

# Weekly News

## July 28, 2006

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### Opinions about euro adoption date are clashing

July 25, 2006 (BNS-SEB Vilniaus Bankas) - Prime Minister Gediminas Kirkilas has mentioned the year of 2009 as a date for euro adoption, but Finance Minister Zigmantas Balčytis does not totally agree. Mr. Balčytis said he would wait for Lithuania's and European Commission's works group to set this date.

According to the Lithuanian daily Verslo Žinios, before leaving for vacation, the Finance Minister has authorized Lithuania's attaché in the EU to agree with the EC on work group's establishment.

In the opinion of central bank's governor Reinoldijus Šarkinas, co-operation with EC's representatives will be useful. "But works assigned to us should be done by ourselves," said Reinoldijus Šarkinas.

Many local experts call to start working immediately. Since Lithuania did not enter the euro zone because of inflation, the causes of the latter should have been already scrutinized; the program for taming inflation in the future should have been already approved. However, the work is not yet started as the Finance Minister is not eager to do it without the above-mentioned works group.

### In six months real GDP went up by 8.2% yoy

July 28, 2006 (Statistics Lithuania-SEB Vilniaus Bankas) - Statistics Lithuania reports that according to provisional estimate, i.e. based on available statistical data and econometric models, in the 2<sup>nd</sup> quarter of 2006 the country's gross domestic product (GDP), if measured in current prices, totaled LTL 20281 million and, if measured in constant prices, was by 7.7% higher than in the 2<sup>nd</sup> quarter of 2005. The respective figures for the whole first half of this year were LTL 37311 million and 8.2%.

### In June construction prices increased by 1.2%

July 28, 2006 (Statistics Lithuania-SEB Vilniaus Bankas) - Statistics Lithuania informs that in June 2006, compared to the previous month, construction prices grew by 1.2% (in June 2005 they increased by 1.4%). The strongest impact on the total construction cost index (CCI) was made by a 2.5% increase in wages and overhead costs as well as by a 0.5% increase in prices of construction materials. The CCI was also lifted by a 0.3% rise in prices of hourly operation costs of construction machines and mechanisms.

The higher prices of construction materials were mainly the result of a 1.7% increase in prices of electro-technical materials, 0.7% – plumbing materials, metal products and all kinds of concrete and mortar, 0.5% – concrete and ferroconcrete products. In June, prices for pipes went down by 0.7%.

### Polish are already eager to split up Mažeikiai refinery

July 28, 2006 (BNS-SEB Vilniaus Bankas) – According to the daily Verslo Žinios, Polish group of pipelines' operation PERN is interested in acquiring and operating Biržai pipeline, which currently belongs to Mažeikių Nafta. PERN board member Marcin Jastrzebskij declared such intentions to the Polish press.

Representatives of PKN Orlen, which is in a process of getting hold of Mažeikių Nafta, neither backed up nor neglected this announcement but said it was premature. Lithuanian officials, on the other hand, claim that a draft contract on Mažeikių Nafta sale precludes any investor actions that could be harmful for the country's national interests. In the opinion of Minister of Economy Vytas Navickas, Mažeikių Nafta should not be split up.

Biržai pipeline is connected to the system of Russian pipeline monopolist Transneft. Furthermore, this Lithuanian pipeline is the main artery through which Russian oil reaches Mažeikiai and Ventspils port in Latvia.

Last year the volume of transportation through Biržai pipeline came to 20 million tons of oil and oil products. The pipeline was made a part of Mažeikiai refinery in 1998, prior to the refinery's sale to US Williams.

PERN controls a part of Central European oil pipeline system Druzba with a transportation volume of 30% of total Russian oil exports, oil pipelines in Poland, oil depositories.

### **Net external assets of MFIs - down, domestic credit – up**

July 27, 2006 (Bank of Lithuania-SEB Vilnius Bankas) - In June, the net external assets of MFIs contracted by LTL 57.1 million (as a result of transactions), while domestic credit expanded by LTL 1.1 billion. The annual growth rates of these indicators were different at the end of June. Net external assets shrank by 78.7% over the year, while domestic credit grew by 64.2%.

The growth of domestic credit in June was driven by an increase in MFIs loans to other residents by LTL 1.2 billion. At the end of June, the annual growth rate of these loans was 71.1%. Loans by other MFIs to non-financial corporations expanded (as a result of transactions) by LTL 478.0 million over a month, while their annual growth rate came to 51.7% at the end of June. Loans by other MFIs to households increased (as a result of transactions) by LTL 612.6 million over a month and 83.9% over a year. Consumer loans to households rose by LTL 89.2 million, credits for house purchase – by LTL 351.6 million and other loans – by LTL 171.8 million over a month. The annual growth rate of lending for house purchase was 80.1% at the end of June.

Over a month central government deposits increased (as a result of transactions) by LTL 138.0 million, whereas longer-term financial liabilities of MFIs -- by LTL 271.4 million. At the end of June, the growth rates of these indicators diverged. Over a year central government deposits increased by 3.7%, while longer-term financial liabilities of MFIs – by 39.8%. The increase in longer-term financial liabilities of MFIs in June was due to an increase of LTL 216.4 million in capital and reserves, an increase of LTL 43.8 million in deposits with an agreed maturity of over 2 years and an increase of LTL 11.2 million in debt securities with a maturity of over 2 years.

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### **Project “Rail Baltica” to be implemented faster**

July 27, 2006 (BNS-SEB Vilnius Bankas) – The new Minister of Transport and Communications declared that from now on preparation of technical documentation for the project Rail Baltica, i.e. construction of European-track railways, will be noticeably speeded up. Laying works themselves should be started already next year.

“I can firmly assure that the European-track railways will be laid from the country’s national border with Poland to Marijampolė. The European Commission, to which application for new railways’ financing is submitted, pushes us to speed up these works,” said Minister of Transport and Communication Algirdas Butkevičius.

Public discussions about the project Rail Baltica have started already a couple of years ago. European-track railways enable trains to go at a speed of 160-250 km per hour. In the first stage of the project, until 2010, Polish railways from Warsaw to the Polish border with Lithuania and from this border to Kaunas should be modernized. In the second stage, until 2014, modern railways should be built from Kaunas to Ryga, and then, in several years, from the latter to Tallinn.

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### **Lithuania considers possibility to build solar cells plant**

July 25, 2006 (BNS-SEB Vilnius Bankas) – Experts have started to look for an answer whether it would be profitable to produce solar cells in Lithuania. Theoreticians claim it is possible, whereas practitioners are skeptical about it, the daily Verslo Žinios writes. The Ministry of Economy announced a call for academic studies to evaluate possibilities of photoelectrical silicon production as well as to assess risk and investment needs.

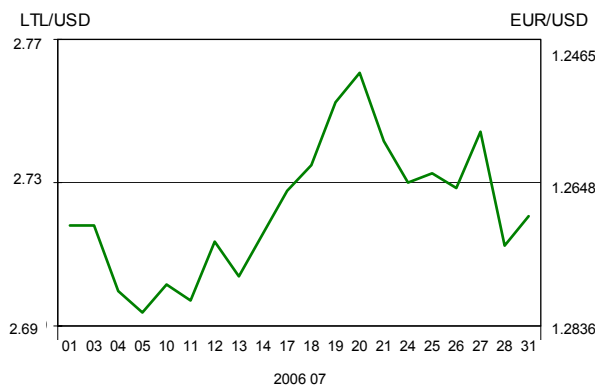
Quartz-sand or silicon oxide is being mined in Anykščiai and is currently used for production of glass. Scientists claim that silicon – a component of solar cells -- can be extracted from quartz-sand and thus the latter can be used for solar cells’ production.

“There are such technologies created in the world. We could acquire them or create a more sophisticated alternative. I do not think it would be very costly. There are standard semiconductor technology methods how to get silicon from silicon oxide,” explained Arūnas Krotkus, Head of Optoelectronic Lab in the Semiconductor Physics Institute.

The purpose of the requested study is to analyze the photoelectrical silicon market and to forecast its trends until 2015-2020, to assess whether quartz-sand mined in Lithuania is suitable for photoelectrical silicon production, furthermore, to draft a business plan for a plant which could produce 2-3 thousand tons of photoelectrical silicon per year, to estimate investment needs, to calculate a break-even point as well as to examine export markets.

Based on various information sources, the current global sales of solar cells, which are mostly produced from crystal silicon, approximately increase one third per annum. Although traditional solar cells made from silicon are being improved for already many years, so far their production costs can hardly be decreased and their efficiency – increased.

### Litas and Euro Relative to US Dollar



### Main Macroeconomic and Financial Indicators of Lithuania

	2000	2001	2002	2003	2004	2005	2006**
Real GDP (constant 2000 prices), annual change, %	3.9*	6.4	6.8	10.5	7.0	7.5	8.2*** (IH)
Nominal GDP, LTL billion	45.848	48.563	51.948	56.772	62.440	71.084	37.311*** (IH)
Current account deficit, % of GDP	5.9	4.7	5.1	6.8	7.7	7.0	10.6 (IQ)
Industrial production, annual change, %	2.2	16.0	3.1	16.1	10.3	7.3	12.7 (Jan-June)
Capital investment, LTL billion	6.553	7.824	8.124	8.678	10.097	12.186	2.308 (IQ)
Exports of goods, LTL billion	14.193	17.117	19.117	21.263	25.819	32.807	15.733 (Jan-May)
Imports of goods, LTL billion	20.877	24.241	27.479	29.438	34.384	42.975	20.426 (Jan-May)
CPI, y-o-y change, e-o-p, %	1.4	2.0	-1.0	-1.3	2.9	3.0	3.7 (June)
HICP inflation, average annual, %	1.1	1.6	0.3	-1.1	1.2	2.7	3.0 (June)
Average monthly earnings, last quarter of a year, LTL	1,073.2	1,087.1	1,145.0	1,207.9	1,310.2	1,453.4	1,437.0 (IQ)
Unemployment rate, ILO, average, %	16.4	17.4	13.8	12.4	11.4	8.3	6.4 (IQ)
Average interest rates on loans in litas, e-o-p, %	11.03	8.13	6.08	5.07	5.67	4.70	5.03 (May)
Loans of MFIs to residents except MFIs, e-o-p, LTL billion	6.114	7.289	8.851	13.122	18.608	30.248	36.619 (June)
Deposits of residents except MFIs with other MFIs, e-o-p, LTL billion	8.660	10.215	11.532	13.585	17.787	24.225	26.119 (June)
Foreign direct investment, e-o-p, LTL billion	9.337	10.662	13.184	13.699	16.193	18.802	19.518 (IQ)
Official international reserves, e-o-p, LTL billion	5.435	6.677	8.013	9.528	9.109	11.104	11.555 (June)
M2 monetary aggregate, e-o-p, LTL billion	10.649	12.920	15.433	18.419	22.354	29.488	31.124 (June)
Fiscal balance of public sector (GFSM 2001), % of GDP	-2.8	-2.1	-1.3	-1.2	-1.4	-0.4	0.11**** (IQ)
General government debt, e-o-p, % of GDP	27.75	26.57	25.34	21.22	19.48	18.75	17.37**** (IQ)
Industrial confidence index, last month of a period	-	-14	-14	-5	-18	-1	5 (June)
Consumer confidence index, last month of a period	-	-26	-15	-12	-4	-3	1 (July)

\* Due to data recalculation, temporarily GDP data up to 2000 is not strictly comparable to later years.

\*\* Periods of latest data are given in parenthesis.

\*\*\* First estimate.

\*\*\*\* SEB Vilniaus Bankas forecast of nominal GDP for 2006 stands at LTL 77.837 million.

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The information and data used in this review is taken from external sources, i.e. news agency BNS, Bank of Lithuania, *Statistics Lithuania*, Ministry of Finance and other institutions. SEB Vilniaus Bankas does not accept any responsibility for accuracy, validity and completeness of the information taken from external sources.