

Lithuania media coverage – 14 July 2010

Dow Jones

Lithuania Looks to State-Owned Companies For Budget Boost

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14 July 2010

LONDON (Dow Jones)--Lithuania's government Wednesday published its first annual performance review of state-owned enterprises as a first step towards managing them on a more commercial basis and generating revenue to help narrow the country's budget deficit.

According to the review, state-owned companies operating in the energy, transport, forestry and other sectors account for 25% of the Baltic nation's gross domestic product and have an estimated market value of 18 billion litas. The litas is pegged at 3.45 to the euro. Last year, those companies made a loss of 1.3 billion litas, but Prime Minister Andrius Kubilius believes that with proper management, they could generate annual revenue for the government of between 1.5% and 2% of GDP.

"We can definitely conclude that they have not been managed in the best, most effective way," Kubilius said in an interview with Dow Jones Newswires. "If we can improve the way they are run, I'm quite sure there will be substantial additional income for the budget."

That would reduce the need for tax rises to reduce the government's budget deficit, which it is committed to cutting to less than 3% of GDP in 2012.

"Tax rises are quite complicated, particularly at this juncture," Finance Minister Ingrida Simonyte said in an interview. "We can't rule them out, but other options must be considered first, and this option is one of the healthiest for the economy."

Lithuania's economy contracted 15% last year, partly as a property bubble burst, while the unemployment rate hit 13%. With tax revenue collapsing, the budget deficit soared to 8.9% of gross domestic product last year.

But there are signs that the economy is starting to recover, driven by a pickup in exports. Late last year, the government expected the economy to contract by a further 4% this year, but has since revised its forecast to predict growth of 1.5%.

Last week, the International Monetary Fund said it expects the economy to grow by 2.1%, and Simonyte said she would "not rule out the possibility to revising (her forecast) upwards."

She now expects the budget deficit to be 8% of GDP, less than the 9% forecast in its budget for 2010.

Following the review, the government aims to revitalize state-owned companies by ensuring that they focus solely on maximizing profit, rather than meeting social policy objectives. In order to do that, the government intends to "depoliticize" the companies, placing management in the hands of independent boards of directors, rather than government ministries.

"Government should direct state owned commercial companies to seek a sole goal of company value maximization," Kubilius said. "Government should also allow for policy objectives to be

completely transparent and clear. While pursuing these goals, the companies will be relieved from seeking policy goals."

The government also believes that improving the performance of state-owned companies will boost the competitiveness of the entire economy, and help Lithuania attract the foreign investment it needs to grow strongly in coming years.

"By modernizing governance of state owned enterprises Lithuania can substantially improve the business climate, (and) boost foreign and local investments," Kubilius said.

The government doesn't have immediate plans to privatize the state-owned companies, but it is likely to issue bonds to finance their modernization. According to the review, the state-owned companies have debts of 1.7 billion litas, and a debt to equity ratio of just 8%.