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LIETUVOS BANKAS
EUROSISTEMA



Annual Report of the Bank of Lithuania

2021

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Foreword



Lithuania's economy successfully resisted the challenges posed by the COVID-19 pandemic in 2021 and adapted to the new operational conditions, but the rapid recovery was brought to a halt by the outbreak of Russia's war against Ukraine. In addition to shocking the world, it also has had a significant impact on the world economy through international trade, energy and other commodity price hikes, financial sector, currency markets as well as investor and consumer expectations.

As the war has created enormous uncertainty, we are closely monitoring and assessing the situation. If necessary, we react swiftly by implementing financial stability measures and proposing possible measures to stabilise the economy in order to avoid stagnation and ensure further economic growth. In response to the heating up of the housing market, the Bank of Lithuania has set a higher sectoral systemic risk buffer rate for the housing loan portfolio and imposes stricter minimum down payment requirements for the second and subsequent housing loans. We also looked at the trade relations with mainland China

and Belarus and the potential impact of breaking them off, analysed competition in the financial sector and expressed our position on the application of non-taxable income amount. We also presented to the public proposals for possible anti-inflation measures and an assessment of the measures already proposed. These are just a few examples of our work. Public opinion surveys show that more than 70% of respondents trust the Bank of Lithuania as a centre of excellence for economic and financial matters.

The challenges of recent years have confirmed that Lithuanian business has learnt from the past: exports of goods and services to Russia and Belarus have for some time been relatively small. Unfortunately, as a result of the war, exports to Ukraine have been partially reduced but we hope that this is temporary. Some estimates suggest that, if exports to Russia, Belarus and Ukraine (as a last resort) were to be stopped altogether, Lithuania's economic growth would be slower by up to 3 percentage points between 2022 and 2024. Our other export partners will inevitably have to deal with the economic consequences of the war in Ukraine. This will reduce overall foreign demand and undermine export prospects. The increasing prices of oil and natural gas will continue to be one of the main drivers of inflation and will therefore undoubtedly affect the economy and the purchasing power of the population.

The ECB responds to rising inflation through monetary policy decisions, which open the door to other, faster decisions. The experience gained dealing with the challenges caused by the COVID-19 pandemic, implementing the Pandemic Emergency Purchase Programme (PEPP) and other monetary policy measures together with the Eurosystem, which also includes the Bank of Lithuania, is of great importance. Last year alone, the Bank of Lithuania injected €1.6 billion into the country's financial system through asset purchase programmes. As a result, the Lithuanian Government saved over €30 million by issuing bonds between March 2020 and the end of last year. Throughout the validity period of bonds, this amount will exceed €600 million.

The increase in prices of energy resources is a clear sign of the urgent need to invest in renewable energy, thus reducing dependence on both polluting fossil fuels and unreliable external energy suppliers. In addition to helping tackle climate change, climate-friendly investments would create added value for the country's economy. Managing climate risks is one of the strategic objectives of the Bank of Lithuania for 2022–2025. We assessed our CO2 footprint (a three-fold decrease compared to 2020) and published

a [report](#). We will continue to reduce our environmental impact, for example, by using green electricity. In accordance with the common climate change and responsible investment principles agreed by the Eurosystem, we will restructure the investment portfolio of financial assets. We have already made the first investment of €60 million in shares in line with the principles of sustainable investment. This will allow further mitigation of the impact on climate change.

This year, the financial market may face indirect challenges of Russia's war against Ukraine: the credit risk of Lithuanian companies that have or used to have business relationships with the affected countries, rising prices of raw materials, food and energy, potential payment disruptions due to international sanctions against Russia, cybersecurity threats, and possible developments in the real estate market. The past year has convincingly demonstrated that the Lithuanian financial system is resilient and prepared for possible developments or shocks. The liquidity ratio of banks is currently four times higher than required. The level of capitalisation of the banking sector is among the highest in the EU and their solvency would not be threatened even in the event of a severe economic shock. We continuously assess how financial institutions are prepared for different possible scenarios, how they update business continuity plans and manage money laundering, cybersecurity and other risks.

The sector of banks operating in Lithuania as well as credit union and insurance sectors grew in 2021, and all of them were profitable. The revenues of electronic money and payment institutions from licensed activities grew by 3.5 times, while the amount of payment transactions increased by 3.8 times. The number and value of transactions in the crowdfunding platform sector almost tripled.

Lending by credit institutions to both citizens and businesses increased significantly in 2021. For example, bank lending to companies went up by almost 20% and lending by credit unions by nearly 50%. Lending was more active in the first months of this year. We hope that the crowdfunding sector, which, as a result of regulatory changes, has the potential to compete on the EU market, will also provide opportunities for our business. This should boost the sector's growth and strengthen competition with each other and with other financial market participants. On the other hand, we expect new players to enter Lithuania and that there will be more investment opportunities for consumers as well as borrowing or financing opportunities for small and medium-sized businesses.

Together with the Competition Council, we carried out a study on financing opportunities for small and medium-sized businesses and published recommendations and specific measures. These included more efficient state aid, reducing the administrative burden for small and medium-sized businesses, helping companies find alternative sources of financing, and strengthening their financial reporting. In 2022, in cooperation with other institutions, we continue to work on the implementation of priority directions of recommendations. We also carried out a study on the application of de-risking policy, which was aimed at assessing whether banks, electronic money and payment institutions and other licensed financial market participants are abusing AML/CTF measures and reducing the availability of payment services to lawful individual consumer groups. Taking into account the results of the study, we published a public consultation with proposals for measures to address the problems that emerged during the investigation.

In order to improve business access to financial resources, at the beginning of 2022, we launched complex solutions related to the development of the Lithuanian capital market, which would facilitate the ability of companies to attract long-term financing, thus contributing to the strengthening of the economy of high value added, and increase the diversity of savings and investment measures for the residents of the country.

Although financial markets have been characterised by a very high level of uncertainty and volatility in recent years, even in such exceptional circumstances, the Bank of Lithuania successfully manages the investment portfolio and transferred €20.38 million from the profits earned in 2021 to the state budget. This is the highest amount transferred to the state budget by the Bank of Lithuania since 2012.

The digitalisation of services continues to promote non-cash payments, and a third of the population opts for this method of payment. More than 80% of small and medium-sized enterprises (SMEs) providing retail and catering services, including in the regions, already allow their customers to pay with payment cards. However, there are still areas where such opportunities are missing, hence we are looking for solutions to increase the number of places that accept non-cash payments. According to our survey, almost a fifth of the population pays only in cash. We have therefore taken concrete measures to further improve people's access to cash and to increase the number of cash withdrawal points. In the first days of Russia's aggression against Ukraine, there was an increase in demand for cash. By quickly meeting the demand and actively communicating, we have effectively risen to this challenge together with financial market participants in the short term.

As a progress-oriented organisation, we are developing a comprehensive Data Management Maturity Programme DAMAMA. As part of the programme, we plan to implement changes in the data governance framework, the collection of reference data, data storage and analytics. The Bank of Lithuania was selected as the winner of the prestigious Central Banking award in the Data Management Initiative Category for this initiative.

We also carry on with our experiments – the Bank of Lithuania applied the experience gained in developing the world's first digital collector coin LBCOIN to international feasibility studies on the digital euro.

In our daily work, guided by the values of the Bank of Lithuania (value to society, accountability and continuous progress), we are focused on the issues of Lithuania's economic and financial system, and our hearts go out to the Ukrainian people. The Bank of Lithuania is in regular contact with the Central Bank of Ukraine and aims to help our colleagues and all the people of Ukraine, including war refugees. We have taken leadership and created a virtual information centre on our website. Created in collaboration with financial market participants, it provides detailed information about financial services to people coming from Ukraine in their language, to ensure that they receive all necessary services provided in a socially responsible manner.

The Bank of Lithuania has taken supervisory measures to prevent financial companies and individuals associated with Russia from accessing the Lithuanian financial market and any attempts to circumvent sanctions. The Bank pays particular attention to the prevention of money laundering and terrorist financing and the implementation of sanctions. As part of capacity building, in May 2021, together with the Ministry of Finance and eight commercial banks, we established a Centre of Excellence in Anti-Money Laundering. It shares expertise, conducts assessments and analyses, develops trainings, guidelines, recommendations, methodologies and legislative initiatives with the Bank of Lithuania and other institutions to strengthen resilience to money laundering and terrorist financing (ML/TF) risks.

The work carried out by the Bank of Lithuania in 2021 is described in greater detail in this publication.

Gediminas Šimkus

Chairman of the Board of the Bank of Lithuania

1. Economic and financial overview

1.1. Real economy

- **Lithuania's economy grew by 4.8% in 2021.**
- **Strong growth was mainly fuelled by domestic demand, particularly household consumption.**
- **After a significant decline in 2020, investment recovered rapidly.**
- **In 2021, most of the growth in foreign trade was driven by trade in goods, while trade in services grew sluggishly.**

At the beginning of 2021, the second quarantine did not curb Lithuania's economic development and it expanded by 4.8%. In both the first and second quarters, fixed economic growth showed that Lithuanian companies were able to properly prepare for the second wave of the pandemic, especially given that some sectors of the economy were subject to mobility restrictions throughout the first quarter. This, combined with general government support to businesses and households, successful performance of exporters and the relatively low dependence of the economy on the most constrained and affected economic activities, such as accommodation and food service activities, arts, entertainment and recreation, were the key drivers for economic growth. This economic development prevented a significant deterioration in the financial situation of private enterprises and households and facilitated economic development in the second half of the year. However, due to protracted disruptions in cross-border supply chains, staff shortages, increased inflationary pressures and challenges related to geopolitical conflicts that dampened Lithuania's economic development, growth in the second half of 2021 was lower than expected.

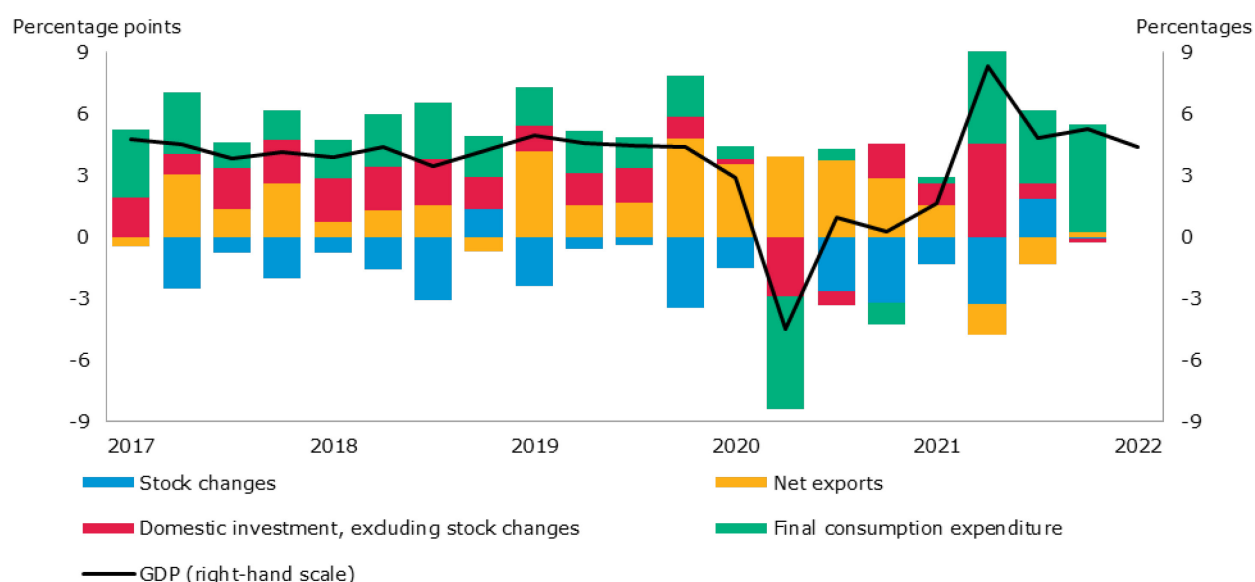
Rising disposable income, the easing of COVID-19 containment measures and improving expectations stimulated household consumption. The main contributors to this development in households' disposable income were rapid wage increases (the average gross annual wage rose by 9.8% in 2021), driven by both minimum monthly wage increases and general government wage increases, as well as household ownership and other mixed income as a result of the improving economic situation. The growth in household consumption was also determined by a significant increase in service consumption due to the lifting of pandemic containment measures, which was further boosted by the fall in excessive savings. However, exacerbating inflationary pressures, which, according to the Bank of Lithuania's estimates, were broadly in line with the growth rate of household disposable income in the second half of 2021, prevented further increases in household consumption.

After a significant decline in 2020, investment recovered rapidly. A drop in foreign demand following the onset of the pandemic and uncertainty about global economic developments led to a significant investment decline in 2020. However, investment went into recovery mode as early as in the second half of 2020. Investments were initially promoted by the general government, while the private sector waited until the beginning of 2021 to start stepping up its investment. Private sector investment was mostly driven by recovering foreign demand, improving business expectations, good financial situation of companies and capacity utilisation rate that approached record highs. These factors contributed the most to the growth of investment in capital goods. Investment in the construction sector decreased in 2021. This development is mainly driven by a significant decline in civil engineering construction in the second half of 2021, which is likely the result of a sharp slowdown in the implementation of government investment projects, following a significant increase in investment project expenditures. After a year of growth, residential construction has also started to decline since mid-2021. This development in the construction sector is affected by staff, construction facility and material

shortages. As shown by business surveys, the share of construction firms reporting labour shortages as a limiting factor has increased to the highest level (41% in the fourth quarter of 2021) since the global financial crisis, and the share of construction enterprises suffering from manufacturing facility or material shortages to the highest level (20% in the fourth quarter of 2021) since the beginning of data publication.

Lithuania's export and import volumes grew in 2021 and stabilised in the second half of the year. Following the return to the pre-pandemic trend, the evolution of external demand and the year-on-year increase in investment allowed further increases of export volumes, while heightened risks due to geopolitical factors (rising prices and uncertainty about the future led to early sourcing of goods and raw materials) and the decline in corporate stocks during the pandemic had a positive impact on imports. Most of the growth in foreign trade was driven by trade in goods as Lithuania continued to perform exceptionally well in the export of chemical products. However, exports of mineral and energy products also had a major positive impact on the growth. Trade in services was growing slowly. This is mainly due to the stagnation in exports of transport services, which outweighed the fastest growth in exports of other businesses as well as telecommunications, computers and information services. The sluggish development of exports of transport services is likely to be linked to the new requirements of the mobility package coming into force this year.

Contributions to real GDP (expenditure approach)



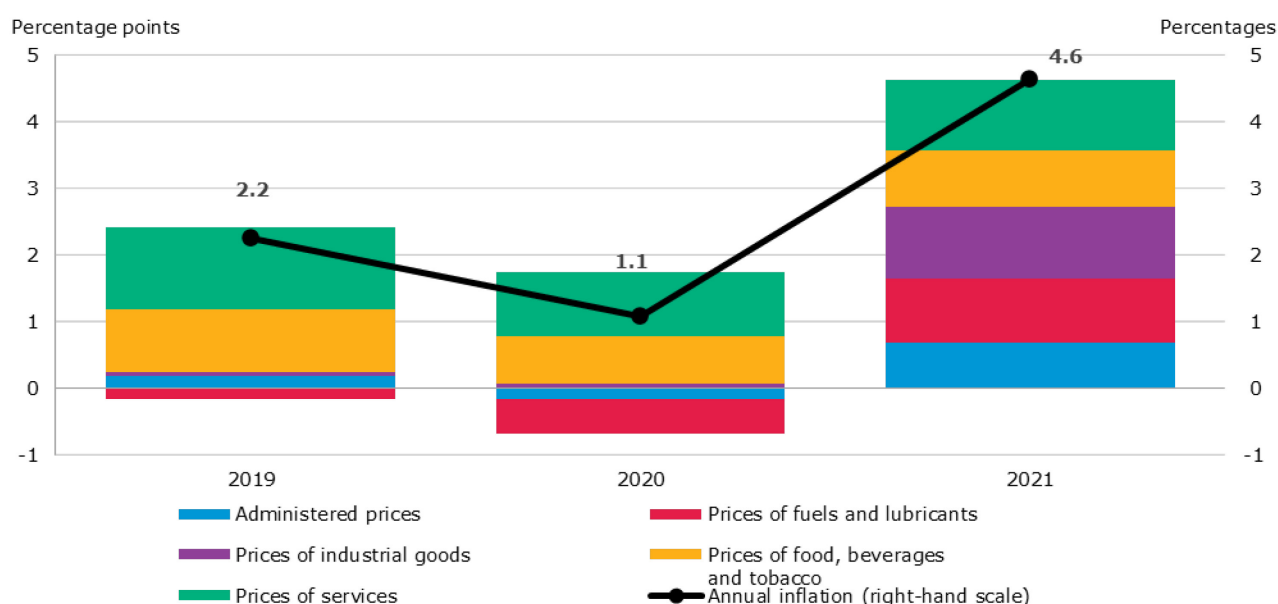
Sources: Statistics Lithuania and Bank of Lithuania calculations.

1.2. Price dynamics

- **In light of Lithuania's economic recovery, as well as the global economic recovery, the average annual inflation in Lithuania amounted to 4.6% in 2021.**
- **The rise in annual inflation was mainly driven by external factors such as the increase in global energy and other commodity prices as well as the emergence of global supply disruptions.**

- **External factors mainly influenced the prices of industrial goods, fuel and administered prices (electricity, gas and heat).**
- **The increase in fuel and lubricant prices, which amounted to 18.2%, contributed 1.0 percentage points to the overall inflation.**
- **Service prices, mainly driven by domestic factors, grew at a faster annual average rate of 4.3%, compared to 2020.**

HICP inflation and contributions



Sources: Statistics Lithuania and Bank of Lithuania calculations.

In light of Lithuania's economic recovery, as well as the global economic recovery, the average annual inflation in Lithuania grew, reaching 4.6% in 2021. Price growth picked up moderately in 2021, with annual inflation standing at 0.2% in January and rising at an annual rate of as much as 10.7% in December. In particular, the rise in inflation was driven by the recovery in oil prices. Fuel prices were about a quarter higher than a year ago already between May and June due to higher oil prices. The impact of the imbalances between demand and supply of raw materials, caused by the sharp recovery of the world economy, intensified and later led to a surge in raw material prices. High demand and insufficient supply led to transport disruptions. All of this had an impact on the prices of industrial goods. The rise in gas prices in the market, driven by geopolitical factors in addition to strong demand, led to an increase in administered prices.

At the beginning of the year, administered prices continued to dampen inflation, but in December they already contributed 2.1 percentage points to the overall inflation. Increased demand in the context of a strong global economic recovery, prolonged winters and hot summers, as well as geopolitical factors in limiting gas supply to Europe, led to significant increases in gas prices. In September, gas prices were more than three times higher than at the beginning of the year. Heat prices subject to monthly revisions were particularly affected last year by the increased gas prices, which quickly reflected the rise in gas prices. Heat price increases were also affected by rising solid fuel prices, which were 53% higher in December than a year ago. All of this led to heat prices, which fell at an annual rate of 15.6% in January, being 59.8% higher in December than in the same period a year ago, contributing 1.5 percentage points to the overall inflation.

Food prices also rose at a faster pace in the second half of the year. Food prices in February were 0.7% lower than a year ago, and the annual food price growth of 3.2% was recorded in August. This was mainly influenced by the high-priced vegetables, especially potatoes, due to low yields. In the fourth quarter of 2021, vegetables were 30.2% and potatoes were as much as 83.4% more expensive than a year ago. At the end of the year, rising global food commodity prices and higher energy prices accelerated food inflation.

Rapid wage growth in Lithuania increases the costs of local producers, in particular service providers. Wages grew at an annual rate of 10.5% last year. As wages in services account for a significant share of costs, this contributed to faster increases in service prices. In addition, the spike in household disposable income in recent years, which had not stagnated during the pandemic, led to strong domestic demand and a favourable environment to pass on rising costs (both wages and raw materials or components) to the prices of goods and services.

1.3. Labour market

- **The average monthly gross wage in the country's economy grew at a two-digit rate: last year, salaries were around 10% higher than a year ago.**
- **The rapid increase in employment was driven by growing economic activity, easing of constraints on corporate activities linked to the COVID-19 pandemic, and the low comparable base effect.**
- **High labour market tensions were influenced by a growing problem of labour shortages in all major sectors of the economy, such as construction, industry, trade and service activities.**
- **Following the escalation in the first year of the pandemic, the unemployment rate decreased moderately in 2021.**
- **Labour market activity decreased slightly in 2021 for the population aged 15–64.**

The average monthly gross wage in the country's economy grew at a two-digit rate. Last year, wages and salaries were around 10% higher than a year ago. Wage growth in the public sector accelerated in 2020 (mainly due to paid allowances to healthcare workers for work related to the pandemic), but this trend reversed in the second quarter of 2021 and the pace of public sector wage growth started to decline. The main reason for the slowdown in public sector wage growth is the lower wage growth of education and health workers. At the end of the year, the average monthly gross wage trajectories in the public and private sectors diverged: growth in the public sector slowed somewhat, while wages in the private sector grew at a particularly high pace. Wages grew by 11.7% in the private sector and 7.7% in the public sector. One of the main reasons for the robust wage growth in Lithuania is the lack of workers. It was fuelled by a marked fall in unemployment and high demand for labour. Wage developments were affected by the increase of the minimum monthly wage at the beginning of 2021.

The number of people employed increased last year, but the recovery in individual activities was uneven. According to the population employment statistics survey, the number of people employed in Lithuania in 2021 was around 0.8% higher than a year ago. This increase in employment may have been supported by an increase in economic activity and the easing of constraints on business activities linked to the COVID-19 pandemic. The growth was also driven by a technical factor, i.e. low comparable base as a result of the sharp decline in employment during the pandemic in 2020. In fact, hiring of workers varied across sectors. In 2021, there was a significant increase in the number of people

employed in information and communication, transport and the public sector. The number of people in the accommodation and food service, entertainment and recreation activities, which suffered the biggest fallout from the pandemic, continued to decline in early 2021 and only moved into recovery mode in the second quarter, following the easing of restrictions on the provision of these services. The increase in hiring of workers exacerbated the pre-pandemic problem of labour shortages.

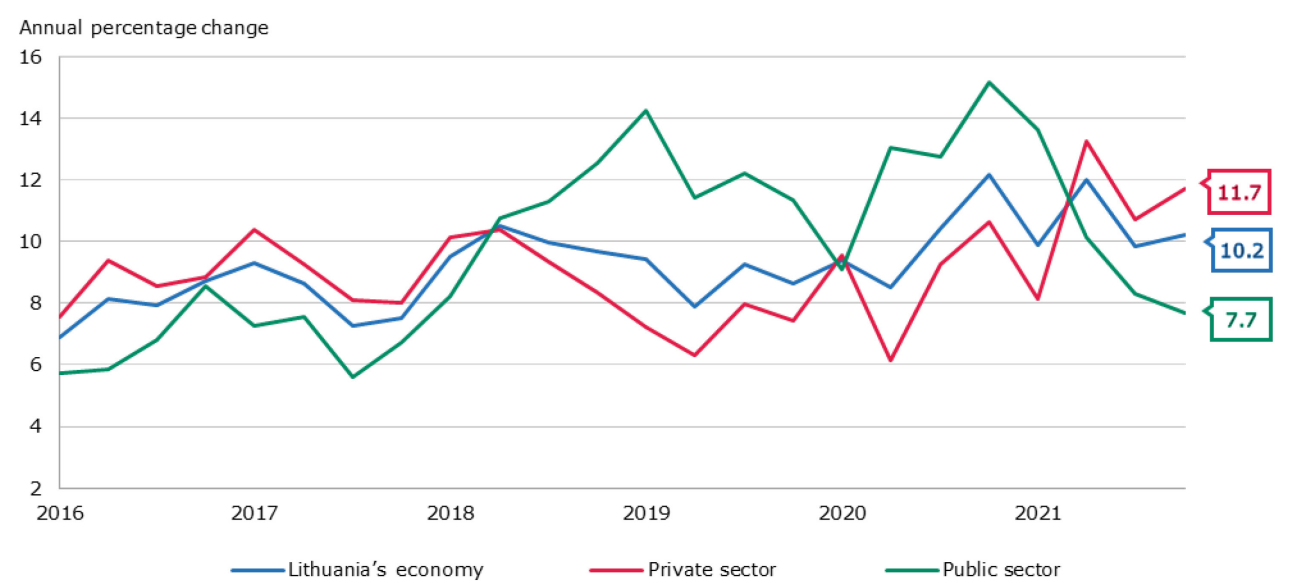
High labour market tensions were caused by labour shortages which had intensified. The job vacancy rate of 2%¹ signalled a very high staff demand in the third quarter of 2021. Such a high rate was recorded in 2008, i.e. during the period when Lithuania's economy was overheated. According to the results of the business surveys, the proportion of companies limited by labour shortages grew rapidly. All major sectors of the economy – construction, industry, trade and service activities – were affected by this problem.

Following the escalation in the first year of the pandemic, the unemployment rate decreased moderately in 2021. According to the data from Statistics Lithuania, the unemployment rate in 2021 was 7.1%, around 1.4 percentage points lower than in 2020. This year-on-year change in the unemployment rate was mainly due to an increase in the number of people employed and the labour force participation rate: these rates reduced the unemployment rate by around 0.7 percentage point and 0.4 percentage point respectively over the year. The unemployment rate of unskilled people affected by structural unemployment also fell over the period under review, reaching around 12% at the end of the year.

Labour market activity decreased slightly in 2021 for the population aged 15–64. The labour force participation rate of the working age population fell by 0.2 percentage point over the year, from 78.5% (2020) to 78.3% (2021). The male participation rate decreased by 0.5 percentage point over the year, from 79.9% (2020) to 79.4% (2021), while the female participation rate increased by 0.1 percentage point, from 77.2% (2020) to 77.3% (2021). Despite the slight decrease in the overall annual rate for men and women, the participation rate of Lithuania's population is above the EU average and is among the highest in the EU, and at the end of the last year it reached the peak of 78.9% recorded in the first quarter of 2020. Such annual changes in the labour participation rates did not offset the negative impact of the shrinking working-age population on the labour force. The number of people in the labour force stood at 1 million 473.4 thousand in 2021, a year-on-year decrease of 10.7 thousand (0.7%).

¹ Based on data not adjusted for seasonal and workday effects.

Wage developments



Source: Statistics Lithuania.

2. Key functions of the Bank of Lithuania

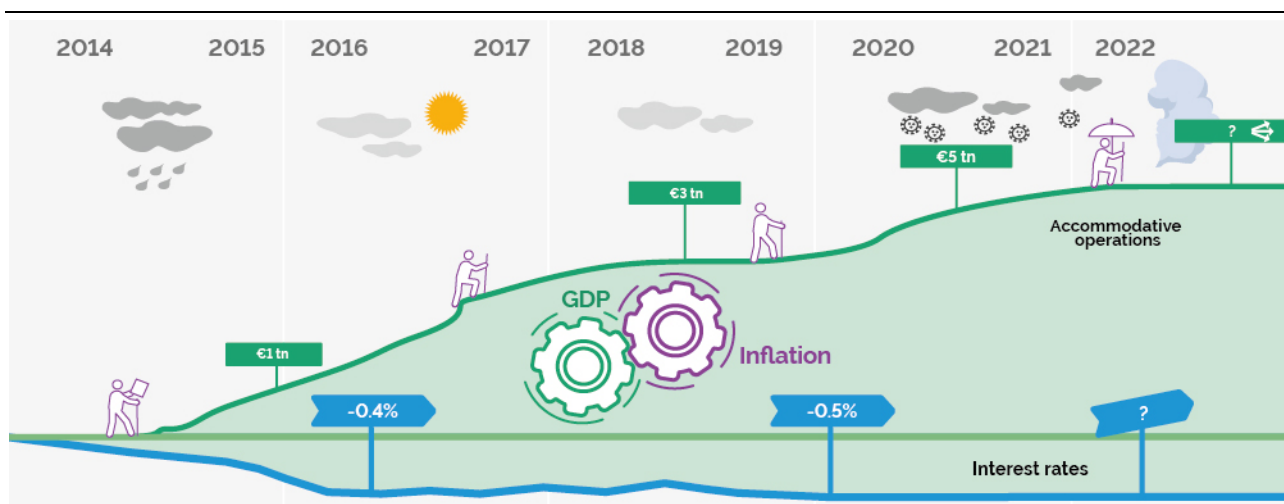
2.1. Monetary policy of the Eurosystem

2.1.1. Decisions

In 2021 and early 2022, the Eurosystem adjusted its accommodative monetary policy:

- Net purchases under the PEPP were increased in the first half of 2021;
- From the second half of 2021, it was decided to gradually reduce net purchases of assets under the PEPP and to end them in March 2022;
- A new monetary policy strategy was adopted in July 2021 and forward guidance on interest rates was updated according to the new strategy.

Value accumulated through accommodative monetary policy operations (asset purchases and targeted refinancing operations) and evolution of short-term interest rates



In the first half of 2021, decisions were taken to accelerate purchases under the Pandemic Emergency Purchase Programme (PEPP). At the meeting held in March, the Governing Council of the ECB decided to accelerate asset purchases in the second quarter, and in June it decided to speed up asset purchases in the third quarter as well. These decisions were taken to support favourable financing conditions for all sectors of the economy and to offset the negative impact of the pandemic crisis on the development of inflation in the euro area.

In July 2021, the Governing Council of the ECB endorsed the new monetary policy strategy and updated its forward guidance on interest rates. The new strategy states that price stability is best maintained at a medium-term inflation rate of 2%. In line with this inflation target and current conditions, the forward guidance on interest rates was also updated. The guidance indicates that the key ECB interest rates will remain at present or lower levels until the Governing Council sees that: (1) inflation will reach a level of 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon; (2) realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target.

As the recovery continued in the second half of 2021 and early 2022, the Governing Council of the ECB gradually eased the pace of asset purchases. In view of the slightly improved financing conditions and the outlook for higher inflation, at the September meeting the Governing Council decided that purchases under the PEPP would be carried out at a slightly slower pace in the fourth quarter of 2021 than in the previous two quarters. In December, inflation picked up and projections were revised upwards. For this reason, the Governing Council decided to gradually reduce net asset purchases under the PEPP in the first quarter of 2022, to end them in March and to temporarily increase net asset purchases under the Asset Purchase Programme as of April, so that a sharp reduction in total purchases would not worsen financing conditions. In addition, the reinvestment period for purchases under PEPP was extended until the end of 2024. Overall, the Governing Council noted that it would continue to respond flexibly and, if necessary, adjust all available instruments.

Macroeconomic indicators for the euro area and March 2022 projections

(annual percentage change)

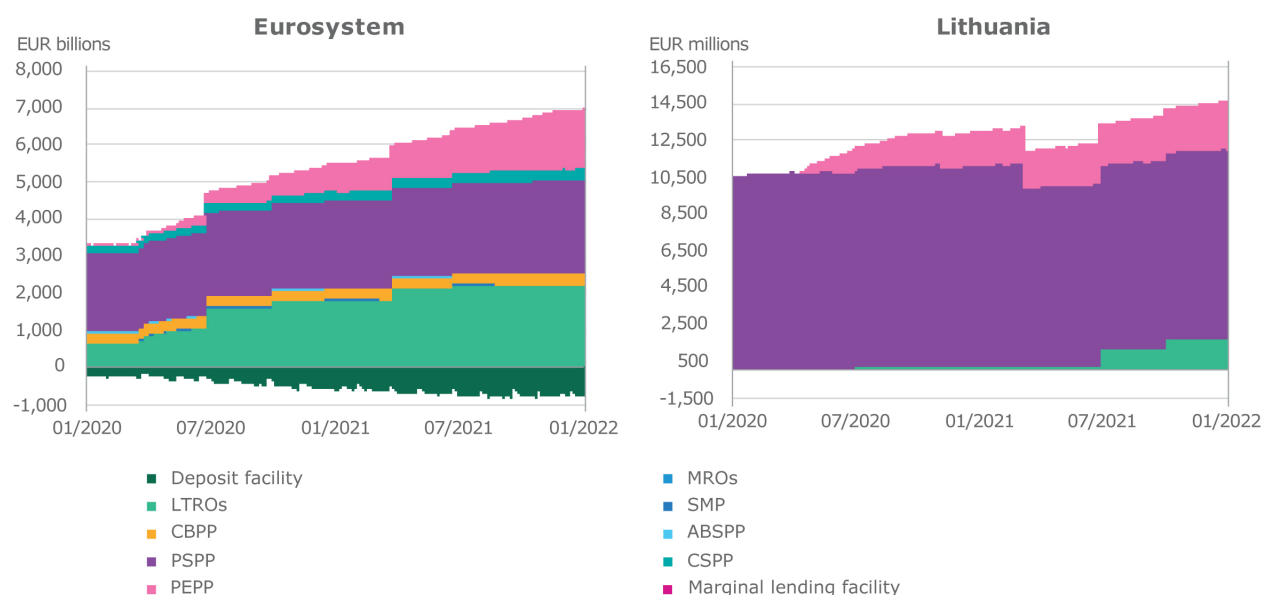
	2021	2022	2023	2024
Real GDP	5.4	3.7	2.8	1.6
HICP	2.6	5.1	2.1	1.9
Unemployment rate	7.7	7.3	7.2	7.0
Compensation per employee	4.0	3.6	3.4	2.9

Source: March 2022 ECB staff macroeconomic projections for the euro area.

2.1.2. Instruments

- **To implement its objectives, the Eurosystem uses a set of monetary policy instruments, consisting of open market operations, standing facilities and minimum reserves.**
- **In 2021, the Eurosystem injected into the financial market €1,487 billion, of which €1.6 billion was injected by the Bank of Lithuania. Both main refinancing operations and non-standard monetary policy instruments, including the PEPP and longer-term refinancing operations, were used for this purpose.**

In 2021, the Eurosystem carried out 161 open market operations. At the end of the year, the outstanding amount borrowed by counterparties under main refinancing operations (MROs) was €0.4 billion, and through long-term refinancing operations (LTROs), including targeted and pandemic emergency longer-term refinancing operations (PELTROs), €2,202 billion. The Bank of Lithuania counterparties participated in the MROs and the LTROs, but at the end of the year they had €1.6 billion outstanding only in LTROs. No deposit facility or marginal lending facility was used.



Sources: ECB and Bank of Lithuania calculations.

Over the period under review, the Eurosystem's monetary policy securities portfolio soared by €1,079 billion to €4,783 billion. Asset purchases under the PEPP accounted for the bulk of the increase (€872 billion). The monetary policy securities portfolio of the Bank of Lithuania increased by €0.1 billion to €13.0 billion, mainly due to purchases under the PEPP, including €6.5 billion (increased by €1.5 billion) in government securities of the Republic of Lithuania or guaranteed securities and €6.5 billion (decreased by €1.4 billion) in bonds issued by European institutions.

Minimum reserves, current account holdings, recourse to deposit and marginal lending facilities

Indicator	Region	Year-end volume, EUR	Annual change, %	Annual average, EUR	Highest value, EUR	Lowest value, EUR
Minimum reserves	Eurosystem	155.4 billion	6.8	149.9 billion	155.4 billion	145.5 billion
	Lithuania	339.3 million	15.2	317.8 million	339.3 million	294.5 million
Current account holdings	Eurosystem	3,819.0 billion	33.1	3,573.9 billion	4,252.0 billion	2,805.5 billion
	Lithuania	15,591.8 million	28.3	12,978.8 million	15,658.1 million	11,405.8 million
Recourse to deposit facility	Eurosystem	776.8 billion	17.2	698.6 billion	839.0 billion	248.1 billion
	Lithuania	0.0 million	0.0	0.0 million	0.0 million	0.0 million
Recourse to marginal lending facility	Eurosystem	0.0 billion	-100.0	0.0 billion	0.8 billion	0.0 billion
	Lithuania	0.0 million	0.0	0.0 million	0.0 million	0.0 million

2.1.3. Impact

The accommodative stance of the Eurosystem's monetary policy in 2021 contributed to dampening the negative effects of COVID-19 and to maintaining favourable financing conditions for both the entire euro area and the Lithuanian economy:

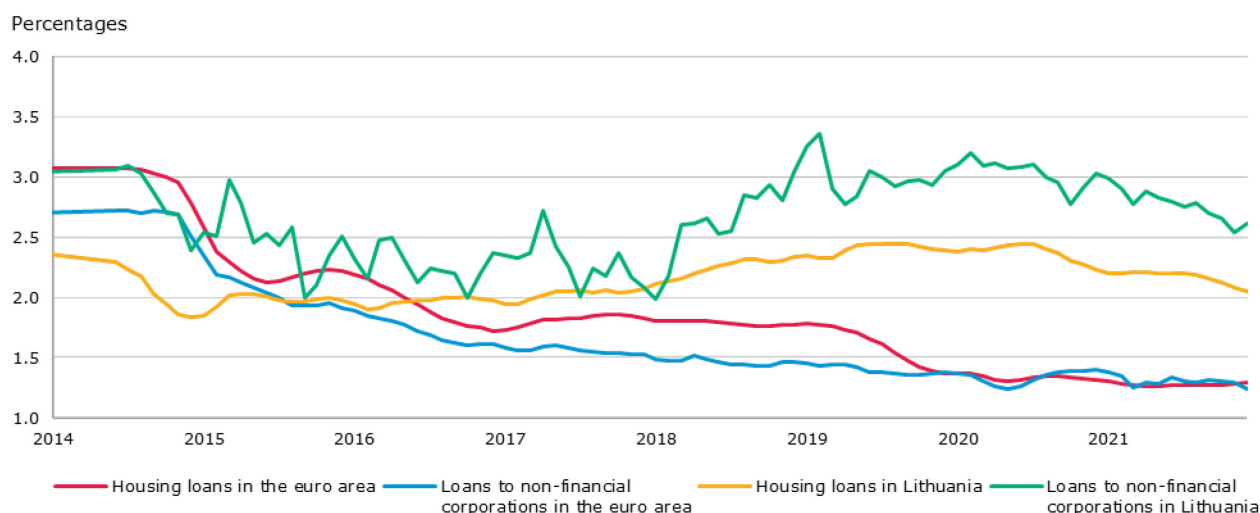
- **The borrowing cost in financial markets for governments remained at historically low levels;**

- **The bank lending conditions to the real economy were still favourable or even improved;**
- **Accommodative monetary policy measures accelerated GDP growth in the euro area and Lithuania.**

In 2021 and early 2022, short-term interbank lending rates remained unchanged and were close to the ECB deposit facility rate (-0.5%).

Since the beginning of 2021, the cost of borrowing in financial markets for euro area governments has increased slightly but remains at historically low levels. Interest rates gradually increased from a very low level in 2020, as the economy recovered from the pandemic-induced shock. In the second half of 2021, expectations of monetary policy tightening became an additional driver of government bond yields. Against a background of continued high inflation and rising inflation expectations, market participants started to expect an increase in policy interest rates in the second half of 2022.

Average interest rates on new MFI housing loans and loans to non-financial corporations



Source: ECB.

Notes: 3-month moving average. Data do not include revolving loans and overdrafts.

Accommodative monetary policy measures of the Eurosystem continue to contribute to low interest rates on loans. Interest rates on loans in the euro area went on a steady decline in mid-2014. The rates have not changed significantly during the COVID-19 pandemic and are still among the lowest in history. In Lithuania, average interest rates on new housing loans and loans to non-financial corporations are even lower than before the coronavirus pandemic. Nevertheless, average interest rates in Lithuania remain above the euro area average due to, among other things, the high level of concentration in the banking sector.² However, it is likely that without the Eurosystem's accommodative monetary policy, interest rates on loans in Lithuania would most probably be even higher.

Accommodative monetary policy measures implemented since 2020 mitigated the fallout from the COVID-19 pandemic on the Lithuanian and euro area economies. The impact on GDP growth estimated by the Bank of Lithuania is similar to that of the euro area, but it is lower on inflation. The

² Detailed information on the credit situation of small and medium-sized businesses in Lithuania is available [here](#).

impact of monetary policy measures on the euro area assessed by the ECB may be bigger due to higher debt levels and more developed financial markets.

Projected impact of accommodative monetary policy measures introduced by the Eurosystem during the pandemic

(percentage points)

Year	Euro area		Lithuania	
	GDP growth	Inflation	GDP growth	Inflation
2021	+0.6	+0.3	+0.5	+0.2
2022	+0.3	+0.3	+0.4	+0.1

Sources: ECB (for the euro area) and Bank of Lithuania (for Lithuania) calculations.

2.2. Macroprudential policy

- **The tense geopolitical situation, which has amplified uncertainty about the financial situation of companies and the further development of the housing market, poses the biggest risk to Lithuania's financial system.**
- **Housing market activity stabilised at the end of 2021, but price growth remains robust.**
- **The banking sector successfully withstood the challenges posed by COVID-19 and accelerated lending to households, and the recovery of business lending contributed to increasing competition among banks.**
- **The Bank of Lithuania reacted to the changing housing market by tightening the Responsible Lending Regulations and setting a sector systemic risk buffer rate of 2% for the housing loan portfolio.**

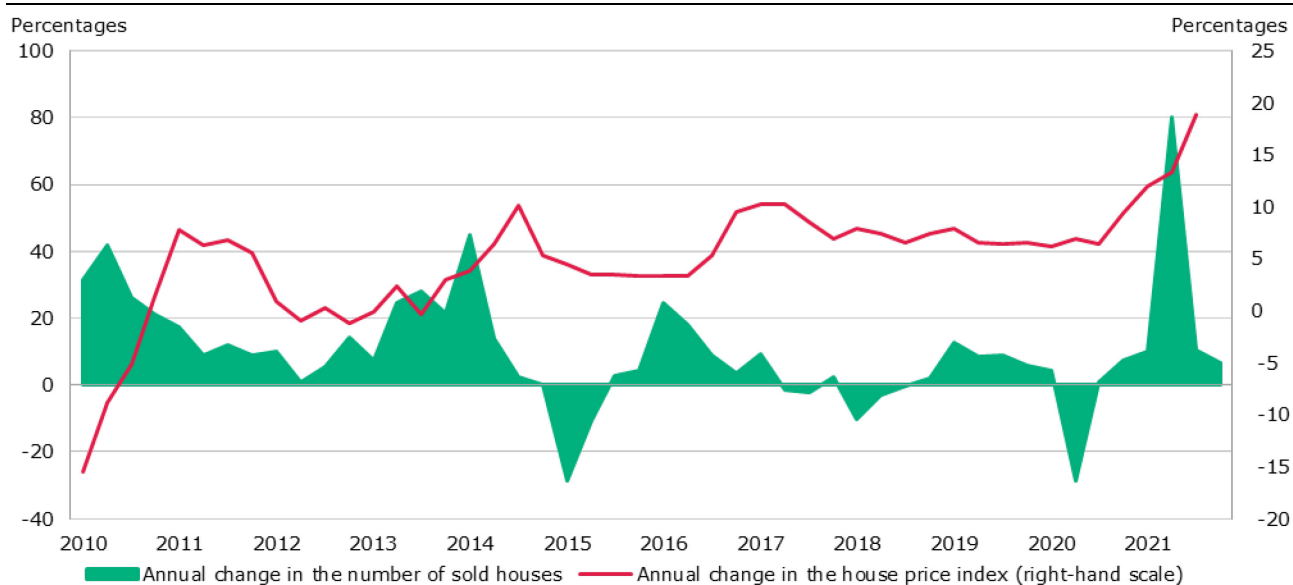
The tense geopolitical situation, which has amplified uncertainty about the financial situation of companies and the further development of the housing market, poses the biggest risk to Lithuania's financial system. In the context of economic recovery from the COVID-19 shock, Lithuania, as many other countries, faced a rapid increase in the prices of goods and services as well as energy and housing, thus putting businesses and households at risk and contributing to the emergence of imbalances in the real estate market. The war in Ukraine which started at the end of February 2022 further exacerbated these trends and created additional challenges. Although the direct links between the financial system and Russia, Belarus and Ukraine are not significant, with deposits of residents of these countries accounting for around 0.3% of total deposits of credit institutions and loans accounting for less than 0.1% of total loans, the financial system could be significantly affected through secondary channels. In particular, Russia's war against Ukraine led to a significant rise in the prices of energy, oil, some food products and raw materials, which, together with the sanctions imposed, poses a challenge to Lithuania's business. The recovery of businesses is still constrained by the supply chain disruptions, rising labour costs and labour shortages. While the overall liquidity of non-financial corporations has improved, there has been a rapid increase in liabilities to other corporates over the last few years, which, according to the latest figures, account for just over one third of the total financial liabilities of companies. This could, in a more financially difficult period, lead to disruptions in the settlement chains between them and make it more difficult for other financial liabilities to be fulfilled. Risks to the financial system against the background of geopolitical tensions are also exacerbated by possible cyberattacks, greater likelihood of financial market adjustments and increasing risk premia. High inflation also reduces the purchasing power and potential savings of households, leading to a deterioration in the financial situation of

households and may increase the burden of available financial liabilities, especially in the recent context of active lending to households. The deterioration of consumer confidence and the withdrawal of buyers from the housing market, due to geopolitical tensions, could lead to a decline in housing market activity, as was already the case during the 2014–2015 Crimea conflict. In the event of a sharp decline in market activity, the current increase in overvaluation of prices could lead to a correction in house prices. On the other hand, the imposed sanctions may lead to higher construction material prices and, if demand is not adversely affected, rising construction costs would further increase the upwards pressure on prices.

Housing market activity stabilised at the end of 2021 but was higher than before the pandemic. House sales in the fourth quarter of 2021 were 1.8% higher than the average in the first to third quarters of 2021, 6.4% higher than a year ago and 14.1% higher than in the pre-pandemic period in the fourth quarter of 2019. By contrast, activity in Vilnius's primary market decreased significantly, with 29% less reserved flats during the fourth quarter of 2021 than the average for the first to third quarters.

House price growth remains robust and the gap between prices and values based on economic factors widens, and further widening of the gap may lead to a market correction. According to Statistics Lithuania, the annual house price growth accelerated to 19.8% in the fourth quarter of 2021 (an 0.9 percentage point increase compared to the previous quarter) and was the fastest growth rate since 2007. More recent data from the Bank of Lithuania and market participants in January 2022 showed a growth rate of 23–24%. The Bank of Lithuania estimates that house prices currently exceed the fundamental values based on economic factors by 9%. This level of overvaluation is moderate compared to historical estimates of up to 20–50%. However, further strong house price growth would lead to a wider gap between prices and fundamental values and increase the likelihood of price adjustment. The share of houses purchased with loans remains stable, accounting for 58% of the value of dwellings in 2021, 3 percentage points less than in 2020 and 4 percentage points less than before the pandemic in 2019.

Annual changes in the number of housing transactions and house prices



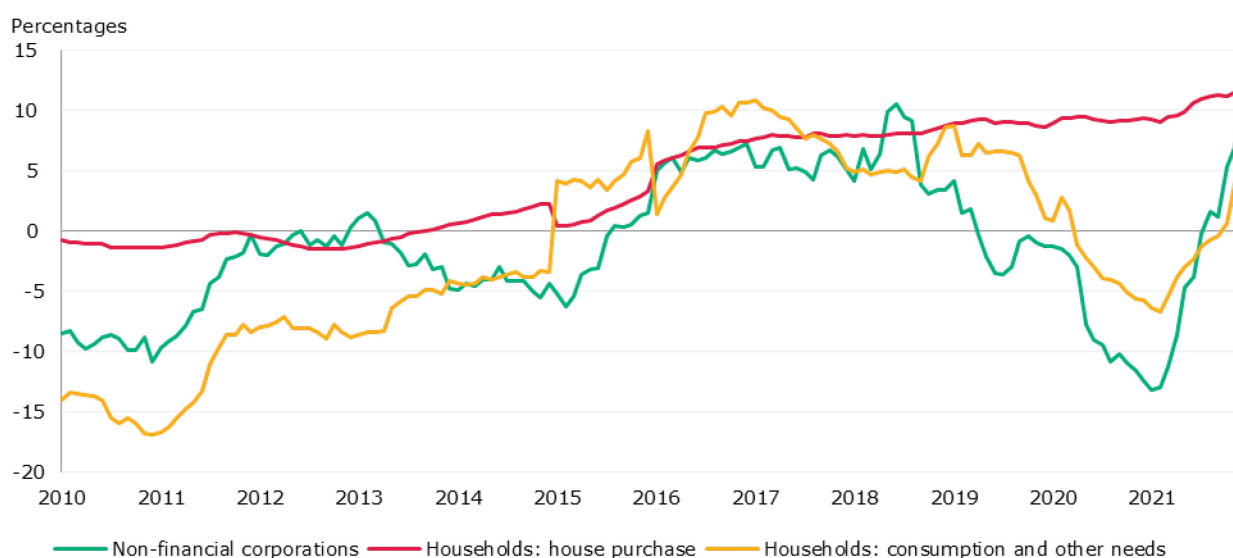
Sources: State Enterprise Centre of Registers and Statistics Lithuania.

Over the period under review, household credit growth in Lithuania gained momentum, with non-financial corporations recovering from the pandemic downturn. The annual growth of the portfolio of loans to the non-financial private sector accelerated to 10.6% in December 2021 and fully recovered from the recession in 2020, when the portfolio shrank by 2.1%. This acceleration was primarily

driven by a significant recovery in lending to non-financial corporations: in 2021, the corporate loan portfolio increased by 10.6%, although it continued to shrink in the middle of the year. However, one-off factors had a profound impact on the recovery of lending to non-financial corporations.³ Without them, the annual growth of corporate and non-financial private sector portfolios in 2021 would have been 4.9% and 8.3% respectively. The portfolio of household loans also grew slightly faster in 2021, by 10.7%, i.e. 4.2 percentage points more than in 2020. The loan portfolio for house purchase grew fastest since May 2009 (11.7%), while loans for consumption and other purchases grew by 5.5% year-on-year.

The banking sector successfully withstood the challenges posed by COVID-19 and a pick-up in credit provision contributed to the growth of competition in the credit market. Even at the peak of the pandemic, banks showed high resilience and profitability, while liquidity remained extremely high following the rapid increase in deposits.⁴ While asset quality deteriorated at the beginning of the pandemic, the share of non-performing loans declined gradually in 2021 and was lower than before the pandemic for both household (1.2%) and corporate loans (2.0%) in the third quarter of 2021. These indicators are likely to worsen due to the economic consequences of the war in Ukraine. The war may also reduce banks' risk appetite, which would negatively affect credit flows and contribute to tightening lending standards. However, so far, credit growth has been particularly robust and more banks and credit unions have been active in providing loans. This contributed to stronger competition in the credit market and, accordingly, to a decline in interest rates on loans to companies and residents. Nevertheless, the Lithuanian banking sector remains highly concentrated, and the major banks depend on the decisions and soundness of Swedish parent banks. If Swedish banks decide to reduce risk positions by limiting lending to some segments, credit flows and borrowing conditions could be significantly affected and, in turn, economic growth could slow down in Lithuania.

Annual growth of the loan portfolio



Source: Bank of Lithuania.












The Bank of Lithuania responded to the heating up of the housing market by tightening the Responsible Lending Regulations and setting a sectoral systemic risk buffer rate of 2% for the housing loan portfolio. As from 1 February 2022, the tightened minimum down payment requirement, i.e. 30%, is applicable to the second and subsequent housing loans. The aim is to reduce the risk profile

³ This acceleration in the growth rate was partly due to the merger of the subsidiary of the group, OP Finance, providing business leasing services, with OP Corporate Bank in October 2021.

⁴ Measured by the liquidity coverage ratio, which amounted to 450% in the third quarter of 2021 and was more than 4 times higher than the requirement and the highest in the EU. The net stable funding ratio, which reflects banks' liquidity over the longer term, was also high and almost doubled the requirement (194%).

of secondary loans and to limit investment transactions with loans. The new requirement exempts borrowers whose balance of each previous loan is less than 50% of the value of the dwelling purchased with the corresponding loan. The Bank of Lithuania also adopted a decision to apply a sectorial systemic risk buffer rate of 2% to the housing loan portfolio of credit institutions, which will enter into force on 1 July 2022. This measure aims to increase the resilience of credit institutions in the face of increased risks due to potential overheating of the housing market.

Macroprudential policy measures effective in Lithuania

			
 Borrower protection		 Bank resilience	
 Down payment requirement	for the first loan 15% for the second and subsequent loans* 30%	 O-SII buffer AB SEB bankas 2% Swedbank, AB 2% AB Šiaulių bankas 1%	
 Maximum monthly loan instalment	40%	 Countercyclical capital buffer	0%
 Interest rate rise test	50%	 Capital conservation buffer	2.5%
 Maximum loan maturity	30 years	 Sector systemic risk buffer	2% for the housing loan portfolio since 01/07/2022

* The exception applies to borrowers whose balance of each previous loan is less than 50% of the value of the dwelling purchased with the corresponding loan.

** The maximum monthly instalment of the loan must not exceed 50% of sustainable income using a 5% interest rate for calculation.

Amendments to the Republic of Lithuania Law on Banks, extending the mandate of the Bank of Lithuania to assess the increase in systemic risk when banks or banking groups carry out transactions that raise concentration, entered into force on 1 November 2021. The Bank of Lithuania will now be able to assess not only bank merger transactions, but also the acquisition of asset portfolios and the acquisition of the qualifying holding of the authorised capital or voting rights (when control is acquired). In addition to transactions of banks established in Lithuania, transactions between foreign bank branches and subsidiaries of banking groups supervised in Lithuania on a consolidated basis may also be assessed.

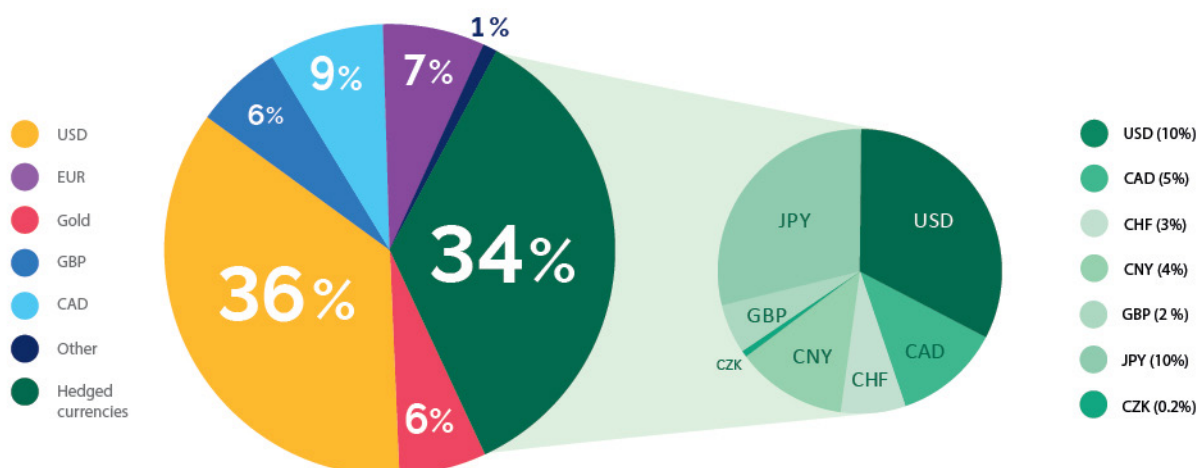
The Bank of Lithuania together with the Competition Council carried out and published a [study on the possibilities of financing SMEs and put forward recommendations, the implementation of which would improve SMEs' access to credit and thus enhance the contribution of the financial system to the growth of the real economy.](#) The recommended measures include the dissemination of information on sources of funding, the improvement of SMEs' financial literacy, the strengthening of compliance with financial reporting requirements, the improvement and targeting of state aid measures. The Bank of Lithuania will continue to cooperate with competent authorities in order to contribute to the implementation of the recommendations.

2.3. Management of financial assets

- **In managing financial assets, the Bank of Lithuania seeks to ensure the stability of the financial system, create conditions for smooth monetary policy implementation, ensure financial independence and provide a buffer against economic shocks.**
- **The main bulk of the Bank of Lithuania's financial assets is invested in money market instruments and US government debt securities. The Bank of Lithuania holds 5.8 tonnes of gold.**
- **The Bank of Lithuania invests financial assets with the aim of diversifying risk and increasing expected return over a rolling three-year investment horizon. The three-year return was 9.49% or €408.2 million.**

In 2021, the main bulk of the Bank of Lithuania's investments was in euro or other currencies (Japanese yen, US dollar, Canadian dollar, Chinese renminbi, Swiss franc, British pound sterling and Czech koruna) with hedged currency risk. Aiming at higher investment diversification, the currency risk of some investments (59% on average in 2021) was not hedged. The majority of investments with unhedged currency risk were in US dollar (36%), Canadian dollar (9%) and British pound sterling (7%).

Average investment composition by currency in 2021



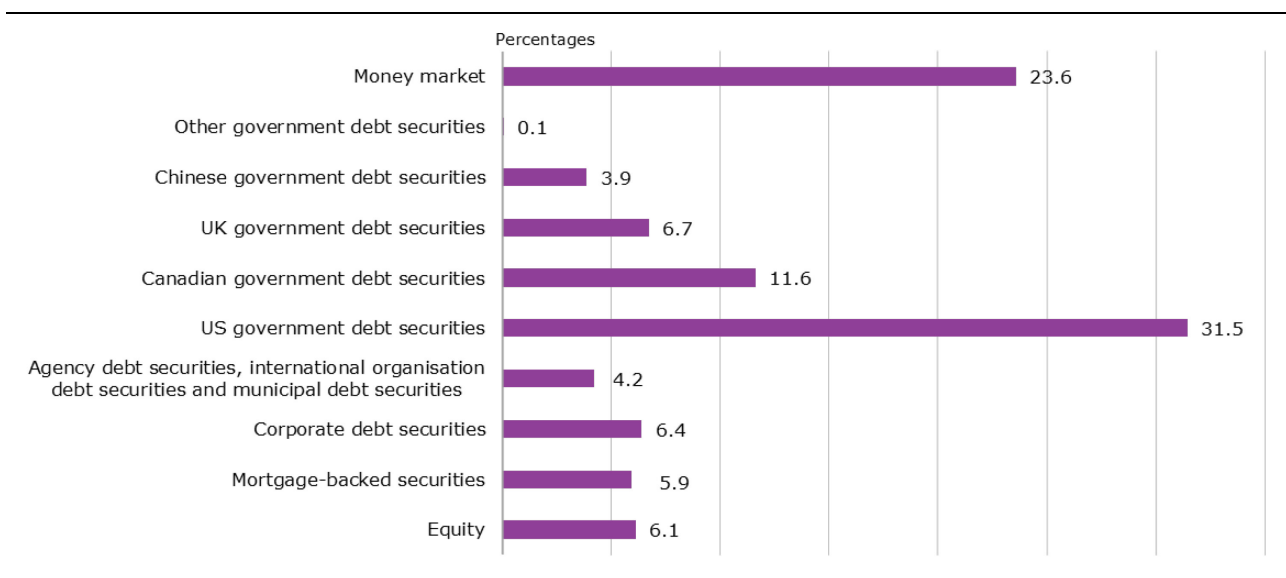
Source: Bank of Lithuania.

Security of financial assets is ensured through diversifying investment, concluding transactions with investment grade rating financial institutions of good repute, and investing only in an investment grade rating debt securities. The investment grade rating assigned to financial institutions and issuers of debt securities by international rating agencies indicates low probability of default on their liabilities. At the end of 2021, 59% of investments were rated AAA (the highest rating), 27% – A, while the remaining part – AA.

In terms of financial instruments, the majority of investments made in 2021 were in government bonds and money market instruments. The Bank of Lithuania invested in securities issued by various governments, government agencies, international organisations and municipalities. Money market instruments mainly consisted of deposits in other central banks and international organisations. Lithuania's gold is held at the Bank of England. Under favourable market conditions, gold is

invested in gold deposits, thus earning interest, or through gold swaps, i.e. temporarily exchanging gold into other currencies and then investing them.

Average investment composition



Source: Bank of Lithuania.

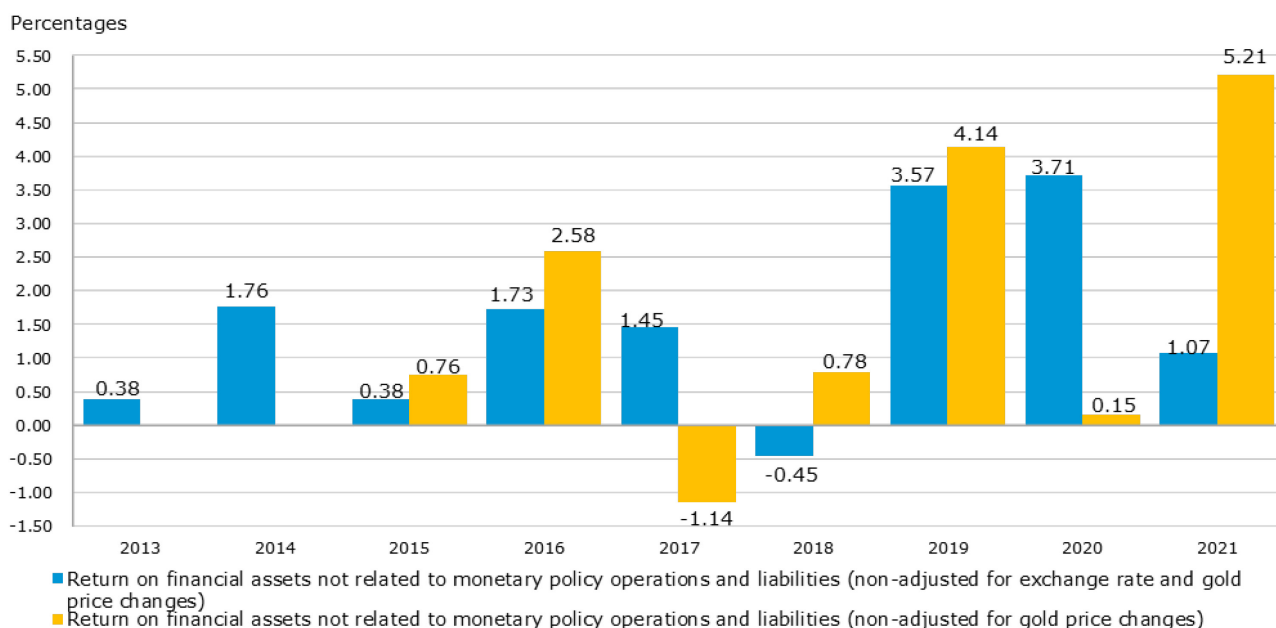
The Bank of Lithuania invests financial assets with the aim of diversifying risk and increasing expected return over a rolling three-year investment horizon. Due to potentially higher yields in the medium term, the Bank of Lithuania tolerates the risk of short-term loss, the size of which, with high probability, should not exceed the risk budget predefined in its investment policy.

The three-year return on the Bank of Lithuania's financial assets not related to monetary policy operations and liabilities was 9.49%. The Bank of Lithuania earned a total of €408.2 million from investment during this period.

In 2021, the Bank of Lithuania's financial assets not related to monetary policy operations and liabilities amounted to, on average, €4,351 million. Return on these assets in euro (adjusted for exchange rate changes but non-adjusted for gold price changes) reached 5.21%, a year-on-year increase of 5.06 percentage points. Return on financial assets not related to monetary policy operations and liabilities (non-adjusted for exchange rate and gold price changes) was 1.07% in 2021, a 2.64 percentage point decrease compared to the previous year. Financial market developments in 2021 supported Bank of Lithuania investments. The appreciation of the US dollar against the euro and the rise in equity prices had a positive effect on investment return, while the increase in the yields of government securities had the strongest negative effect on the annual financial performance.

Gold reserves remained unchanged and amounted to 5.8 tonnes. In 2021, return on the gold portfolio reached 3.65%. Return in euro was stimulated by the strengthening US dollar but undermined by the lower market value of gold in US dollars.

Return on investment



Source: Bank of Lithuania.

2.4. Payments

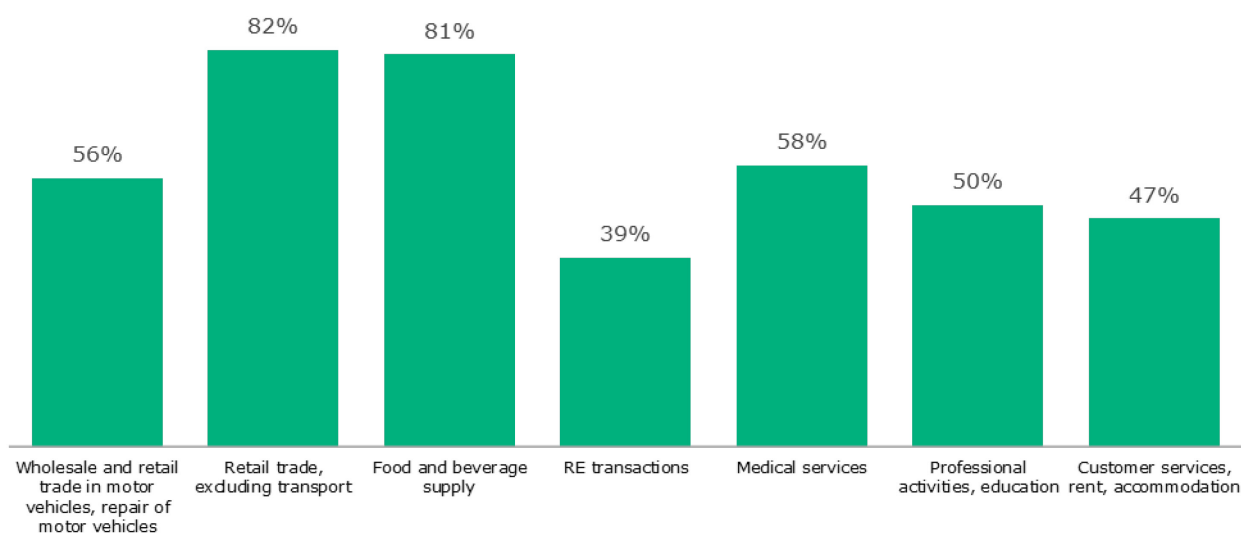
- **The Bank of Lithuania actively participates in the digital euro project and organises discussions on the central bank's digital currency at the global level.**
- **The Bank of Lithuania is examining how to increase the number of points of sale where non-cash payments are accepted.**
- **The Payments Council supports the Memorandum of Understanding for Ensuring Access to Cash in Lithuania.**
- **The number of payments executed via CENTROlink, a payment system managed by the Bank of Lithuania, expanded twofold as a result of the increasing number of payments made by already existing users.**
- **CENTROlink joined the TARGET Instant Payment Settlement Platform (TIPS).**

In addition to the digital euro project, the Bank of Lithuania is actively engaged in discussions on the central bank digital currency (CBDC) at the global level. The Eurosystem's digital euro project entered its investigation phase on 1 October 2021. Over a two year period, the Eurosystem will seek to examine the aspects necessary for the implementation of the digital euro, such as the need and functionality of such a CBDC and legal issues, as well as define a possible business model. The Bank of Lithuania participates in the Eurosystem's High-Level Task Force and the Project Steering Group, which are set up to manage the investigation phase of the Eurosystem's digital euro project. In 2021, the Bank of Lithuania participated in the digital euro experiments to develop a digital euro component based on new technologies (block chain) and analysed their potential benefits for settlements in digital euro. During the investigation phase, the Bank of Lithuania will contribute to the shaping of digital euro policy and the analysis of legal, design and technical aspects. The Member of the Board of the Bank of Lithuania leads the BIS Innovation Network working group on CBDC which brings together over 40 central banks

from all over the world and analyses the relevant aspects of the CBDC. Five discussions on the CBDS technical topics took place in 2021.

The Bank of Lithuania is examining how to increase the number of points of sale where non-cash payments are accepted. Some areas of business provide ample opportunities for non-cash payments, but there are also areas where such opportunities are often limited. Data collected by the Bank of Lithuania show that more than 80% of SMEs engaged in retail trade, food and beverage supply enable their customers to pay using payment cards. In other sectors where services and goods are sold in physical locations, fewer entities accept cards. For example, 40-50% of the companies providing various types of customer services or rental and medical services accept card payments. A number of possible ways are being explored to increase the number of points of sale accepting non-cash payments: introduction of an obligation to enable non-cash payments, temporary compensation of the costs of accepting electronic payments for small companies, envisaging other incentives for businesses (e.g. facilitation of accounting processes in case of non-cash payments; improving the transparency of conditions and fees for services of receiving electronic payments).

Share of small companies accepting card payments



Source: Survey of enterprises commissioned by the Bank of Lithuania.

Compared to 2021, the price of the basic payment account service remained stable in 2022 at €1.45 per month. As the average fee for payment service packages remained stable in 2021, according to the methodology used, the maximum fee for the basic payment account did not change. The pricing in the form of the payment service packages has spread since 2017, when the regulation of the provision of basic payment account services was introduced. The share of the population opting for various payment service packages has been increasing since the launch of this service and has been relatively stable in recent years, accounting for around two thirds of the population with an account.

The Payments Council has examined the issue of access to cash in Lithuania and supports the Memorandum of Understanding for Ensuring Access to Cash in Lithuania (hereinafter – the Memorandum). The Payments Council, which brings together PSPs, payment service users, regulators and the academia, in 2021 examined the possibilities of ensuring access to cash in Lithuania, focusing on the sustainable access to cash in the regions and the improvement and development of alternative methods of cash accessibility. The Payments Council estimates that the establishment of additional cash access points by financial institutions in accordance with the Memorandum in the regions will significantly improve access to cash for the population, especially in the regions. Against this background, it is

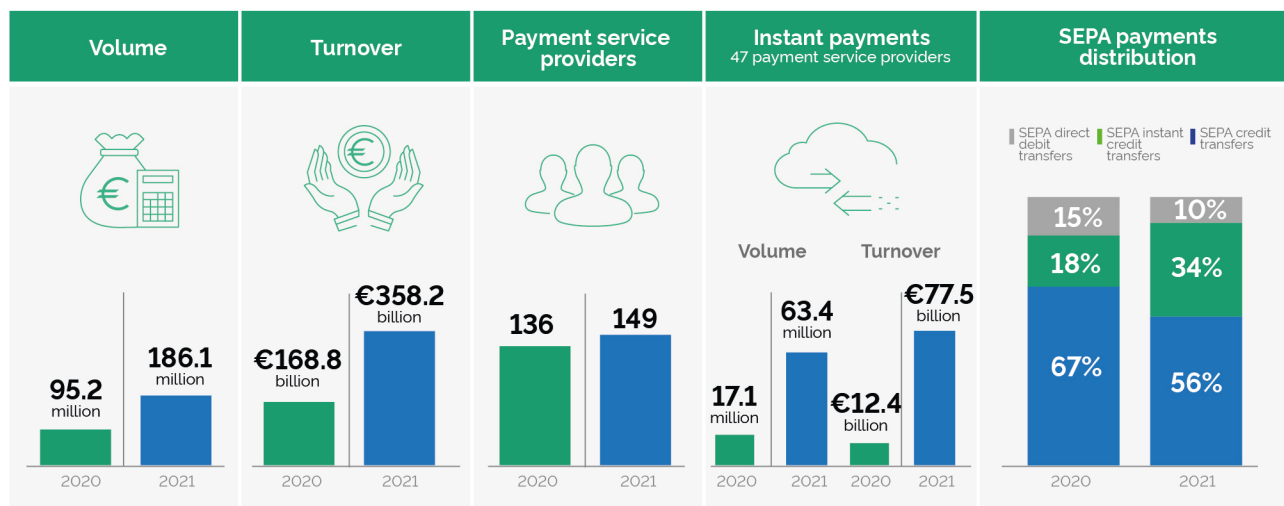
considered that the development of other alternative methods of cash accessibility would not be viable under these circumstances. The Payments Council will continue to monitor the impact of the Memorandum on the market and the issue of cash accessibility. In 2022, the Payments Council will continue to address the issue of opening up data in state registers which was raised in 2021 and will develop recommendations on enhancing (ensuring) accessibility of data processed in state registers and other state-owned information systems with a view to improving the quality, variety and development of financial services.

The use of instant payments is steadily increasing in Lithuania, and Lithuania is among the leading countries in the euro area. In the first to third quarters of 2021, the share of instant payments stood between 42% and 46% of all SEPA credit transfers⁵, and in the fourth quarter it reached 51%. At the end of 2020, this share was around 37%. Among the 26 European countries with SEPA instant payments, this ratio stood at 11% at the end of 2021. At the end of 2021, the SEPA instant payment service in Lithuania was provided by 25 banks and EMIs (15 at the end of 2020).

In order to accelerate the development of instant payments, the EC plans to propose a package of measures in 2022. It would include setting requirements for PSPs for the provision of the instant payments service, shaping pricing compared to traditional SEPA transfers, strengthening consumer protection and optimising the sanction screening when processing instant payments. In 2021, the EC consulted market participants, competent supervisory and regulatory authorities and other stakeholders on measures.

In 2021, the number of payments executed via CENTROLINK, a payment system managed by the Bank of Lithuania, has doubled. Although the number of new on-boarded credit institutions, PIs and EMIs halved, there was an increase in payments made by existing PSPs. The fastest growth (3.7 times) was observed in the number of instant payments, which accounts for more than a third of the total amount of payments made through CENTROLINK (34%) in 2021. In 2021, there were 186.1 million executed SEPA payments (credit transfers, instant credit transfers and direct debits), the value of which increased to €358.2 billion. A total of 19 new members (credit institutions, PSPs and EMIs) joined CENTROLINK payment system in 2021 (39 in 2020), but compared to 2020, the number of payments nearly doubled, and the total value has increased by 110%. At the end of 2021, 149 PSPs (136 in 2020) from 18 EEA countries were using CENTROLINK services. During the period under review, the number of instant payments rose from 17.1 million to 63.4 million and its value has increased by €61.5 billion, from €12.4 billion to €77.5 billion. This increase led to certain changes in the distribution of SEPA payments depending on their type: in 2021, the share of instant payments rose by 16 percentage points, and the share of credit transfers and direct debit payments decreased by 11 percentage points and 5 percentage points respectively.

⁵ This share is calculated by dividing the number of instant payments made under the SEPA instant credit transfer scheme by the sum of payments executed under this scheme and the standard SEPA credit transfer scheme. Euro credit transfers within the SEPA area can be carried out according to either of these schemes, so the calculation of this share reflects the extent to which SEPA instant credit transfers replace traditional SEPA credit transfers.



The CENTROlink payment system continued to develop instant payment options. In December 2021, certain technical changes were made, following which the payment system was connected to TARGET Instant Payment Settlement (TIPS). This connection has significantly expanded the availability of the instant payment service throughout the EEA. At the end of 2021, 47 PSPs from Lithuania and other EEA countries (26 at the end of 2020) were able to provide instant payment services to their clients using CENTROlink payment system. The expansion of instant payments is also supported by the Proxy Lookup Service (PLS) provided by the Bank of Lithuania. The service allows PSP-connected customers to initiate payments based on the payee's mobile phone number.

In 2021, the Bank of Lithuania was preparing for the TARGET consolidation project. This project will replace the existing real-time gross settlement system (TARGET2) with a new system (T2-T2S) seeking to optimize the liquidity management of all TARGET services. For this purpose, as a central bank, the Bank of Lithuania performed a configuration, testing, adaptation of its system and connection of existing TARGET2-LIETUVOS BANKAS participants to the T2-T2S test environment in accordance with the agenda provided by the ECB.

There is a strong focus on cybersecurity of financial market infrastructures both overseen and managed by the Bank of Lithuania. The CENTROlink payment system operated by the Bank of Lithuania was assessed against the Cyber Resilience Oversight Expectations (CROE) approved by the ECB. Based on the results of the assessment, measures were identified to strengthen CENTROlink's cybersecurity and to reach a higher level of maturity. All securities settlement systems operated by Nasdaq CSD SE in the Baltic States are also subject to a CROE assessment carried out together with the central banks of Latvia and Estonia.

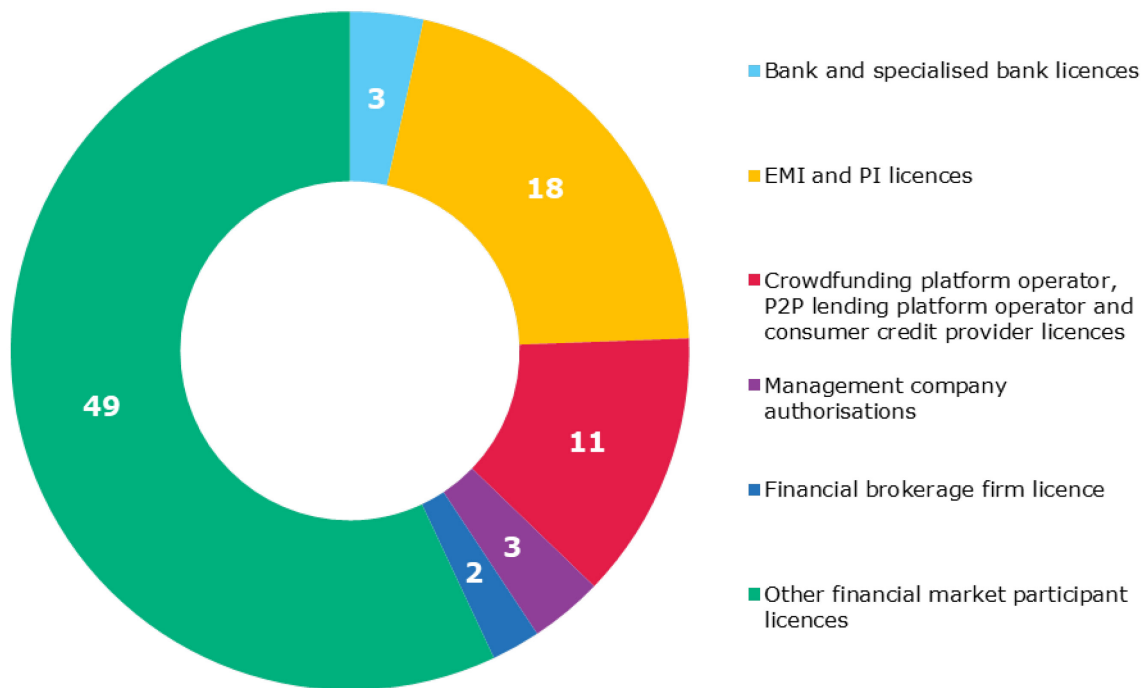
2.5. Supervision

2.5.1. Financial market participants

- **The Bank of Lithuania supervises more than 770 financial market participants.**
- **Information on operating results of financial market participants and overviews of their activities are published on the [Bank of Lithuania's website](#).**

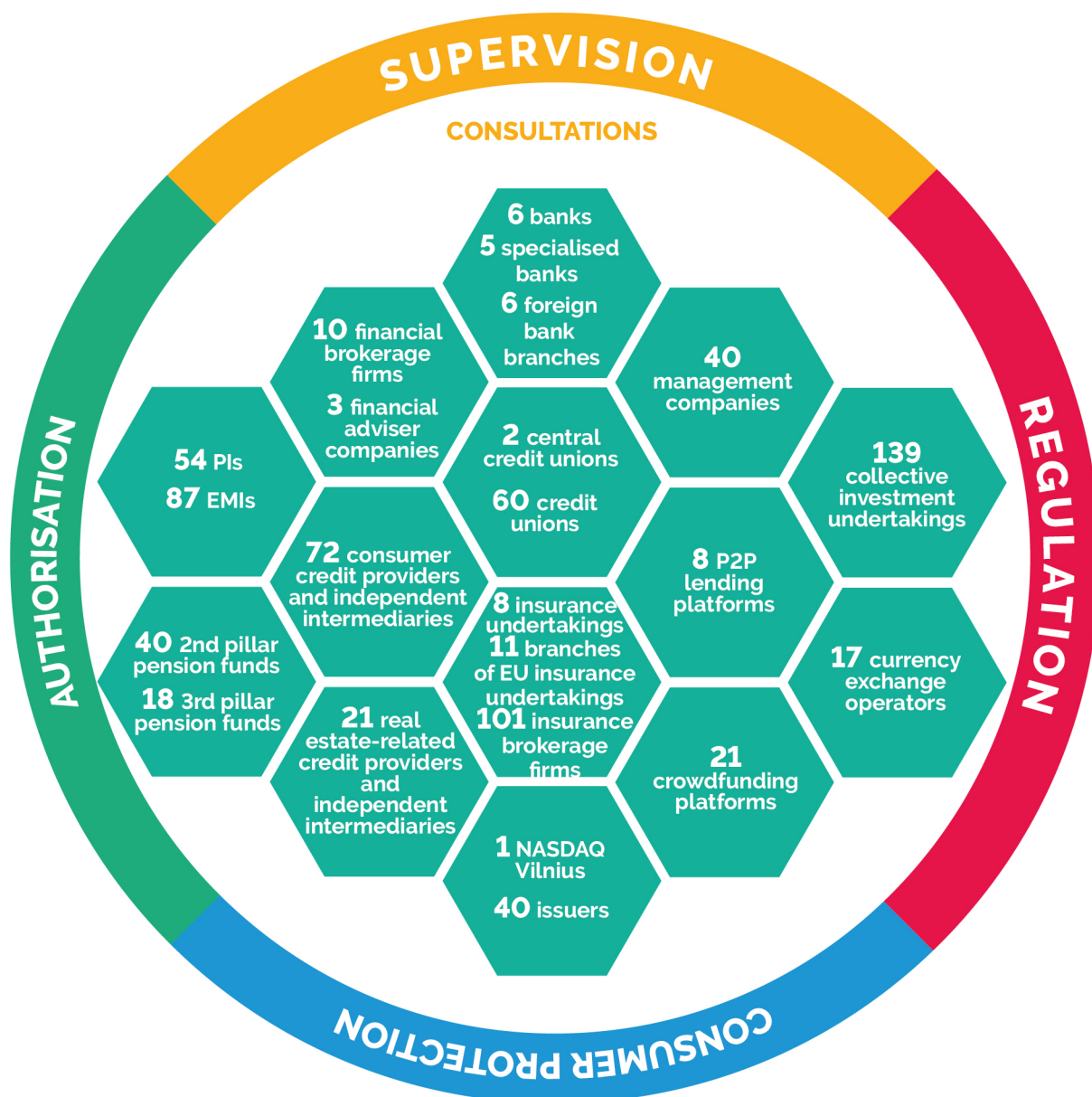
In 2021, 86 new financial market participants entered the financial sector. 26 licences (authorisations) were issued to banks, EMIs and PIs, financial brokerage firms and management companies. 60 companies (crowdfunding platform operators, P2P lending platform operators, intermediaries of EMIs and PIs, consumer credit providers, etc.) were included in the public lists. The Bank of Lithuania has been successfully providing electronic licensing services: now all companies are able to take care of the necessary paperwork and procedures electronically.

New licences and authorisations issued in 2021



Source: Bank of Lithuania.

In 2021, the Bank of Lithuania received 9 applications for a specialised bank licence and 1 application for insurance activities and carried out 7 preliminary assessments of potential applications for a specialised bank licence and an application for an insurance activity licence. The final decision on the licensing of specialised banks is taken by the ECB.



Notes: Some market participants have two or more licences or are included in several lists of service providers.

2.5.2. Prudential supervision

- In carrying out supervision of financial market participants, the Bank of Lithuania mainly focused on areas exposed to highest risk, namely, operational and credit risks.
- The annual Supervisory Review and Evaluation Process (SREP) was carried out.
- The Bank of Lithuania conducted an annual risk assessment of insurance undertakings.

While financial market participants have risen to the challenges posed by the pandemic, Russia's invasion of Ukraine requires continued vigilance, close monitoring of the liquidity situation, credit

risk and other supervisory indicators of the financial sector and, if necessary, supervisory action. The Bank of Lithuania supervises the compliance of financial institutions with the requirements of ICT and cybersecurity risk management and its readiness to ensure business continuity. The Bank of Lithuania warned financial market participants about the increased interest of individuals in crypto-assets and the resulting risks of money laundering, fraud and terrorist financing.

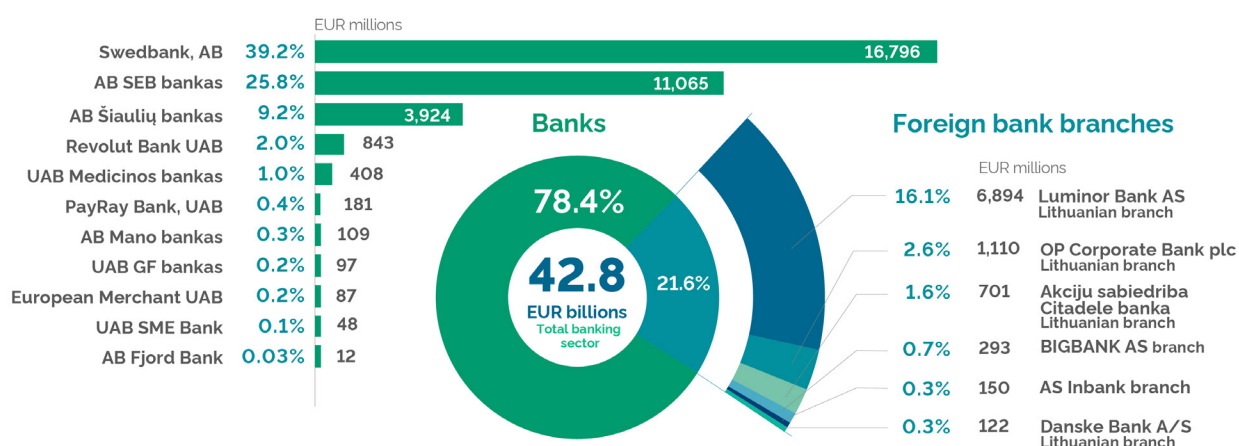
Despite the ongoing global coronavirus pandemic and lockdowns in Lithuania, the banking sector was profitable and continued to be financially sound, with solid capital adequacy and liquidity. In 2021, according to unaudited data, Lithuania's banking sector earned a profit of €329 million, 17.6% more than in 2020, almost reaching the pre-pandemic level (€334 million in 2019). All banks complied with the established capital adequacy and liquidity requirements.

In 2021, some performance indicators of banks improved significantly, banks became more digitalised; they created and offered customer-friendly, accessible channels for the delivery of products and services. It should be noted that timely state aid and business adaptability prevented the banking sector from facing a more significant increase in credit risk: the loan portfolio quality indicators improved. In addition, lending to citizens and businesses increased, while deposits in banks continued to grow, although their annual growth rate slowed down.

The banking sector remains concentrated, but new market participants are gradually increasing the existing assets. The banks which launched their operations in the past few years now hold 3.2% of the market in terms of assets (0.9% a year ago).

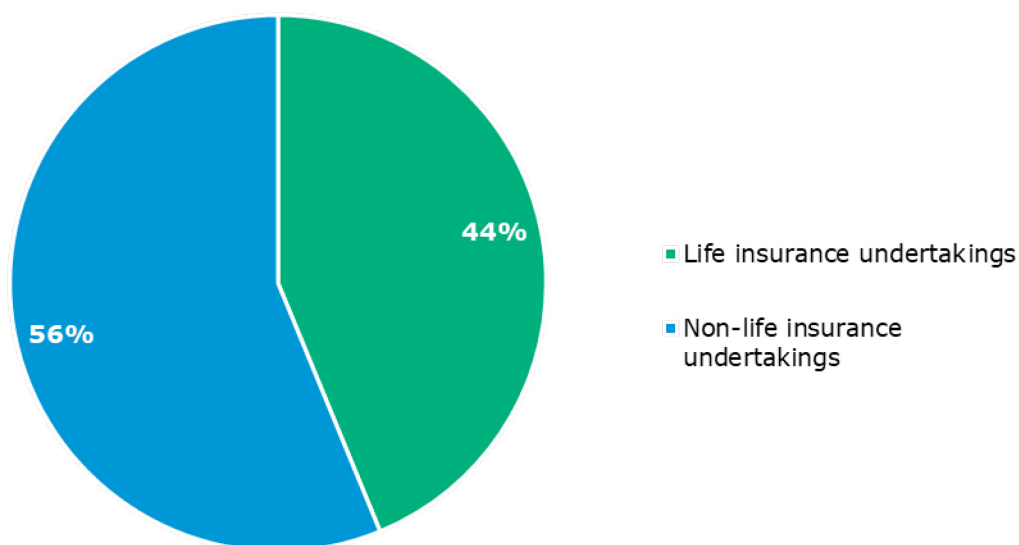
Given the relevance of cyber risks, the Bank of Lithuania assessed how 8 banks and 2 central credit unions managed ICT and security risks. The results demonstrated that credit institutions should pay more attention to the following three areas: operational security, monitoring and response as well as protection of the management of access rights.

Credit unions operating in the country were profitable and complied with all prudential requirements. In 2021, credit unions grew in assets and share capital and actively lent to citizens and businesses. Credit unions' assets increased by 16% over the year and, according to unaudited reports, amounted to €1,119.7 million. Asset growth was driven by an increase of deposits in credit unions. In 2021, loans grew faster than deposits: 20% for loans and 13.8% for deposits. Increased lending was the main contributor to the performance of the credit union sector. They earned an unaudited profit of €9.5 million, i.e. €3.2 million more than in 2020.



Source: Bank of Lithuania.

All supervised insurance undertakings with a significant margin complied with the compulsory solvency capital requirements in 2021 (as at 31 December 2021, the solvency ratio of life assurance undertakings was 2.07 and 1.60 of non-life insurance undertakings). In 2021, the Lithuanian insurance market vastly expanded, i.e. by 9%, in terms of insurance premiums written by insurance undertakings registered in Lithuania and branches established in Lithuania by insurance undertakings from other EU Member States. The volume of insurance premiums reached €1 billion. In the life assurance sector, due to an increase in residents' income and savings as a result of economic growth, the unit-linked life assurance portfolio recorded the fastest growth 14.9% and amounted to €217.5 million. The total premium portfolio of insurance classes in the non-life insurance sector, accounting for 69.3% of the total insurance market, increased by as much as 8.6% to €721.4 million in 2021 due to the end of quarantine and the lifting of mobility restrictions in mid-2021 (in 2020, this portfolio fell by 1% due to restrictions during the pandemic). The growth of the non-life insurance market was mainly determined by the increase in the Casco insurance and property (including residential) insurance portfolios, amounting to 9.5% and 17% respectively. The volume of insurance premiums for compulsory motor third party liability (MTPL) insurance, which accounts for almost one third of the non-life insurance market, was still slightly reduced by 1.3% (a decrease of 8.4% was recorded in 2020) due to continued mobility restrictions in the first half of 2021. In 2021, the financial result of all insurance companies registered in Lithuania was €45.2 million, with seven out of eight insurance undertakings having completed the year profitable, according to unaudited data. In 2021, the value of assets managed by insurance undertakings increased by €74.2 million and amounted to €1.7 billion.



Source: Bank of Lithuania.

101 insurance brokerage firms operating in Lithuania with unaudited assets of €46.3 million were profitable in 2021, earning a profit of €9.6 million.

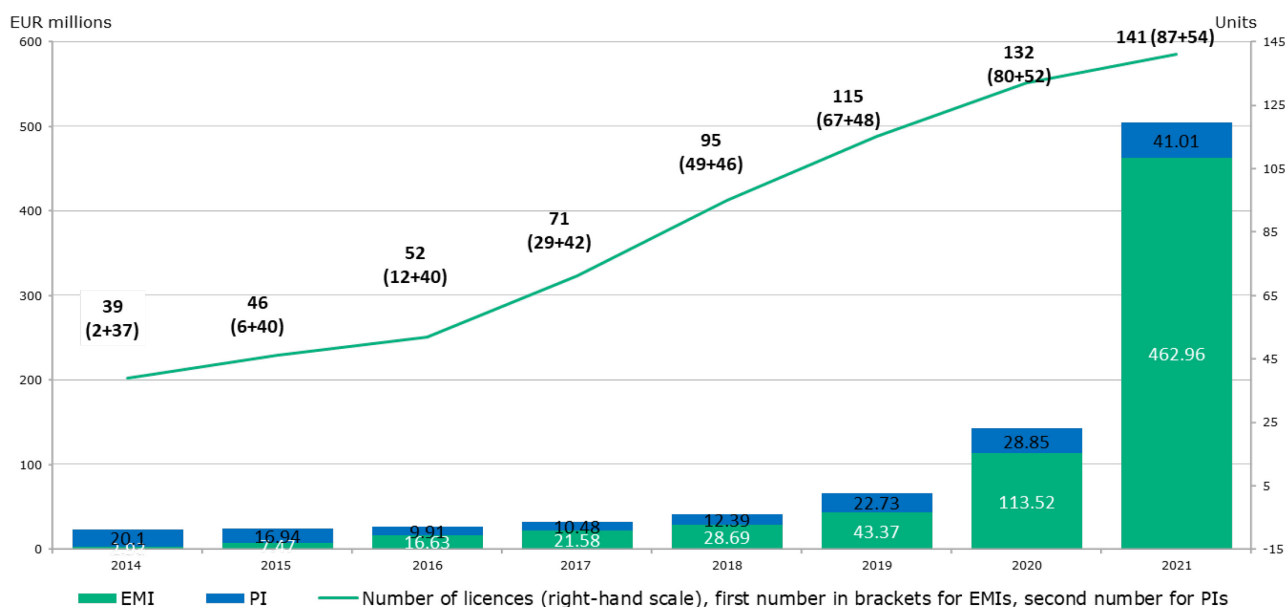
2.5.3. FinTech sector

- **FinTech companies are gaining ground in the Nordic-Baltic region.**
- **There is a strong focus on increasing maturity and reducing risks in the EMI/PI sector.**
- **The fight against money laundering and terrorist financing is being strengthened.**

In 2021, 28 FinTech companies were licensed or included in public lists. FinTech companies included two specialised banks, EMIs and PIs, crowdfunding platform operators and P2P lending platform operators. Currently, more than 40 applications for licences to potential FinTech sector participants are being assessed.

The licensed FinTech sector in Lithuania, which consists of EMIs and PIs, continued to grow rapidly over the period under review. At the end of 2021, there were 141 EMIs and PIs on the public lists (87 EMIs and 54 PIs), compared to 132 (80 EMIs and 52 PIs) at the end of 2020. In 2021, the amount of payment transactions executed by EMIs and PIs exceeded €190 billion. The total amount of payment transactions executed by the sector amounted to €194.57 billion at the end of 2021, 3.8 times more, compared to 2020. Companies generated revenues from licensing activities of €503.97 million, i.e. €361.60 million (3.5 times) more than in 2020: EMIs accounted for 92% and PIs earned 8% of these revenues. One market participant accounted for 49% of the market in terms of revenues from licensed activities and 58% of the market in terms of the amount of payment transactions.

EMI and PI revenues from licensed activities and number of licences



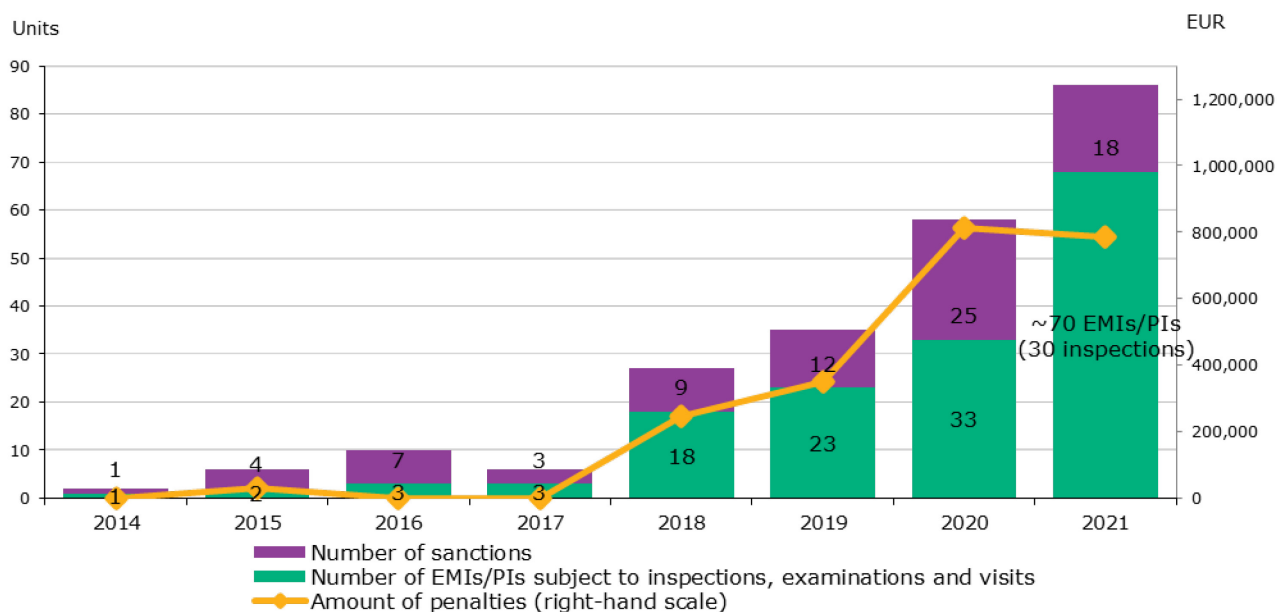
Source: Bank of Lithuania.

A favourable environment has been created for the establishment of financial institutions and development of their new products in Lithuania.

The Bank of Lithuania has already launched a one-stop shop, allowed foreign citizens to submit documents to obtain a licence in English, published a Licensing Guide in Lithuanian and English, and practical advice on how to prepare properly for the licensing process. A section dedicated to the [Newcomer Programme](#) has been created on the Bank of Lithuania's website, providing a concise and clear presentation of the key information for new market participants.

In order to increase the maturity of EMIs and PIs, the Bank of Lithuania applies a number of supervisory instruments. One of them is a [Dear CEO letter](#) sent to all EMIs and PIs operating in Lithuania. The 2021 Dear CEO letter highlighted the requirements related to the management of ML/TF risks, equity, internal control, customer fund protection requirements, handling customer complaints, ICT and security risk management, notifications of change of managers and shareholders, reporting, reliability of data, timeliness of reporting, and outsourcing. In order to promote the development of the sector's maturity, the Bank of Lithuania will, through the analyses carried out in 2021 and assessment of prevailing trends, encourage institutions to address the identified problem areas by expressing its expectations in 2022.

In 2021, there was an increase in the number of other supervisory actions carried out by the Bank of Lithuania (inspections, investigations, documentary analyses, letters addressing weaknesses in institutions' activities) as a result of a very rapid development of the sector. In 2021, the Bank of Lithuania carried out 30 individual and thematic inspections or analyses addressing how FinTech companies comply with the requirements of money laundering risk management, know your customer policies and fraud risks management, equity and customer protection, ensure internal audit and internal control management, and imposed 18 sanctions (penalties, warnings, public announcements, and withdrawal of licences).



A thematic analysis of anti-money laundering measures and de-risking policies applied by Lithuanian financial institutions found that they do not significantly reduce the availability of payment services to individual user groups, but there are several difficulties encountered by the country's payment service users as a result of these procedures. The Bank of Lithuania announced a [public consultation](#) on measures to improve the experience of payment service users in the application of anti-money laundering and terrorist financing (AML/CTF) measures and that it would take steps to remedy the situation. The Bank of Lithuania will continue to monitor the application of de-risking policy and, if it identifies indications of undesirable consequences of de-risking policy, will take appropriate action and also actively engage in the document drafting process of the European Banking Authority (EBA) to ensure a balance between payment services and the AML/CTF legislation.

The crowdfunding sector grew rapidly and continued to contribute to strengthening competition in the credit market. In 2021, the funding provided to companies and the number of transactions concluded almost tripled and the number of funded projects increased by nearly 2.5 times. The potential of the crowdfunding market is also enhanced by the entry into force in November 2021 of the Crowdfunding Service Providers Regulation, which harmonised the requirements for the operation and licensing of crowdfunding service providers across the EU. This Regulation will create new opportunities for Lithuanian business by allowing relicensed crowdfunding platform operators to provide services across the EU. The EU market should boost the growth of crowdfunding platforms, which would strengthen competition among themselves and with other financial market participants. New participants are also expected to enter Lithuania, with more investment opportunities for consumers and access to borrowing or financing opportunities for small and medium-sized businesses.

The P2P lending market also expanded, and the consumer credit portfolio of P2P lending platforms continued to grow in 2021: it increased by more than a quarter (27.8%) over the year and amounted to €76.52 million. More detailed information is provided under the [Performance indicators of consumer credit providers](#) section on the Bank of Lithuania's website.

Since the risks related to ML/TF are one of the greatest concerns not only for the financial system in Lithuania but across the EU and for the security of citizens, in 2021, the Bank of Lithuania focused on AML/CTF. The Bank, together with the Financial Crime Investigation Service (FNTT), developed guidelines to help financial market participants [to better identify fictitious companies](#) and prevent their activities.

The Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) highlighted the progress made by Lithuania in strengthening the fight against ML/TF in the area of supervision of financial institutions and in applying the risk assessment methodology and decided to improve Lithuania’s rating, which reflects the implementation of the recommendations of the Financial Action Task Force (FATF) on the regulation and supervision of the activities of financial market participants. Lithuania will continue to implement MONEYVAL’s recommendations and measures to manage these risks as part of the strengthening of the AML/CTF. For more details, see [MONEYVAL press release](#).

2.5.4. Supervision of financial services

- **There is a strong focus on the implementation of the strategic direction “a financial sector that generates value for consumers”.**
- **The Bank of Lithuania provided guidelines and issued recommendations to financial market participants.**
- **The Bank of Lithuania took active steps and applied sanctions against persons illegally providing financial services.**
- **Sanctions were applied for breaches of the legislation.**

The Capital Market Development Action Plan is one of the largest projects in 2021, which started with surveys of market participants and investors in early 2021, in coordination with stakeholders (the European Bank for Reconstruction and Development, State Tax Inspectorate, Ministry of Finance, Ministry of the Economy and Innovation, and representatives of AB Nasdaq Vilnius Stock Exchange) and [was published for public consultation on 1 February 2022](#). The Capital Market Development Action Plan was drawn up and published for the first time in Lithuania in this size, detail and scope. This work is directly linked to the strategic direction of the Bank of Lithuania “a financial sector that generates value for consumers”, one of the objectives of which is to increase competition in the Lithuanian financial sector and to promote sustainable and innovative market development. The Plan contains 37 measures, divided into 7 clusters, to be implemented by different institutions (both public and private). After the public consultation, the plan will be revised and its final version published, followed by the implementation of the plan, which will require the involvement of both the Government of the Republic of Lithuania and market participants.

In order to increase transparency in the unit-linked life assurance market, the publication of aggregated information on all [taxes on unit-linked life assurance products offered on the market](#) was launched on the Bank of Lithuania’s website in 2021, thus making it easier for consumers to assess the fees paid and compare offers of different insurers. All fees paid to the insurer in connection with the unit-linked life assurance contract – premiums, contract administration, investment management, etc. – and charges paid to third parties (management companies) for the management of investments are published on the Bank of Lithuania’s website. These fees and charges constitute the price of the financial product paid by the consumer. In order to make it easier for residents to understand the importance of the charges levied on the cumulative amount, the Bank of Lithuania also publishes hypothetical examples of how much tax the consumer will pay over 5, 15 or 30 years if they pay an insurance premium of €1,000 per year.

Within the framework of its consulting activities, the Bank of Lithuania continued providing guidelines and recommendations on relevant regulatory issues, thus aiming to enhance clarity with regard to the content of existing legal requirements and supervisory expectations as well as to

formulate best practices. In 2021, guidelines on the provision of credit related to immovable property were drafted to develop best practices for the provision of credit services based on a uniform understanding and application of the legislation governing the granting of credit, to help market participants to properly comply with the regulatory requirements applicable to the granting of credit, to promote consistent and uniform implementation, to ensure responsible lending practices and the protection of consumer rights and legitimate interests.

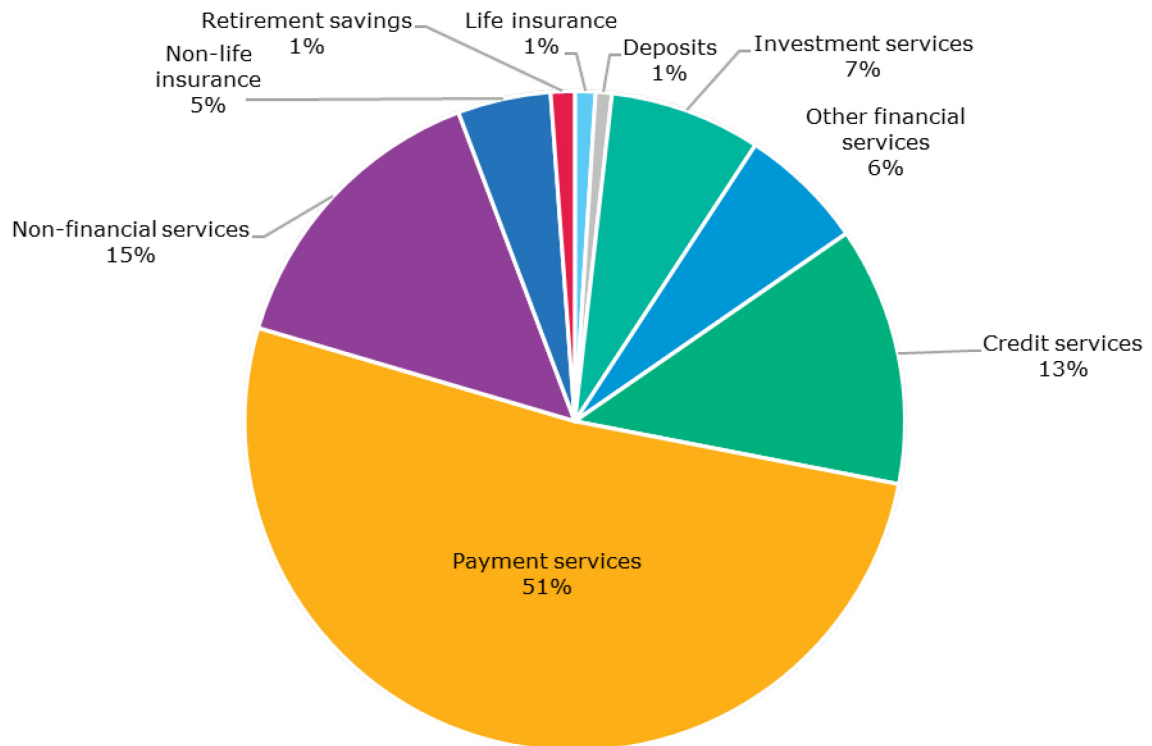
The Bank of Lithuania organised meetings of the Collective Investment Market Forum. The Bank of Lithuania established the Collective Investment Market Forum in 2021 as part of an efficient dialogue between the collective investment market participants and the responsible institutions (the Bank of Lithuania, Ministry of Finance, Ministry of the Economy and Innovation) with a view to ensure sustainable market growth and the balanced protection of the legitimate interests of investors. The Forum held two meetings last year to discuss market and supervisory issues such as possible capital market developments, anti-money laundering issues, possible changes in the tax regime, licensing issues, etc. In addition, a working group is set up on the initiative of this forum and is currently reviewing the applicable requirements in order to eliminate excessive and unjustified national requirements.

The Bank of Lithuania published an overview of how companies listed on the stock exchange comply with the principles of environmental, social and governance (ESG) factors. The overview assessed the annual reports and social responsibility reports of companies listed on AB Nasdaq Vilnius Stock Exchange and made recommendations to some of the companies. The overview was presented to representatives of the European Securities and Markets Authority (ESMA) and the Climate Disclosure Standards Board (CDSB). The overview was published as an example by the Network for Greening the Financial System (NGFS) in the December newsletter of the Central Bank of France.

In 2021, the Bank of Lithuania applied extensive measures in respect of persons operating illegally in the financial services market. 20 companies were entered on the list of companies offering and possibly providing investment services without the required licence. The Bank of Lithuania blocked access to 6 websites linked to unauthorised provision of investment services in Lithuania. The Bank of Lithuania disclosed information on alleged illegal investment activities of 3 companies or alleged fraud obtained on the basis of complaints or through monitoring, to law enforcement institutions. It also provided expertise and consultations to police officers in relation to respective investigations.

During the period under review, 36 sanctions were applied (to 19 EMIs and PIs, 6 banks, and 11 other financial market participants). Most irregularities were found in the areas of customer funds protection, capital requirements, and AML/CTF. The number of complaints and inquiries received by consumers of financial services on the compliance of financial services with regulatory requirements continued to increase (2,388 complaints were received in 2021, 1,904 in 2020 and 1,770 in 2019).

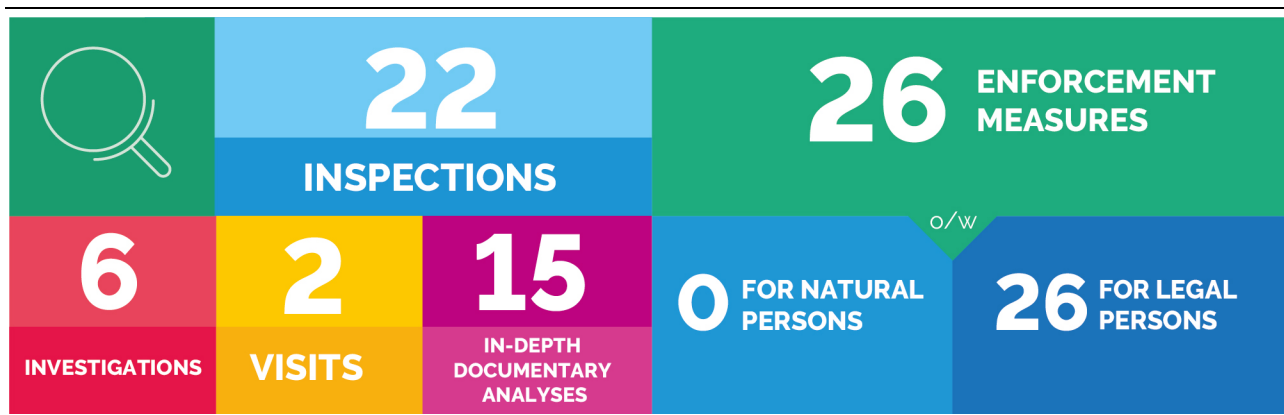
Complaints received in 2021 by type of service



Source: Bank of Lithuania.

2.5.5. Consultancy activities

- **The Bank of Lithuania provides advice to financial market participants on matters of supervisory competence.**
- **The Bank of Lithuania consults and discusses issues relevant to the financial sector with financial market participants.**
- **Financial market participants are informed in advance of planned changes to the financial market regulatory environment, planned inspections and assessment visits.**
- **A survey was carried out on the assessment of the supervisory function by financial market participants.**



Source: Bank of Lithuania.

The Bank of Lithuania holds annual meetings with supervised financial market participants.

The aim of these meetings is to contribute to the prevention of breaches and to boost confidence in the functioning of financial market supervision units as well as to develop a consistent long-term relationship with key stakeholder groups in the financial market. The results of the previous year, supervisory plans for the new (current) year are presented and future changes to the regulatory environment are discussed during the meetings. Periodic meetings are organised with compliance experts of financial market participants to discuss problems faced by financial market participants, expectations of financial market supervisors and other relevant topics. In line with the expressed needs of financial market participants, annual consultation events are organised on relevant topics. In 2021, 18 events on different topics were organised for different financial market participants. On average, 126 attendees participated in each event.

A survey of financial market participants carried out in 2021 showed that 75% of respondents are satisfied with supervision (65% in 2018), 86% consider their supervision to be effective (84% in 2018), 88% are of the opinion that communication with their company is appropriate (84% in 2018) and 84% believe that advice is properly provided to their company (82% in 2018).

Since 2017, the Bank of Lithuania has published on its website a plan for inspections of financial market participants, which aims at smooth cooperation between the supervisory authority and financial market participants. Early publication of this plan is also a preventive measure as financial institutions can assess and address potential operational weaknesses in advance. The main area under scrutiny in recent years has been the prevention of money laundering.

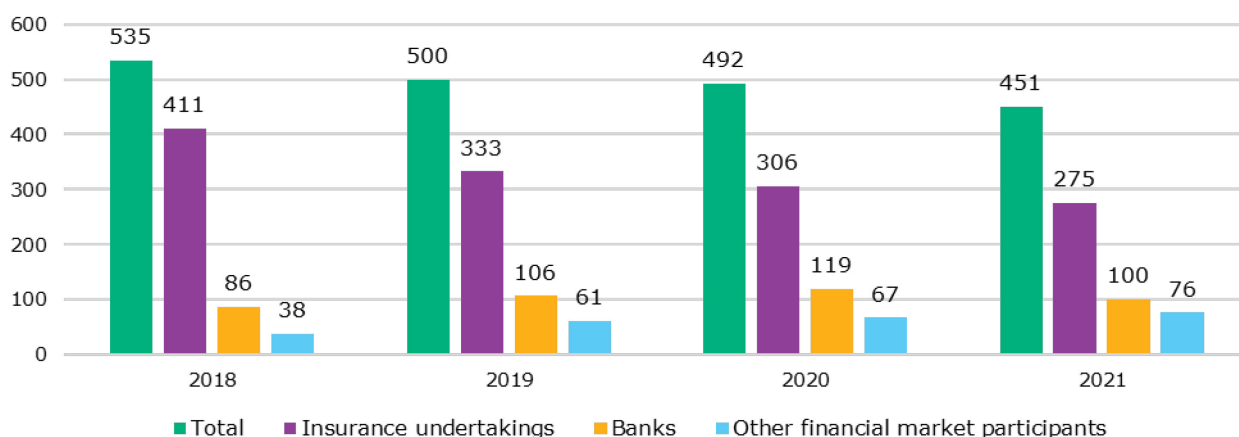
2.6. Settlement of disputes between consumers and financial market participants

- **In 2021, the Bank of Lithuania settled 451 disputes regarding the contracts for the provision of financial services.**
- **The Bank of Lithuania took 130 decisions on the substance of disputes.**
- **Record level of amicable settlements per year was achieved, i.e. 122 disputes or 27% of all disputes settled.**
- **An increase was recorded in the number of inquiries regarding payment services.**

- **The average duration of dispute settlement was 68 calendar days.**

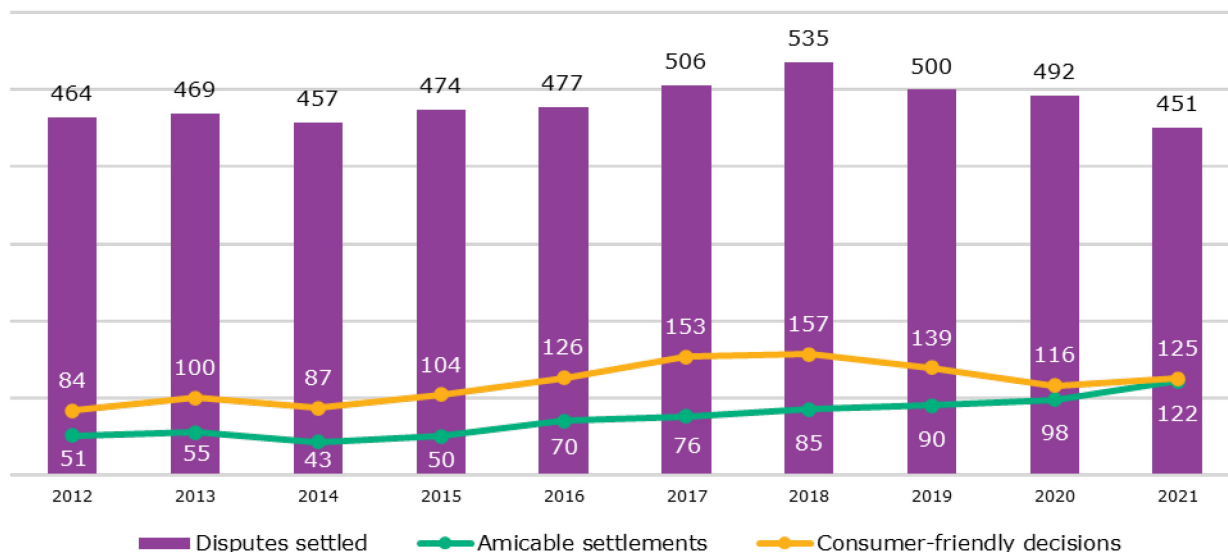
In 2021, 61% of all disputes settled involved insurance undertakings, disputes with banks accounted for 22%, while the remaining 17% involved other financial market participants. The majority, i.e. 60%, of all disputes (272) concerned the execution of non-life insurance contracts, of these 105 disputes were over property insurance, 77 – compulsory MTPL insurance, and 36 disputes arose over Casco insurance contracts. The number of disputes over contracts in the non-life insurance sector decreased by 7% compared to 2020, but they still accounted for the majority of all disputes settled at the Bank of Lithuania. A further 107 disputes (24%) concerned payment services, 34 (8%) – credit services and 38 (8%) – other (including non-financial) services.

Disputes by type of financial market participant



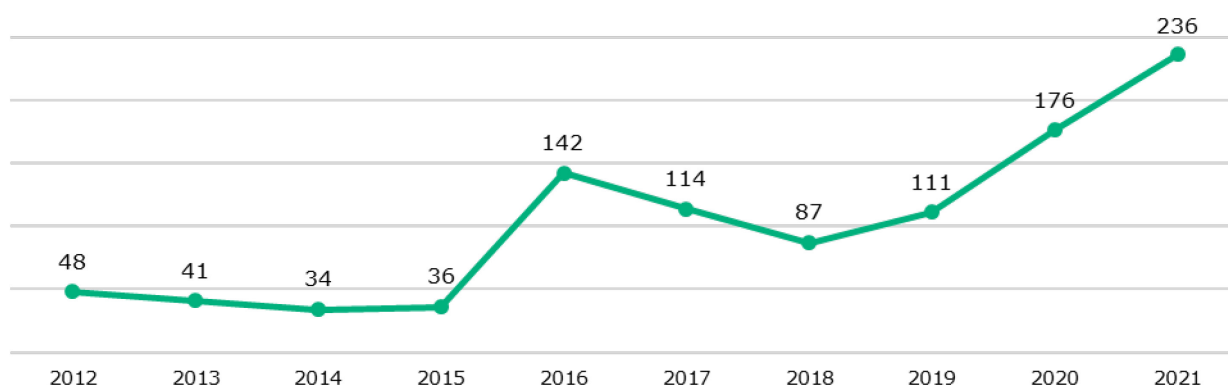
During the period under review, the Bank of Lithuania, having taken decisions on the substance of a dispute, satisfied three customer claims, and financial market participants implemented one recommended decision in favour of consumers. The list of depersonalised decisions of the Bank of Lithuania regarding the [substance of disputes](#) and financial market participants that have not implemented the recommendations specified therein is published on the [website](#) of the Bank of Lithuania. While the number of decisions taken in favour of consumers decreased from 11% to 2% of all decisions on the substance of disputes compared to 2020, it is worth noting that the change was mainly due to a dispute settlement strategy focused on active conciliation between parties, encouraging amicable settlement of disagreements. Since almost all disputes in which the claims of consumers were well-founded were settled by amicable agreement between the parties, decisions satisfying the claims by consumers were in principle not taken in such cases.

In 2021, as many as 122 out of 451 settled disputes were resolved by a compromise between the parties or by satisfaction of consumers' claims by a financial market participant. Almost all (except three) cases where consumers raised reasonable claims were resolved through amicable settlements, by applying active reconciliation methods, without ruling on the substance of disputes. The total number of decisions in favour of consumers (considering amicable settlements and decisions on the substance of disputes in which it was decided to satisfy consumers' claims) increased, despite the fact that fewer disputes were resolved in 2021 compared to 2020. The Bank of Lithuania plans to continue to apply effective dispute prevention and conciliation procedures to achieve a mutually acceptable decision, preserve business relations and maintain trust in the financial services provided.



Over the past two years, there has been a relatively strong growth in applications regarding payment services, a total of 236 have been received. Compared to 2018–2019, the number of applications (inquiries and requests to settle disputes) for payment services more than doubled and was the highest since 2012. As much as 39% of applications were received in the last quarter of 2021.

Applications regarding payment services



2.7. Bank resolution

- The Bank of Lithuania drafted and approved resolution plans covering around 99% of the Lithuanian credit institution market.
- Binding MREL requirements and individual periods for reaching MREL targets were set for eight credit institutions operating in Lithuania.
- The Bank of Lithuania carried out an analysis of regulatory changes for further improvement of the resolution framework.

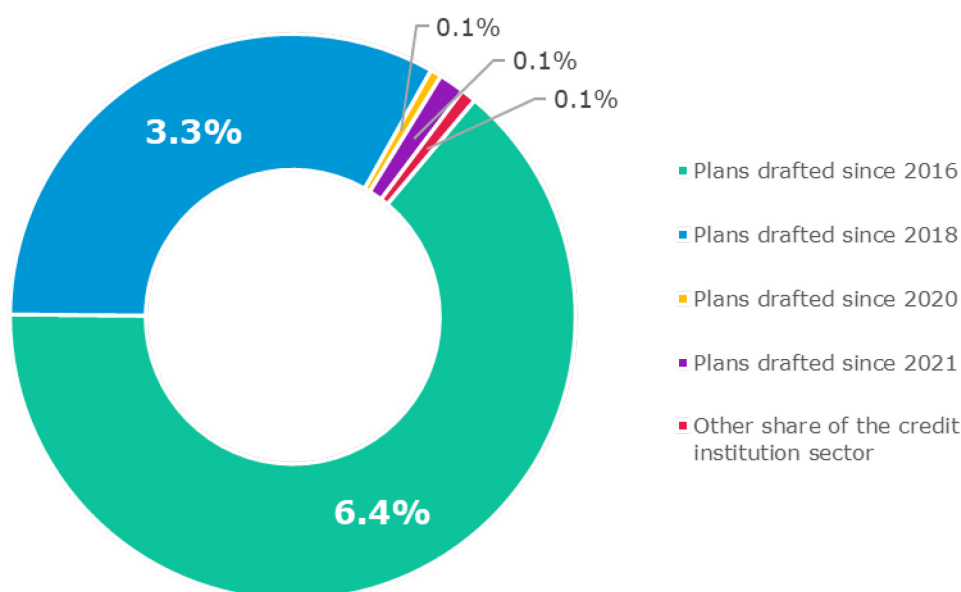
- **The Single Resolution Fund accumulated €52 billion in contributions paid by banking union state banks.**

In carrying out its mandate as a resolution authority, the Bank of Lithuania helps to ensure efficient resolution and continuous operation of failing banks without the government's assistance. To this end, the Bank of Lithuania continued making early preparations for unforeseen events. It also revised and further developed bank resolution plans. In 2021, the resolution plans of two banks were drafted and approved for the first time and the resolution plan of one domestically owned bank was updated. In cooperation with the Single Resolution Board, which is the central resolution authority of the banking union, as well as with the national resolution authorities of Sweden, Denmark, Latvia and Estonia, the resolution plans covering banks owned by international groups and operating in Lithuania were also updated. The crisis management manual was consistently improved to strengthen adequate preparations for resolution processes.

Binding minimum requirements for own funds and eligible liabilities (MREL) and individual transition periods for reaching MREL targets were set for eight credit institutions operating in Lithuania. The MREL is important for credit institutions encountering difficulties. It would help ensure efficient resolution of credit institutions so that they could absorb losses and further carry out their activities. The MREL has already been set for five local market participants and three systemically important banks: Swedbank, AB, AB SEB bankas and AB Šiaulių bankas. These systemically important banks will have to comply with the MREL targets by 1 January 2024, while other credit institutions have already ensured compliance with the MREL.

Resolution plans for banks and CCU drafted in 2021

(market share by assets, %)



In 2021, the Bank of Lithuania continued to analyse regulatory changes related to the resolution of financial sector entities. The preparatory work linked with the transposition of the amended EU Bank Recovery and Resolution Directive launched in 2020 was further continued. In 2021, the Bank of Lithuania also provided expert assistance to the Ministry of Finance in representing Lithuania's position over two Pan-European proposals submitted in 2020. The first proposal is the discussion initiated by the EC on the review of the bank crisis management and deposit insurance system. The main purpose of the review is to enhance the efficiency of the system, its flexibility, improve consistency in the approach towards common solution of bankruptcy issues of EU banks, ensure equal

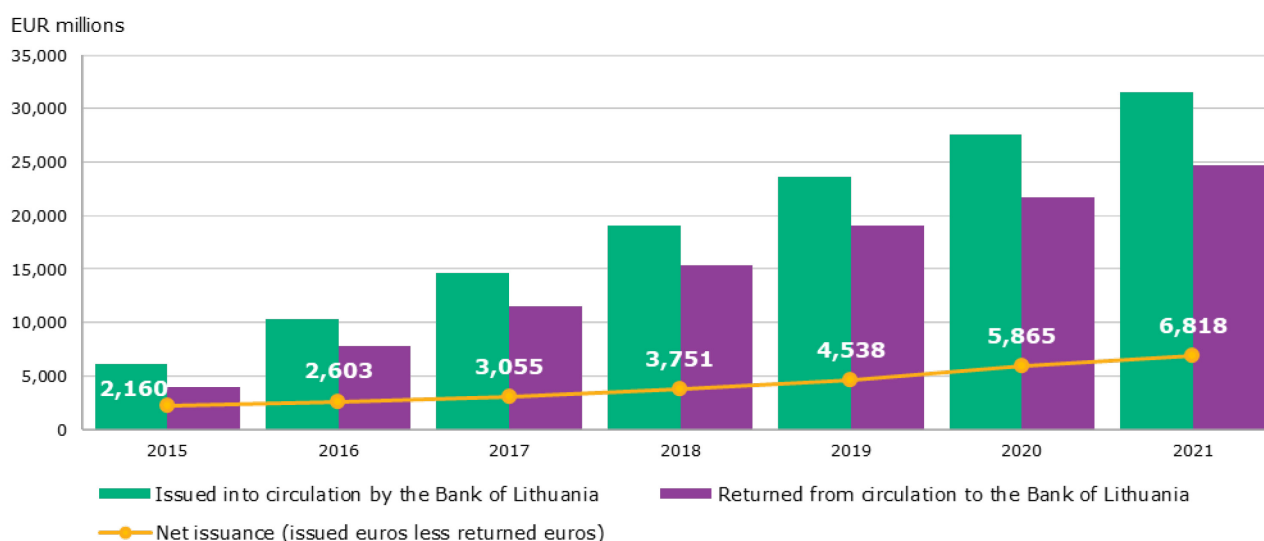
treatment of depositors and enhance the level of depositor protection. The second initiative is the proposal submitted by the EC in September 2021 regarding the Insurance Recovery and Resolution Directive. The initiative aims at expanding the recovery and resolution framework by including insurance and reinsurance undertakings. The preparations were done for the implementation of the Regulation on a framework for the recovery and resolution of central counterparties which entered into force in early 2021.

In 2021, the Single Resolution Fund accumulated €52 billion in contributions paid by banking union state banks and certain investment companies. In 2021, banks operating in Lithuania paid €6.4 million in ex-ante contributions which were transferred to the Single Resolution Fund. In 2021, the aggregate deposit of banking union state banks amounted to €10.4 billion. The target level of the Single Resolution Fund to be reached by the end of 2023 is at least 1% of the amount of covered deposits of all credit institutions within the banking union, i.e. over €70 billion.

2.8. Cash

- **As of 31 December 2021, the total value of euro banknotes and coins issued into circulation by the Bank of Lithuania amounted to €6,818 million, or 16% more than a year ago.**
- **Financial and credit institutions committed to double the number of localities where cash withdrawals will be guaranteed, from 91 to 191 localities.**
- **The number of euro counterfeits detected decreased by one tenth in 2021.**
- **In 2021, the Bank of Lithuania exchanged into euro LTL 6.3 million, i.e. 17% less than in 2020, bringing the total value of litas in circulation to LTL 413 million as at 31 December 2021.**
- **7 collector and 2 commemorative euro coins as well as a numismatic set of circulation coins were issued.**

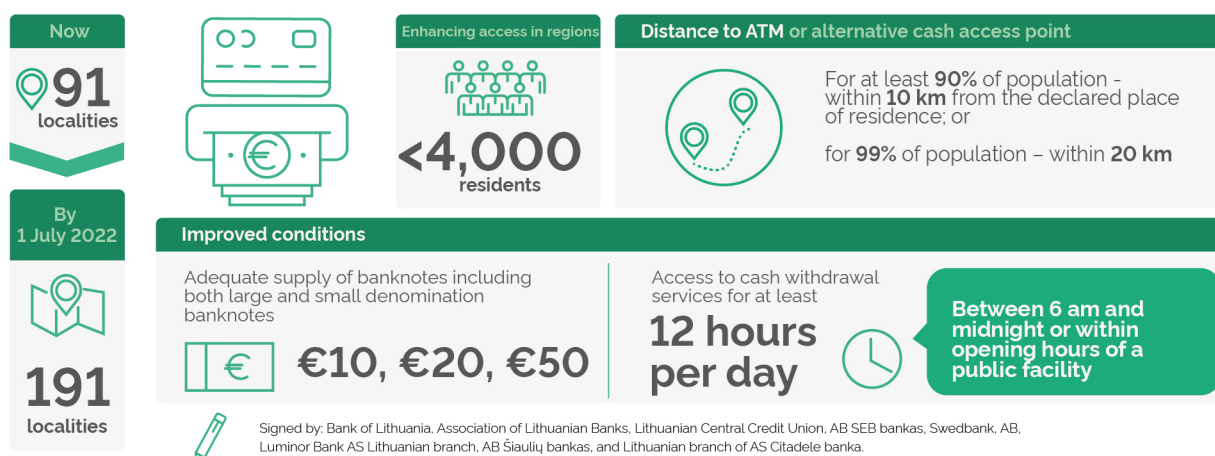
Euro banknotes and coins



Source: Bank of Lithuania.

Financial and credit institutions committed to double the number of residential areas where cash withdrawals are available. Developments in the banking sector over the last few years have led to a decrease in the number of ATMs and bank branches providing cash services in Lithuania. The Bank of Lithuania, being aware of the importance of cash and in order to ensure more convenient accessibility, took the initiative to promote the development of the network of cash access points. On 21 June 2021, the Bank of Lithuania, the Association of Lithuanian Banks and financial and credit institutions signed a Memorandum which agreed on minimum accessibility criteria for cash withdrawal services from payment accounts. Financial and credit institutions undertook to double the number of localities where cash withdrawals are possible and to provide at least 100 additional cash access points. Prior to the signing of the Memorandum, ATMs were operating in 91 localities, and the implementation of the Memorandum should ensure the possibility of cash withdrawals in at least 191 localities. The development of cash access points is regionally oriented: to localities with 2,000-4,000 inhabitants which have no ATM within 10 kilometres (travel distance) from the centre, as well as to residential areas with less than 2,000 inhabitants. Upon the implementation of the Memorandum, at least 90% of the Lithuanian population will be able to reach a cash access point at the distance of up to 10 kilometres, or 99% of the population at the distance of 20 kilometres. Before the signing of the Memorandum, the nearest ATM could be reached within less than 10 kilometres by 82% of the population and within less than 20 kilometres – by 95% of the population.

Memorandum of Understanding for Ensuring Access to Cash in Lithuania



Financial and credit institutions decided to set up joint ATMs administered by an independent supplier, which will be available to residents under the same conditions as their own credit institution's ATMs. The list of ATMs will be published on the [website](#) administered by the independent supplier and on the website of the Bank of Lithuania.

Changes in access to cash after the signing of the Memorandum. In 2021, when the ATM network of Lithuanian Branch of Luminor Bank AS joined the Medus network and optimised the infrastructure⁶, as provided for in the Memorandum, access to cash was improved for customers of the Lithuanian Branch of Luminor Bank AS, the Lithuanian Branch of AS Citadele banka, AB Šiaulių bankas and the Lithuanian Central Credit Union (LCCU) group, as it ensured the possibility to use the ATMs of the connected networks under the same conditions as their own credit institution's ATMs. After the joining, customers of Lithuanian Branch of Luminor Bank AS can use ATMs in 1.1 times more residential areas than before, customers of Šiauliai bankas and AS Citadele banka Lithuanian Branch and the LLCU – in 1.5 times more residential areas than before. In addition, Swedbank, AB installed six new ATMs from the signing of the Memorandum until 31 December 2021.

⁶ Of the two ATMs located at the same address, one is left to operate.

The Coin Creation Strategy of the Bank of Lithuania for 2022–2025 was approved. The new strategy sets out the directions for the creation of coins of the Bank of Lithuania currently being developed, but at the same time new objectives are introduced and some other changes are foreseen. More attention will be paid to qualitative parameters: the cultural relevance and maturity of coin themes, the creation of lasting value, further developed communication and closer relationship between the Bank of Lithuania and the public. The Bank of Lithuania aims to create attractive coins of high lasting value, and at least one coin issued per year will have to be technologically innovative. The strategy envisages changing the model of distribution of numismatic values and creating new and flexible pricing. The importance of sustainability is also reaffirmed, with the aim of ensuring that at least one third of the coins are packaged in sustainable packaging.

The number of counterfeits detected in Lithuania is decreasing. In 2021, 1,181 euro counterfeits (1,041 banknotes and 140 coins) were investigated and withdrawn from circulation at the Bank of Lithuania, which is 11% less than in 2020. The majority of euro counterfeits (53%) consisted of €50 banknotes. Aggregate euro area statistics also show a decline in the number of euro counterfeits found. Throughout the year, the Bank of Lithuania examined 36,000 notes and coins upon receiving applications from natural and legal persons to exchange worn or damaged currency.

The Bank of Lithuania issued into circulation 7 collector and 2 commemorative euro coins as well as a numismatic set of circulation coins. Numismatic items commemorate historical events and personalities. They can be purchased on [the Bank of Lithuania's e-shop](#).

2.9. Statistics

- **Users evaluated positively the information provided by the Bank of Lithuania on its website.**
- **A new real estate market monitoring tool was introduced at the Bank of Lithuania.**
- **Data stored in the LRDB are in high demand.**
- **The Bank of Lithuania was recognised as the winner in the Data Management Initiative category.**
- **The Bank of Lithuania actively participates in the harmonisation of statistical reporting initiatives of the ESCB and the European Banking Authority.**
- **Data dissemination was further expanded.**

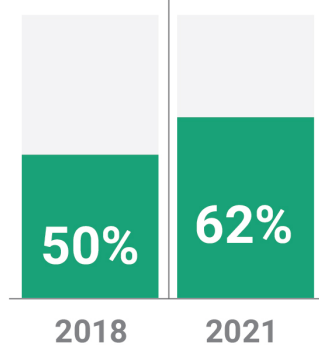
The Bank of Lithuania develops, collects, compiles and disseminates monetary and financial statistics to ensure the sound functioning of monetary and credit markets and the settlement system, provides data to the ECB necessary for the formulation and implementation of the ECB's monetary policy, as well as financial stability and other tasks of the ESCB and the European Systemic Risk Board. These statistics are also used by other Lithuanian institutions, international organisations, financial market participants, the media and the general public, while helping to ensure greater transparency of the Bank of Lithuania's activities and decision making.

92% of users who participated in a survey about the data published on the website of the Bank of Lithuania were positive about the provision of statistical data. Compared to the results of the 2018 survey, the number of users easily finding statistics increased from 50% to 62%.

92%



Positive assessments of data provision

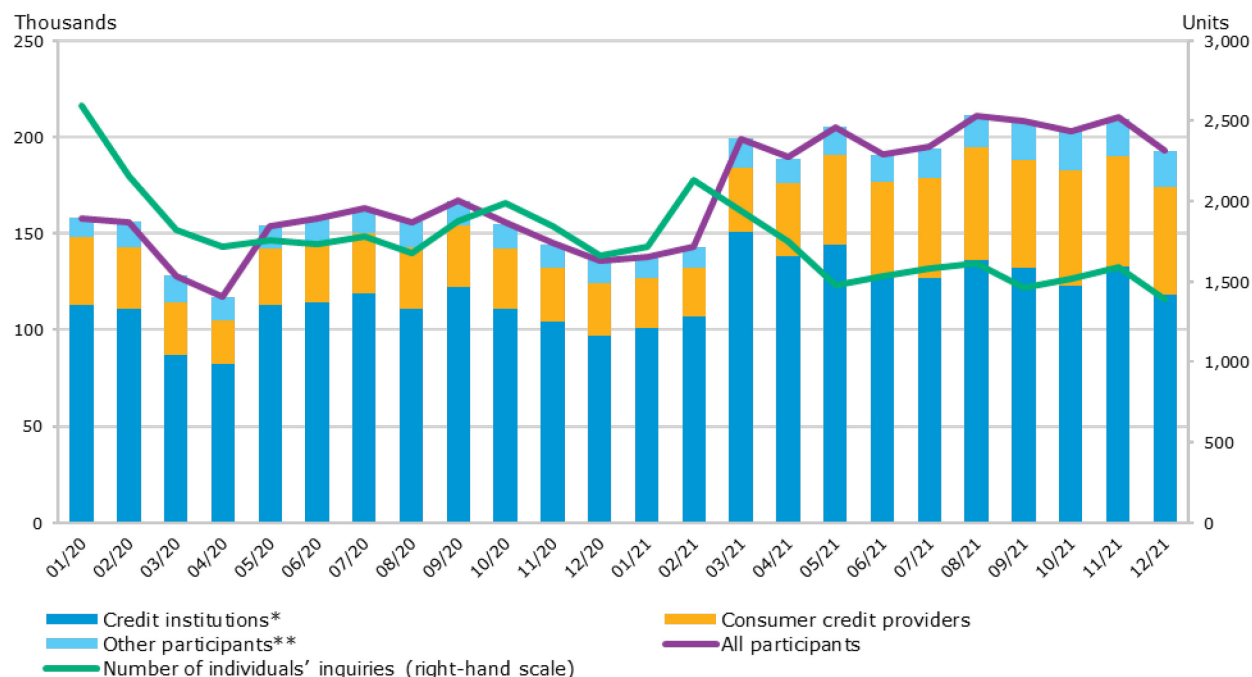


Users easily find statistical information

The Bank of Lithuania started to calculate and publish a new real estate monitoring indicator, the **repeat sale housing price index** (the so-called S&P CoreLogic Case-Shiller Home Price Indices), when comparing the prices of the same piece of property that has undergone at least two sales transactions. This index allows to avoid deficiencies in other housing price indices already published when comparing transactions with similar properties rather than the same ones. It also allows for a more accurate assessment of real estate market developments and, if necessary, more expeditiously apply specific measures from the range of macroprudential instruments available to the Bank of Lithuania to reduce the risk of overheating of the real estate market.

In monitoring the momentum of the Lithuanian economy and the credit market, **the data collected in the LRDB administered by the Bank of Lithuania proved very successful**. Detailed credit data are also actively used by Lithuanian lenders to assess the solvency of existing and potential borrowers. Citizens actively use the electronic services of the public information system (EPGIS) by connecting to the LRDB and finding information about their obligations towards credit institutions and other credit providers. In addition, granular data of Lithuanian credit institutions and other credit providers stored in the LRDB are also used intensively in economic analysis and for the compilation of aggregated data that were published on the Bank of Lithuania's website. Legal and technical tools were developed in 2021 for national promotional institutions to access the LRDB data.

Number of LRDB user inquiries and EPGIS inquiries per month



Source: Bank of Lithuania.

* Banks, specialised banks, foreign bank branches, central credit unions and credit unions.

** P2P lending platform operators, crowdfunding platform operators and real estate-related credit providers.

The Bank of Lithuania was recognised as the winner of the prestigious awards of the international magazine Central Banking in the Data Management Initiative category. The award was granted for the comprehensive Data Management Maturity Programme DAMAMA. By developing the DAMAMA programme and implementing the Bank of Lithuania's Data Governance Policy and Data Management Strategy for the next four years, it is planned to implement changes in the structure of data management, the collection of reference data, data storage and analysis. In each of these areas, the Bank of Lithuania will seek to centralise and standardise processes, implement advanced data technologies, expand data integration and access, thus opening up more possibilities for data-based decisions in the fields of monetary policy and supervision of financial market participants, implementing macroprudential policies and ensuring the stability of the financial system as a whole.

The Bank of Lithuania, as any other institution, faces procedural and technological challenges of data management, the need for changes and emerging European initiatives. As a result, in addition to sharing their experience with other central banks, the ESCB is actively involved in the **Integrated Reporting Framework** (IReF) and the EBA initiatives. They aim to harmonise statistical, supervisory and resolution reporting to alleviate the burden on the banking sector and improve data analytical capabilities. Around two thirds of euro area banking market participants considered that the benefits of IReF would outweigh the costs.

Under its statistics programme for 2021, the Bank of Lithuania compiled monetary, financial, external, quarterly financial account and other statistical information, and published it according to the data release calendar. The Bank of Lithuania further developed the following statistics:

- in the area of monetary and financial statistics, the statistical reporting requirements for MFI balance sheets as well as payments and fraud were changed, a fact finding survey was carried out, proposals for the harmonisation of the home versus host approach methodology for the compilation of statistics on insurance undertakings, new individual MFI balance sheet statistics, and the

maintenance and improvement of LRDB were developed and made available to users in order to meet the new needs of the ESCB's users;

- in the field of external statistics, quarterly stock data on [direct investment](#) were published by type of economic activity and country;
- detailed data on exports and imports of balance of payments services by country, group of countries and type of service were published. Data on trade with all countries and more than 50 services can be found in the [statistical database](#);
- [annual financial accounts](#) statistics were published;
- monthly calculation and publication of the [repeat sales house price index](#), a new real estate monitoring indicator, which allows the Bank of Lithuania to assess more accurately the changes in the real estate market.

2.10. Fiscal agent

- **In 2021, the Bank of Lithuania administered accounts of public entities and carried out financial operations for public entities under the procedure and conditions laid down by the Bank of Lithuania.**
- **In 2021, the Bank of Lithuania started to provide banking services to three new customers: two Lithuanian public entities and one foreign public entity.**

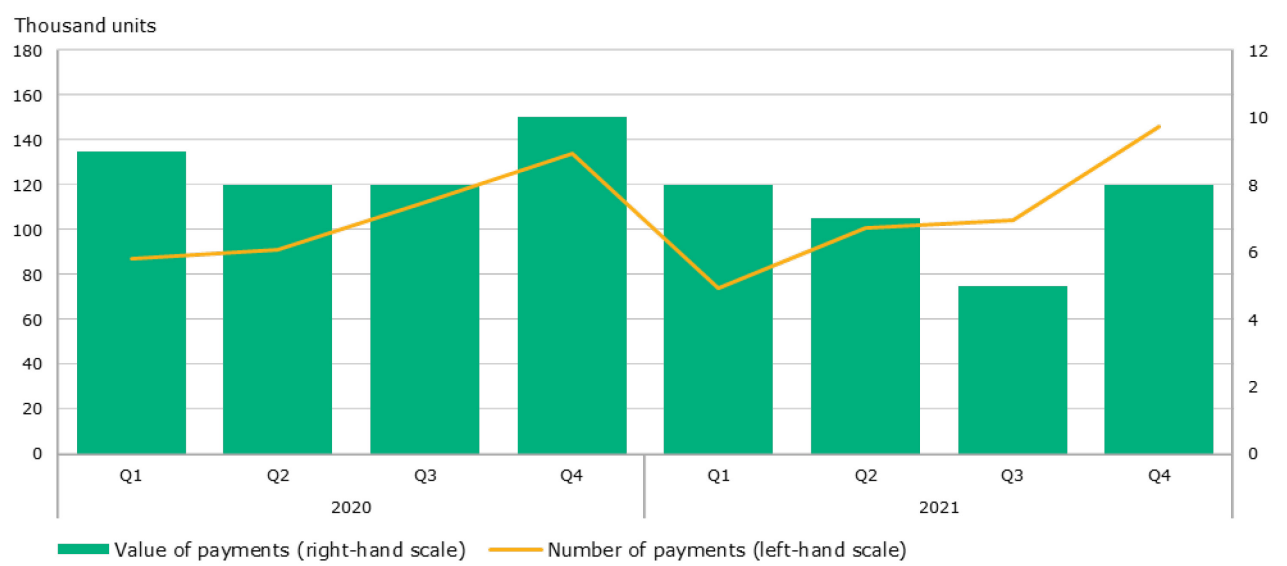
Acting as the fiscal agent under the Republic of Lithuania Law on the Bank of Lithuania, in 2021, the Bank of Lithuania administered accounts of public entities and carried out financial operations for public entities under the procedure and conditions laid down by the Bank of Lithuania. The Bank of Lithuania provided banking services to these public entities: the Ministry of Finance by administering accounts of the State Treasury of the Republic of Lithuania; national promotional institutions and other public sector institutions managing statutory funds; foreign central banks and EU institutions within the Eurosystem Reserve Management Services framework.

As at 31 December 2021, the Bank of Lithuania administered 82 accounts of public entities (67 accounts as at 31 December 2020). These accounts were opened and administered at the Bank of Lithuania in accordance with the legal acts of the Republic of Lithuania, the Bank of Lithuania and the ECB.

The Bank of Lithuania offers the following banking services to public entities: payment services, foreign exchange transactions, account statements and other reporting services. In the course of 2021, the Bank of Lithuania executed 425 thousand credit transfers under the payment instructions of public entities; their total value amounted to €27.7 billion.

In 2021, the Bank of Lithuania started to provide banking services to three new customers: two Lithuanian public entities and one foreign public entity. One Lithuanian entity manages statutory funds, while the other implements state-funded instruments in pursuance of the economic objectives of the government. A new customer, a foreign central bank, holds its foreign reserve assets in its euro account opened with the Bank of Lithuania.

Payments by public entities



3. Organisation of activities

- **On 31 December 2021, the number of actual staff positions at the Bank of Lithuania stood at 610.⁷**
- **The staff turnover rate was 16%.**
- **In the period under review, structural changes were implemented.**
- **The Staff Regulations of the Bank of Lithuania were updated.**
- **The organisational values of the Bank of Lithuania were updated.**



The Bank of Lithuania undergone structural changes in 2021. In order to strengthen the governance of the Bank of Lithuania, the organisational structure was flattened, leaving two levels of management – departments and divisions, empowering operational managers, joining administrative and operational management divisions into new departments. Nine departments, namely, the Banking and Insurance Supervision Department, the Financial Services and Markets Supervision Department, the Legal and Licensing Department, the Market Operations Department, the Market Infrastructure Department, the Financial Stability Department, the Economics Department, the Data and Statistics Department and the Cash Department were set up to carry out the central bank's core functions. Various divisions work under the umbrella of these departments. The responsibility for maintenance and other important activities lies with other three departments (the IT

Department, the Strategy and Governance Department, the Corporate Services Department) and two independent divisions, namely, the Internal Audit Division and the Centre for Excellence in Finance and Economic Research (CEFER).

The Staff Regulations of the Bank of Lithuania were updated. The regulations now define the main principles of service (work) and the status of an employee, including recruitment and dismissal, position categories, rights and duties, restrictions and requirements, career, training, performance evaluation, guarantees and compensations, suspension, responsibilities, employee benefits and compensation policy. The Staff Regulations of the Bank of Lithuania were updated by adding the provisions empowering managers in the areas of career, salary and additional benefits and simplified existing processes.

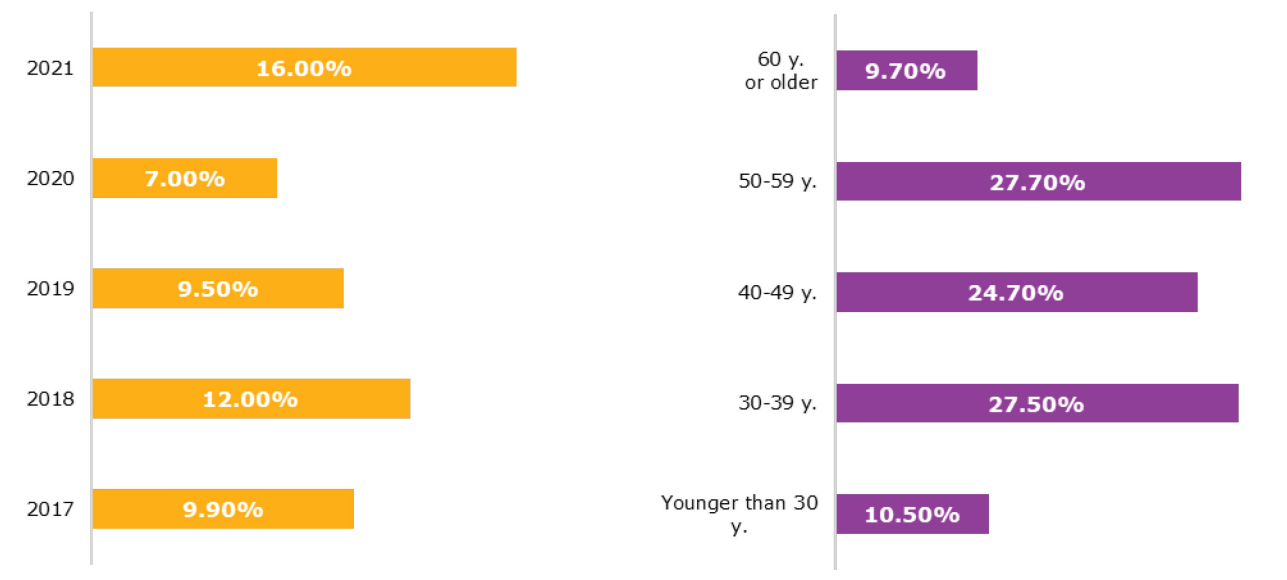
The organisational values of the Bank of Lithuania were updated. In order to strengthen, empower and direct the organisation's culture to achieve strategic goals, the following values of the Bank of Lithuania were approved at the end of 2021: value to society, accountability and progress.

Management and hybrid leadership competences were strengthened, and operational efficiency measures were further implemented in 2021. As part of the development of management and leadership competences, the Bank of Lithuania successfully implemented remote management competence development programmes, organised a remote Managers' Day, during which managers discussed the topicalities of hybrid leadership and learned from the best practices of invited guests – leaders from other organisations. In order to eliminate excessive actions, the activity

⁷ This figure does not include 22 staff members who were on parental leave or maternity/paternity leave and 4 staff members who were on unpaid leave during their work at other institutions.

management process was simplified and the selection process of the Bank of Lithuania was automated. The primary focus, especially during the period of hybrid work, was placed on workload management: a reverse mentoring project, where the staff exchanged practical skills in data analytics and rendering, was organised, and the number of remote meetings on Fridays was reduced by allocating time for individual work and assignments.

Employee turnover (on the left) and their distribution by age* (on the right)



* Statistics include only the actual employees.

4. Research activities

- **Economic research at the Bank of Lithuania is primarily conducted at the Centre for Excellence in Finance and Economic Research (CEFER) and the Applied Macroeconomic Research Division (TMTS).**
- **In cooperation with Vilnius University and Kaunas University of Technology, CEFER aims to attract internationally acclaimed researchers, thus raising the quality of economic and financial research, changing the academic culture, stimulating expert discussions and ultimately positioning itself as the hub of economic and financial sciences in the Baltic region.**
- **Research carried out at TMTS plays a key role in the central bank's decision-making process.**
- **Main fields of expertise: macroeconomic and econometric modelling; international economics and microfinance; household assets, consumption and income inequality; labour market, reform impact assessment.**



Top-tier international publications. The scientific publications published by CEFER and TMTS in 2021 include 17 working, occasional and discussion papers as well as 12 articles in top-tier international journals (such as *Journal of Econometrics*, *Journal of International Money and Finance*, *Journal of Financial Services Research*, *Applied Economics*, *Empirical Economics*, *Small Business Economics*, *Journal of Economic Surveys*, etc.). Research carried out at CEFER and TMTS was also featured on the portals of the Centre for Economic Policy Research (CEPR), LSE Business Review, CentralBanking.com and LSE Research for the World.

High-level conferences, seminars, workshops and research clusters across the Baltics.

In autumn, the CEFER initiated a joint conference for young researchers from Vilnius University and Kaunas University of Technology. The Bank's researchers contributed to the Scientific Committee and actively participated in the remote Baltic Economics Conference organised by Tartu University. In December, the annual **Winter session of the Economic Research Conference** was attended by Lithuanians or Lithuania-related economists from all over the world. During the conference, four sessions were held on macroeconomic and product markets, climate, econometrics and finance as well as economic topics of specific interest to the Baltic countries, economic research was presented and discussions were organised.

Promotion of quality research in economics and finance. In cooperation with Vilnius University, the Bank of Lithuania further implemented the bachelor's programme in Quantitative Economics. The Bank also initiated a review of the graduate study programme and drafted a White Paper on the development of the **national doctorate programme** in the field of economics. Representatives from Vilnius University, Kaunas University of Technology, Vytautas Magnus and Vilnius Gediminas Technical University (Vilnius TECH) took part in the initiative. As every year, to encourage high-quality research, the Bank of Lithuania also granted two awards for economic research activities: the Vladas Jurgutis Award (€10,000) and the Bank of Lithuania Award for Dissertation in the Field of Economics (€5,000). This year the awards were granted for the research paper "Do corporate taxes hinder innovation?" (the paper is distinguished for the creative use of changes to corporate taxes and the assessment of asymmetrical impact: while companies reduce innovation after corporate taxes are raised, it takes much longer for companies to

build up teams of employees and start investing in innovation when taxes are reduced), and a dissertation that examines the link between people's desire to work and their preference to consume higher quality products.

The ECB's monetary policy review. Researchers contributed to the Working Groups on Climate Change and Globalisation. The Bank of Lithuania's research were not only cited in the final report, but the researchers contributed to the organisation of work, writing and editing of the report.

Household Finance and Consumption Survey. In 2021, Lithuania's second Household Finance and Consumption Survey was completed. Despite the difficult pandemic situation, it was successfully completed after the break, and the analysis of the data collected was launched. The aim of the analysis was to assess the time dynamics of Lithuanian household income and assets, contributors thereto, as well as the impact of the pandemic on household finances.

Administrative micro-level data. In 2021, researchers of the Bank of Lithuania, in pro-active cooperation with other Lithuanian institutions, received detailed administrative data (labour market, employees and employers, micro-prices, foreign trade, etc.), which will allow specific research on the various topics necessary for the evaluation of economic policy and for research-based economic policy decisions.

5. Other important events

- **The Centre of Excellence in Anti-Money Laundering was launched.**
- **A consortium of the national central banks of Lithuania, Romania and the Netherlands launched the EU-funded Twinning project for Moldova.**
- **The Bank of Lithuania held international conferences, and the digital collector coin LBCOIN was presented at the exhibition EXPO2020 Dubai.**
- **The Data Management Maturity Programme DAMAMA of the Bank of Lithuania received a prestigious international award.**
- **Republic of Lithuania Attaché for Monetary and Banking Affairs started her work in Brussels.**

For the first time, Lithuanian residents and organisations had the opportunity to contribute to the changes to the ECB's monetary policy strategy. At the ECB Listens event organised by the Bank of Lithuania on 23 February 2021, various business and employee organisations, as well as the ones representing other groups of society, such as the elderly, youth, people with disabilities, etc. could voice their views and expectations regarding the review of the monetary policy strategy.

In mid-May, the Ministry of Finance, the Bank of Lithuania and eight commercial banks established the Centre of Excellence in Anti-Money Laundering, followed by cooperation agreements with law enforcement authorities. Bringing together public and private sector representatives, the Centre of Excellence shares expertise in AML/CTF typologies and helps financial market participants properly identify and manage risks. It also carries out evaluations and analyses, together with the Bank of Lithuania and other institutions, develops trainings, guidelines, recommendations, methodologies and legislative initiatives to strengthen resilience to AML/CTF risks.



In June 2021, the Bank of Lithuania was selected as the winner of the prestigious Central Banking award in the Data Management Initiative category. The award was granted for the Data Management Maturity Programme DAMAMA. As part of the programme, over the next four year, the Bank of Lithuania plans to implement changes in the areas of data management architecture, reported data collection, data storage and analysis. In each of these areas, the Bank of Lithuania will seek to centralise and standardise processes, implement advanced data technologies, expand data integration and access, thus opening up wider possibilities for data-based solutions in the field of supervision of financial market participants, implementing macroprudential policies and ensuring the stability of the financial system as a whole. By optimising reported data collection processes and consolidating the technology used, the Bank of Lithuania will reduce the administrative burden on financial market participants and other data providers.

In 2021, a consortium of the national central banks of Lithuania and Poland implemented the EU Twinning project "Strengthening the institutional and regulatory capacity of the National Bank of Ukraine to implement the EU-Ukraine Association Agreement". The project aims to support the capacities of the central bank of Ukraine in the following key areas: banking supervision, payment system development, strategic planning and cooperation with international institutions. In

addition, in early June the Bank of Lithuania and the central bank of Ukraine signed a Memorandum of Understanding, Cooperation and the Exchange of Information Related to Insurance Supervision.

On 18 October 2021, a consortium of the national central banks of Lithuania, Romania and the Netherlands launched the EU Twinning project “Strengthening supervision, corporate governance and risk management in the financial sector” in Moldova. The project aims to support the National Bank of Moldova in strengthening its capacity in macroprudential oversight, the supervision of the insurance sector, non-bank credit institutions, payments and financial market infrastructure. The implementation of the project will take 24 months with a total budget of €2 million financed by the EC. This project is the third project led by the Bank of Lithuania as a junior partner. In 2018-2019, the Bank of Lithuania together with the national central banks of Germany and Poland participated and successfully implemented the EU Twinning Programme project in Belarus.

At the beginning of July, Republic of Lithuania Attaché for Monetary and Banking Affairs started her work in Brussels. Her task is to strengthen cooperation in shaping Lithuania’s position and representing it on the EU agenda and in the legislative process, to maintain and develop contacts with the EU institutions, representatives of other national central banks and permanent representations of EU Member States.

On 4-5 October 2021, a virtual biennial international Macroprudential Policy Conference “Borrower-based measures in times of global pandemic and beyond” was organised. The conference brought together high-level decision-makers from European and international institutions and central banks, as well as prominent researchers and experts who shared their knowledge of the calibration of borrower-based instruments during the cycle and their practical experience in managing the impact of the COVID-19 pandemic in both the downturn and upturn of the housing market. Sharon Donnery, Deputy Governor of the Central Bank of Ireland, delivered the keynote speech.

On 21 October 2021, the annual Economic Conference “Creating Pathways Towards the Green Economy” was organised in a hybrid way. It gathered policy makers, business representatives and researchers to discuss green economy implementation ideas and policy measures that would not only promote more sustainable solutions, but also mitigate their negative impact on Lithuania’s economy.

In order to promote the Bank of Lithuania on an international scale, **the Bank of Lithuania’s stand, designed to present the first digital collector coin LBCOIN in the world, was installed at the global exhibition EXPO2020 Dubai,** in the main exhibition hall of the Lithuanian Pavilion, among state-of-the-art technology, innovations, and achievements in science, art and culture in Lithuania.

On 23 November 2021, the Bank of Lithuania organised the **ninth annual real estate market conference** to discuss measures to improve the sustainability of the real estate market.

Launched in 2019, the EU-funded “Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks” was completed on 16 December 2021. The Bank of Lithuania participated in this programme jointly with other ESCB national central banks and the ECB. The EU allocated €2 million to this Programme under the Instrument for Pre-accession Assistance (IPA II).

Annual financial statements of the Bank of Lithuania

https://www.lb.lt/uploads/publications/docs/36421_75425ab097d24739b9521edc18fb62d0.pdf

Annexes

Collector and commemorative coins issued in 2021

The list of collector and commemorative coins put into circulation is available [here](#).

Resolutions adopted by the Board of the Bank of Lithuania and made publicly available on the Register of Legal Acts

In 2021, the Bank of Lithuania took active legislative actions and adopted regulatory Bank of Lithuania legal acts. In 2021, the Board of the Bank of Lithuania adopted 98 resolutions that regulate the activities of banks and other financial market participants; they are made publicly available on the [Register of Legal Acts](#).

Abbreviations

AB	public limited liability company
ABSPP	asset-bucket securities purchase programme
AML/CTF	anti-money laundering/counter terrorist financing
CBDC	central bank digital currency
CBPP	covered bond purchase programme
CSPP	corporate sector purchase programme
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EMI	electronic money institution
ESCB	European System of Central Banks
EU	European Union
Eurosystem	European Central Bank and euro area central banks
FinTech	financial technology
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
ICT	information and communication technology
LRDB	Loan Risk Database
LTRO	long-term refinancing operation
MFI	monetary financial institution
ML/TF	money laundering and terrorist financing
MREL	minimum requirement for own funds and eligible liabilities
MRO	main refinancing operation
MTPL	motor third party liability
O-SII	other systemically important institution
P2P	peer-to-peer
PELTRO	pandemic emergency longer-term refinancing operation
PEPP	Pandemic Emergency Purchase Programme
PI	payment institution
PSP	payment service provider
PSPP	public sector purchase programme
SEPA	Single Euro Payments Area
SME	small and medium-sized enterprise
SMP	securities market programme
UK	United Kingdom
US	United States of America

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The Board of the Bank of Lithuania approved the 2021 Annual Report on 12 April 2022. The cut-off date for the data included in this report was 11 March 2022.

Totals/percentages in some tables and charts may not add up due to the rounding ("Total" and 100%).

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