Statement by Ilkka Niemi
Date of Meeting: May 11, 1999

Lithuania: Country Assistance Strategy

On behalf of our Lithuanian authorities, I would like to express my gratitude to the World Bank staff for preparing the new Lithuania Country Assistance Strategy – a comprehensive and high quality document. We find the CAS not only a very important document for further development processes in Lithuania, but also a very useful tool for successful cooperation between the Republic of Lithuania and the World Bank Group.

Lithuania joined the World Bank Group soon after the declaration of its independence. Since then, the Bank has become the most important financial institution for the country. With the support of the Bank, Lithuanian authorities embarked on a broad economic reform program with the objective of putting the economy on a path of rapid and sustainable grow.

Now, Lithuania is in the process of completing and consolidating its transformation to a market economy. Lithuania is striving for progress and modernity; enhancing democracy; promoting social and economic development; and securing financial stability. In this context, the main priorities to be achieved by the Lithuanian Government are human development, macro financial stability and EU accession. All of these and other important areas are emphasized in the CAS. The World Bank remains an important financial institution in coordinating the achievement of these targets.

We very much welcome the support of the World Bank in implementing integrated policies for macroeconomic and financial stability. The implementation of the Structural Adjustment Loan was a big step towards achieving these targets. In the banking system, the loan helped to eliminate imbalances, and eventually restructure the whole system. Structural reforms were also implemented in the energy, agriculture and social insurance sectors.

The Bank’s analytical work and policy advice are areas, which are particularly valuable to the Government of Lithuania. We find the support for understanding and reducing macro and
financial vulnerabilities by regular macroeconomic monitoring and economic analysis highly
constructive. The recently completed Macro – Financial Vulnerability Review for Lithuania is an
important tool not only to strengthen macroeconomic and financial stability, but also to deepen
cooperation between the experts of the World Bank and staff of Lithuanian Institutions.
Collaboration based on dialogue will be the basis for future relations with the World Bank
Group.

The Government of Lithuania recognizes the risks mentioned in the document. However,
progress achieved in economic development lowers these risks. During the first half of 1998, the
GDP growth remained strong and reached 7.3%. Unfortunately, due to Russian crisis, the annual
GDP growth decreased to 4.5%, although even this lower growth was among the highest in the
region. The Budget deficit was kept at a very low level of 1.3%, and this year, for the first time
after 1993, a balanced budget was approved.

Tight fiscal policy, supported by conservative monetary policy, ensured a continuous
decline in inflation, which in 1998 was only 2.4%. Since major price adjustments have already
taken place, and both monetary and fiscal policies will remain conservative, we forecast a stable
level of inflation with variation between 2 and 3% in the medium term.

The strong recovery in investment in 1998 - FDI increased by almost 60% - facilitated the
growth of new jobs as well as a moderate level of unemployment. Due to large – scale
privatization and restructuring of major sectors of the economy, unemployment in Lithuania
tends to increase slightly from 6.4% in 1998, but will be kept at a sustainable level of 5-7%.

As EU accession is the highest priority for the Government of Lithuania, cooperation
with the World Bank should also be in line with this objective so that the overall program reform
is focused on reforms and policies most critical for EU accession. We find the Bank's
coordination work within the Framework of Memorandum of Understanding with the European
Commission and other IFI’s a good basis for partnership. In order for Lithuania to meet the EU
accession standards and objectives, the Bank’s role will be crucial in enhancing country
competitiveness, assisting in developing the rural economy, strengthening public administration
capacity and institutions at the central and sub-national levels, and upgrading infrastructure and
environmental management.

It is obvious from the partnership approach undertaken to prepare the CAS, that recent
years have encompassed big improvements in cooperation and coordination between the Bank,
the IMF, other MDBs and bilateral donors. In this regard, my Lithuanian authorities express their
gratitude to all multilateral and bilateral donors, particularly to the Nordic countries for their
bilateral programs and solid support to the environmental and municipal development and
capacity building programs in Lithuania. The Municipal Development Project that will soon be
considered by the Board, is a significant step towards deeper partnership between the Bank,
Nordic donors and Lithuania.

We are greatly satisfied with the increased IFC involvement in the Lithuanian economy.
We are not only happy, to have IFC investments and technical assistance in several Lithuanian
companies and general technical assistance in promoting the private sector, but we hope to also benefit from IFC’s experience and expertise. Recent IFC support of the Survey of Lithuanian companies will be a significant step towards the development of small and medium sized enterprises in the country. This survey identifies the companies with the best developmental potential and provides recommendations for needed restructuring, as well as other assistance which might be required by these companies.

As I pointed out earlier, non-lending services are among the main areas of future collaboration between the Bank and Lithuania. The Government of Lithuania is ready to contribute to the costs of carrying out further Bank programs. We hope this will increase the volume of the Bank's non-lending services in the country.

We welcome the Bank’s knowledge sharing with client countries. We would also be happy to more widely share the knowledge and experience of our local experts in various fields of economy (particularly in the banking sector), with the Bank when developing programs for other countries.

Finally, I want to express our appreciation for the Country Director of Lithuania and his team in the World Bank Vilnius Office, as well as in Washington and Warsaw, for support in our successful cooperation and look forward to our joint efforts in the future.