Lithuania: Country Assistance Strategy

We endorse this country assistance strategy and commend the staff for the high quality of the document which they have prepared in consultation with various stakeholders, including the government, the private sector, as well as the sub-regional interest groups within the Baltics and the broader donor community. We find the discussion on the country's performance over the last few years to be candid. A lot of progress has been made in macro-economic stabilization and in the transition to a market economy. The significant improvement of the consolidated fiscal deficit from 4% of GDP in 1996 to 1.7% in 1997, with the accelerated privatization program which supported the growth of FDI to record levels, provided a strong base for a GDP growth rate from 3.3% in 1995 to over 7% at the beginning of 1998. Consequently, inflation dropped to 2.4% in 1998, registering one of the lowest among transition economies.

In spite of these very remarkable positive trends, there are still reasons to be concerned about the general environment for socio-economic development activities, particularly for a young and growing private sector. This is underscored in the CAS document, where it acknowledges that while long-term fundamentals in the economic management have remained sound, Lithuania's short-term trajectory has been fundamentally altered by the crisis in Russia. This lends weight to the fact that sub-regional economic issues cannot be easily ignored in the development of strategies for member countries. An alleviation of the effects of such external shocks would require the combined efforts of all the players in the sub-region. In this regard, we are pleased to note the government's reaffirmed commitment to the implementation of measures for ascendency into the European Union. What is not clear, at least in our view, is what constitutes the interim measures, particularly as they relate to current trading partners before the materialization of EU arrangements. We would welcome any staff comments on this.

We find the Bank Group's assistance strategy broadly in line with the government's development efforts which focus on a few but well-defined priority areas, namely, human development, macro-financial stability, and EU accession. We are particularly pleased with the...
deserving emphasis placed on continuing to build on Lithuania's human and institutional capacity as this is essential for the implementation of more complex reforms and in preparation for a rather sophisticated European market. We welcome efforts aimed at enhancing competitiveness through a combination of IFC financial support for private investment and the possible involvement of MIGA and IBRD. In this context, the balance between public and private sectors focus in the CAS is quite commendable.

Lithuania seems to manage the social problems of reform relatively better than many other transition economies. But more significantly, the availability and extensive analysis of data on poverty, which identify the most vulnerable groups, has already paved the way for even better policy recommendations to address the issue of poverty. For instance, the analysis of Household Budget survey data clearly identifies segments of the population in which the incidence of poverty is highest. The analysis underlines the fact that poverty in rural areas remains higher than poverty in urban areas, and that in the rural areas, poverty among farmers and those living on allowances is much higher. In this regard, we welcome the strategy focus on developing the rural economy and improving agricultural productivity. We are, however, concerned that the document provides no specific measures aimed at targeting poverty in the agricultural sector and making the sector competitive for accession into the EU. The fact that more than half the country is agricultural land, and that agriculture which employs 21.7% of the labor force only provides 11.7% of the GDP, would suggest that this sector has a lot of under-utilized factors. We would welcome staff comments on any plans to enhance the productivity of this sector.

The Bank’s portfolio performance in Lithuania remains a major cause of concern, with only four out of nine projects rated successful. We are, however, encouraged to note that the reasons for this low performance have been identified and efforts are being redoubled to implement measures to turn the portfolio around. In particular, we welcome the consideration of recruiting and training procurement specialists for the local office in Vilnius. We are particularly pleased with the increased use of well-trained local staff in implementing reforms in Lithuania.

Finally, given the government's strong conviction about selectivity, we have no difficulty in endorsing the lending levels in paragraphs 51 through 53 of the CAS, bearing in mind the need for a flexible application of lending triggers as well as the need to direct more attention and Bank resources to poverty alleviation.