments used in 2001 to borrow in external markets and from foreign banks: the State borrowed LTL 705.4 million by issuing bonds and LTL 196.6 million by contracting long-term loans from international development organisations and foreign governments.

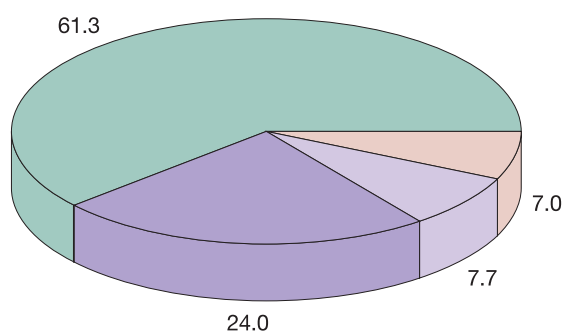
Over the year, the State redeemed externally issued GS in the amount of LTL 70.5 mill., repaid loans to the International Monetary Fund in the amount of LTL 134.2 mill., to the Swedish credit institution AB Svensk Exportkredit – LTL 114 mill., to the Austrian Bank Raiffeisen Zentralbank Oesterreich – LTL 112 mill., and to other international organisations and commercial lenders – LTL 185.8 mill.

As of end-year, the State was indebted in foreign currencies: to foreign commercial banks and financial institutions – LTL 4,777 mill.; to foreign governments – LTL 546.1 mill., to the World Bank and the European Bank for Reconstruction and Development, to the European Investment Bank and the Nordic Investment Bank and other banks – LTL 1,868.7 mill.; to the International Monetary Fund – LTL 603.8 mill. (Diagram 3).

Direct Foreign Debt by Lender as of 31.12.2001, in per cent

Diagram 3

Supranationals IMF Bilateral official Other



Contingent domestic debt (government guarantees extended in Litas) as of end-December 2001 amounted to LTL 119.2 million or 0.9 per cent of the total debt. Over the year, it increased by LTL 53.8 million.

Outstanding short-term loans amounted to LTL 32.6 million or 27.4 per cent of the total contingent domestic debt.

As of end-December 2001, borrowers that had procured government guarantees in Litas were indebted: to Lithuanian commercial banks – LTL 115.4 mill., to other lenders – LTL 3.8 mill.

Contingent foreign debt (government guarantees extended in foreign currencies) as of 31 December 2001 reached LTL 2,060.7 million or 16 per cent of the total state debt. The short-term debt was LTL 137.2 million, or 6.7 per cent of the total liabilities in foreign currencies secured by government guarantees; long-term debt – LTL 1,923.5 million, or 93.3 per cent of the total liabilities in foreign currencies secured by government guarantees.

Over the year, the State extended new guarantees on loans in foreign currencies in the amount of LTL 265.8 million, the largest of which were loans taken by Lithuanian Railway Company in the amount of LTL 223.8 million.

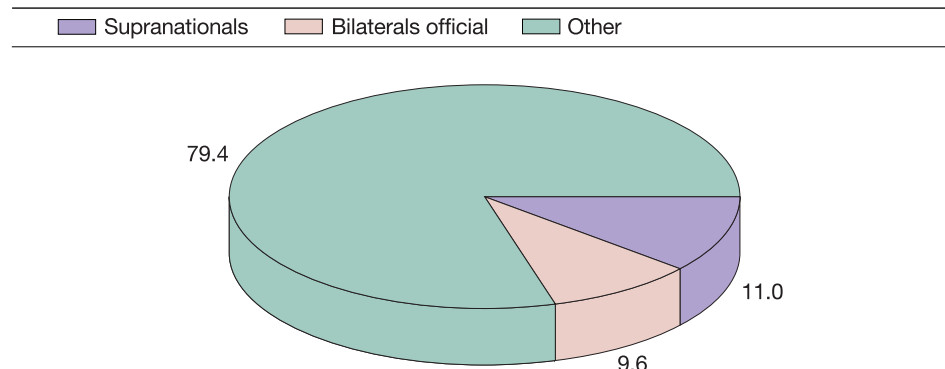
In 2001, repayment to creditors of government guaranteed loans in foreign currencies was about LTL 324.4 million, of which LTL 22.1 mill. – short-term loans, LTL 17.9 mill. – to international organisations, and LTL 37.4 mill. – to foreign governments.

Enforcement of government guarantees in favour of the borrowers facing financial difficulties resulted in the repayment of loans and payment of interest to foreign creditors in the amount of LTL 88.5 million out of LTL 133 million allocated in the State budget for defaulted loans.

As of end-year, the borrowers that had procured government guarantees on loans in foreign currencies were indebted: to foreign commercial banks, companies and financial institutions – LTL 1,309.3 mill.; to Lithuanian commercial banks – LTL 326.8 mill.; to foreign governments – LTL 196.9 mill.; to the European Bank for Reconstruction and Development – LTL 87.2 mill., to the European Investment Bank – LTL 60.7 mill.; to the World Bank – LTL 57.5 mill., and to other international financial institutions – LTL 22.3 mill. (Diagram 4).

Contingent Foreign Debt by Lender as of 31.12.2001, in per cent

Diagram 4



3.1. Government borrowing in money and capital markets

Government borrowing in money and capital markets includes issuance of Government securities of the Republic of Lithuania in domestic and foreign markets and borrowing from foreign commercial banks.

The key debt instrument used by the Government of the Republic of Lithuania is issuance of Government securities. Debt in issued GS accounts for 54.8 per cent of the state debt (see www.finmin.lt // state debt).

Securities of the Government of the Republic of Lithuania refer to the liabilities of the Government of the Republic of Lithuania issued in series on behalf of the Republic of Lithuania, confirming rights and obligations defined in the Issuance Terms and Conditions, and used as a means of borrowing to finance the needs stipulated in the laws, and able to serve as an item of secondary circulation of securities, unless otherwise provided for in the Issuance Terms and Conditions.

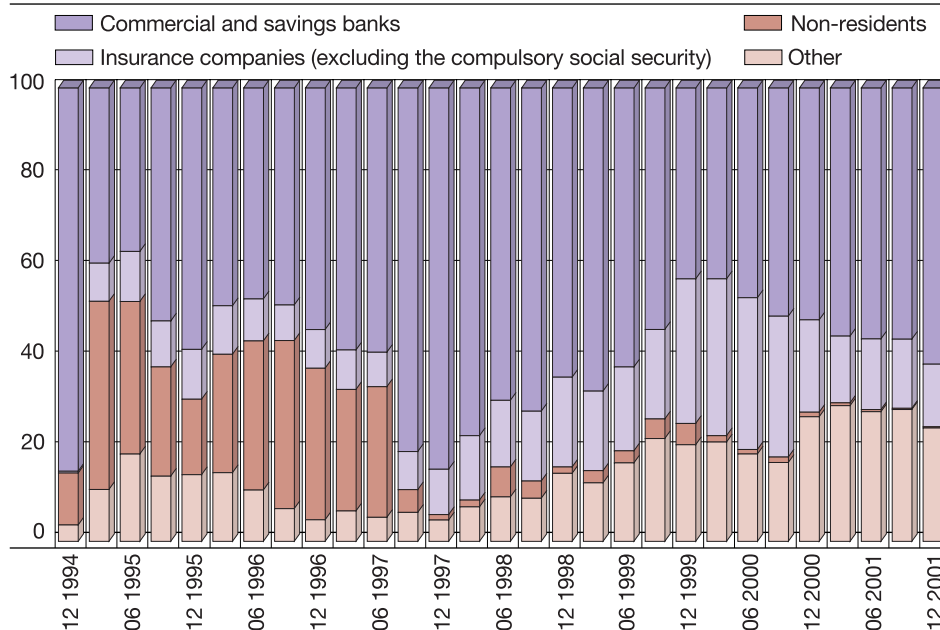
Government securities issued in Lithuania. The following types of GS are issued in Lithuania: State treasury bills of the Republic of Lithuania, i.e. GS with the original maturity of up to one year; bonds of the Government of the Republic of Lithuania, i.e. GS with the original maturity of more than one year; and saving notes of the Government of the Republic of Lithuania, i.e. GS issued through the network of commercial banks and financial brokerage companies and offered for sale in the primary market only to natural persons. In addition to the aforementioned GS, there are also GS issued for special purposes: for restructuring of banks, for settlements with creditors (natural persons) of the joint stock company "Lietuvos Akcinis Inovacinis Bankas" and for settlements with creditors (legal persons and enterprises without the status of a legal person) of the joint stock company "Lietuvos Akcinis Inovacinis Bankas".

As of end-2001, the stock of state debt in GS issued in Lithuania, including GS issued under special laws and saving notes, amounted to LTL 2,556.5 million, of which debt in auctioned GS totalled LTL 1,719.1 mill., debt in saving notes – LTL 173.8 mill., debt in special purpose GS – LTL 663.7 mill. The share of the state debt in Litas-denominated GS grew by LTL 173.5 million, compared to 2000.

The structure of investors in GS issued in Lithuania has not changed significantly over 2001 in comparison with that of 2000. As of end-2001, due to lower yield of GS, the share in GS purchased by foreign investors fell from 1 per cent of all circulating GS (excluding special purpose GS) in 2000 to 0.3 per cent in 2001. As of end-2000, the key foreign investors into GS issued in Lithuania were commercial banks of Poland (LTL 8 mill.), Latvia (LTL 3 mill.) and Estonia (LTL 2 mill.), whereas as of end-2001, the key foreign investors were commercial banks of Latvia (LTL 3.5 mill.) and natural persons of the USA (LTL 1.2 mill.). Among local investors, the major part of the circulating GS, like in previous years, were owned by commercial and savings banks and insurance companies. The share of GS owned by commercial and savings banks went up from 51.2 per cent in 2000 to 60.9 per cent in 2001, whereas the share held by insurance companies fell from 20.4 to 13.8 per cent (see Diagram 5).

Holders of Litas Denominated Government Securities

Diagram 5



Government securities issued by auction. The major portion of GS issued in Litas is comprised of securities sold by auction – **State Treasury bills of the Republic of Lithuania and Government bonds of the Republic of Lithuania.** GS auctions are organised by the Bank of Lithuania in accordance with the agreement concluded by the Bank of Lithuania and the Ministry of Finance of the Republic of Lithuania, as well as Regulations of Securities Auctions approved by the Bank of Lithuania. Since October 1, 1999, auctions have been open only to those Lithuanian and foreign commercial banks and brokerage companies, which have entered with the Bank of Lithuania into Auction Participant’s Agreement and which meet the requirements applied by the Bank of Lithuania to auction participants, namely: auction participants must acquire at least 1 per cent of the total GS sold by auction during the respective quarter and announce the yield rate for buying and selling of the most recent GS issue. The said requirements is the first step towards the introduction of primary dealers’ system in the GS market of Lithuania.

Due to a lower borrowing demand and in order to expand the volume of GS issues and to reduce the number of outstanding GS issues, from mid- 2001 GS auctions are held once a week, on Mondays. The payment date for the newly sold securities is T + 3 and usually coincides with the day of redemption of the previous issue GS. Notices about GS issues and preliminary schedules of quarterly issues are published by the Ministry of Finance in advance in the official bulletin “Informaciniai pranešimai”.

All GS denominated in Litas are issued in a book-entry form. The title to the securities is evidenced by relevant records in personal securities accounts. Lithuanian GS acquired in the primary market are exempt from corporate profit, personal income or value added taxes.

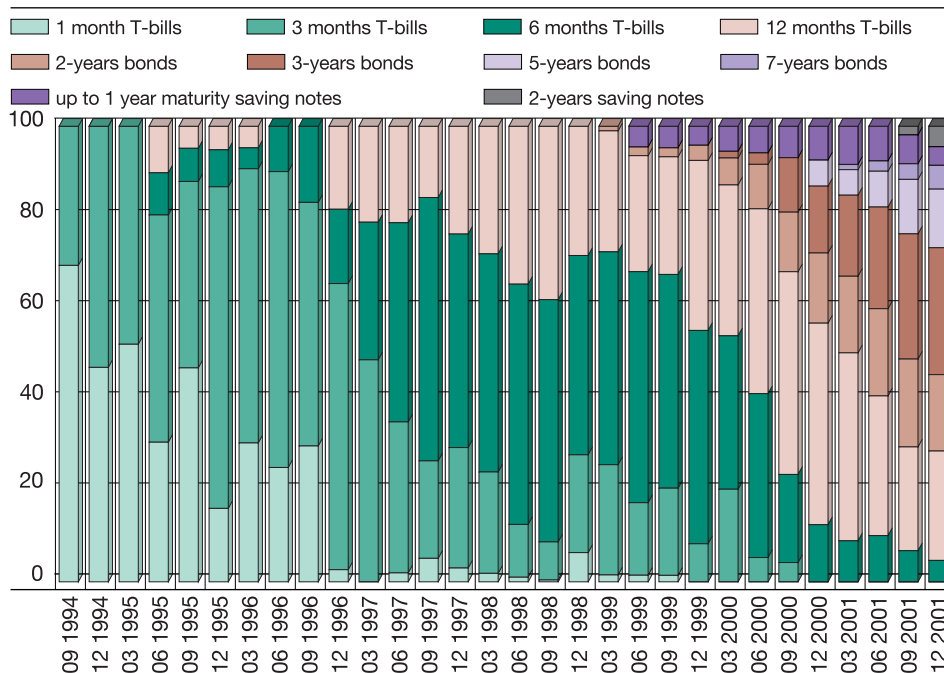
In 2001, the Ministry of Finance launched 51 GS auctions, including: 5 auctions for seven-year maturity bonds (including 3 – replenishment of the previous issue), 7 – for five-year maturity bonds (including 5 – replenishment of the previous issue), 14 – for three-year maturity bonds (including 10 – replenishment of the previous issue), 5 – for two-year maturity bonds (including

3 – replenishment of the previous issue), 12 auctions for one-year maturity treasury bills (including 5 – replenishment of the previous issue) and 8 auctions for six-month maturity treasury bills.

In 2001, 5-year and 7-year bonds were issued in the domestic market for the first time ever. The first auction for 5-year bonds in the domestic market (held on 28 May 2001) was successful – the demand 2.5 times exceeded the volume offered by the Ministry of Finance. The highest average annual interest rate on 5-year bonds was recorded at the first auction and reached 7.951 per cent; after which it was gradually decreasing to reach the bottom at the last auction for 5-year bonds, i.e. 6.139 per cent. In 2001, the demand for 5-year bonds sold by auctions exceeded the supply 1.9 times on the average. On 12 March 2001, 7-year bonds were auctioned for the first time and with great success – the demand was as much as 4.3 times higher than the supply offered by the Ministry of Finance. The highest average annual interest rate on 7-year bonds was reached at the first auction, i.e. 8.699 per cent; then it gradually went down to the lowest level, i.e. 6.277 per cent. Over the year, the demand for 7-year bonds exceeded the supply 2.4 times on the average.

The stock of state debt in GS sold by auction increased from LTL 1,447.2 million in 2000 to LTL 1719.1 million in 2001 and accounted for 67.2 per cent of the total GS issued in Lithuania. As of end-2001, 3-year bonds accounted for the largest share of the nominal value of GS auctioned and pending redemption, i.e. LTL 562.55 million (or 32.2 per cent). The share at the nominal value of any maturity GS denominated in Litas and pending redemption was LTL 1,166.35 million (66.8 per cent), the remaining 33.2 per cent (LTL 580 mill.) being T-bills (see Diagram 6).

Distribution of Litas Denominated Government Securities by Maturity *Diagram 6*



The weighted average annual interest rate on GS fell from 9.36 per cent in 2000 to 6.46 per cent in 2001, which is 446 bps higher than the average annual inflation rate (see Table 1). The weighted average annual interest rate on saving notes fell from 9.85 per cent in 2000 to 6.89 per cent in 2001, T-bills – from

8.85 to 5.67 per cent, bonds – from 10.99 to 7.24 per cent. The lowest interest rate at auctions was that on 12-month T-bills, i.e. 4 per cent (recorded at the auction of 1 October 2001), and highest – on 2-year bonds, i.e. 10.494 per cent (recorded at the auction of 15 January 2001). Lower borrowing costs reflect larger surplus of free resources in the domestic market and better investing possibilities due to developments in the Lithuanian economy as well as due to lower level of Government borrowing in comparison to that in 2000.

**Average yields (%) of Litai denominated
Government securities issued in market in 1994–2001**

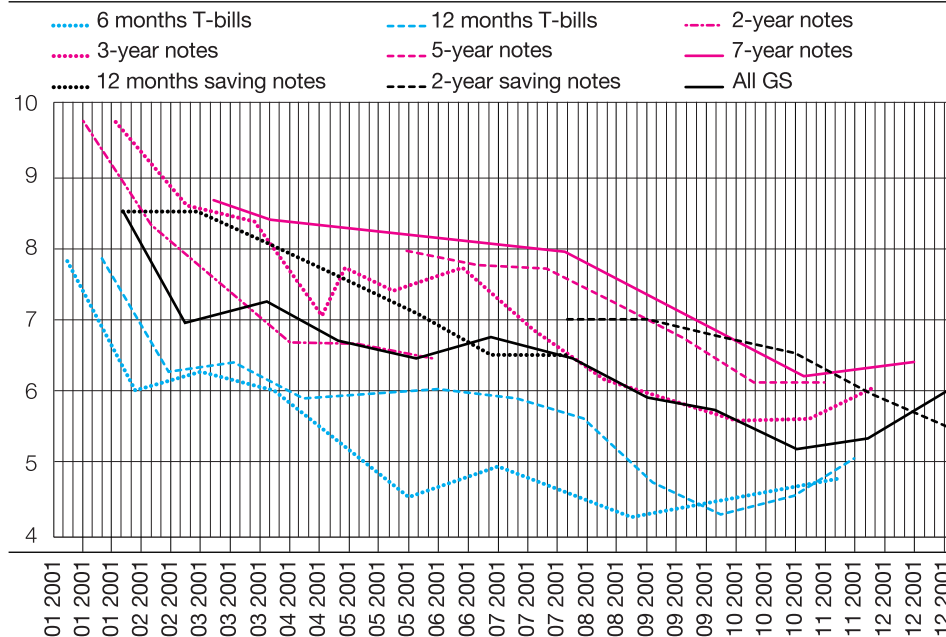
Table 1

Period	Treasury bills					Bonds					T-bills and bonds	Saving notes			All GS
	up to 1 month	3 months	6 months	12 months	All T-bills	2 years	3 years	5 years	7 years	All bonds		up to 1 year	2 years	All saving not	
1994, average	11.26	21.25	-	-	20.38						20.38				20.38
1995, average	27.55	26.09	27.22	20.15	26.65						26.65				26.65
1996, average	20.64	20.02	15.81	20.13	19.80						19.8				19.80
1997, average	6.83	8.79	9.20	9.25	8.90						8.90				8.90
1998, average	8.78	10.70	11.28	12.29	11.00						11.00				11.00
1999, average	8.12	10.33	12.25	13.65	11.40	13.73				13.73	11.43	10.45		10.45	11.39
2000, average	-	7.49	8.54	9.90	8.85	11.13	11.07	10.5		10.99	9.34	9.85		9.85	9.36
2001															
January			7.79	7.79	7.79	9.78	9.77	-	-	9.77	8.48	8.50		8.50	8.48
February			5.99	6.21	6.10	8.32	8.56	-	-	8.44	6.88	8.50		8.50	7.00
March			6.25	6.32	6.28	-	8.45	-	8.70	8.57	7.14	8.08		8.08	7.25
Quarter I			6.73	6.89	6.81	9.19	8.92	-	8.70	8.99	7.58	8.32		8.32	7.64
April			5.99	5.84	5.90	6.69	7.13	-	8.46	7.43	6.61	7.61		7.61	6.72
May			4.50	5.93	5.31	6.67	7.62	7.95	-	7.46	6.46	7.06		7.06	6.50
June			-	5.96	5.96	6.47	7.76	7.75	-	7.33	6.78	6.50		6.50	6.76
Quarter II			5.24	5.91	5.69	6.61	7.53	7.85	8.46	7.41	6.59	7.21		7.21	6.64
July			4.93	5.83	5.45	-	7.35	7.72	7.99	7.69	6.48	6.50	7.00	6.75	6.51
August			4.24	5.54	4.98	-	6.89	7.26	-	7.10	5.81	-	7.00	7.00	5.96
September			-	4.69	4.69	-	6.00	6.75	-	6.27	5.69	-	6.79	6.79	5.79
Quarter III			4.59	5.35	5.10	-	6.53	7.21	7.99	6.97	6.02	6.50	6.93	6.86	6.11
October			-	4.37	4.37	-	5.67	6.14	6.28	6.01	5.16	-	6.50	6.50	5.25
November			4.61	5.00	4.82	-	5.67	6.14	-	5.88	5.27	-	5.97	5.97	5.38
December			-	-	-	-	6.11	-	6.47	6.29	6.29	-	5.50	5.50	6.00
Quarter IV			4.61	4.57	4.58	-	5.78	6.14	6.36	6.03	5.34	-	5.88	5.88	5.42
2001, average			5.67	5.67	5.67	7.78	7.07	7.04	7.52	7.24	6.41	7.65	6.27	6.89	6.46

Average maturity of GS issued in Litai (by nominal maturity) and not redeemed as of end-2001 was 951 days, in comparison with 603 days of those not redeemed as of end-2000. The increase of this parameter was caused by, inter alia, introduction of 5-year and 7-year bond issues, by increase of the volume of 2-year and 3-year bond issues, and by reduction of the volume of T-bills pending redemption. It is expected that the upward tendency of medium-term Litai-denominated GS will be maintained throughout 2002, and 10-year bonds will start to be issued.

Average Yields of the Litas Denominated Government Securities Issued in Market in 2001

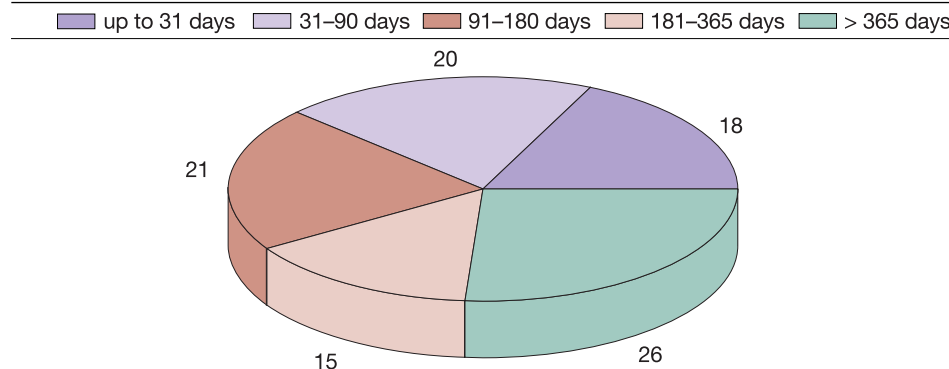
Chart 1



Secondary trading of GS sold in auctions may be accomplished inside and outside the National Stock Exchange following the rules set by the latter. In 2001, the secondary market of GS in the National Stock Exchange was LTL 1,001.13 million, while in 2000 – LTL 929.99 million (see Diagram 7).

Secondary market of GS data, 2001, in per cent

Diagram 7



Saving notes. In 2001, issuance of saving notes, which were first launched in April 1999, was continued. Saving notes are offered only to natural persons and provide an opportunity to invest a smaller amount than in case of securities sold in auctions. Besides, they can be redeemed before their final maturity date. Saving notes are offered for sale in commercial banks and brokerage companies.

In 2001, 2-year saving notes were issued for the first time ever. Over January – December 2001, another 7 issues of 12-month saving notes and 3 issues of 2-year saving notes were successfully completed. Throughout 2001, 12-month saving notes at the nominal value of LTL 74.96 million and 2-year saving notes at the nominal value of LTL 91.86 million were sold. Since the introduction of the saving notes, the total issue thereof reached LTL 434.96 million at the nominal value. Stock of debt in saving notes as of end-2001 accounted for 6.8 per cent

of the total value of Litas-denominated GS issued in Lithuania and pending redemption. In 2001, LTL 123.9 million of saving notes were redeemed, of which LTL 4.1 million (3.3 per cent) were redeemed prior to the maturity date.

Government securities issued for special purposes. The stock of state debt in GS issued for restructuring of banks and settlements with creditors of the joint stock company “Lietuvos Akcinis Inovacinis Bankas” under liquidation, decreased from LTL 805.2 million in 2000 to LTL 663.7 million in the end of 2001 and accounted for 26 per cent of all GS issued in Lithuania. Nominal value of GS for restructuring of banks totalled LTL 411.2 million as of end-2001, GS issued to settle accounts with creditors of the joint stock company “Lietuvos Akcinis Inovacinis Bankas”, i.e. legal persons and enterprises without the status of a legal person, totalled LTL 228.9 million, and GS issued to settle accounts with creditors of the joint stock company “Lietuvos Akcinis Inovacinis Bankas”, i.e. natural persons, totalled LTL 23.6 million. It should be pointed out that the first group of Government securities, i.e. those issued to settle accounts with creditors of the joint stock company “Lietuvos Akcinis Inovacinis Bankas” – legal persons and enterprises without the status of a legal person, may be publicly traded in the secondary market.

As of the end of 2001, the total nominal value of the outstanding GS issued in Lithuania was LTL 2583.81 million, of which GS for restructuring of banks and settlement of accounts with creditors of the liquidated bank “Lietuvos Akcinis Inovacinis Bankas” accounted for 25.7 per cent.

Borrowing in foreign capital markets. To issue Government securities in foreign capital markets in foreign currency, the Ministry of Finance contracts foreign investment banks. The main instrument for borrowing in foreign markets is eurobonds.

Government securities issued in foreign markets in 2001 were eurobonds. On 13 February 2001, the Ministry of Finance, with *Credit Suisse First Boston* and *ABN Amro* as agents, successfully issued 7-year eurobonds in the amount of EUR 200 million in international capital markets. These bonds bore a coupon of 6.625 per cent, and spread of 215 bps over the 7-year German Government securities. Bonds issued on February, 2000, bore a coupon of 7.75 per cent and spread of 281 bps over the 5-year German Government securities. The demand exceeded the supply 2.5 times, which manifested great interest of foreign investors in Lithuanian securities. The main foreign investors into the eurobonds issued in 2001, were Germany (46 per cent of the total investors), United Kingdom (12 per cent), Benelux countries' (10 per cent), Switzerland (9 per cent), Italy (6 per cent) and Austria (5 per cent). As to the type of investors, the most active were asset management companies (55 per cent of the total investors), banks and retail intermediaries (31 per cent), pension funds (8 per cent) and insurance companies (6 per cent).

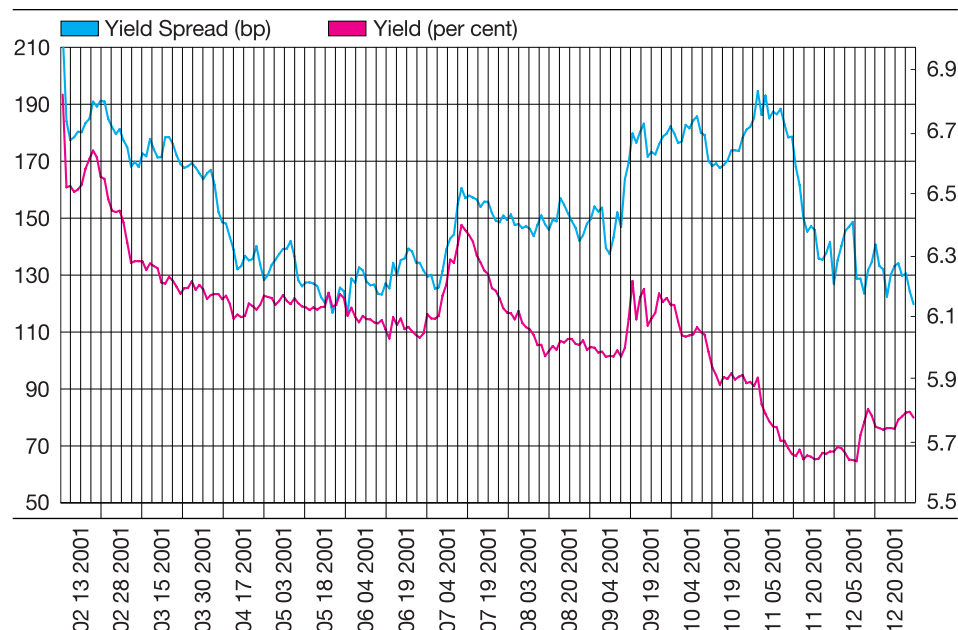
On 19 December 2001, the eurobond issue in the amount of EUR 20 million issued in 1999 was fully redeemed.

Eurobonds issued in foreign markets were listed in stock exchanges in Frankfurt and Luxembourg. Secondary market of these eurobonds is operating by the rules set by these stock exchanges.

Data on the secondary market of GS issued in foreign currency in 2001 is given in the Chart below.

**Yield and risk premiums for the 6.625% bonds of the Governments
of the Republic of Lithuania to be redeemed in 2008,
since the start of their distribution**

Chart 2



As of end-2001, the state debt in GS issued in foreign capital markets and loans taken in foreign capital markets accounted for LTL 4868.1 million; to compare with 2000, it increased by LTL 339.6 million. As of end-2001, the largest portion of liabilities was in EUR – 81.5 per cent, in USD – 16.4 per cent, and in LTL – 2.1 per cent.

As of end-2001, the state debt in GS issued in domestic and foreign markets totalled LTL 7071.9 million. If compared to 2000, the share of the state debt in GS issued domestically and in foreign markets increased by LTL 644.4 million.

3.2. Government borrowing from international financial institutions

The Republic of Lithuania is a member of several largest international financial organisations, such as the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB) and three institutions of the World Bank Group: the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Lithuania joined the World Bank Group in 1992. Lithuania holds 1,507 shares of the International Bank for Reconstruction and Development, 2,341 shares of the International Finance Corporation and 187 shares of the Multilateral Investment Guarantee Agency.

The International Bank for Reconstruction and Development is the largest lender to Lithuania among international financial organisations. Since 1992, the Bank has extended loans to Lithuania in the amount of USD 404.4 mill., of which USD 32.9 mill. has been repaid. The first import rehabilitation facility of USD 58.8 mill. was granted to support the Government of the Republic of Lithuania in the period of transition to market economy and was used to finance health, energy and agriculture sectors. Moreover, the International Bank for Reconstruction and Development has extended a number of loans for projects

in environmental, energy, financial, social and health-care sectors. These were the Power Rehabilitation Project (USD 26.4 mill.), Klaipėda Environment Project (USD 7.0 mill.), Šiauliai Environment Project (USD 6.2 mill.), Enterprise and Financial Sector Assistance Project (USD 25 mill.), Klaipėda Geothermal Demonstration Project (USD 5.9 mill.), Highway Maintenance Project (USD 19 mill.), Energy Efficiency / Housing Pilot Project (USD 10 mill.), Private Agriculture Development Project (USD 30 mill.), Social Policy and Community Social Services Development Project (USD 3.7 mill.), Municipal Development Project (EUR 18.89 mill.), and Health Project (USD 21.24 mill.). Preparation and implementation of the larger part of IBRD projects is usually co-financed with donor funds raised by the Bank. IBRD has also extended two Structural Adjustment Loans (USD 80 mill. and EUR 108.29 mill.) to support structural reforms carried out by the Government. The second Structural Adjustment Loan (EUR 108.29 mill.) was extended in 2000, with half of the funds disbursed in the same year. In 2001, no loans were extended by the IBRD.

Since 1992, the Republic of Lithuania has been a member of the International Monetary Fund. Upon accession to the IMF, Lithuania was allocated a quota of SDR 103.5 mill. In 1999, this quota was raised up to SDR 144.2 mill. The International Monetary Fund has provided Lithuania with three loan facilities, which were disbursed in tranches. The loans were extended under the following three programs: Stand-By Arrangement, Structural Transformation Facility and Extended Fund Arrangement. The first loan received in 1992 was aimed at currency stabilisation, the other two received in the period from 1993 to 1997 were used to implement the Government Stabilisation Program. No more loans have been taken from IMF since 1998, although IMF has been supporting the Government of the Republic of Lithuania with consultations in macroeconomic area and with technical assistance in such fields as market operations, monetary policy, banking supervision, national accounts and adjustment of the balance of payments.

Pursuant to the Memorandum of Economic Policy signed in July 2001 between the Government of the Republic of Lithuania, the Bank of Lithuania and the International Monetary Fund for the period from 1 July 2001 to 31 December 2002, and the Supplementary Memorandum of Economic Policy for the period from 1 December 2001 to 31 December 2002, a Stand-by Arrangement was concluded for the amount of SDR 86.5 mill. (USD 111 mill.). The idea of this arrangement is eligibility of Lithuania, in case of adverse economic developments, to borrow the specified amount from the International Monetary Fund. The key objectives of the Stand-by Arrangement are to achieve fiscal consolidation of the budget, maintain the currency board arrangement and support the structural reforms by the Government. The International Monetary Fund has provided loans in total of USD 311.6 mill. to Lithuania of which USD 160.7 mill. has been repaid. As of end-2001, our debt to the IMF amounted to USD 150.9 mill.

Lithuania is also a holder of 2000 shares of the European Bank for Reconstruction and Development. Since 1992, the EBRD has extended loans to Lithuania in the total amount of USD 79.2 mill., of which USD 34.8 mill. has been repaid. The first EBRD loan of USD 18 mill. and DEM 42.42 mill. was extended to support the energy sector in the period of transition to market economy. Moreover, the EBRD has financed the Transport Project (USD 18.9 mill.), the Via Baltica and Roads Project (USD 23.2 mill.). In 2001, no loans from EBRD have been received.

In addition to the above-mentioned international financial institutions, the Republic of Lithuania has received a number loans from the European Investment Bank, the Nordic Investment Bank and the Council of Europe Development Bank.

Since 1994, the European Investment Bank (EIB) has extended loans to Lithuania in the amount of USD 136.7 mill., of which USD 6 mill. has been repaid. The Bank mostly invested into transport and telecommunications, energy, industry and environmental sectors. Loans were designated for reconstruction of Vilnius Airport (EUR 10 mill.), reconstruction of Klaipėda Port Embankment (EUR 14 mill.), extension of the gas-supply network of the Lithuanian Gas Company (EUR 10 mill.) and to finance Via Baltica and Roads Project (EUR 20 mill.), Lithuanian Railway Project (EUR 40 mill.), Gravel Roads Project (EUR 40 mill.), investment projects under the Municipal Development Programme (EUR 15 mill.) and Project for Reconstruction of Wastewater Treatment Plant in Panevėžys (EUR 6 mill.).

The Nordic Investment Bank (NIB) together with the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development and the European Investment Bank jointly financed the Via Baltica and Roads Project (USD 6.7 mill.). In addition, the Nordic Investment Bank has extended a loan of EUR 20 mill. to finance investment projects under the Municipal Infrastructure Development Programme. Since 1996, the Nordic Investment Bank has extended loans to Lithuania amounting to USD 24.3 mill.

In 2001, no new loans were taken from the European Investment Bank and the Nordic Investment Bank.

Since 1997, the Council of Europe Development Bank has lent USD 6.5 mill. to finance the following social projects: Social Housing for Returning Deportees Project and Social Services Infrastructure Development Project.

As of end-2001, Lithuania's debt to international financial institutions, i.e. IMF, IBRD, EBRD, EIB, NIB, CEB and the European Union, totalled LTL 2.47 billion or 25.1 per cent of the total foreign debt. By end-2001, repayments to these international financial institutions totalled LTL 1,114.3 mill. of which LTL 224.3 mill. was repaid in 2001.

3.3. Issuance of government guarantees

Government provided guarantees to secure domestic and external loans extended for infrastructure investment projects of the national significance.

In 2001, the amount of government guaranteed foreign loans was reduced to LTL 425.26 mill. or by 61.54 per cent compared to LTL 691.08 mill. in 2000.

Over 2001, the State issued 4 guarantees in favour of the following international financial institutions and banks:

- the European Bank for Reconstruction and Development for the loan of USD 54 mill. to the Lithuanian Railway Company designated to finance the investment project for upgrading the IX railway corridor;
- Vilnius Unit of the Vereins-und Westbank AG for the loan of LTL 10 mill. (Euro equivalent) to Lithuanian Railway Company designated to finance reconstruction of Kena Border Post. The State assumed guarantee liabilities on 80 per cent of the loan i.e. only on EUR 2.22 mill.;

- the Nordic Investment Bank for the loan to Lithuanian Roads Administration designated to finance the Lithuanian Roads (Gravel) Project. The government guarantee covered only a part of the loan i.e. EUR 4.34 mill.;
- the European Investment Bank for the loan to Lithuanian Roads Administration designated to finance the Lithuanian Highway Project. The government guarantee covered EUR 7.81 mill.

By implementing tight fiscal policies, in the future the Government plans to reduce state borrowing volumes and the number of new government guarantees provided.

MAIN STATE DEBT TRENDS IN 2001

IV.

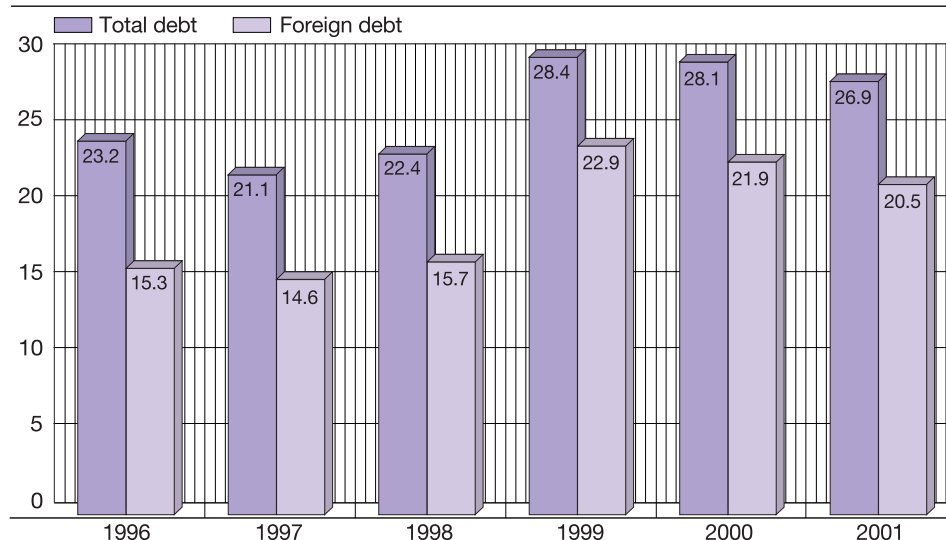
STATE DEBT OF THE
REPUBLIC OF LITHUANIA, 2001

The year 2001 can be described as the year of reduction of state borrowing volume and costs, and increase of debt maturity.

In 2001, pursuing tight fiscal policies, the Government **reduced the limit on net borrowing of the State down to LTL 1,400 million** (cf. LTL 1,600 mill. in 2000, and LTL 2,900 mill. in 1999) and was **further reducing borrowing volumes** – in 2001, the growth of the total state debt was LTL 179 million, or 3.7 times less than in 2000 (LTL 655.2 mill.) and 13.7 times less than in 1999 (LTL 2,455.8 mill.).

As of 31 December 2001, the State was indebted to local and foreign lenders in the amount of LTL 12,903.7 million. The stock of debt accounted for 26.9 per cent of the estimated GDP (LTL 47,968 mill.), and the foreign debt – 20.5 per cent (Diagram 8).

Total and Foreign Debt Relative to GDP in 1996–2001, in per cent *Diagram 8*



With the aim to reduce the debt management risk, **maturities of debt liabilities of the State were increased.**

As of end-year, all direct liabilities of the State in foreign currencies (bonds and loans) were long-term.

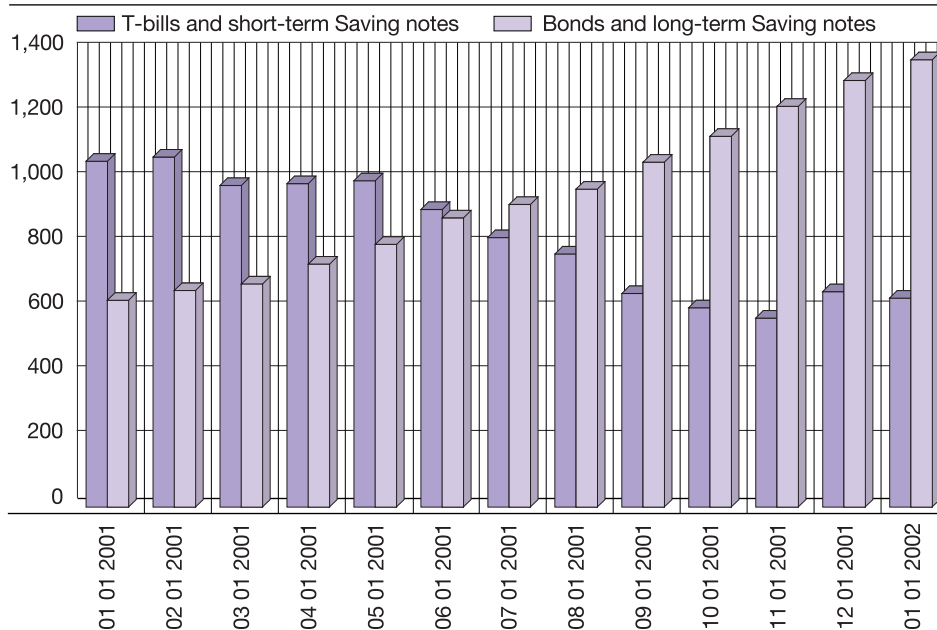
Contingent short-term liabilities of the State (government guarantees extended on loans) amounted to LTL 169.8 million, i.e. only 7.8 per cent of the total government guarantees.

All throughout 2001, the State was consistently increasing the volume of long-term Government securities – the State successfully proceeded with the first issue of two-year saving notes and five-year and seven-year bonds. Therefore, in the beginning of June already, the volumes of outstanding long-term and short-term GS almost evened up (LTL 903.2 mill. of long-term GS and LTL 877.8 mill. of short-term GS), after which the volume of long-term GS grew and as of end-year exceeded the volume of short-term GS almost two times (LTL 1,358.2 mill. of long-term GS and LTL 634.7 mill. of short-term GS) (Diagram 9).

Thus, the total long-term debt of the State as of end-2001 was LTL 12,099.2 million or 93.8 per cent of the total state debt, whereas the short-term debt (liabilities of up to one year) was LTL 804.5 million, i.e. fell to 6.2 per cent of the total state debt (Diagram 10). The major share of the short-term debt – 78.9 per cent – were short-term GS issued domestically in the amount of LTL 634.7 million.

Change of Balance of Outstanding GS in 2001, in LTL million

Diagram 9



With improvement of the situation in domestic financial markets, **borrowing externally was being gradually phased out by borrowing domestically.**

Over the year, the direct domestic debt grew by LTL 166.2 million, whereas the direct foreign debt grew only by LTL 15.8 million, i.e. 10.5 times less.

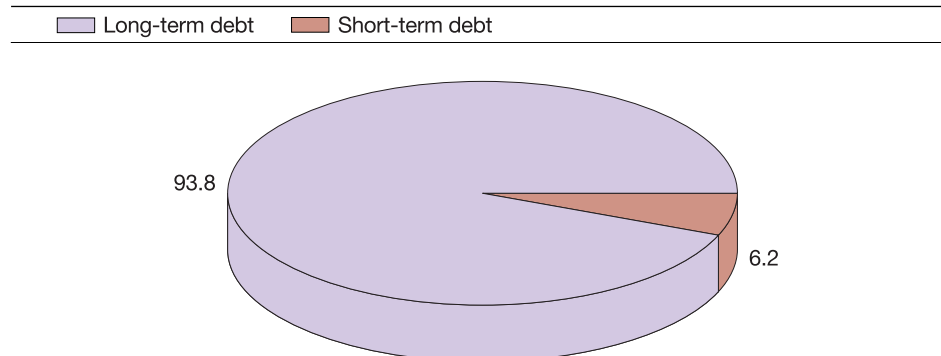
The total domestic debt of the State (including liabilities guaranteed by the State) amounted to LTL 3,047.5 million as of end-year, or 6.4 per cent of the estimated GDP.

The total foreign debt of the State (including liabilities guaranteed by the State) amounted to LTL 9,856.2 million as of end-2001, or 20.5 per cent of the estimated GDP.

In 2001, **borrowing costs were decreasing** – the weighted average of annual interest rate on Litas-denominated GS fell from 9.36 to 6.46 per cent, of which: weighted average on saving notes fell from 9.85 to 6.89 per cent, on T-bills – from 8.85 to 5.67 per cent, and on bonds – from 10.99 to 7.24 per cent.

Total State Debt by Maturity as of 31.12.2001, in per cent

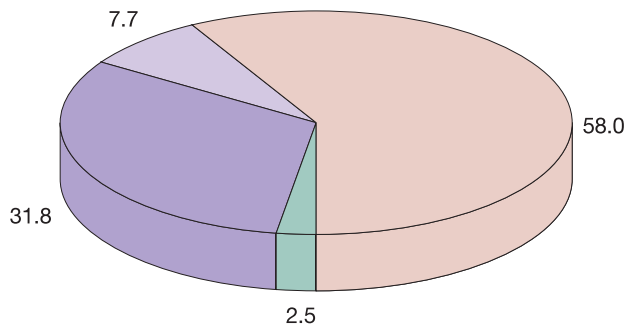
Diagram 10



To hedge debt against exchange rate fluctuations, the major share of funds borrowed externally in 2001, i.e. about LTL 833.8 million – were borrowed in Euros, which increased this share of debt (together with other Euro-zone currencies) up to 58 per cent of the total direct foreign debt (Diagram 11).

Direct Foreign Debt by Currency as of 31.12.2001, in per cent*Diagram 11*STATE DEBT OF THE
REPUBLIC OF LITHUANIA, 2001

USD SDR EUR Other currencies

**Adherence to State Borrowing Limits**

The Law on Approval of Financial Indicators of the State and Municipal Budgets for 2001 set a **limit on net borrowing of the State** (taken loans less repayments) in the amount of LTL 1,400 million. The actual net borrowing of the State in 2001 was LTL 503.8 million.

In 2001, debt indicators and limits set by the Government of the Republic of Lithuania were not exceeded (Table 2).

Debt Indicators and Limits as of 31 December 2001*Table 2*

Indicators	Figure set by Gov. RoL	Actual
Share of state foreign debt in the total debt, per cent	85.0	76.4
Share of government expenditure on interest on loans in the annual revenue of the State budget, per cent	15.0	10.9
Share of short-term debt in the total debt, per cent	25.0	6.2
Liabilities of the Agricultural Loans Guarantee Fund, in LTL mill.	230.0	170.8
Liabilities of the insurance company "Lithuanian Export and Import Insurance", in LTL mill.	20.0	12.6

In the beginning of 2002, the Government of the Republic of Lithuania approved the Medium-Term Government Borrowing Policy. Pursuant to the Borrowing Policy, the Government plans to direct its borrowing towards the domestic market, to increase maturity of Government securities (in 2002, it plans to issue 10-year bonds), and to boost liquidity of Government securities in the secondary market.

The Government also intends to gradually reduce its debt obligations in foreign currencies, and, with improvement of sovereign credit ratings and with reduction of borrowing costs, to seek that Government securities denominated in foreign currencies accounted for an increasingly larger share of the foreign debt.

The Medium-Term Borrowing Policy places a limit on debt as a percentage of GDP, i.e. as of 31 December 2004, the state debt should not exceed 30 per cent, and the state foreign debt – 25 per cent of GDP.

In the light of Lithuania's integration to EU and having re-pegged the Litas to the Euro in 2002, borrowing will be directed to the Euro market. As of end-2004, the stock of foreign debt in the Euro should account for at least 75 per cent of foreign debt contracted on behalf of the State.

The priority will be attached to borrowing at fixed interest rates with the view to reduce interest risks and subdue fluctuations of debt servicing costs.

Short-term state debt, i.e. commitments of the initial maturity of up to 1 year, should not exceed 25 per cent of the state debt.

The Law on Approval of Financial Indicators of the State and Municipal Budgets of 2002 places a limit of LTL 1,100 mill. on net borrowing of the State.