



Lithuania: Striving for the Euro Introduction in 2015

FEBRUARY 2014

The Euro - a Strategic Goal of Lithuania

Lithuania aims at sustainable fulfilment of the Maastricht criteria with a target date to adopt the euro on 1 January 2015.

Its commitment to join the euro area is enshrined in the EU Treaty; Lithuania has been participating and adhering to ERM II commitments since 2004.

Lithuania's prospective membership in the euro area serves as an anchor for prudent fiscal and economic policies that the country focuses on in building a balanced and competitive economy.

Enlargement of the euro area and recent reforms in EMU which Lithuania contributed to during the Presidency of the EU Council show the vitality of the euro project.

Sustainable Convergence

Lithuania has demonstrated its ability to deal with the impact of the global downturn without external assistance and has undergone a significant financial and economic adjustment in the recent years.

Currently, Lithuania fulfils the Maastricht criteria:

Fulfillment of Maastricht Criteria, December 2013		
	Lithuania	Reference value
Inflation	1.2%	1.8%
General government sector (2013):		
deficit	2.9%*	3.0%
debt	39.5%*	60.0%
Application of EDP	No	No
Exchange rate	3.45280 ± 15%	3.45280 ± 15%
Long-term interest rate	3.8%	5.4%

* Projections by the MoF of the Republic of Lithuania

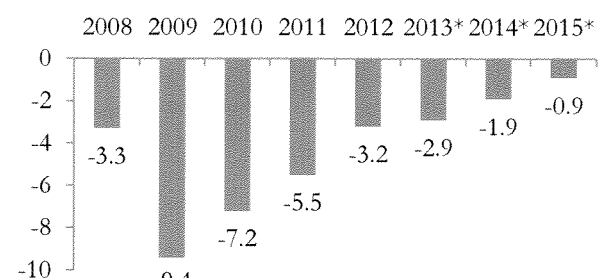
❖ Positive Debt and Deficit Dynamics

Prudent fiscal policy underpinned by the Law on Fiscal Discipline and the Stability and Growth Pact is at the core of Lithuania's policy framework to ensure macroeconomic stability. Over the past few years Lithuania has implemented substantial fiscal consolidation measures bringing the after-crisis general government deficit from 9.4% of GDP in 2009 to 3.2% of GDP in 2012.

The general government debt (estimated at 39.5% of GDP in 2013) is one of the lowest in the EU and is projected to decline in the medium term. During the last year two of the three main rating agencies increased the credit ratings outlook for Lithuania.

Lithuania continues to strengthen its fiscal framework *inter alia* through transposing the provisions of the Treaty on Stability, Coordination and Governance in EMU ("Fiscal Compact") into its national legal system.

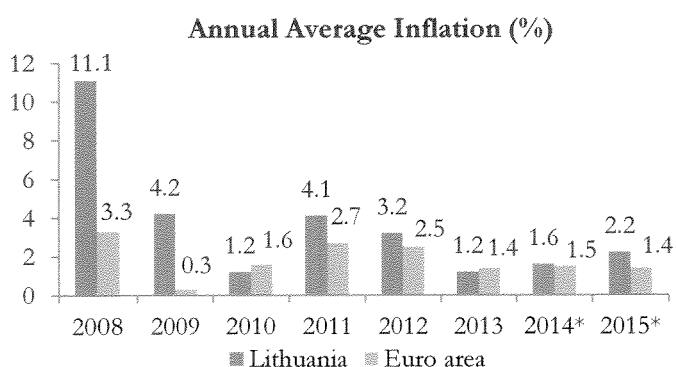
General Government Balance (% of GDP)



* Forecast by the MoF of the Republic of Lithuania

❖ Moderate Inflation Rate

The annual average inflation rate from the peak of 11.1% in 2008 fell sharply to 1.2% in 2013. It has further moderated and is projected to remain stable with domestic price pressures firmly contained.



Source: Eurostat, MoF of the Republic of Lithuania

❖ *Stable Exchange Rate*

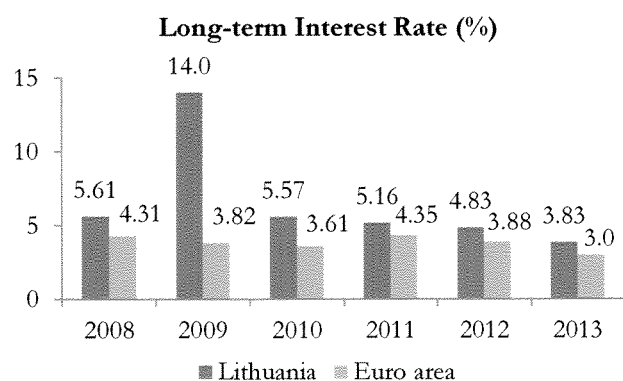
Lithuania pegged the national currency litas to the euro at a fixed 3.45280 litas per euro exchange rate on 2 February 2002 under the currency board arrangement. Lithuania has been part of ERM II since 28 June 2004.

❖ *Legal Convergence*

Aiming at full harmonization of national legislation with the requirements of EU law, the amendments to the Law on the Bank of Lithuania and the Law on National Audit Office have been adopted (by the absolute majority of votes of the members of the Seimas (Parliament) 103 out of 108 who participated in the meeting). As a result, Lithuania's national legislation is in line with the legal convergence requirements under TFEU, the Statute of the European System of Central Banks and of the European Central Bank.

❖ *Development of Long-Term Interest Rates*

Over the past few years the long-term interest rates in Lithuania have gone down (from 14.0% in 2009 to 3.83% in 2013) attesting to the increased investor confidence in Lithuania's fiscal policy and the stability of the financial market.



Source: Eurostat

Practical Preparations for Euro Adoption

The National Euro Changeover Plan and the Information and Communication Strategy were approved on 26 June 2013 and updated on 4 December 2013. On the same day the Government of the Republic of Lithuania approved the Action Plan for the Implementation of the National Euro Changeover Plan.

Broader Economic Outlook

- Since 2011 Lithuania has remained one of the fastest growing economies in the EU. In 2012 Lithuania's GDP rose by 3.7% (the third highest rate in the EU), while in 2013 the real GDP growth was 3.2%.
- Robust growth is underpinned by the healthy rebalancing, which took place in the recent years: improved competitiveness indicators, such as closed wage and productivity gap, allows for solid export performance, while the current account stays close to balance.

The improved economic situation manifests itself in the labour market. In 2013 the unemployment rate was 11.8% (by 1.6 percentage point lower than that in the previous year) and it is projected that it will continue to decline in the medium term.

The financial stability framework is robust (the banking sector is liquid and well capitalized), and steps have been taken to further strengthen macro-prudential policy, including those through adoption of responsible lending regulations.

Resilience and flexibility of the Lithuanian economy is underpinned by the structural reform agenda focusing on restructuring of the energy sector, reforms in the labour market that increase competitiveness and those in company law that bring improvements in the business climate.

- Improvement of the business environment has been recognised by international organisations. The Doing Business 2014 report, as compared to the same report for the year 2013, states that Lithuania improved its global ranking by 10 positions, and now Lithuania ranks 17th (Estonia 22nd and Latvia 24th).

COMPLIANCE OF LITHUANIA'S INDICATORS WITH MAASTRICHT CRITERIA

MINISTRY OF FINANCE

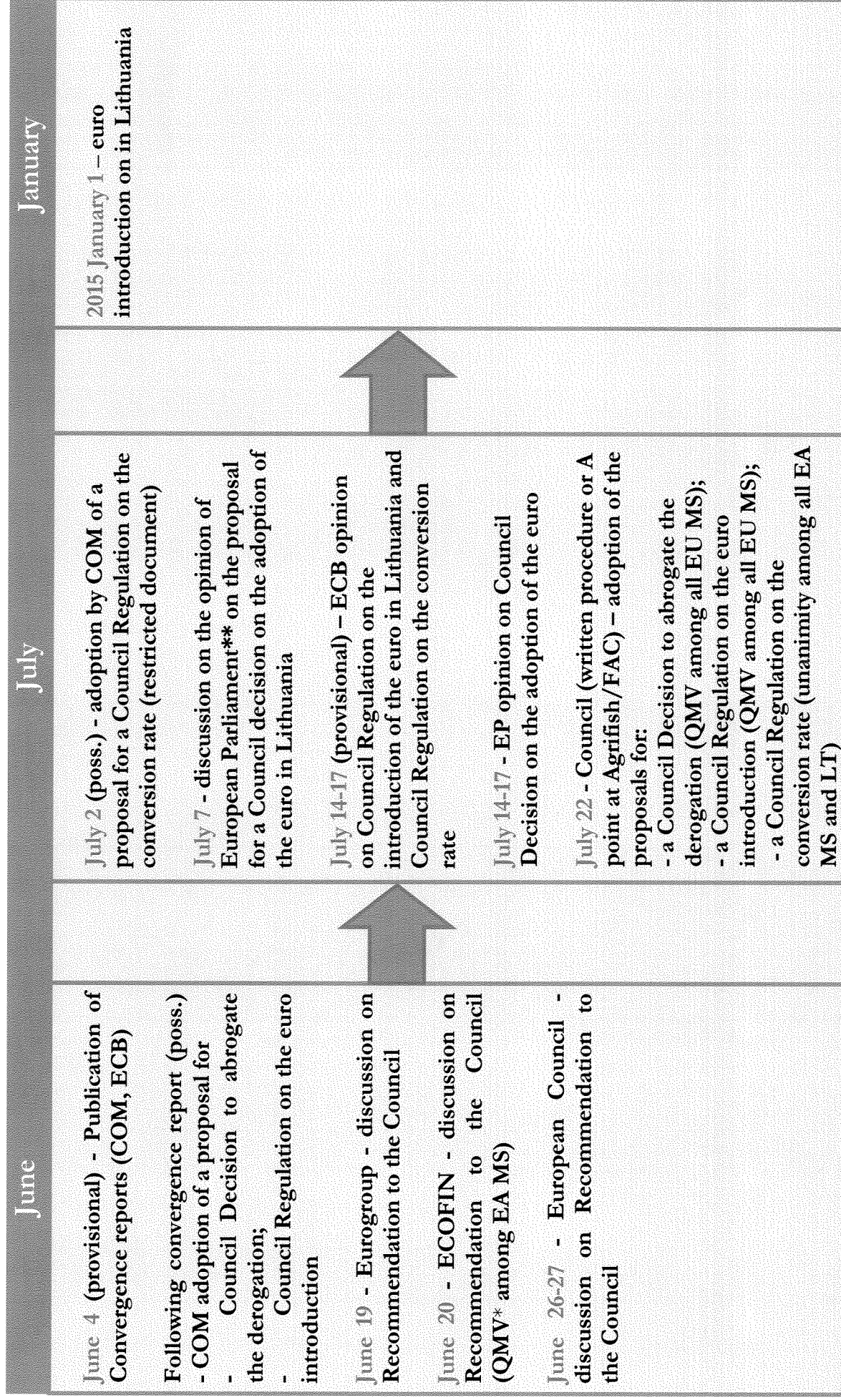
Fulfillment of the Maastricht Criteria, December 2013

	Lithuania	Reference value
Inflation	1.2%	1.8%
General sector's deficit 2012 (2013)*:	3.2% (2.9%)	3.0%
General sector's debt 2012 (2013)*:	40.5% (39.5%)	60.0%
Exchange rate	LTL 3.45280± 15%	LTL 3.45280 ± 15%
Long-term interest rate	3.8%	5.4%

* Projections by the MoF of Lithuania



The procedure for the adoption of the euro in Lithuania



*Qualified majority voting

**EP usually delivers its opinion on the Council decision on the adoption of the euro in June, however, due to EP elections, which will take place on May 22-25, 2014, in case of Lithuania the EP will only be able to deliver an opinion in July.

