

**COUNTRY PROFILE:****REPUBLIC OF LITHUANIA****DATED:****MAY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2C	No Restrictions

*Recent Political Highlights*

- ❑ Chief of state of the largest and most southern Baltic state since July 2004 has been President Valdas Adamkus. The president is elected by popular vote for a five-year term and is authorised to be elected for a second term.
- ❑ The next election is due in October 2008.

*Recent Economic Highlights*

- ❑ Lithuania has a population of 3.6m people with a population growth rate of -0.3% expected in 2008.
- ❑ The Economist forecasts GDP growth to slow to 5.8% in 2008 and 5.5% in 2009 from previous a forecast of 7.2% and 6.4% respectively. Growth in the first quarter of 2008 of 6.4% was lower than expected. Government anticipates GDP growth of 6.6% this year.
- ❑ Average inflation is expected to ascend to 8.8% in 2008 on the back of high global food and energy prices, but is expected to decrease to 5.2% in 2009 as oil prices retract. The high inflation means that the country is unlikely to join the euro zone before 2012 and there is risk of delay beyond this date, should inflation not ease.
- ❑ Relations with Russia have remained tense after Russia closed off the pipeline to Mazeikiiai oil refinery in July 2006. Lithuania is considering building a liquefied natural gas (LNG) terminal in the hope of reducing its energy dependence on Russia. Lithuania vetoed EU attempts to commence talks on a new Partnership and Cooperation Agreement with energy-rich Russia.
- ❑ While turmoil in the eurozone's financial sector is expected to drag on into 2009 (owing to the fallout from the collapse of the US high-risk, or subprime mortgage market), Lithuania's prime minister announced that his country is not experiencing any economic crisis. He says that economic expansion is strong and high inflation is not restricted to Lithuania, but is a global problem.
- ❑ The IMF warned Lithuanians that the dependence of the country's banking sector on foreign financing coupled with increasing macroeconomic imbalances render it vulnerable to regional and global disturbances. It urged Lithuania to strengthen supervision in the non-bank financial sector, given the rapid growth of assets and the increasing sophistication of financial institutions.
- ❑ Current account deficit was 13.7% of GDP in 2007 and is expected to remain high in 2008-09 at an annual average of 11.3% of GDP due to a rise in debt-servicing costs that drive up income expenses.

*Latest Trade Developments*

- ❑ Major exports: mineral products, textiles and clothing, machinery and equipment, chemicals, wood and wood products and food.
- ❑ Major imports: mineral products, machinery and equipment, transport equipment, chemicals, textiles and clothing and metals.
- ❑ Main agricultural products: grain, potatoes, sugar beets, flax, vegetables, beef, milk, eggs and fish.
- ❑ Main trading partners: Russia, Latvia, Germany, Estonia, Poland, Netherlands, Sweden, UK, US, Denmark and France.
- ❑ Main industries: metal-cutting machine tools, electric motors, television sets, refrigerators and freezers, petroleum refining, shipbuilding, furniture making, textiles, food processing, fertilizers, agricultural machinery, optical equipment, electronic components, computers and amber jewelry.
- ❑ The presidents of Poland and Lithuania symbolically opened the border between their states hours after the 2004 EU newcomers joined the Schengen zone.
- ❑ Lithuania's new ambassador to Tehran and the president of Islamic Republic of Iran Customs Administration (IRICA) called for promotion of bilateral customs and trade cooperation. Hashem Rahbari regretted the decrease in trade volume between the two countries in the past Iranian calendar year (ended March 19), and talked about Iran's policies in regard to the export of commodities. President Ahmadinejad pointed out that there were huge untapped economic potential in the two countries in the fields of tourism, industry, research, science and technology.
- ❑ South African exports to Lithuania totaled R57m in 2007 from R14m in 2006 and R3m in January 2008.