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Lithuania Looks to \$6.6 Billion of State Assets to Trim Deficit

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July 14 (Bloomberg) -- Lithuania will overhaul its 300 state-owned companies and prepare them for sale to narrow the budget deficit as the Baltic nation looks for ways to rebound from the European Union's second-deepest recession.

The government values the assets, mainly in the energy, transport and forestry industries, at 18 billion litas (\$6.6 billion). The overhaul, presented in Vilnius today, aims to increase the 45 million litas in dividends earned from the enterprises last year and sell stakes later, Finance Minister Ingrida Simonyte said in a telephone interview yesterday.

"The biggest benefit is the fiscal effects that this may bring," said Simonyte. The revenue may amount to 1 percentage point of gross domestic product and "this is especially important when we have a substantial consolidation to do and the economic upturn is still very fragile."

Prime Minister Andrius Kubilius' government pushed through one of the EU's toughest austerity packages last year, with budget cuts equal to 12 percent of GDP as the economy shrank 14.8 percent. The International Monetary Fund expects GDP to grow 2 percent this year, it said on May 24. The government sees a 1.6 percent expansion.

Kubilius aims to narrow the deficit to 3 percent of GDP in two years from 8.9 percent last year.

That will require further spending cuts of about 5 percent of output, Kubilius said last month. The European Commission on May 5 forecast a shortfall of 8.4 percent of GDP this year.

Feasible

The 1 percentage-point goal may be "feasible" in 2012 through the efficiency program introduced today, Simonyte said. The companies may become net contributors to the budget within a year, she said.

The government would also offer shares in the companies, including state railway operator Lietuvos Gelezinkeliali AB, LEO LT AB, the energy holding company, and Lietuvos Pastas AB, the postal service.

Since joining the EU in 2004, Lithuania's biggest asset disposal was the sale of oil refinery AB Mazeikiu Nafta to Poland's PKN Orlen SA.

Investors are looking more favorably on Lithuania. The yield on Lithuania's bond due 2020 fell 0.05 percentage point to 6.55 percent today from a week earlier. That compares with a 7.6 percent yield in February. The Vilnius NASDAQ OMX stock index is up 18 percent this year. The cost of protecting Lithuanian debt with credit-default swaps fell 10 basis points to 257.57 yesterday according to CMA DataVision.

Piecemeal

The country has secured investment this year from Barclays PLC, Western Union Co., IBM Corp., Moog Medical Devices and Systemair AB. The government seeks to double the level of foreign direct investment in the next five years, Economy Minister Dainius Kreivys said in an interview on June 22, aiming at luring 20 billion euros after attracting half that much in the 20 years of independence from the Soviet Union.

In the other Baltic states, Estonia and Latvia, asset sales have been piecemeal. Baltic Rail Services OU, a group of local and international investors, in 2001 paid 1 billion krooni (\$80 million) for 66 percent of AS Eesti Raudtee and pledged to invest another 4.7 billion kroon by 2010. The stake was bought back by the Estonian state for 2.35 billion krooni in 2006.

Stockholm-based Swedbank AB bought the 40 percent of Tallinn-based Hansapank AS, the largest Baltic bank, that it didn't already own for 1.7 billion euros (\$2.2 billion) in 2005.

Latvia last sold an asset when it auctioned off its 38.6 percent stake in refinery Ventspils Nafta AS to the Vitol Group in October 2006 for 74.2 million lati (\$133.2 million).

Right Time

The government is breaking up Parex Banka AS, the lender it took over in 2008, to prepare it for a sale. Prime Minister Valdis Dombrovskis said on July 2 the government was carrying out an inventory of all state-owned enterprises and assets.

Lithuanian asset sales would attract private capital and increase accountability, though initially the state would hold on to a majority of the shares for a year or two, said Simonyte.

"Nobody can preclude privatization when the time is right or when it's the best option, but we see that, at least in the beginning, there is a need to improve the return on the assets," she said.

The government plans to introduce more professional management, set clearer goals, maximize the value of the enterprises and make their operations more transparent, according to the review.

The book value of the assets is equivalent to about 25 percent of the economy, making the government the biggest owner of commercial assets in the country and the biggest single employer, according to today's review.

The state companies had revenue of 8.46 billion litas last year, compared with 9.46 billion in 2008, the review shows. Return on equity was a negative 6.1 percent last year, compared with 0.1 percent in 2008, according to the review document.

If Lithuanian state assets were run as efficiently as in Sweden or Finland, the government could generate revenue equivalent to 1.5 percent to 2.5 percent of GDP, Kubilius wrote in the review.

The government's fiscal measures prompted Moody's Investor Service, Standard & Poor's and Fitch Ratings to raise the outlook on Lithuania's credit ratings this year to stable from negative.