



LIETUVOS BANKAS
EUROSISTEMA

Annual Report of the Bank of Lithuania

2023



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Foreword



As part of the Eurosystem, the Bank of Lithuania, together with the ECB and other euro area central banks, makes monetary policy decisions and participates in their implementation. In 2023, the Governing Council of the ECB pursued a monetary policy aimed at curbing excessive inflation, seeking to bring it back to the 2% target over the medium term. To this end, the key ECB (deposit facility) interest rate was raised to 4% in September 2023 and remained unchanged. The decision to not raise interest rates further was made due to the observed decline in both headline and underlying inflation and the strong impact of interest rates on financing conditions. According to the Governing Council's estimation, the key ECB interest rates are at a level that, if maintained for a sufficient period, will help gradually achieve the inflation target. Higher interest rates contribute to reduced inflation in the euro area and Lithuania.

Lithuania's GDP in 2023 decreased by 0.3% compared to 2022. The impact of high energy prices and rampant inflation, which were still restraining the economy at the beginning of the year, has diminished over the year. With the decline in energy and other commodity prices and the fading of supply disruptions caused by the abrupt post-pandemic recovery, average annual inflation in 2023 decreased to 8.7%. Annual inflation consistently declined throughout 2023, from 18.5% in January to 1.6% in December. Nevertheless, the rising interest rates as well as sluggish investment and consumption growth worldwide had a dampening effect on the economy, reducing Lithuania's export demand. However, the continued increase in domestic investment prevented a significant slowdown in economic activity. Despite such economic developments, the labour market situation remained stable – the average monthly gross wage continued to rise rapidly (12.6%), and the unemployment rate stood at 6.8%, similar to pre-pandemic levels.

With its extensive expertise in economics and finance, the Bank of Lithuania constantly monitors and analyses the economy, the financial system, and, within its competence, makes decisions, expresses its position, and provides proposals to other institutions on issues relevant to financial market participants, businesses, and residents. Among the most important tasks undertaken in 2023 in this area were our proposals to review the Republic of Lithuania Law on Payments and the Law on Real Estate Related Credit. Once the Seimas adopts the prepared drafts, which we have already submitted to the Ministry of Finance, accessibility to financial services would increase, consumer protection would be more reliable, and people would have more real freedom to choose the most suitable financial solution.

Despite the unfavourable background, as forecasted, the banking sector was financially successful in 2023, which is why banks could allocate a part of their profits (approximately €250 million) to the solidarity contribution, which will be used to strengthen the country's defence. It is forecasted that the solidarity contribution for 2024 could amount to around €220 million. The emergence of this contribution under the Republic of Lithuania Law on Temporary Solidarity Contribution was due to an atypical situation in the banking sector, where banks experienced an unexpected and particularly significant profit increase. The Bank of Lithuania proposed a package of measures so that, in addition to not adversely affecting financial stability, Lithuania's banks could contribute to public needs.

In order to reduce costs for residents, businesses, and the state associated with the use of 1 and 2 euro cents, as well as to reduce their negative impact on the environment, we prepared and submitted to the

Seimas four draft laws. If adopted, from 1 May 2025, when paying in cash, the final amount of the shopping basket will be rounded. Through a mystery shopping exercise in the unit-linked life insurance market, the Bank of Lithuania found that almost 40% of cases involved customers being offered an insurance product that did not meet their needs. In response, we prepared and submitted to the Ministry of Finance a draft amendment to the Republic of Lithuania Law on Insurance. It proposes to limit the remuneration of distributors of unit-linked life insurance and tighten the procedures for providing information to potential customers. Distributors' qualifications would also be more strictly assessed. These initiatives by the Bank of Lithuania demonstrate our concern for financial services consumers. We are working to ensure that services and financial market products offered to them are better and will continue along this path.

The Bank of Lithuania implements macroprudential policy to contribute to ensuring the stability of the financial system in Lithuania. Therefore, we constantly monitor and evaluate potentially vulnerable areas of the system and take measures to prevent them. The banking sector has so far successfully weathered the challenges, with significant profitability, substantial capital and liquidity reserves demonstrating banks' resilience to potential future shocks. Stress testing results show that Lithuania's banking sector is resilient to short-term solvency and liquidity shocks. Efforts to strengthen the prevention of money laundering and terrorist financing and to supervise the implementation of international sanctions in the financial sector continued in 2023. Due to increasing financial fraud, the Bank of Lithuania prepared the Fraud Prevention Guidelines and took measures to improve consumers' ability to protect themselves from fraud.

The popularity of instant payments via the Bank of Lithuania's CENTROlink system continued to grow in 2023 – one-third more instant payments were executed than regular payment orders. The total number of payments processed in the CENTROlink system dropped due to a decrease in the number of participants, but the number of transfers made by financial institutions participating in the system increased.

As of 31 December 2023, the total value of euro issued into circulation by the Bank of Lithuania amounted to €7,490 million. Sufficient access to cash was ensured, and the expanded ATM network established in 2022 was maintained.

Technical cooperation plays an increasingly important role in the activities of the Bank of Lithuania. In 2023, several EU-funded projects aimed at central banks in the Western Balkans and Moldova were implemented, and Lithuania joined an EU-funded project for African countries. In addition, together with the National Bank of Poland, we successfully implemented the EU Twinning Project dedicated to the National Bank of Ukraine which lasted for over two years. The Bank of Lithuania actively supports Ukraine's heroic struggle against Russian aggression and cooperated with the National Bank of Ukraine. We understand the importance of assisting Ukraine in defending the freedom of all European nations. One of our achievements was the approval of the IMF programme for Ukraine.

In 2023, we focused on developing the necessary competencies and talents within our institution, with particular emphasis on strategic competencies such as leadership, digital progress, as well as personal and team effectiveness.

The increase in key ECB interest rates to combat inflation and the high volatility in financial markets negatively affected the financial results of many central banks in the euro area in 2023. However, despite difficult circumstances, and effectively managing its financial assets, the Bank of Lithuania earned a profit in 2023 and transferred €14.38 million to the state budget.

Gediminas Šimkus

Chairman of the Board of the Bank of Lithuania

1. Strategic directions

Strategic direction 1: Value – a financial sector that generates value for consumers

Measures were taken to expand consumers' options in choosing the type of mortgage interest rates and refinancing existing loans on more favourable terms. Market needs were identified through a [public consultation with market participants](#). Based on its results and in cooperation with the Ministry of Finance, the Bank of Lithuania prepared a draft amendment to the Law on Real Estate Related Credit, which is planned to be submitted to the Seimas during the spring session of 2024. The Bank of Lithuania began publishing more data on the interest rates on loans offered by credit institutions operating in Lithuania. This information allows consumers to compare more accurately the interest rates of their existing mortgage loans with those offered on the market and evaluate refinancing opportunities.

Efforts are being made to improve the acceptance of means of payment and the accessibility of payment services to residents. The Bank of Lithuania, together with the Ministry of Finance, proposed to the Seimas a new regulation for the basic payment account service, ensuring lower costs for this service and its sustainable evolution. Upon approval of this proposal, consumers would be better and in a more clear and targeted way informed about the basic payment account service and could choose services that best suit their needs. Actions are taken to improve the conditions for choosing payment services for small businesses. Therefore, a proposal has been made to legalise the creation of a website for comparing payment service prices for businesses. This website would be managed by the Bank of Lithuania.

Furthermore, to increase non-cash payment options for consumers and encourage small businesses to accept non-cash payments, a list of measures has been drawn up, which was endorsed by the Payments Council in its position.

Long-term economic analysis of the Lithuanian economy is being strengthened. In 2023, the Bank of Lithuania prepared and presented positions on current economic policy issues. An analysis of food prices in Lithuania was submitted to the Committee on Budget and Finance of the Seimas, and calculations regarding the minimum monthly wage for 2024 were presented to the Tripartite Council. In response to the Ministry of Finance's public consultation on the draft tax legislation, the Bank of Lithuania announced its position and informed the Budget Committee and the Committee on Social Affairs and Labour of the Seimas about the possible impact of proposed tax changes. In addition, the Bank of Lithuania submitted its conclusion to the Seimas regarding the impact of the draft 2024 state budget on confidence in the stability of the financial system and price stability. In response to Lithuania's vital need to strengthen its security against external threats, the Bank of Lithuania analysed possible additional sources of defence financing and presented its proposals in March 2024.

The rounding of the shopping basket amount initiated by the Bank of Lithuania will reduce the costs for residents, businesses, and the state associated with the use of cash, as well as reduce their negative impact on the environment. To achieve this goal, the Bank of Lithuania submitted legislative proposals to the Seimas regarding rounding, which were adopted on 28 March 2024. It is expected that, with the implementation of the new system, there will be no 1 and 2 euro cent coins in circulation within two to three years. The Bank of Lithuania took these initiatives after analysing the experience of six euro area countries that already round the final shopping basket amount. These initiatives were extensively discussed with the public, businesses, environmental organisations, and the Committee on Budget and Finance of the Seimas.

Through a mystery shopping exercise in the unit-linked life insurance market, the Bank of Lithuania found that almost 40% of cases involved customers being offered an insurance product that did not meet their needs. In response, the Bank of Lithuania prepared and submitted to the Ministry of Finance a draft amendment to the Law on Insurance.

The Centre for Financial Market Development actively strengthened the financial market to attract new market participants and promote sustainable fintech development. Data from the Bank of Lithuania's Newcomer Programme shows that Lithuania remains one of the most attractive jurisdictions for establishing such companies. In 2023, advice was provided to 248 financial market participants interested in the licensing process under this programme.

The Bank of Lithuania, together with Latvian and Estonian authorities, harmonised common requirements for the information document for the issuance of securities to increase capital market access for small and medium-sized enterprises in all three Baltic countries. These requirements are already in place in Lithuania and Latvia, and it is expected that Estonia will follow suit in the near future.

The Bank of Lithuania prepared the Fraud Prevention Guidelines, aimed at a more effective management of the risk of financial fraud by financial market participants by applying preventive measures. Enhanced consumer protection for payment service users is also envisaged, with proposals to improve their ability to identify and protect themselves against fraud cases. The guidelines will come into effect on 1 May 2024.

On the initiative of the Bank of Lithuania's Centre for Financial Literacy, a board game called *Sukčių voratinklis* [Fraudster Web] was created for residents which can now be found in libraries across Lithuania. An information campaign was also organised during the summer by the Centre for Financial Literacy in collaboration with its information partner LRT.

Strategic direction 2: Sustainability – a financial sector that promotes sustainable economic development

The Bank of Lithuania published its first report on climate-related disclosures of the Bank of Lithuania's non-monetary policy portfolios. Over the past two years, there has been a clear improvement in climate change-related indicators in investments in public sector bonds, which constitute the largest share of foreign reserves. In addition, the first interim climate-related targets for equity investments have been set and aimed for.

The Climate Change Centre of the Bank of Lithuania aims to increase sustainability and reduce climate change-related risks in all areas of the responsibility of the Bank of Lithuania. The financial asset management policy of the Bank of Lithuania has also been supplemented. It was established that the investment of foreign reserve assets would be aimed at reducing climate change-related risks, where this is not contrary to the basic principles of investment security, liquidity, and return.

The Bank of Lithuania uses only green electricity for its own needs, monitors and publicly discloses the organisation's carbon footprint, and strives to reduce it.

Strategic direction 3: Progress – a progress-oriented organisation

The Bank of Lithuania successfully continued implementing its algorithmic trading programme, being one of the first in the world to test and adopt this advanced investment management innovation. Computer algorithms are used in managing investments and making investment decisions, making human intervention practically unnecessary. In 2023, algorithmic trading generated a return of €0.6 million, and over the three years of its application, it has already earned a total of €4.3 million.

Furthermore, a modern reporting system called REGATA was developed and started being used at the Bank of Lithuania at the beginning of 2024. Banks operating in Lithuania provide supervisory information to this system.

The new system reduces the administrative burden on financial market participants and enables more efficient data management. By increasing the accessibility of financial data, fostering communication with

data users, and laying the groundwork for using data for digital transformation, the Bank of Lithuania publishes open data not only on its website but also on Lithuania's Open Data Portal. In 2023, the Bank of Lithuania published eight new data sets, including on prices for individual payment services, payment service packages, and data from the Survey of the Habits of Lithuanian Residents in Using Payment Services. The portal now features 16 Bank of Lithuania data sets.

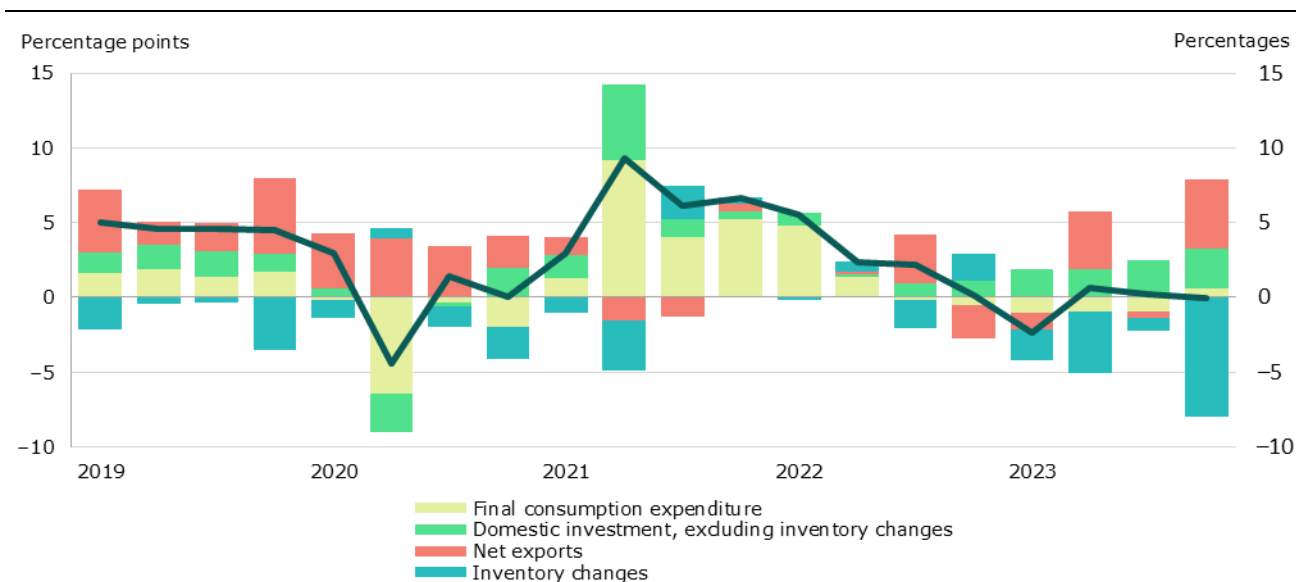
In 2023, the Bank of Lithuania began implementing integrated strategic management principles. These principles are applied through updated operational guidelines for 2022–2025, which outline the Bank of Lithuania's strategic priorities. The operational guidelines define the stakeholders of the Bank of Lithuania and the value created for them. It was decided to measure not only the results achieved at the end of the strategic period but also intermediate results annually.

2. Economic and financial overview

2.1. Real economy

Unfavourable global trends, cautious consumer spending, and a decrease in inventories have dampened economic activity in Lithuania. Lithuania's GDP in 2023 decreased by 0.3% compared to 2022. At the beginning of the year, the economy was still constrained by high energy prices and significant inflation, but the impact decreased over the year. However, the economy was negatively affected by rising interest rates, and a global slowdown in investment and consumption, thereby reducing demand for Lithuanian exports. Additionally, declining real disposable incomes in the first half of the year and continued consumer caution throughout the year led to a contraction in private consumption. However, the increase in investment prevented a significant slowdown in economic activity. Despite such economic developments, the labour market situation remained stable: the average monthly gross wage continued to grow rapidly (12.6%), and the unemployment rate stood at 6.8%, similar to pre-pandemic levels.

Contributions to real GDP (expenditure approach)



Sources: State Data Agency and Bank of Lithuania calculations.

The most significant constraint on Lithuania's economic development was a 4.8% decrease in goods and services exports. In 2023, both exports of goods of Lithuanian origin, which are a crucial component of exports, and re-exports declined. Several factors affected the performance of Lithuanian-origin exports, including low foreign demand for Lithuanian goods, poor harvests, relatively high natural

gas prices, Lithuania's export structure, and operational restrictions imposed on one of the fertiliser producers. Re-exports began to decline more notably in the second half of the year, primarily due to tightened requirements for the export of dual-use goods and transportation equipment to third countries. These requirements led to a contraction in the export of these goods, especially to countries in the Commonwealth of Independent States.

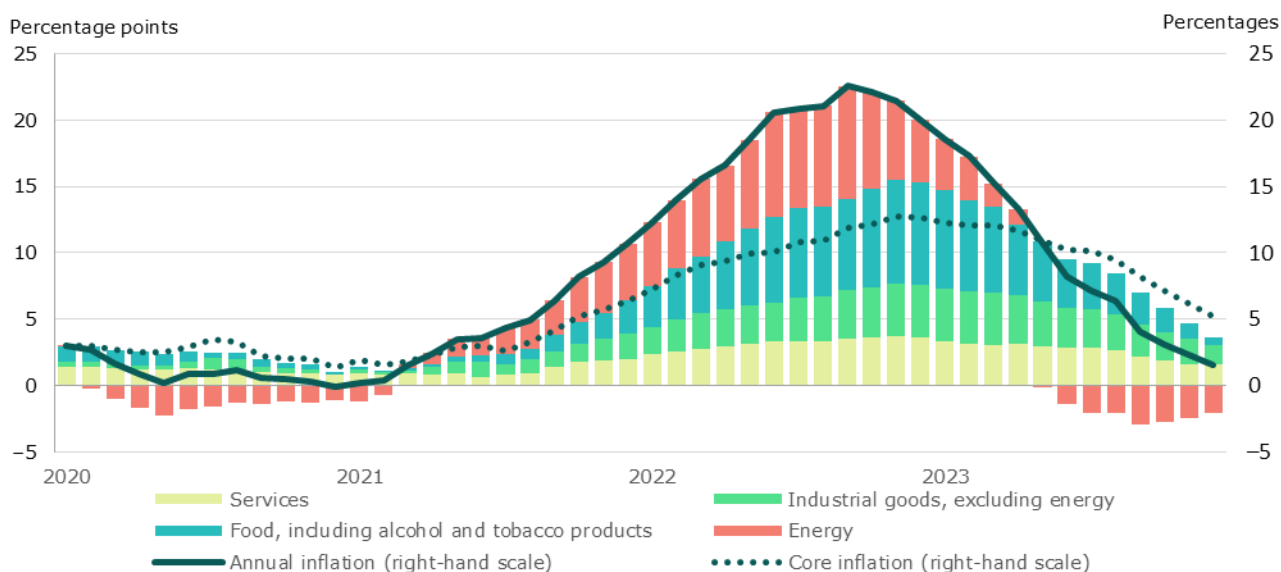
In the first half of the year, declining real disposable incomes and uncertainty about the future constrained household consumption. Household consumption decreased by 1.1% in 2023. Real disposable incomes, which had stagnated for almost two years only picked up in the second half of 2023. However, households managed to avoid significant financial difficulties. For example, the results of the European Commission's consumer survey show that in 2023 households rated their financial situation better than in 2019, i.e. before the COVID-19 pandemic. Nevertheless, given this trajectory of real disposable incomes, household consumption remained sluggish. Consumption expenditure began to increase only in the last quarter of 2023, rising by just 0.8% compared to the previous year. This consumption dynamic was influenced by consumer caution due to ongoing uncertainty about the geopolitical situation, the impact of monetary policy, and the effect of rising interest rates on expenditure.

Supported by increasing flows of EU funds, growing investments prevented a significant decline in economic activity. In 2023, investments were 10.6% higher than the previous year, marking one of the fastest growth rates since 2011. The rising inflow of EU funds particularly stimulated investments in other buildings and structures, which grew by 14.7% in 2023. This category includes engineering structures as well. The volume of construction work for engineering structures in 2023 was about one-fifth higher than the previous year. The growth in construction work for engineering structures was mainly driven by increased construction of roads, streets, and electricity networks. Investments in other capital goods increased by about one-fifth. This was driven by both the aim to use energy more efficiently and the modernisation of production equipment. The trends in housing investments were different: the cooling housing market had a mitigating effect on these investments, thus the latter increased by only 1.2% in 2023.

2.2. Price dynamics

With the decline in energy and other commodity prices and the fading of supply disruptions caused by the abrupt post-pandemic recovery, the average annual inflation in 2023 decreased to 8.7%. Annual inflation consistently declined throughout 2023, from 18.5% in January to 1.6% in December. The drop in inflation was primarily triggered by cheaper energy, but it was also largely influenced by the lesser impact of the growth in prices of food, including alcoholic beverages and tobacco. Overall, in 2023, the growth of all main components of inflation decreased, with the prices of food, including alcoholic beverages and tobacco, being the main driver of inflation.

HICP inflation and contributions



Sources: State Data Agency and Bank of Lithuania calculations.

With the decline in energy resource prices, energy became cheaper for consumers by an average of 4%, contributing mostly to the fall in inflation. The stabilisation of the gas supply and the decrease in threats of potential gas shortages and disruptions in the supply of other energy resources as well as the increasing generation of renewable energy electricity brought down the prices of various energy resources. For example, electricity prices on the market in 2023 more than halved, compared to 2022, gas prices decreased by more than three times, and Brent crude oil dropped by about one-sixth. This resulted in the fall of energy prices for consumers. The most significant decrease, almost by a fifth, was observed in the price of heat energy in 2023, while fuel prices went down by 12.3%. Nevertheless, fuels were the energy component which reduced inflation the most, since the weight of fuels in the consumption basket is higher.¹

Food prices, including alcoholic beverages and tobacco, rose at the average annual rate of 13.4% in 2023 (compared to 21.8% in 2022), making it the main driver of inflation. In 2023, the purchase prices of grains and whole milk decreased by a quarter in Lithuania. Together with the reduced energy costs, this led to a decreasing growth rate of food prices, including alcoholic beverages and tobacco, in 2023 – in January, the prices of these goods were 26.7% higher, while in December, only 2.1% higher than a year ago. By the end of the year, prices of some product groups even decreased. For example, in December, milk, dairy products, and eggs were 5.1% cheaper compared to the previous year, and with the restoration of supply chains for oils, the prices of oils and other fats essentially decreased throughout 2023. In December, these products were 14.2% cheaper year on year.

Core inflation, which is more inert and more closely related to domestic economic developments, decreased but remained high at 9.6%. The drop in energy costs, dissipating supply disruptions caused by the post-pandemic reopening, and the release of pent-up demand accumulated during the pandemic put downward pressure on core inflation. However, rapidly increasing unit labour costs were a significant factor driving it up. In 2023, wages increased rapidly at the average annual rate of 12.6%, and with unfavourable productivity trends, unit labour costs increased even more, up by one-seventh than the previous year. All of this led to a rapid increase in the prices of services, one of the components of core inflation, at the average annual rate of 10.5%. In the case of industrial goods, another component of core inflation, the diminishing pressure on prices due to external factors began to

¹ In 2023, fuels accounted for 6.8%, while heat energy accounted for 2.6% of the consumption basket.

be more reflected in the monthly price changes only towards the end of the year. Therefore, prices of industrial goods in 2023 grew at a similar rate (8.9%) as in 2022 (9.1%).

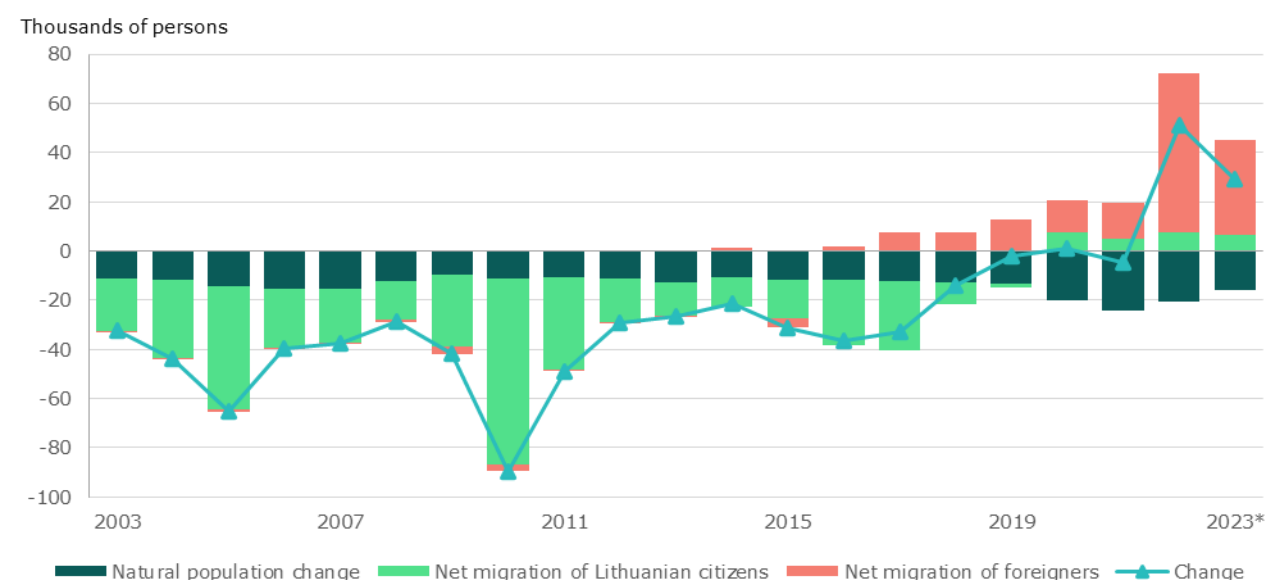
2.3. Labour market

The number of permanent residents in Lithuania increased for two consecutive years.

However, due to relatively less positive migration trends in 2023, the growth of permanent residents was slower than in 2022.

In 2022, the population increased by as much as 1.8%, a record growth since the beginning of data publication. According to preliminary data, at the beginning of 2024, the number of permanent residents in Lithuania reached around 2.89 million, the highest in the past eight years. Compared to 2022, the annual population growth slowed to 1%. Such a trend was primarily influenced by the decreased difference between the number of foreign immigrants and emigrants over the year. However, even with a reduced migration balance, it was enough to compensate for the negative natural decrease in population. In 2023, about 16,000 more people died in Lithuania than were born. Although this difference was smaller than in 2022, the indicator of natural population change has not yet returned to pre-pandemic levels.

Contributions to the change in the number of permanent residents in Lithuania, 2003–2023



Sources: State Data Agency and Bank of Lithuania calculations.
*Provisional data.

The favourable migration trends in recent years significantly affected the labour force indicator, which reached the highest level in two decades.

By the end of 2023, the number of economically active residents² amounted to 1,572 thousand, which was 3.9% higher year on year. In 19 years, the last time that a higher number of residents participating in the labour market (1,578 thousand) was recorded was only at the beginning of 2005. The largest increase in the labour force in over two decades was driven by the rising level of labour force participation, but mostly due to the positive migration balance and the resulting population growth. While there was still a significant labour shortage and favourable employment opportunities, the participation of the population in the labour market and employment increased. According to the data of the labour force survey, the number of people employed in Lithuania was 1.4% higher in 2023 compared to the previous year.

² Seasonally adjusted.

Although economic activity did not grow and geopolitical risks persisted, the situation in the Lithuanian labour market remained stable in 2023. The rapidly growing workforce slightly increased the unemployment rate: in 2023, the average unemployment rate in the country stood at 6.8%, which was 0.9 percentage points higher than the previous year. However, unemployment rates fluctuated at similar levels even before the pandemic, so there were no significant red flags in the labour market. In the second half of 2023, there was a noticeable rise in the new unemployed who had recently lost their jobs. By the end of the year, the newly unemployed who had been out of work for up to one month accounted for about 13% of all the unemployed in Lithuania, the highest since the beginning of the pandemic. However, new job searches did not last long for these newly unemployed individuals, as the share of the long-term unemployed remained relatively low compared to the total number of the unemployed. Registered unemployment reported by employment services also did not indicate a worsening situation. The continued growth in the number of employed individuals and the positive outlook of companies regarding the workforce showed their intention to retain employees, despite the economy not growing for almost two years.

While there were still tensions in the labour market, wages continued to increase rapidly in Lithuania. With the country recording an average of around 27,000 vacant positions for employees per year, the situation in the labour market remained tight. The level of tension, assessed by the ratio of job vacancies to unemployment, did not significantly decrease over the year and was almost double the average from 2008 to 2023. The high demand for new employees and the abundance of job vacancies (the level of job vacancies nearly reaching historic highs at 1.9%) contribute to better employment opportunities and allow employees to confidently negotiate their salaries. In 2023, wages in Lithuania's economy were 12.6%³ higher than the previous year. The rapid growth was triggered not only by the favourable labour market conditions for the employed, associated with the tight situation due to labour shortages, but also by the increase in the minimum monthly wage at the beginning of the year.⁴ Compared to wages in the private sector, in 2023, salaries increased more rapidly in the public sector (mostly due to the fastest growth in the base salary scale since 2019). In the public sector, wages rose by 13.2%,⁵ while in the private sector they were up by 12.4%.⁶

Following a significant decline in real gross wages in 2022, wages in Lithuania picked up again, reaching the 2021 level. In 2022, nominal wage growth was offset by soaring inflation; therefore, the purchasing power of employees significantly decreased. After a year-long hiatus, real⁷ gross wages began to rise again in the second quarter of 2023. Despite the labour market showing resilience and a decrease in inflation indicator, by the end of 2023 the annual growth accelerated to 8.5%, and real wages reached their peak recorded in 2021. Thus, the purchasing power of residents returned to its previous level.

3. Monetary policy of the Eurosystem

3.1. Decisions

Until September 2023, the Governing Council of the ECB continued to tighten the monetary policy of the Eurosystem. Key ECB interest rates were raised six times in 2023, up to 4%, with the aim of bringing inflation in the euro area back to the 2% target over the medium term. From July 2022, when the Governing Council began the cycle of interest rate hikes, until September 2023, they were increased

³ Lithuania's economy with individual enterprises; provisional data.

⁴ According to Bank of Lithuania calculations, the 15% increase in the minimum monthly wage in 2023 resulted in a 1.5–2.4 percentage point faster growth in average wages.

⁵ Provisional data.

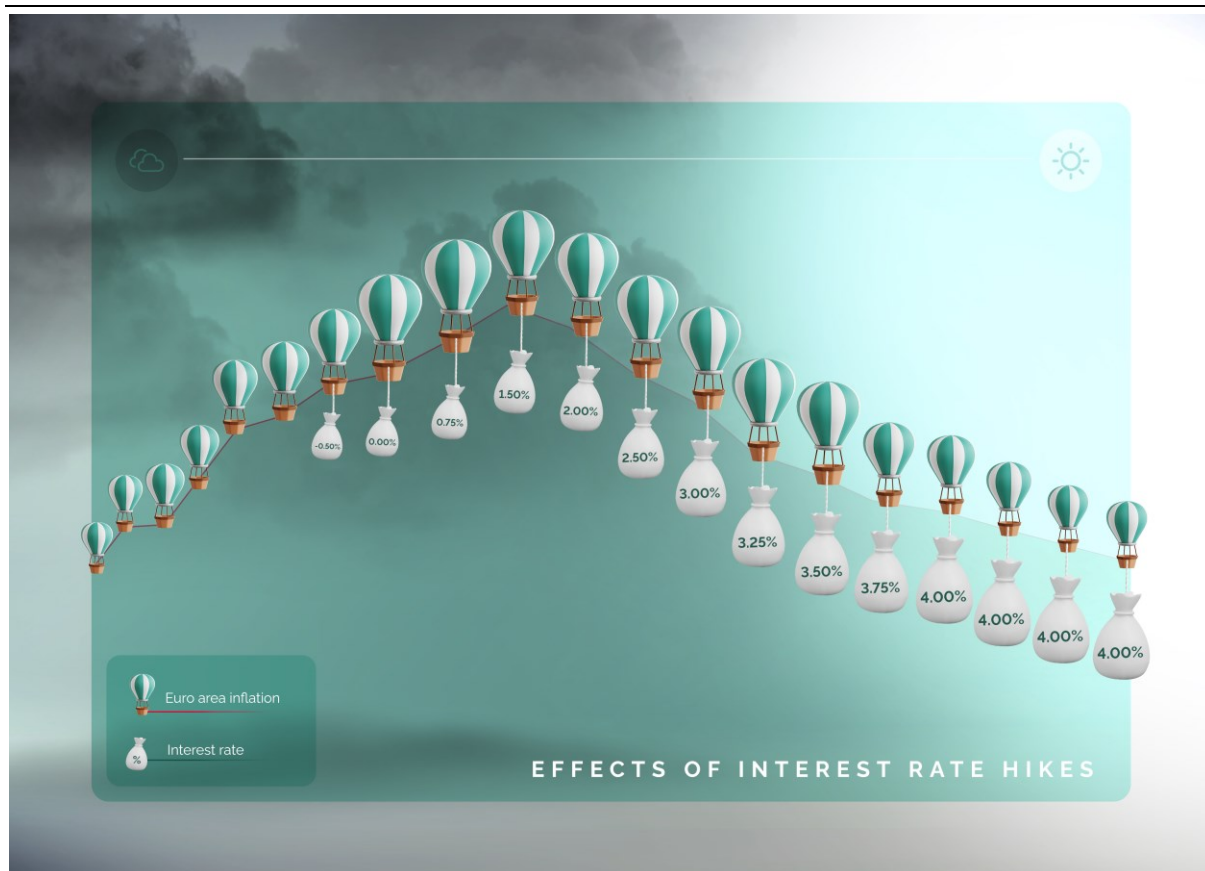
⁶ Private sector with individual enterprises; provisional data.

⁷ Real wage calculations are based on HICP data.

ten times in total. Such a rapid increase in interest rates was driven by excessively high inflation in the euro area and the risk of inflation exceeding 2% in the future.

In the last quarter of 2023 and the beginning of 2024, the Governing Council of the ECB maintained a restrictive level of the Eurosystem's monetary policy. The key ECB (deposit facility) interest rate reached 4% in September 2023 and remained unchanged since then. The decision not to raise interest rates further was made due to the decline in both headline and underlying inflation and the strong impact of interest rates on financing conditions. Inflation in the euro area significantly decreased in 2023, from 8.6% in January 2023 to 2.4% in March 2024. According to the Governing Council, the key ECB interest rates are at a level that, if maintained for a sufficient period, will help gradually achieve the inflation target. Decisions regarding the appropriate level and duration of restrictions will continue to be based on all available data.

Key ECB interest rate hikes from July 2022 and their impact on euro area inflation



In 2023, the Governing Council of the ECB also reduced the monetary policy stimulus through decisions on the asset purchase programme (APP). From March to June 2023, reinvestment volumes under the APP were reduced by €15 billion per month, and from 1 July, reinvestment was completely halted. In December, the Governing Council also decided to reduce reinvestment volumes under the pandemic emergency purchase programme (PEPP) by an average of €7.5 billion per month in the second half of 2024 and to completely stop reinvestment at the end of 2024. Together with interest rate hikes, these decisions ensure an appropriate monetary policy stance and contribute to the objective of bringing euro area inflation sustainably back to 2% over the medium term.

Macroeconomic indicators for the euro area in 2023 and their projections

(annual percentage change, excluding the unemployment rate)

Indicator	2023	2024	2025	2026
Real GDP	0.5	0.6	1.5	1.6
HICP	5.4	2.3	2.0	1.9
Unemployment rate	6.5	6.7	6.6	6.6
Compensation per employee	5.3	4.5	3.6	3.0

Source: March 2024 ECB staff macroeconomic projections for the euro area.

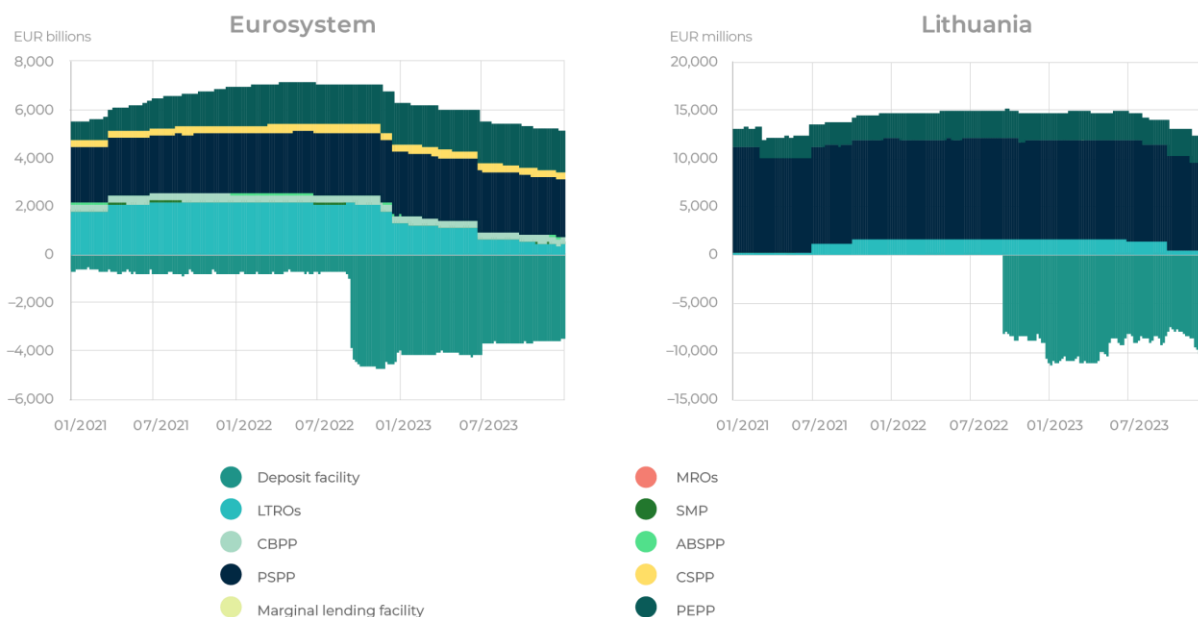
3.2. Instruments

In 2023, the Eurosystem carried out 137 open market operations. During the main refinancing operations (MROs), which had a one-week maturity, counterparties of the Eurosystem borrowed €14.09 billion at the end of the year (compared to €2.41 billion at the end of 2022), while through longer-term operations, including targeted longer-term refinancing operations (LTROs), they borrowed €396.2 billion (compared to €1,321.42 billion at the end of 2022). While the ECB kept raising the key interest rates, counterparties continued to actively use the deposit facility. The use of the deposit facility decreased slightly over the year, amounting to €3,334.82 billion at the end of 2023 (compared to €3,778.78 billion at the end of 2022).

The counterparties of the Bank of Lithuania also participated in MROs and LTROs, but at the end of the year, they only borrowed LTROs, amounting to €478.81 million (more than three times less than at the end of 2022, which was €1.6 billion). The Bank of Lithuania's counterparties, like those of the Eurosystem, made use of the overnight deposit facility, with the amount of such deposits standing at €11.03 billion at the end of the year.

During the period under review, the Eurosystem's monetary policy securities portfolio decreased because the Eurosystem no longer conducted outright purchases under APPs and gradually phased out reinvestments under the expanded APP. Under the PEPP, all funds received for redeemed securities during the period under review were reinvested, while reinvestments under the expanded APP decreased: partial reinvestments were carried out from March to June, whereas they were completely halted from July onwards. As a result, the Eurosystem's monetary policy securities portfolio decreased: it amounted to €4,694.35 billion at the end of the year, i.e. €242.83 billion less than at the end of 2022.

The monetary policy securities portfolio of the Bank of Lithuania also decreased by €1.2 billion and amounted to €11.77 billion at the end of the year. Of these, €7.1 billion consisted of securities issued by the Republic of Lithuania or guaranteed securities, and €4.7 billion consisted of bonds issued by European institutions.



Sources: ECB and Bank of Lithuania calculations.

Note: The utilisation of the deposit facility surged significantly since 14 September 2022, when the Eurosystem resumed applying positive interest rates for this overnight facility.

Balances and the volume of utilising the deposit facility in 2023

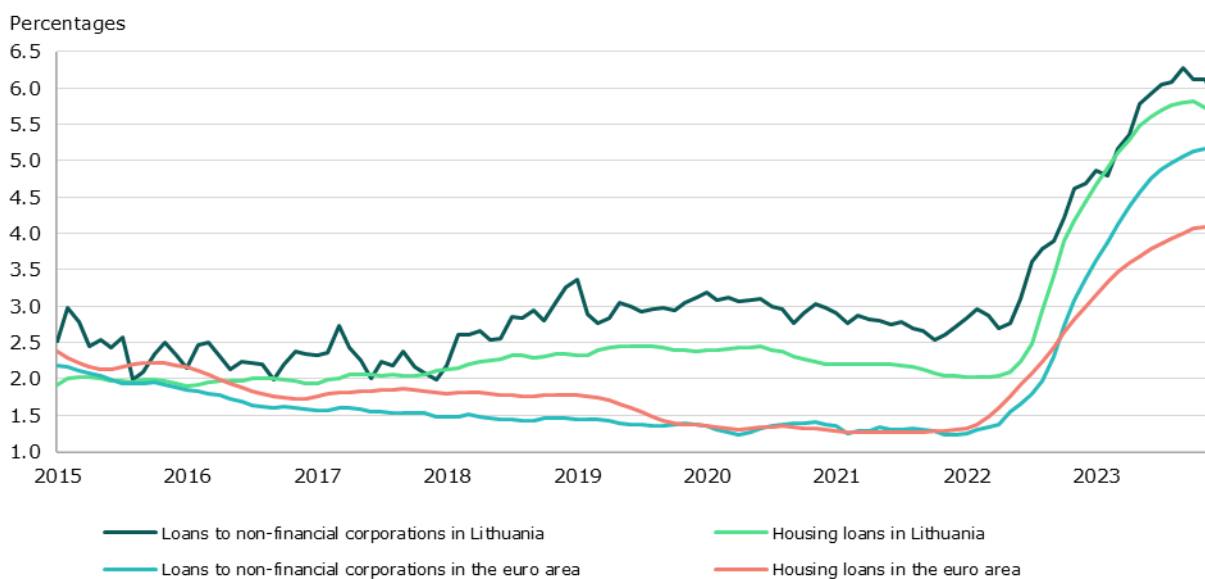
Indicator	Region	Volume at the end of the year, EUR	Annual change	Annual average, EUR	Highest value, EUR	Lowest value, EUR
Minimum reserves	Eurosystem	162.4 billion	-3.4%	165.1 billion	168.1 billion	162.4 billion
	Lithuania	453.5 million	3.2%	453.1 million	468.3 million	426.2 million
Current account holdings	Eurosystem	186.2 billion	-14.9%	183.4 billion	386.7 billion	147.8 billion
	Lithuania	572.3 million	-47.6%	689.3 million	2,828.5 million	512.4 million
Recourse to deposit facility	Eurosystem	3,446.6 billion	-8.8%	3,826.6 billion	4,182.4 billion	3,303.5 billion
	Lithuania	11.0 billion	-2.9%	9.2 billion	11.2 billion	6.7 billion
Recourse to marginal lending facility	Eurosystem	0.2 billion	-116.3%	0.1 billion	2.0 billion	0.0 billion
	Lithuania	0.0 million	0.0%	0.1 million	0.4 million	0.0 million

Sources: ECB and Bank of Lithuania data.

3.3. Impact

Bank lending rates stabilised in Lithuania and other euro area countries after the key ECB interest rates had reached their peak. The rapid increase in the interest rates on new loans in 2022–2023 was driven by the rise in the variable component of interest rates on loans due to monetary policy decisions. However, this growth halted in the second half of 2023 when the Governing Council of the ECB stopped raising interest rates. Although the interest rates on new loans in Lithuania are still higher than the euro area average, this difference is most noticeable in the segment of new housing loans. This can be explained by the fact that almost all housing loans in Lithuania (about 98%) are granted with a variable interest rate (usually 3, 6, or 12-month EURIBOR), while on average in the euro area, this indicator is significantly lower (about 19%). The future dynamics of lending rates will depend on the monetary policy stance, the economic and financial situation of banks, and the competitive environment in the banking sector.

Average interest rates on new MFI housing loans and loans to NFCs



Sources: ECB and Bank of Lithuania calculations.

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

The borrowing cost in financial markets for governments remained high in 2023. In March 2024, the yield on 10-year Lithuanian government bonds was around 3.5%, while it was close to 4% in January 2023. This cost of borrowing is higher than in Germany (2.4%), but slightly lower than in Italy (3.7%). Against the backdrop of higher interest rates, fiscal policy should be more prudent. [The ECB recommends](#) that fiscal and structural policies of the government should aim to increase economic productivity and competitiveness while consistently reducing high levels of public sector debt.

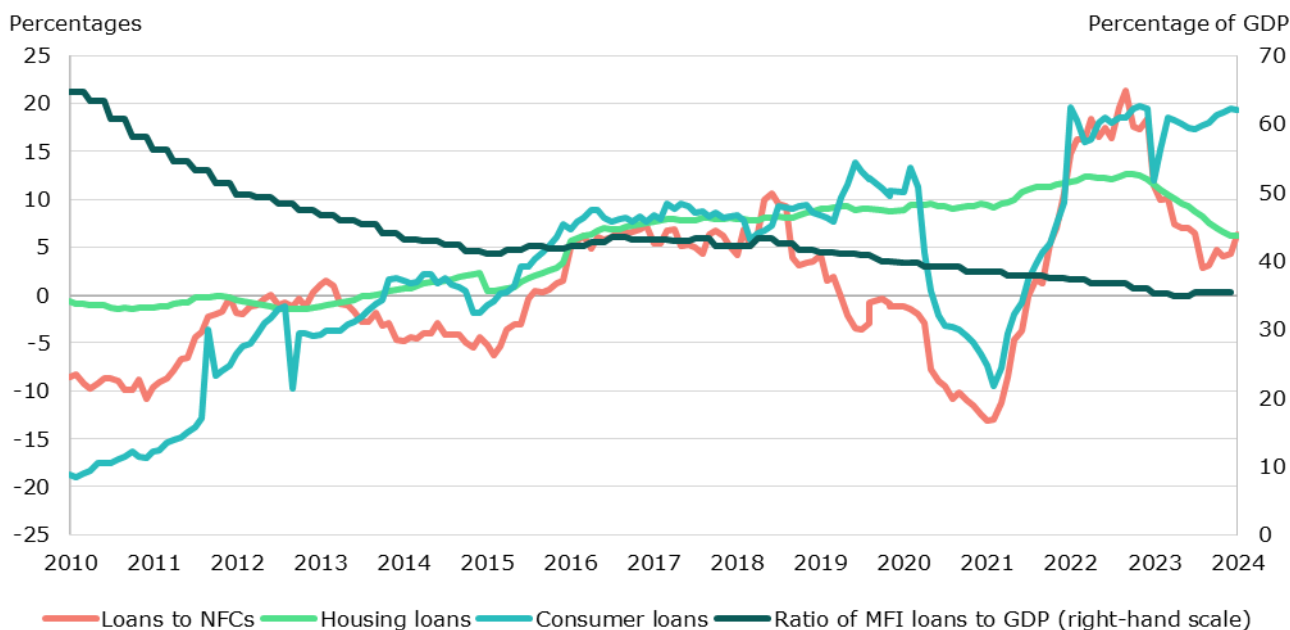
ECB calculations show that monetary policy decisions significantly contribute to reducing inflation in the euro area. Although monetary policy tightening by the Eurosystem also slows down economic growth in the euro area, including Lithuania, it was necessary to tighten the monetary policy to achieve the main objective of the Eurosystem, i.e. to bring inflation in the euro area back to the 2% target over the medium term.

4. Financial stability

The greatest risk to the Lithuanian financial system is posed by the potential deterioration of the macroeconomic environment, with uncertainty heightened by ongoing geopolitical tensions. Although inflation in Lithuania and the euro area has eased, the economy remains sluggish due to rising interest rates as well as subdued investment and consumption globally. Furthermore, geopolitical tensions worldwide pose a risk to economic growth. The lingering uncertainty is evidenced by relatively low business confidence indicators, which are lower in Lithuania than the euro area average. Therefore, until the economies of Lithuania and trading partners do not start growing faster and there are higher prices of financing, non-financial corporations (NFCs) are vulnerable to potential economic shocks. Demand for commercial real estate is significantly dependent on business development. Although the activity in the commercial real estate market is stabilising, the number and volume of sales transactions have ceased to decline after a year-long slump, and sales prices have not yet decreased. The risk of refinancing debt remains relevant in an environment of high interest rates. There is still a decrease in the number of transactions in the housing market, but the good financial position of households has not yet led to a decline in housing prices. Finally, the risk to financial system stability persists due to the ongoing threat of cyberattacks of systemic importance, amid the ongoing Russia's war against Ukraine.

Annual change in the portfolio of MFI loans to Lithuanian households and NFCs, and the ratio of MFI loans to GDP

(January 2010–January 2024)



Source: Bank of Lithuania.

In the context of falling inflation but high interest rates, the financial cycle in Lithuania slowed further in the second half of 2023, reflecting a soft-landing scenario.

The nominal borrowing rates for both businesses and households continued to decline over the six-month period due to reduced demand and remained at a moderate growth level, albeit still relatively higher compared to the euro area as a whole: in the fourth quarter of 2023, the annual growth in the portfolio of MFI loans to businesses was 4.3% (a year-on-year decrease of 14 percentage points), while that to households was 6.7% (a 4.5 percentage point annual decrease). At the same time, the number of new loans granted to companies was one-sixth lower in the fourth quarter of 2023 compared to the previous year. However, due to larger individual loans, the total value of new credit increased by more than one-quarter.⁸ Correspondingly, the number of new mortgage loans decreased by more than a quarter, while the volume decreased by about a fifth compared to the previous year. The results of the [Bank Lending Survey](#) indicate that the slowdown in lending for house purchase is attributed to declining demand, influenced by high interest rates, weaker housing market outlook, and diminished consumer expectations. On the other hand, consumer lending has been historically strong: although the number of loans increased slightly over the year, their nominal flow to Lithuanian residents increased by more than a sixth. Overall, corporate and household indebtedness remains historically low (corresponding to 42% and 22% of GDP, respectively), and the loan-to-deposit ratio of banks remains low (79%).

As housing demand and sales declined due to higher interest rates, the annual growth rate of housing prices is slowing down and already lagging behind wage growth, but there are still limited imbalances in the market.

In the second half of 2023, 19.9 thousand homes were sold, which is 15% less than in the second half of 2022. With decreased demand for housing, the annual growth rate of housing prices is slowing down and stood at 8.3% in the fourth quarter of 2023, the lowest since the third quarter of 2020. Based on new data sources,⁹ the annual growth rate of prices in January 2024 ranged from 2.1% to 4.1%. Furthermore, wages are rising faster than housing prices again (2.3

⁸ When evaluating the long-term trend, new corporate lending essentially corresponds to overall economic growth – the ratio of loan flow to annual GDP is 1%, and the 10-year average is 1.3%.

⁹ Data from the recurring transactions housing price index of the Bank of Lithuania and the Ober-Haus housing price index.

percentage points more in the third quarter of 2023), gradually improving housing affordability. With reduced demand, it is likely that housing price growth will continue to slow down in the near future. However, calculations by the Bank of Lithuania show that housing prices were still 4.3% above economically justified values in the third quarter of 2023. On the one hand, wages are already increasing faster than housing prices, which reduces the over-valuation of prices. But due to the rapid rise in housing prices over the past few years, the nominal level of housing prices is still high compared to its historical trajectory, so despite the slowdown in housing price growth, they are still overvalued.

The banking sector has so far successfully weathered the challenges, with high profitability, while substantial capital and liquidity reserves demonstrate resilience to potential future shocks. Against a backdrop of a weaker economic outlook, the banking sector continues to demonstrate high resilience and profitability.¹⁰ With the entry into force of the Republic of Lithuania Law on Temporary Solidarity Contribution on 16 May 2023, banks operating in Lithuania, foreign bank branches, and other credit institutions which received significantly higher than planned net interest income transferred approximately €250 million to the state budget in 2023.¹¹ The quality of banks' assets remains good: the share of non-performing loans has been gradually decreasing since 2021 and remained at a low level in the fourth quarter of 2023, both in the corporate (1.5%) and household (1.2%) loan segments, although the share of loans with increased credit risk slightly increased over the year. There are still challenges due to slower economic growth, which could lead to higher restructuring and non-performing loan volumes in the future. However, significant capital reserves¹² and high liquidity¹³ contribute to greater resilience in the banking sector. Stress testing results show that Lithuania's banking sector is resilient to short-term solvency and liquidity shocks.

The Bank of Lithuania's preventive financial stability measures help to ensure that the financial system is able to withstand shocks. In 2023, previously adopted decisions on tightening capital requirements came into effect. Starting from 1 July 2023, Revolut Bank UAB was subject to an additional 1% capital requirement due to the bank's systemic importance.¹⁴ Furthermore, in December 2023, a decision was made to increase this capital requirement for Revolut Bank UAB to 2% due to the increased systemic importance of the bank, effective from 1 July 2024. Additionally, on 1 October 2023, the [decision made in the autumn of 2022 to bring the countercyclical capital buffer to its pre-pandemic level of 1% came into effect.](#)

¹⁰ In the fourth quarter of 2023, the return on equity indicator for the banking sector stood at 23.5%, up by 9 percentage points year on year.









¹¹ Based on the Bank of Lithuania calculations, the total amount of the solidarity contribution for 2023–2024 could reach around €470 million.

¹² In the fourth quarter of 2023, the capital adequacy ratio of the banking sector amounted to 19.5%.

¹³ In the fourth quarter of 2023, the liquidity coverage ratio of the banking sector stood at 342%, exceeding the required level by more than three times. The net stable funding ratio was 200%, which was double the regulatory requirement.

¹⁴ See more [here](#).

Macroprudential tools of the Bank of Lithuania

BORROWER PROTECTION		BANK RESILIENCE	
	Maximum loan-to-value (LTV) ratio for the first loan: 85% for the second and subsequent loans*: 70%		O-SII buffer AB SEB bankas: 2% Swedbank, AB: 2% AB Šiaulių bankas: 1% Revolut bank, UAB: 2% <small>Since 01/07/2024</small>
	Maximum debt service-to-income (DSTI) ratio : 40%		Countercyclical capital buffer : 1%
	Maximum DSTI ratio when calculated with a 5% interest rate : 50%		Capital conservation buffer : 2.5%
	Maximum loan maturity : 30 years		Sectoral systemic risk buffer : 2% for the housing loan portfolio

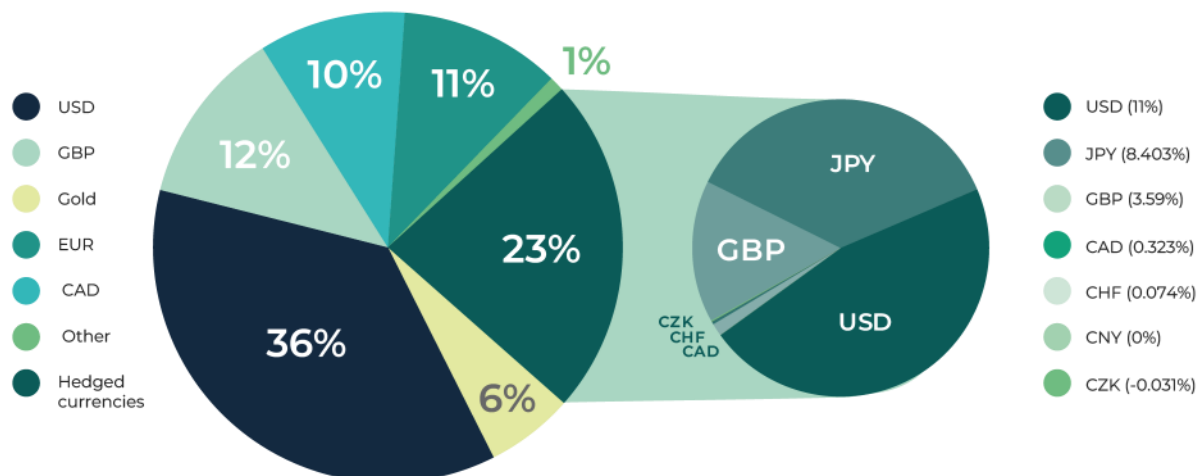
Source: Bank of Lithuania.

*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.

5. Management of financial assets

Aiming at higher investment diversification, the bulk of the currency risk of some investments (77% on average in 2023) was not hedged. The majority of investments with unhedged currency risk were in US dollars (36%), Canadian dollars (10%) and pound sterling (12%). Investments, whose currency risk was hedged, were in US dollars (11%), Japanese yen (8.4%), British pound sterling (3.59%), Canadian dollars (0.32%) and Swiss francs (0.07%).

Average investment composition by currency in 2023



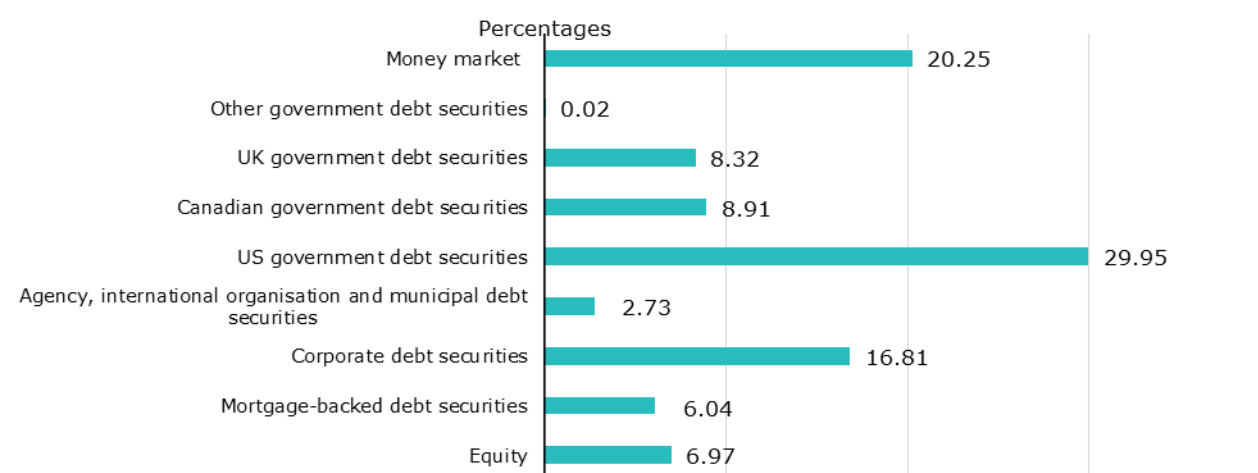
Source: Bank of Lithuania.

The security of financial assets is ensured through diversifying investments, concluding transactions with high investment rating financial institutions that are of good repute, and investing only in debt securities with a high investment rating. 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 2023, 57% of investments were rated AAA (the highest rating).

In terms of financial instruments, the majority of investments made in 2023 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 with 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 in 2023



Source: Bank of Lithuania.

The Bank of Lithuania invests financial assets with the aim of diversifying risk and increasing expected return over a 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.

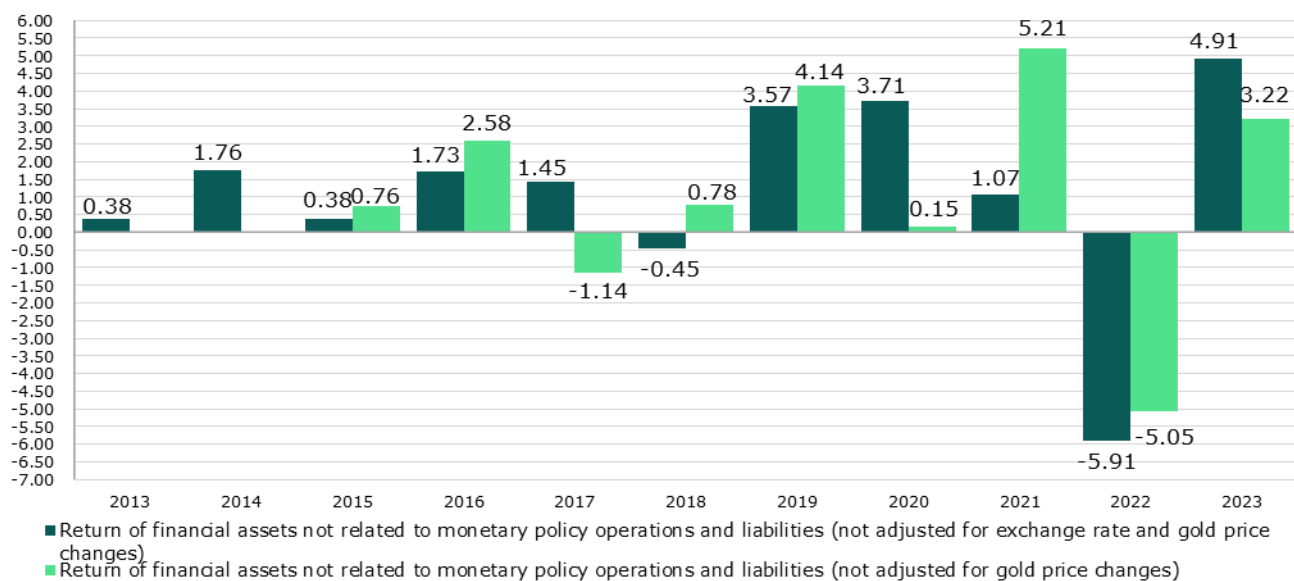
In 2023, the Bank of Lithuania's financial assets not related to monetary policy operations and liabilities amounted to €45,943 million on average. The return on this asset in euro terms (adjusted for exchange rate changes but non-adjusted for gold price changes) stood at 3.22%, whereas in previous years, there was a loss. The return on financial assets excluding liabilities and not related to monetary policy operations (non-adjusted for exchange rate and gold price changes) in 2023 was 0.45%, while in 2022 it stood at -5.91%. Financial market developments in 2023 supported the Bank of Lithuania investments.

The Bank of Lithuania's gold reserves remained unchanged and amounted to 5.8 tonnes. The return on the gold portfolio reached 11.09% in 2023. The return in euro was reduced by the weakened US dollar, while the increased value of the gold market had a positive impact.

The three-year return was 5.81% (€308.5 million).

Return on investment

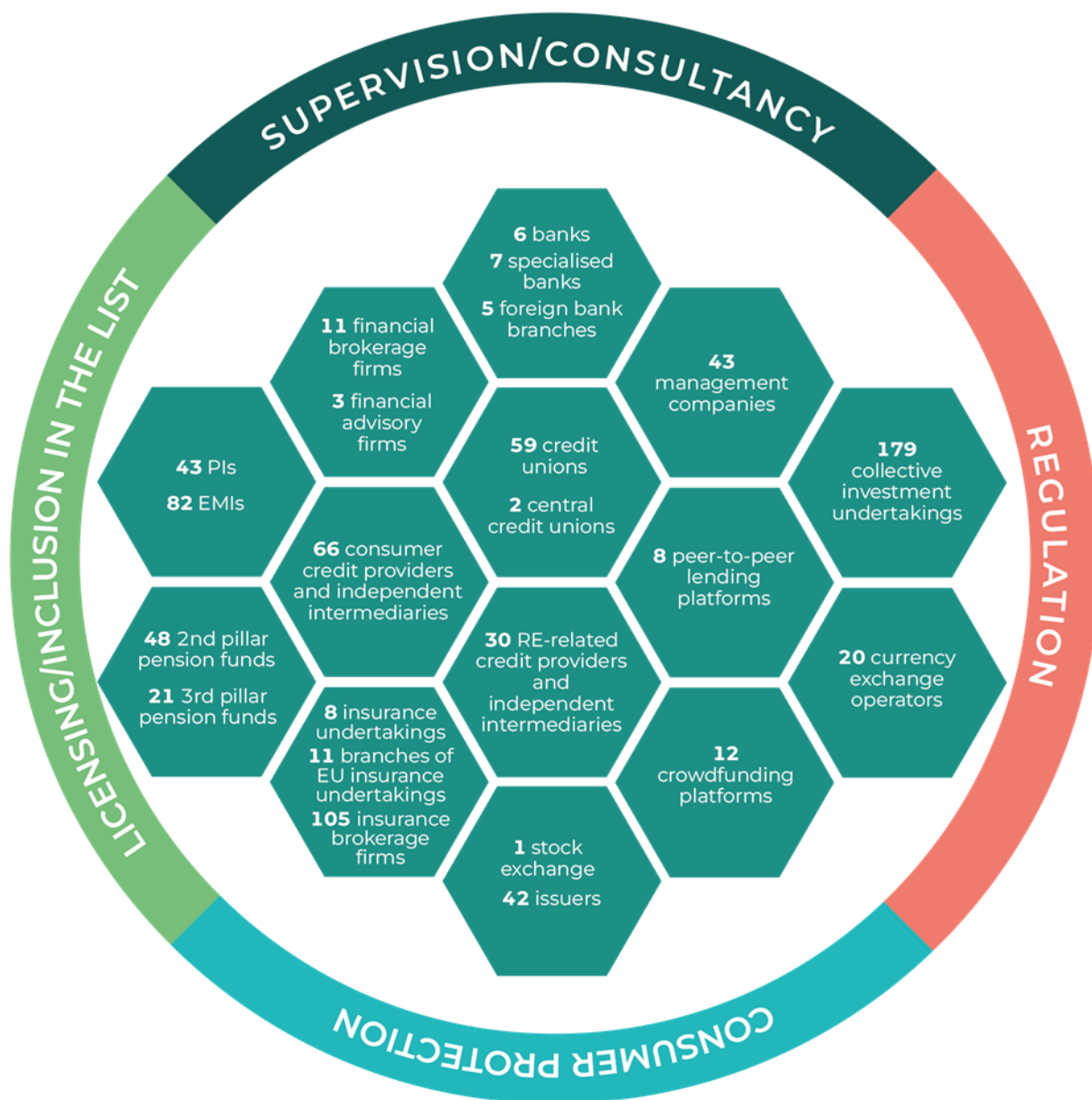
Percentages



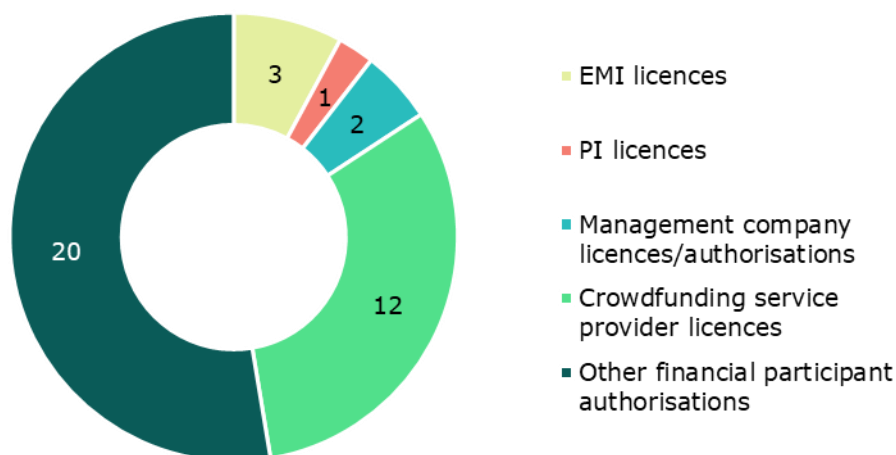
Source: Bank of Lithuania.

6. Supervision

6.1. Financial market participants



The Bank of Lithuania supervises more than 800 financial market participants (FMPs). In 2023, 38 new FMPs entered the financial sector. 18 licences (authorisations) were issued to banks, EMIs and PIs, financial brokerage firms and management companies, and 20 companies (crowdfunding platform operators, peer-to-peer 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; companies can handle all documents and necessary procedures electronically.



Source: Bank of Lithuania.

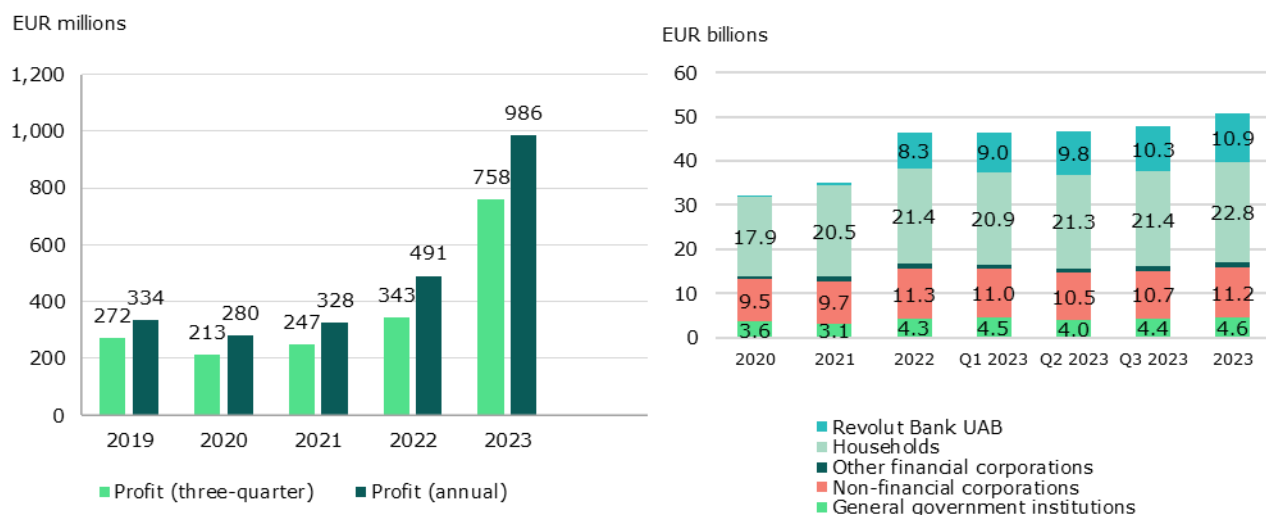
Reviews of the activities of FMPs and information about performance indicators of market participants are published on the [Bank of Lithuania website](#).

6.2. Prudential supervision

Although Lithuania experienced a decrease in economic activity, the banking sector¹⁵ continued to grow. The assets of banks increased by almost 11% over the year, reaching €61.7 billion. The sector achieved record profitability, with bank profits totalling nearly €1 billion after the payment of the solidarity contribution. In 2023, the business models of banks in Lithuania remained broadly unchanged. Loans to businesses continued to increase (by 4.3% to €11.2 billion), but loans granted to residents grew at a faster pace (by 9.7% to €15.0 billion). The quality of loans provided by banks remained high, although negative changes in loan quality indicators were observed in certain segments. In 2023, deposits continued to rise, with the most rapid growth observed in the last quarter. Term deposits also grew significantly during the year. In 2023, total bank liabilities increased by almost €4.4 billion (9.4%) to €50.8 billion; however, after eliminating the contribution of the Revolut Group, total deposits grew by €1.7 billion (4.4%). The level of bank capital adequacy was high (with the capital adequacy ratio of 19.5%), liquidity reserves were substantial, and liquidity ratios were met with significant reserves. At the end of the year, the transfer of Revolut Bank UAB, as a systemically important bank, to the supervision of the ECB Single Supervisory Mechanism was completed.

¹⁵ The data in this section of the report are based on reports provided for supervisory purposes and may differ from the data provided in other sections of the report.

Profit (left) and deposits (right) of the banking sector

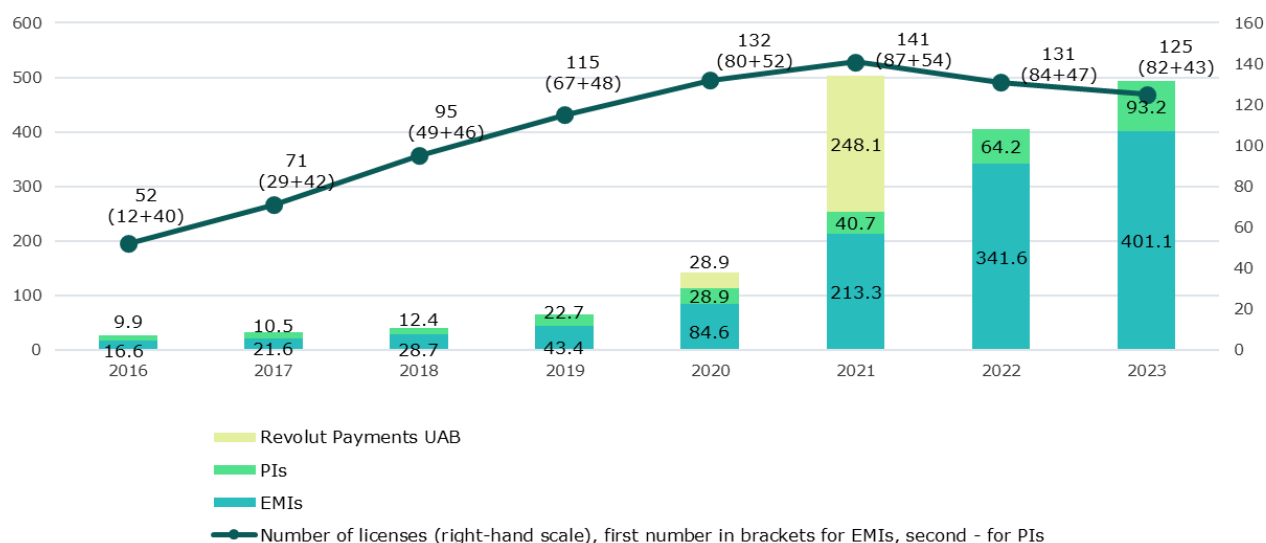


Source: Bank of Lithuania.

Although the economic challenges affected the credit union sector, it continued to grow sustainably and increased its profits. In 2023, there were two central credit unions (CCUs) that brought together 59 credit unions: according to unaudited data, the assets of credit unions amounted to €1,407.7 million, which was 11% higher than the previous year. The level of sector capitalisation remained relatively high, with the capital adequacy ratio of 18.29% at the end of the year. In 2023, the operating result of credit unions was €18 million in unaudited profit, which was €8.2 million higher than in 2022. The main factors influencing the sector's operating result were the increased lending volume and higher loan interest rates.

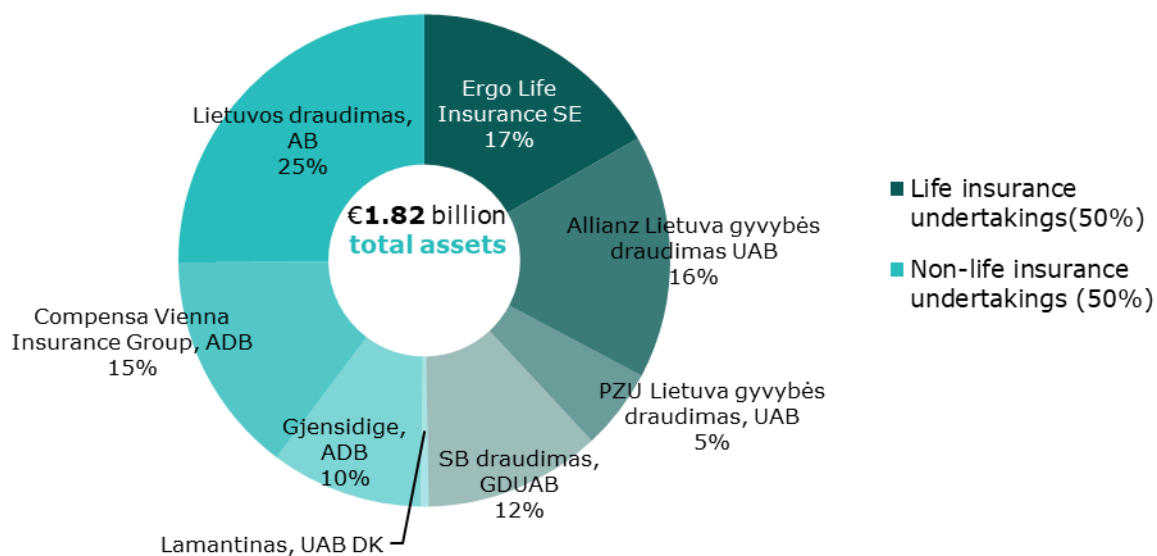
Although the number of EMIs and PIs decreased compared to 2022, the market continued to grow in terms of turnover, revenue, and other financial indicators. The net profit of these institutions amounted to €138 million. Due to higher interest rates and the higher yield of debt securities, EMIs and PIs invested more customer funds in safe, liquid, and low-risk assets. Income from licensed activities increased by 22% over the year to €494.3 million. Significant progress was made by PIs, whose income from licensed activities grew by 45% from €64.2 million in 2022 to €93.2 million in 2023. The total value of payment transactions in the sector amounted to €114.2 billion, nearly 4% more than in 2022. The five largest market participants in terms of payment transactions generated more than half of the sector's turnover (54%), while the five largest EMIs and PIs in terms of income from licensed activities earned 44% of all sector revenues.

Income related to the issue of electronic money and/or provision of payment services and the number of licensed institutions



Source: Bank of Lithuania.

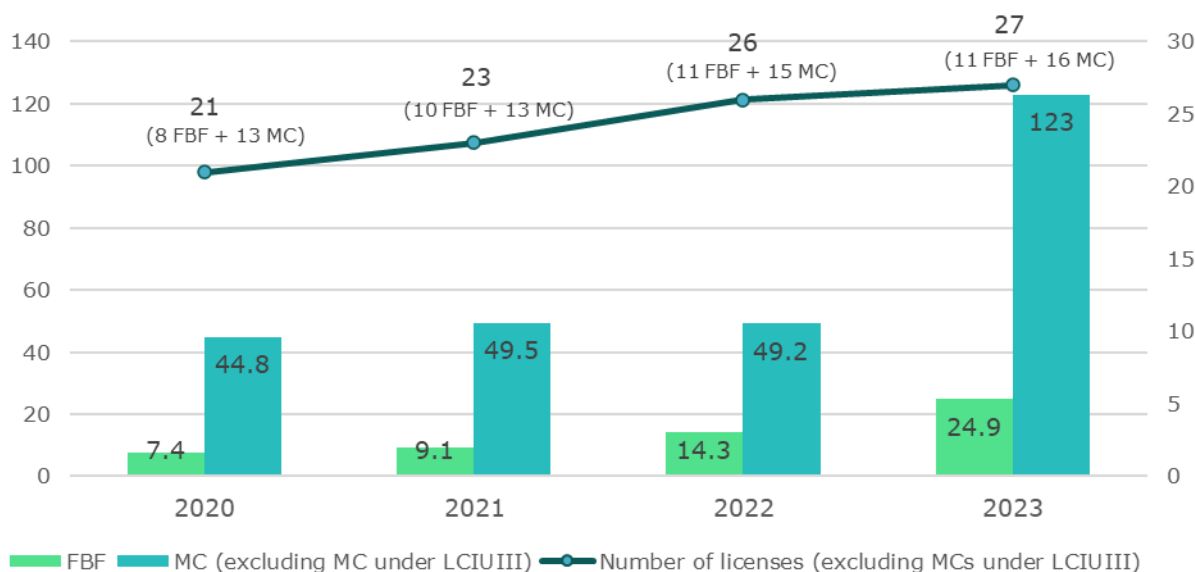
The Lithuanian insurance market maintained its upward trend in 2023. All insurance undertakings operated profitably and, with substantial reserves, met the mandatory solvency capital requirements. As of 31 December 2023, the solvency ratio of life insurance undertakings stood at 2.03 and that of non-life insurance undertakings at 1.45. According to unaudited financial statements, the aggregate financial result of all insurance undertakings amounted to €73.8 million (before tax). All insurance undertakings, except one, were profitable in 2023. Insurance premiums increased by 17% compared to 2022, totalling €1.45 billion. Non-life insurance premiums, accounting for 75% of the market premiums, were up by 22%. The growth of life insurance premiums was more moderate, amounting to 4.3%. Payouts amounted to €0.8 billion in 2023, representing a year-on-year increase of 18%. In the non-life insurance sector, payouts rose by 21%, while in the life insurance sector they increased by 11%. Inflation had a significant impact on the growth of insurance premiums and payouts in the non-life insurance market in 2023. During the period under review, sales revenue for insurance brokerage firms amounted to €108.4 million, with a net profit of €21.1 million, an increase of over 59%.



Source: Bank of Lithuania.

The number and assets of management companies and financial brokerage firms steadily increased. Read more on the Bank of Lithuania’s website ([management company](#) and [financial brokerage firm](#) performance indicators).

Management company and financial brokerage sector assets



Source: Bank of Lithuania.

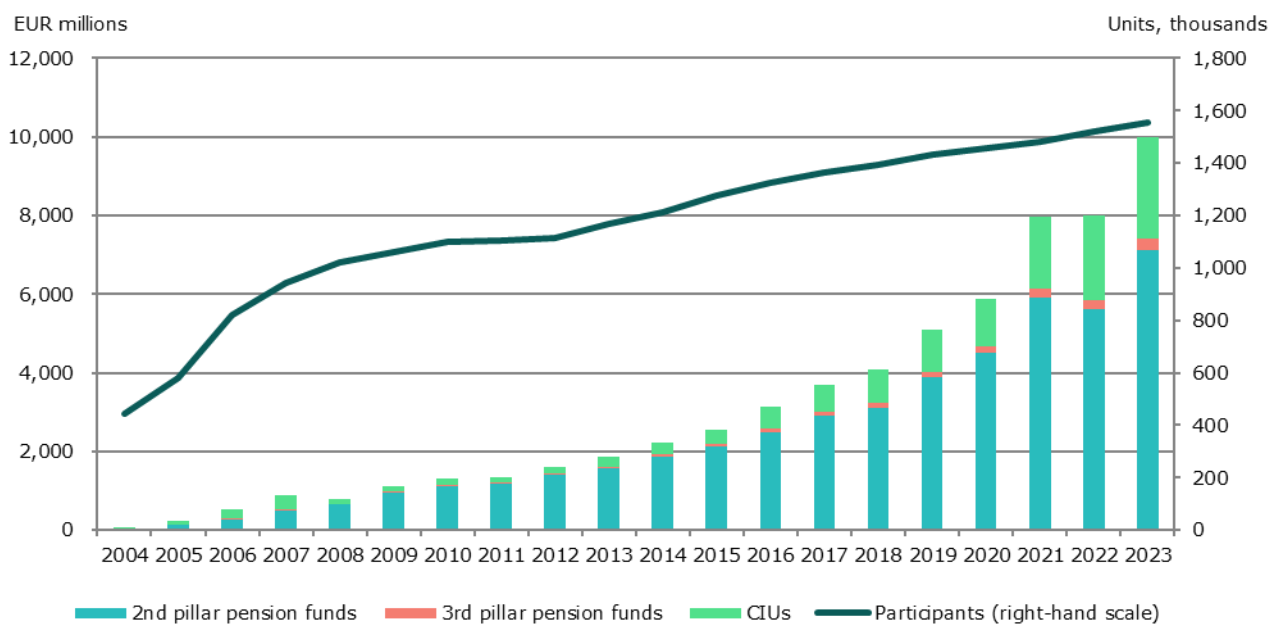
Notes: FBF – financial brokerage firms; MC – management companies; LCIUIII – Republic of Lithuania Law on Collective Investment Undertakings Intended for Informed Investors.

6.3. Financial services and market supervision

Pension funds and collective investment undertakings (CIU) recorded positive returns, with an increase in accumulated assets and the number of contributors. The year 2022 was turbulent for financial markets and significantly adjusted the results of pension funds and CIUs, but 2023 was marked by positive trends. Since the beginning of the year, the assets managed by the 2nd pillar pension funds

increased by 26.79% to €7.125 billion, with an average weighted unit value change of 8.74%. During the same period, 3rd pillar pension fund assets grew by 15.18% to €256 million, with a total weighted unit value change of 14.3%. The bulk of pension fund returns were generated by the risky asset class, such as stocks and equity funds. In 2023, the assets managed by CIUs, operating under the Republic of Lithuania Law on Collective Investment Undertakings, increased and amounted to €203.7 million. The number of participants in CIUs remained similar, totalling 12,000. The average value of investment units on the CIU market increased by 15.3%, while the market for informed investors grew by 20.5% over the year, reaching €2.249 billion.

Assets and number of participants in Lithuanian pension funds and CIUs

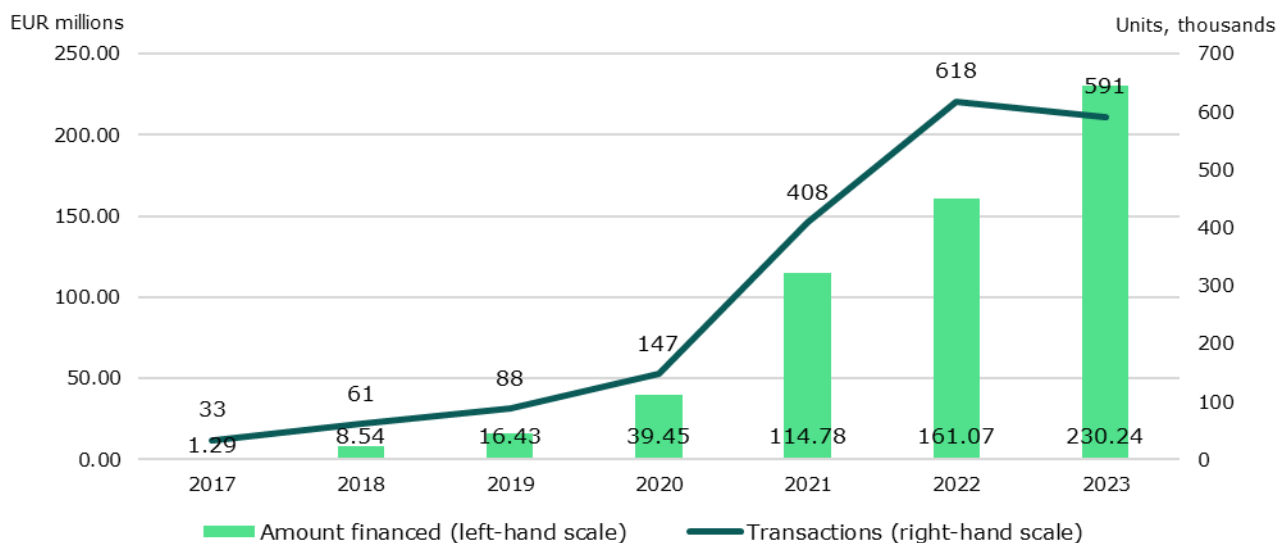


Source: Bank of Lithuania.

In 2023, the Bank of Lithuania actively participated in drafting amendments to the laws regulating CIUs and their management companies, which include changes to the establishment procedure for CIUs aimed at informed investors and other provisions. The Guidelines for the Management of Collective Investment Undertakings were also updated in 2023. They were supplemented with relevant clarifications from the Bank of Lithuania to promote best practices in the market and explain how regulatory requirements should be implemented in practice.

Growth was also observed in the crowdfunding platform operator market. Crowdfunding is becoming an increasingly significant alternative for business financing. In 2023, the total amount financed through crowdfunding platforms amounted to €230.2 million (42.9% more than in 2022), the number of transactions concluded was 591.2 thousand (4.35% less than in 2022), and the number of financed projects was 2,788 (2.6% more than in 2022). In 2023, project owners delayed payments to investors of over €12 million.

Amount and number of transactions financed by crowdfunding service providers



Source: Bank of Lithuania.

Consumer credit providers (non-credit institutions), including peer-to-peer lending platform operators, saw their portfolio grow by almost 15% in 2023, reaching €1.07 billion by the end of the year. The Bank of Lithuania conducted two thematic analyses to assess their practices regarding creditworthiness assessment, determination and disclosure of the total cost of consumer credit, determination of the annual percentage rate of charge, application of non-interest charges, early repayment of consumer credit, and termination of consumer credit agreements. Following the analyses, best practice recommendations were provided.

Legal changes are expected for consumer credit providers. At the end of October 2023, the revised Consumer Credit Directive was published in the Official Journal of the European Union, and its provisions must be transposed into national law by 20 November 2025.

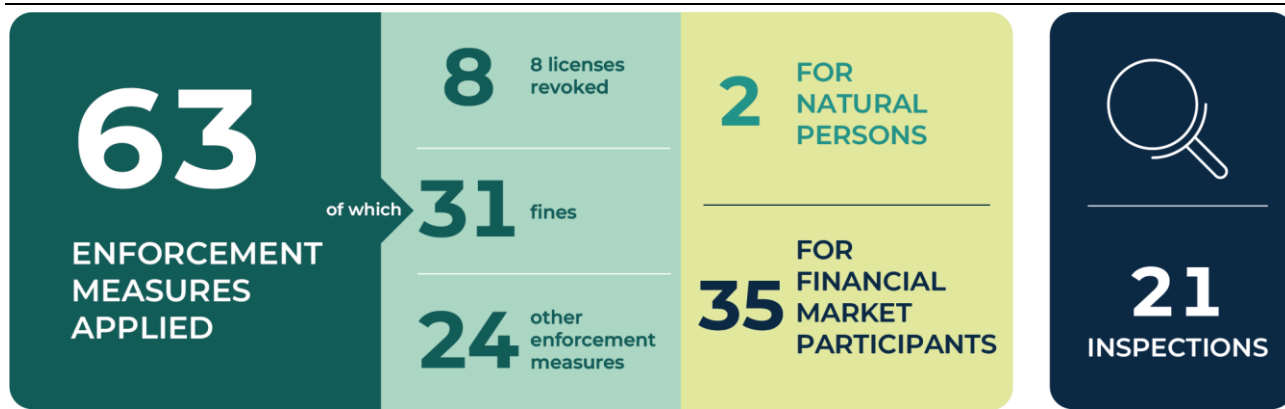
The Bank of Lithuania took action to assess the compliance of FMPs with the Payment Services Directive and to improve the consumer experience of payment services. Issues related to payment delays were actively addressed, and the deadline for banks to process suspended payments, agreed a year ago between the Bank of Lithuania and the Lithuanian Banking Association, was shortened from three weeks to three days. Supervisory actions targeting FMPs, who applied a fee for enhanced customer monitoring, received a positive response, and the fee was waived by FMPs. An analysis of the compliance of the general payment service contracts of selected EMIs and PIs with the Republic of Lithuania Law on Payments revealed that some financial institutions' general payment service contracts intended for natural persons had significant deficiencies and only partially complied with the requirements of the Law on Payments. These financial institutions will be approached with a request to remove identified discrepancies in the general payment service contracts and ensure their compliance with the aforementioned law.

6.4. Supervisory action and consultancy

In carrying out FMP supervision, the Bank of Lithuania applies supervisory measures, constantly collaborates with and advises market participants, aiming for high-quality services for consumers and prudent actions by market participants. Routine and on-the-spot inspections are conducted on FMPs, during which the vulnerability of FMPs to risks is assessed, with one of the main objectives being the evaluation of the effectiveness of measures to implement AML/CTF controls and

international sanctions. Periodic assessments are made of the maturity of the financial market sectors (timely reporting, audit findings, capital adequacy, licensed activities, number of complaints, disputes, and enforcement measures, competence of managers and shareholders, and reputation assessment) and their progress. To strengthen the EMI and PI sector showing the least maturity, more intensive supervisory actions (consultations, training, Dear CEO letters, inspections) were applied in 2023, correspondingly increasing the number of enforcement measures.

Enforcement measures applied and FMP inspections conducted in 2023



Source: Bank of Lithuania.

Notes: The Bank of Lithuania can apply one or several enforcement measures to the same FMP.

In 2023, efforts continued to strengthen AML/CTF and to supervise the implementation of international sanctions in the financial sector. Meetings were held with individual FMPs and associations on issues relevant to them, compliance meetings were organised with representatives of specific sectors, where the identified ML/TF risks in particular sectors and their management measures were emphasised, and this information was provided [in writing](#) to the heads of FMPs in individual sectors. The Bank of Lithuania conducted an analysis and published recommendations on [typologies for circumvention of international sanctions](#), risk factors related to the Commonwealth of Independent States and neighbouring countries. The Bank of Lithuania actively participates in meetings of the Commission for Coordination of International Sanctions, meetings of the Sanctions Working Group of the Baltic States, and coordinates supervision issues related to the implementation of international sanctions with competent authorities in Lithuania and the Baltic States. New [instructions](#) were issued for FMPs, detailing the requirements of the internal control system for the implementation of international sanctions.

Due to the increasing number and complexity of financial fraud cases, financial fraud remains one of the most challenging issues in the financial sector. Accordingly, preventing financial fraud is also one of the strategically important directions of the Bank of Lithuania's activities. In 2023, financial services users were educated, and proposals were submitted to FMPs regarding specific measures in line with the best market practices for fraud prevention. Continuous efforts are made to promote interinstitutional cooperation to ensure effective implementation of fraud prevention measures and initiatives. The Bank of Lithuania has developed Fraud Prevention Guidelines, which will come into effect on 1 May 2024. These guidelines aim to improve the management of financial fraud risk by FMPs and increase the effectiveness of applied preventive measures. They also contribute to better monitoring, evaluation, and reduction of fraud risk, as well as enhancing the protection of payment service users, improving their ability to identify fraud cases, and protect themselves from them.

Although the number of cyber incidents affecting FMPs decreased in 2023, the level of cyber risk remained high. To strengthen the cyber resilience of the Lithuanian financial sector, the Bank of Lithuania conducted supervisory actions, including on-site inspections, provided recommendations,

published the provisions of Regulation (EU) 2022/2554 on digital operational resilience for the financial sector, and encouraged credit institutions to share cyber threat intelligence.

To ensure a clear direction for the development of the capital market and consistency of actions at the state level, the Capital Market Council (CMC) was established in 2023. This council is composed of representatives from financial market associations and high-level state institutions, such as the Bank of Lithuania, the Ministries of Finance, and Economy and Innovation. The CMC makes proposals for the implementation of the [Capital Market Development Guidelines](#) and coordinates actions between different institutions. In addition, the CMC implements a unified strategy for the development of Lithuania's capital market and fosters dialogue between state institutions and market representatives.

To reduce the costs of attracting funds for business development, the Bank of Lithuania, together with institutions from Latvia and Estonia, established Common requirements for an information document. This initiative allows companies to publicly offer securities, with a value ranging from €1 to €8 million over a 12-month period, across all three Baltic countries. Starting from 2024,¹⁶ if securities are offered not only in Lithuania but also in other Baltic countries, only one information document prepared in English may be published. This measure increases the accessibility of the capital market for small and medium-sized enterprises. Previously, companies had to prepare three separate documents of different content and ensure that they complied with the requirements of national legislation in all three countries to make public offerings of securities in all three Baltic states.

The Bank of Lithuania is also reducing the administrative burden in the field of investment management and investment services provision. CMC working groups were created in collaboration with representatives from financial market associations, aiming to review and eliminate excess requirements in the respective area.

In 2023, the Bank of Lithuania actively participated in discussions regarding the improvement of the pension system in Lithuania and the potential amendments to legislation related to these improvements, in collaboration with the FMPs and other institutions. Additionally, work on reviewing legislative requirements took place within a working group convened by the Capital Market Council, aiming to partially implement Guideline 2.12 of the [Capital Market Development Guidelines](#). This involved evaluating the requirements for reports (annual and semi-annual) prepared by pension funds and collective investment undertakings, identifying requirements that are redundant and do not add value to the consumer but are associated with additional costs incurred by FMPs.

In 2023, the CIU Legislation Working Group was also actively engaged in evaluating national requirements that, in addition to EU regulations, might disproportionately burden the provision of investment management services. The working group developed proposals and decisions that will be included in the CIU governance guidelines and proposed amendments to legislation.

In response to the supervised FMP needs, the Bank of Lithuania organises consultation events. According to the established consultation event plan, 13 events on various topics for different FMPs were organised in 2023. On average, each event attracted 150 attendees, which is 20% more than in 2022.

Feedback is important to the Bank of Lithuania, as financial market supervision processes are improved based on the needs and expectations of FMPs. During biennial surveys, FMPs were invited to evaluate the effectiveness and transparency of supervision. The survey showed that

¹⁶ Lithuania and Latvia approved the legislation at the end of 2023. It is anticipated that the Estonian Financial Supervision and Resolution Authority will approve it in the first half of 2024.

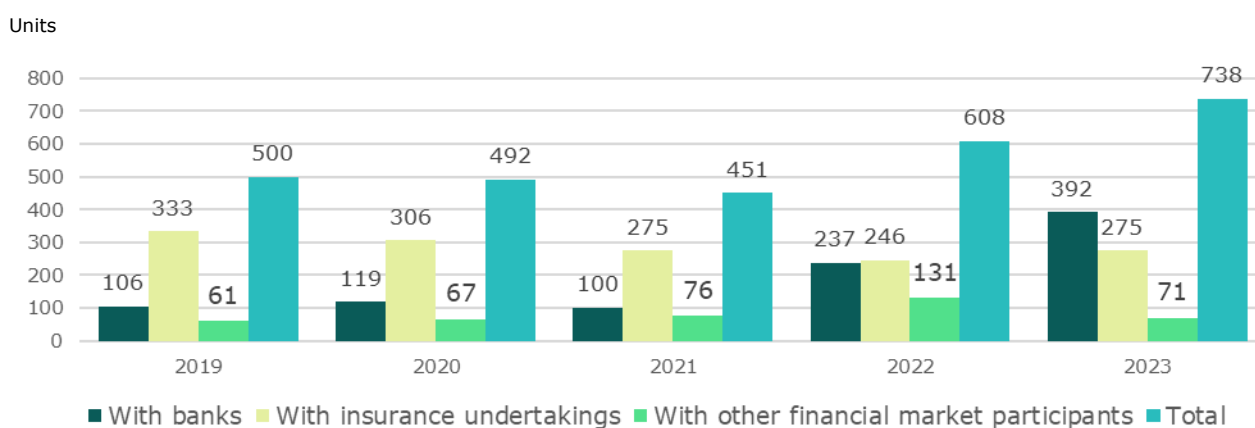
respondents generally view financial market supervision positively: 77% are satisfied with the supervision, 76% consider it effective, and 85% believe their company is supervised appropriately.

7. Settlement of disputes between consumers and financial market participants

In 2023, the Bank of Lithuania received 1,157 requests related to out-of-court dispute settlement: 737 requests to settle consumer disputes and 420 inquiries. Compared to 2022 (when 1,026 requests were received), this represents an increase of more than a tenth (13%), and a 69% increase compared to 2021 (when 684 requests were received). The main reason for such a significant increase was the number of appeals regarding decisions made by banks: over the past two years, the number of appeals has more than tripled (342%) – from 139 to 615 – largely influenced by the significantly increased scale of financial fraud in recent years.

During the period under review, a record number (738) of disputes arising from the execution of financial services contracts were examined. Compared to the figures for 2022 (608 disputes examined), the total number of disputes examined increased by 21%, and over the past two years by 64% (451 disputes were examined in 2021).

Disputes by type of financial market participant



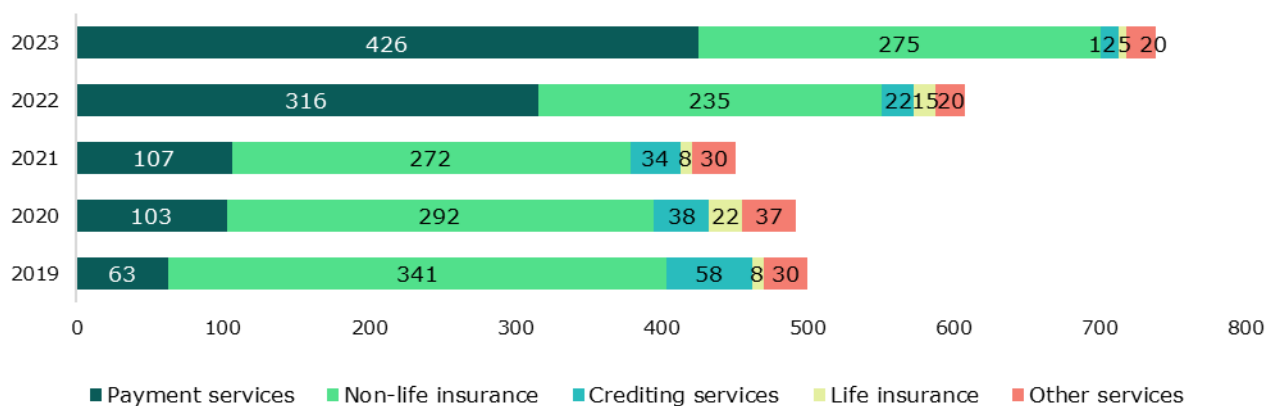
Source: Bank of Lithuania.

More than half (58%) of all examined disputes (426 out of 738) arose from payment services. Among them, in 272 cases, clients claimed they had suffered losses due to financial fraud activities, 83 disputes were related to non-cash transactions, 37 to payment account services, and 34 disputes arose from various other payment services. Disputes related to non-life insurance services accounted for 37% of all disputes (275): there were 94 cases of disputes regarding property and 76 regarding compulsory motor third party liability insurance, 34 regarding Casco, 26 regarding health insurance, and the remaining 45 disputes were related to other types of insurance contracts. Disputes related to lending, life insurance, investment services, and other service provisions accounted for 5% of disputes (37).¹⁷

¹⁷ Detailed statistics on the resolution of consumer disputes in 2023 are published on the [Bank of Lithuania's website](#).

Disputes on payment services settled

Number



Source: Bank of Lithuania.

In 2023, 271 decisions were made regarding the merits of the dispute (compared to 229 in 2022)¹⁸ – this indicator was the highest since 2012.¹⁹ In one of these cases, the consumer's claim was partially satisfied, but the financial market participant did not implement the recommendations of the Bank of Lithuania. In other cases, complaints from consumers regarding unjustified decisions or illegal actions by financial service providers did not materialise.

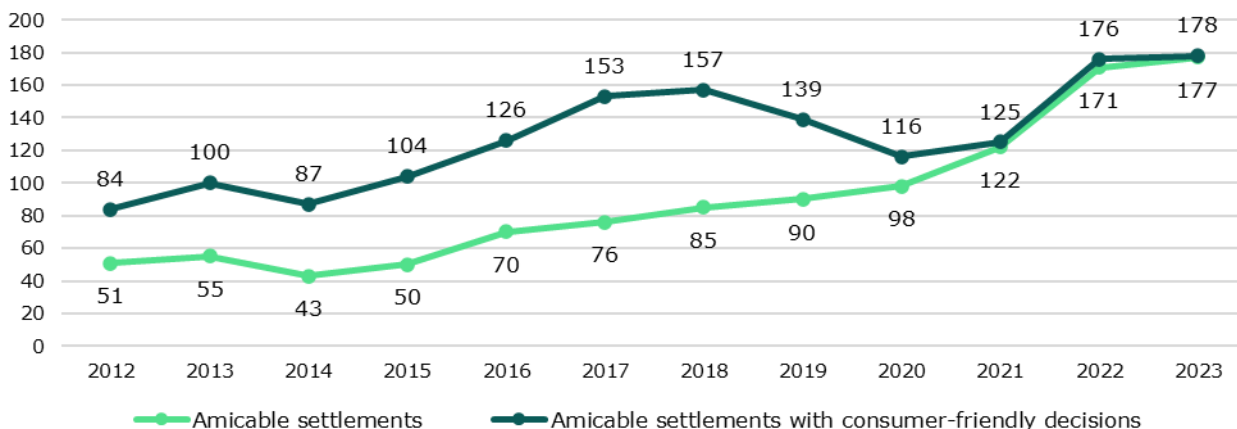
Every fourth dispute (24%) was resolved by satisfying the clients' expectations: a total of 177 amicable settlements were reached. The Bank of Lithuania mediated to help the parties to the dispute reach agreements on more than €330 thousand in payments, as well as the implementation of various other material and non-material consumer claims. Through active application of various dispute prevention and conciliation methods, it was ensured that the vast majority of justified consumer claims (except for one case) were satisfied or that the parties found a compromise mutually satisfying both parties. Good results were also achieved through the organisation of six preventive meetings with banks and insurance undertakings, during which the issues of disputes between FMPs and consumers were extensively discussed, and possible ways to reduce disputes were explored.

¹⁸ The list of depersonalised decisions of the Bank of Lithuania regarding the merits of the dispute and financial market participants that have not implemented the recommendations specified therein is published on the Bank of Lithuania [website](#).

¹⁹ Where the Bank of Lithuania was assigned with out-of-court settlement of disputes between consumers and financial market participants.

Amicable settlements

Units



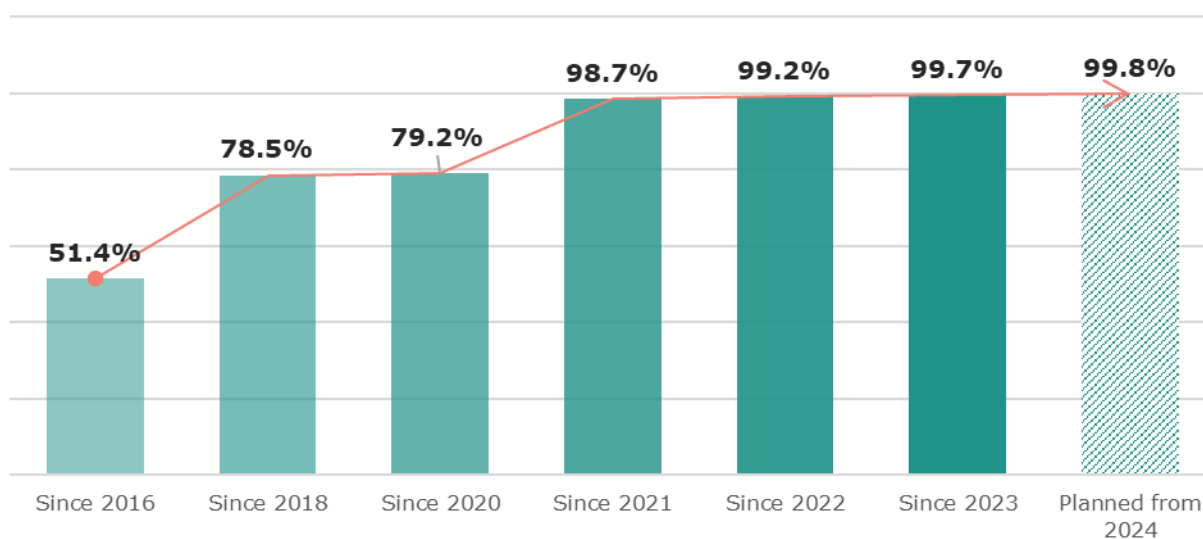
Source: Bank of Lithuania.

8. Resolution of financial institutions

In carrying out its mandate as a resolution authority, the Bank of Lithuania helps to ensure that significant financial institutions in difficulty can be resolved swiftly, without disrupting the operation of key functions, while protecting the funds of depositors and taxpayers. In the resolution planning cycle of 2023, two new plans and four updated plans for medium and lower significance local credit institutions were prepared, including Revolut Bank UAB. Furthermore, the resolution plans of the three largest systemically important banks were updated, in collaboration with the Single Resolution Board and the national resolution authorities of other countries where these banks operate. By the end of the 2023 resolution planning cycle, the prepared resolution plans covered 99.7% of the assets in the banking sector. In the 2024 cycle, the resolution planning work will continue consistently, and the prepared resolution plans will cover 99.8% of the assets in the banking sector.

Share of credit institutions with resolution plans drafted in 2023

(market share by assets in Q3 2023, percentages)



Source: Bank of Lithuania.

The annual bank contributions were collected and transferred to the Single Resolution Fund (SRF); the target level of 1% of the total amount of insured deposits of the banking union's member states was reached by the end of 2023. The SRF, which ensures that financial institutions contribute to the costs of stabilising the financial system and allows the resolution authority to effectively apply its resolution tools and powers when necessary, was accumulated over eight years and amounted to €78 billion by the end of 2023, reaching 1% of the total amount of insured deposits of the banking union's member states. In 2023, credit institutions operating in Lithuania contributed a total of €6.1 million in payments. Since the establishment of the SRF, a total of €64.25 million has been transferred to it from credit institutions operating in Lithuania. As the SRF has reached its target level, regular annual contributions from institutions will not be collected in 2024, but target level checks will continue to be carried out to ensure that the financial resources available constitute no less than 1% of the total amount of insured deposits of banks' union member state banks.

To safeguard state funds and the stability of Lithuania's financial system, along with the preparation or updating of bank resolution plans, a mandatory minimum requirement for own funds and eligible liabilities (MREL) is established. Following the completion of the 2023 resolution planning cycle, the MREL requirement has been set for nine credit institutions, including three systemically important banks – AB SEB bankas, Swedbank, AB, and AB Šiaulių bankas. These three major banks, along with other credit institutions for which this requirement is equivalent to capital requirements, are already complying with MREL. This requirement will continue to be reviewed as stipulated in the Banking Recovery and Resolution Directive.

In 2023, the Bank of Lithuania provided expert assistance to the Ministry of Finance, representing Lithuania's position in the Council of the European Union negotiations on the reform of European legislation in the field of financial institution resolution. The development of the insurance and reinsurance company recovery and resolution mechanism was demanded by the negotiations held in 2023 between the Council of the European Union and the European Parliament on the final version of the Insurance Recovery and Resolution Directive. In addition, expert assistance was provided on the package of legal proposals for the review of the Crisis Management and Deposit Insurance Framework presented by the EC in 2023. It aims to further strengthen the existing EU framework for bank crisis management and deposit insurance (CMDI), with particular attention to medium-sized and smaller banks.

9. Payments

The non-cash payment market in Lithuania continued to grow in 2023. The payment habits of Lithuanian residents and businesses and the use of payment services are most accurately reflected in domestic transactions, i.e. transactions carried out between customers of Lithuanian payment service providers (PSPs). Compared to 2022, the number of all domestic non-cash payments increased by 12% in 2023 (2022 – 22%), with slightly over 1 billion transactions performed. Their total value amounted to €406.7 billion. In 2023, card payments accounted for 56%, credit transfers for 40%, and other payment services for 4% of domestic transactions. According to data from a survey of Lithuanian residents conducted in 2023, card payments and electronic payments continue to be the preferred methods of payment for 63% of respondents, although 95% of those surveyed use cash in their daily activities.

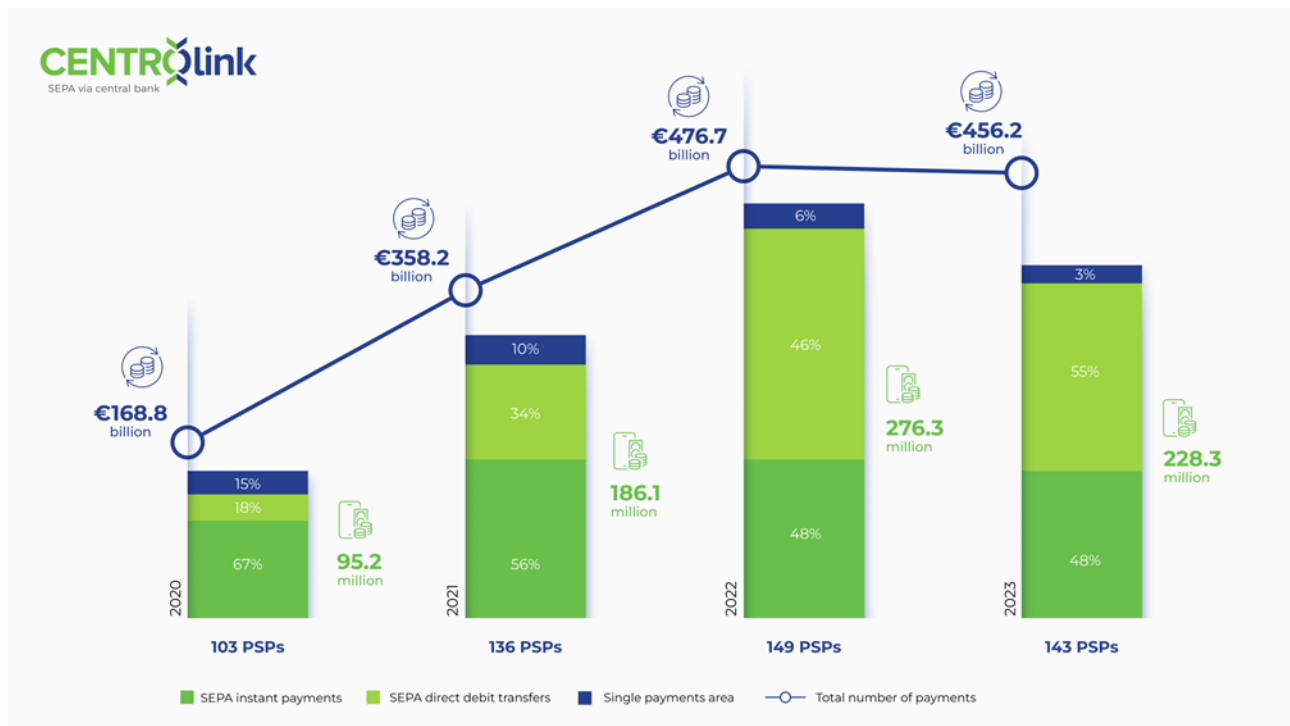
In order to improve the accessibility of payment services, the Bank of Lithuania, together with the Ministry of Finance, initiated changes to the Republic of Lithuania Law on Payments. Upon adopting the proposed changes, the price of the basic payment account service would depend on changes in the composition of the service and should not exceed a specified share of the minimum monthly wage. The service price could decrease by approximately one-third compared to the current price, amounting to about €1 per month. It would be recalculated every three years. It is proposed that the size of the basic

payment account package (number of payment orders and the amount of cash withdrawals) would meet the needs of 90% of Lithuanian consumers. To increase consumer awareness, PSPs changing fees are obliged to inform consumers about the option to choose the basic payment account service.

The Payments Council approved its position on measures to promote the development of electronic payments in small businesses. These measures are aimed at increasing awareness among payment service users, such as creating a website for service fees information for small businesses and supporting other related services, such as the small business account, expanding instant payments made via phone number, and enabling cash withdrawals using card readers. Organisations represented in the Payments Council, including the Bank of Lithuania, contribute to the implementation of these measures according to their areas of activity. Additionally, the Bank of Lithuania assessed the possibilities of implementing a programme in Lithuania specifically for small business owners, where card acceptance is promoted by providing small businesses with free card acceptance services for a certain period (e.g. one year).

The Instant Payments Regulation, which is highly relevant to fraud prevention and the expansion of the CENTROLink payment system, was adopted by the EU. According to the Instant Payments Regulation, all PSPs will be required to offer the service of instant credit transfers in euro. To enhance fraud prevention, a requirement is established to verify whether the provided recipient's name matches the actual owner's name of the specified IBAN account when executing regular credit transfers and instant credit transfers in euro. The Regulation also provides for the possibility for EMIs and PIs to participate directly in payment systems. Consequently, the operational model of the CENTROLink payment system will need to be reviewed.

The popularity of instant payments in the CENTROLink system continued to grow in 2023 – one-third more instant payments were executed than regular payment orders. In 2023, instant payments accounted for 55% (compared to 46% in 2022) of all transfers, while credit transfers constituted 42% (down from 48% in 2022) of all transfers. In total, there were over 228.3 million SEPA payments processed in the system in 2023 (compared to 276.3 million in 2022). The total number of payments processed in the CENTROLink system decreased due to a reduced number of participants, however, the number of transfers made by financial institutions participating in the system increased by 23%. At the end of 2023, 143 PSPs from 19 countries in the European Economic Area (EEA) used CENTROLink services, while 65 PSPs were able to provide instant payment services. The Proxy Lookup Service (PLS) provided by the Bank of Lithuania, whose infrastructure was updated by the end of 2023, also contributes to the development of instant payments.



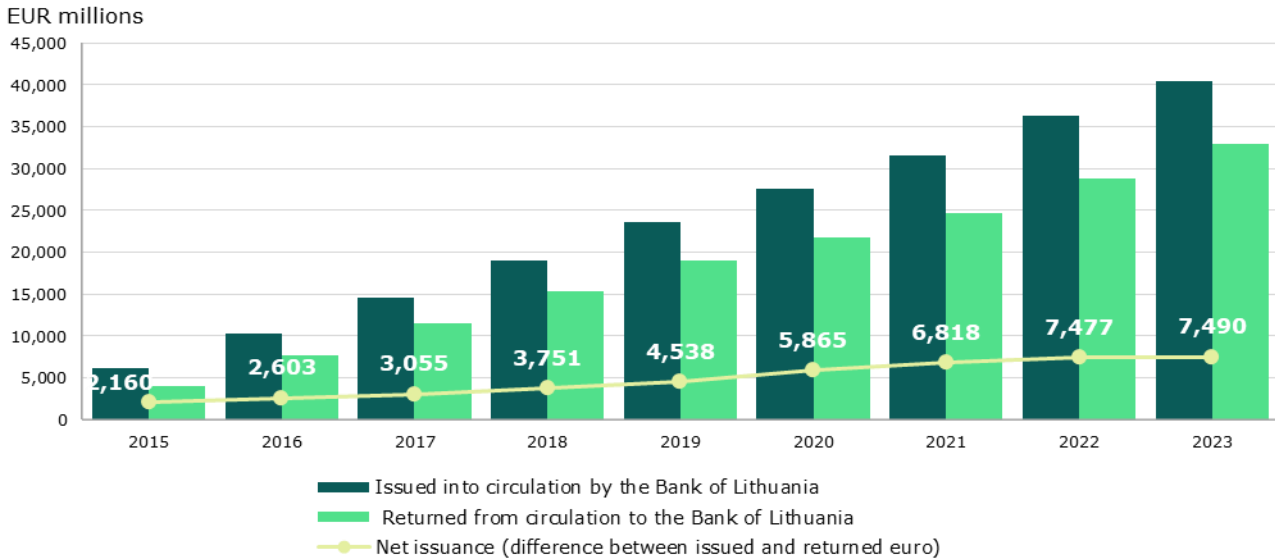
The successful consolidation of TARGET services was completed in 2023. On 20 March 2023, the Eurosystem implemented a new real-time T2 wholesale payment system, replacing the previously existing TARGET2 system. The T2 system utilises the ISO 20022 financial messaging standard, incorporates central liquidity management covering all TARGET services, and its operating hours are extended.

Assessing the results of the investigation phase, on 18 October 2023, the Governing Council of the ECB decided to continue the implementation of the digital euro project until the end of October 2025, although the decision to issue a digital euro has not yet been made. It decided to move on to the next preparatory phase, during which experiments will continue, a draft of the rulebook of the digital euro will be prepared, and technical providers for the components of the digital euro system will be selected. The start of this new phase does not entail a decision to issue the digital euro. The Governing Council of the ECB will only be able to consider this decision once the legal basis for the digital euro is approved at the EU level.

10. Cash

As of 31 December 2023, the total value of euro banknotes and coins issued into circulation by the Bank of Lithuania amounted to €7,490 million.

Euro banknotes and coins



Source: Bank of Lithuania.

In 2023, sufficient access to cash was ensured, and the ATM network expanded in 2022 was maintained. In 2022, as part of the [Memorandum of Mutual Understanding for Ensuring Access to Cash in Lithuania](#) (hereinafter – the Memorandum), credit institutions installed 100 new ATMs in the country’s regions. As a result, 91% of the country’s residents have access to the nearest ATM within a distance of up to 10 km, and 99% within a distance of up to 20 km (compared to 82% and 95%, respectively, before the Memorandum was signed). Residents can withdraw cash for their daily needs not only from ATMs but also from about 4,000 cash service points provided by bank partners: at terminals operated by UAB Perlas Finance, at cash registers in locations where this service is offered, at some credit union branches, and at their cash registers. Locations for accessing cash (ATMs and alternative locations) are listed on the [cash accessibility map](#) administered by the Bank of Lithuania. The Bank of Lithuania will continue to monitor and evaluate the access to cash in Lithuania and will take initiatives to ensure accessibility if necessary.

In order to reduce the expenses of residents, businesses, and the state related to the use of cash, to mitigate their negative impact on the environment, and to streamline the cash circulation cycle, the Bank of Lithuania has submitted draft legislative proposals to the Budget and Finance Committee of the Seimas of the Republic of Lithuania regarding the rounding of cash payment amounts.²⁰ These proposals were presented after a discussion with the public on the use of 1 and 2 euro cent coins²¹ and taking into account the experience of other countries already implementing rounding. If the Seimas approves the legislative drafts, rounding²² would be applied only when paying in cash from 1 May 2025. The rounding would be neutral for both consumers and retailers

²⁰ When paying in cash for goods or services, the final total of the shopping basket would be rounded to the nearest multiple of 5, i.e. up or down to the nearest 0, 5 or 10 euro cents, depending on whether the last digit is closer to 0, 5 or 10.

²¹ The majority of 1 and 2 euro cent coins are used for payments only once – after receiving change in these denominations, they are either lost or end up in residents’ piggy banks, fountains, and so on. Since the introduction of the euro in the country, Lithuanian residents have lost €2.4 million worth of these coins. Around 70% of the 1 and 2 euro cent coins released into circulation do not return to the Bank of Lithuania. The funds and resources allocated for the minting and handling of these coins are practically wasted.

and would be carried out automatically by programmed and certified cash registers according to the rules established in the legislation. Such a decision would allow residents, businesses, and the state to save nearly €4 million annually due to lower cash production and administrative costs.

The collector and commemorative coins issued by the Bank of Lithuania helped raise €457,000 for aid to Ukraine. Funds donated by Lithuanian and foreign residents, by purchasing a silver coin dedicated to Ukraine's fight for freedom, issued in 2022, and a commemorative coin "Together with Ukraine", issued in 2023, were transferred to an account opened by the National Bank of Ukraine to collect humanitarian aid. The commemorative coins are still being sold.

More counterfeit money was detected in Lithuania. In 2023, the Bank of Lithuania investigated and removed from circulation 1,289 counterfeit euro (873 banknotes and 416 coins). In 2023, 6% more counterfeit euro banknotes were found in Lithuania, and more than 1.5 times as many coins as in 2022. The majority of counterfeit euro (45%) were made up of 50 euro banknotes. In 2023, the Bank of Lithuania examined 33,000 banknotes and coins upon receiving applications from natural and legal persons to exchange worn or damaged currency.

Residents are bringing in fewer and fewer litas for exchange. In 2023, 4.4 million litas were exchanged for euro, almost a third less than in 2022. As of 31 December 2023, there were still 401 million litas in circulation that had not been exchanged for euro.

In 2023, the Bank of Lithuania issued into circulation four collector coins and one commemorative coin, as well as a numismatic set of circulation coins. Numismatic items commemorate prominent figures and anniversaries of historical events. They can be purchased on the [Bank of Lithuania's e-shop](#).

11. Statistics

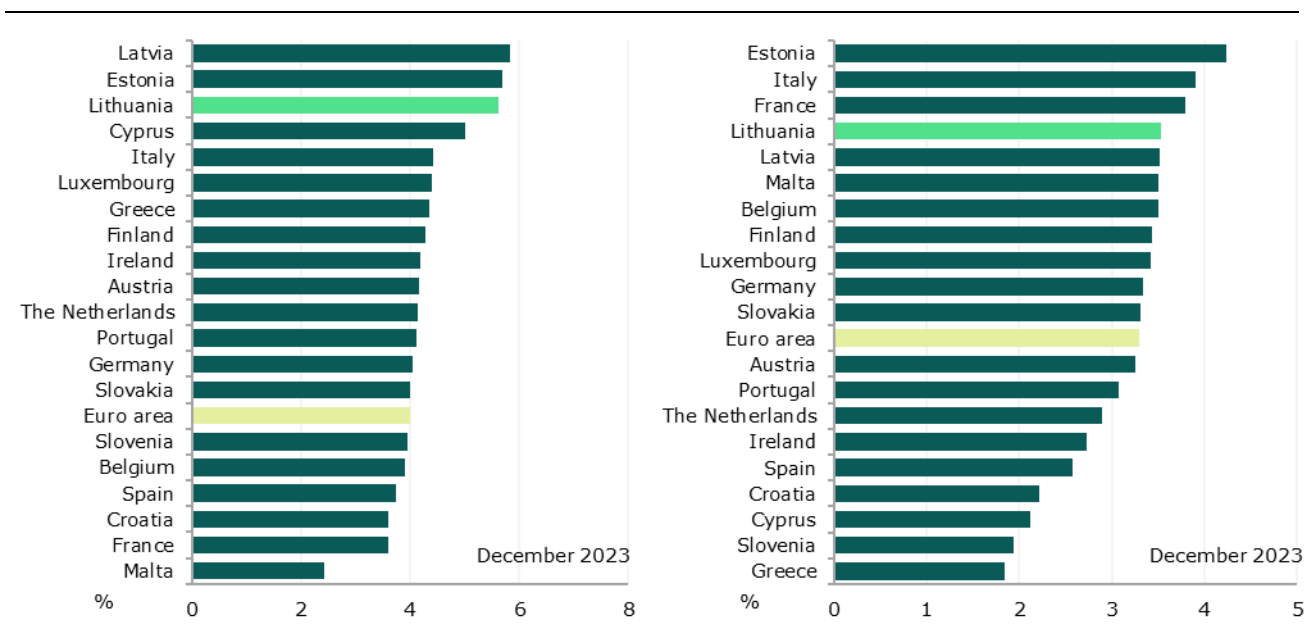
Under the Official Statistics Programme, the Bank of Lithuania implemented the most important tasks as outlined in its statistics work programme for 2023. New external sector statistics for the euro area composition, insurance, pension funds, and foreign direct investment data was prepared; indicators for the euro area and non-euro area were recalculated; and collection of consumer needs related to climate change finance statistics was continued.

Starting from 28 February 2023, data on deposit interest rates offered by all commercial banks and credit unions operating in Lithuania to individuals have been collected and published. This information is updated at least once a week.

The Bank of Lithuania started publishing more data on the interest rates on loans provided by Lithuanian credit institutions. This information allows consumers to compare the interest rates of their existing mortgage loans with those offered in the market in a more accurate way and evaluate refinancing opportunities.

In addition, for the first time, the Bank of Lithuania published a comparison of interest rates on deposits with agreed maturity (term deposits) and loan interest rates of Lithuania's and euro area credit institutions (banks and credit unions). It was prepared considering the changes in the key ECB interest rates and their impact on loan interest rates. In view of the relevance of this data and its comparison, it is planned to publish them quarterly. Read more [here](#).

Interest rates and volumes of new business of loans to households for house purchase (left) and household term deposits (right)



Source: ECB.

For the first time, the Bank of Lithuania prepared additional data on payments and fraud related to payments. These data will be compiled annually, as required by the ECB regulation on payments statistics to meet the needs of the ESCB.

More detailed financial account statistics are being published. Household life insurance and pension rights have been classified according to investment risk. Such data shows how households take on investment risk on their behalf by investing insurance premiums and contributions. Read more [here](#).

The publication of the repeat sales house price index has been advanced by a whole week. The release of up-to-date statistical data is one of the most common consumer demands.

While promoting statistics the Bank of Lithuania prepared more illustrations of the data. Published infographics have been supplemented with new data stories about loans of households and non-financial corporations, deposits, and their interest rates, as well as debt securities.

Aiming at more value added of the data available, the Bank of Lithuania has published eight more data sets on the Lithuania's Open Data Portal. It is intended to meet the needs of various data user groups, making the data available in various ways to become the primary sources for developing high-commercial potential products, innovative solutions, initiating scientific research, or experimental activities.



Duomenų valdymo
brandos didinimo
programa

As part of the Data Management Maturity Programme (DAMAMA), the Bank of Lithuania has continued to implement two additional data maturity enhancement projects. The first project aims to create a unified data

distribution mechanism, optimising the existing data distribution processes of the Bank of Lithuania and providing external users access to the Bank of Lithuania data via a one-stop shop. In the implementation of the second project, it is planned to restructure technologically outdated statistical information processing systems and create a new technological solution within the existing Bank of Lithuania data storage, processing, and analytics platform, ensuring smooth, uninterrupted processing, analysis, and dissemination of collected statistical data.

12. Fiscal agent

Acting as the fiscal agent under the Republic of Lithuania Law on the Bank of Lithuania, in 2023, 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 the following public entities: the Ministry of Finance by administering the accounts of the State Treasury of the Republic of Lithuania, national promotional institutions and other public sector institutions managing statutory funds, as well as EU institutions, and foreign central banks within the Eurosystem Reserve Management Services framework.

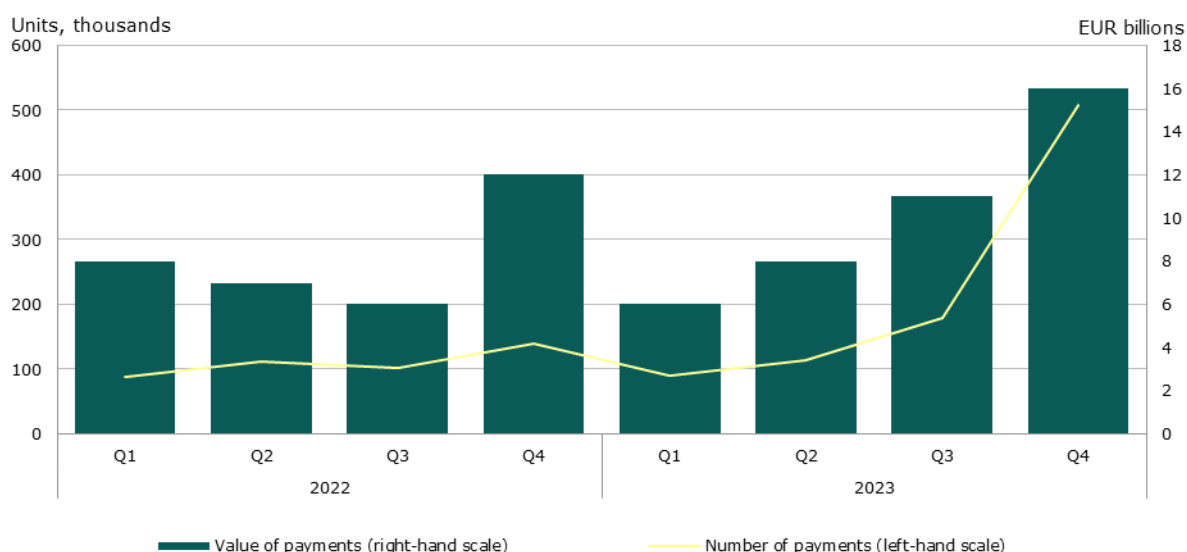
As of 31 December 2023, the Bank of Lithuania administered 108 accounts of public entities (90 accounts as of 31 December 2022). These accounts have been opened and administered at the Bank of Lithuania in accordance with the legal acts of the Republic of Lithuania, the Bank of Lithuania and the ECB.

The Bank of Lithuania offers the following banking services to public entities: transfers funds in accordance with payment instructions from resource managers, credits accounts, exchanges currencies, and compiles and provides statements of accounts and other information. In the course of 2023, the Bank of Lithuania executed 887.8 thousand credit transfers under the payment instructions of public entities; their total value amounted to €41.9 billion.

Executing the Consolidated Account Management System of the State Treasury (VIKSVA) implementation project, aimed at centralising the storage and management of state funds to manage state financial resources more rationally and effectively, in 2023 the Ministry of Finance:

- Joined the payment system CENTROLink administered by the Bank of Lithuania on 9 May;
- Started using the instant payment service of the CENTROLink payment system on 25 July;
- Joined the TARGET-LIETUVOS BANKAS payment system administered by the Bank of Lithuania on 11 December.

Payments by public entities

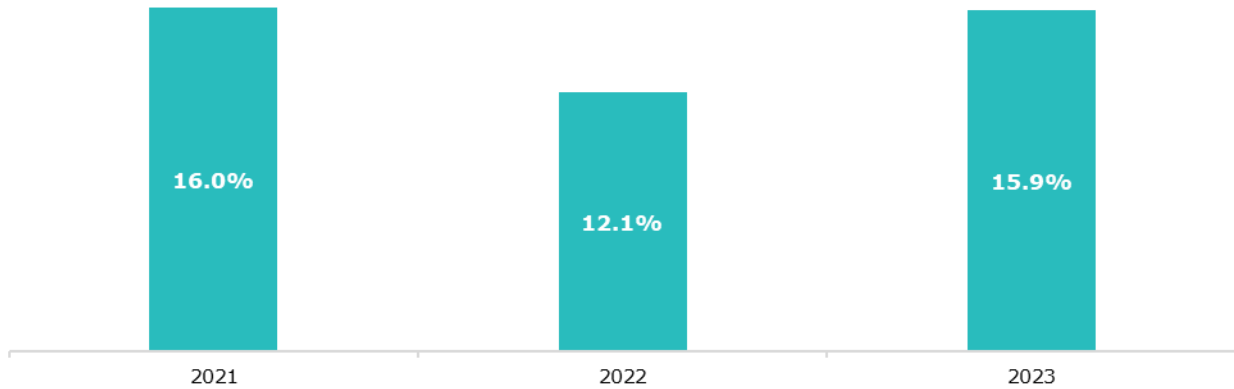


Source: Bank of Lithuania.

13. Organisation of activities

As of 31 December 2023, the Bank of Lithuania employed a total of 668²³ employees. In 2023, the staff turnover rate was 15.9%.

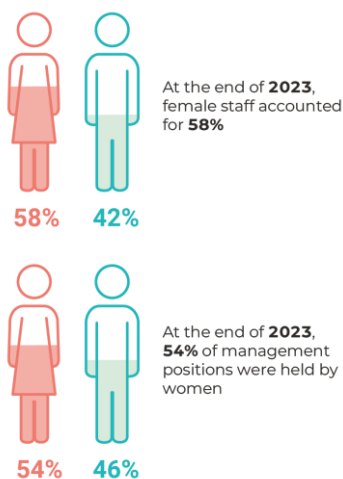
Annual employee turnover



Source: Bank of Lithuania.

In 2023, the Climate Change Centre and the Centre for Digital Excellence were established to focus on and implement strategic goals of the Bank of Lithuania through the activities of these centres. The goal of the Climate Change Centre is to enhance ecological sustainability and mitigate climate-related risks in all areas of responsibility of the Bank of Lithuania, including foreign reserve investment and daily organisational activities. Climate change-related risks include potential physical damage and losses associated with the green transition.

The goal of the Centre for Digital Excellence is to increase the efficiency of the Bank of Lithuania’s operations, promote innovation, test innovative solutions in the financial market, and strengthen representation of the Bank of Lithuania’s interests in digitalisation and innovation-related groups and events within the EU and internationally.



In 2023, the Bank of Lithuania devoted significant attention to the review, improvement, and automation of its operational processes. The process of issuing Board approvals for work elsewhere was simplified, personnel recruitment and management processes were streamlined, and advanced analytics programmes were introduced to monitor personnel data and make data-driven managerial decisions.

In 2023, strategic leadership, management, and digital innovation competencies were strengthened. A middle-management training programme was developed and implemented, focusing particularly on creating positive employee experiences at various stages of their journey within the organisation. Significant attention was also given to the development of advanced data analytics skills and the cultivation of social and emotional

competencies. Open lectures on topics related to inclusion, diversity, emotional well-being, as well as

²³ This figure does not include 18 staff members who were on parental leave or maternity/paternity, nor six staff members who were on unpaid leave during their work at other institutions.

professional development opportunities through sharing experiences with colleagues from other central banks and participating in mobility programmes, were organised for employees.

14. Research activities

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. The results of TMTS research help in making monetary and other economic policy decisions, and the models it develops help to improve the accuracy of projections for the Lithuanian economy.



Top-tier international publications. The scientific publications published by CEFER and TMTS in 2023 included 12 working, occasional and discussion papers and 8 articles in top-tier international journals (such as *Journal of Banking and Finance*, *Economics Letters*, *Journal of Economic Behavior and Organization*, *Oxford Economic Papers*, *Journal of Comparative Economics*, *Real Estate Economics*, *Industrial Relations: A Journal of Economy and Society*, *Baltic Journal of Economics*):

High-level conferences, seminars, workshops and research clusters across the Baltics. In 2023, CEFER initiated the first Baltic States' invited professor lecture on

the topic of "Frontiers of International Trade", which was held by the distinguished Harvard University professor Elhanan Helpman, who is among the top 35 most renowned and recognised economists globally. Approximately 90% of researchers from central banks across the Baltic States attended. Furthermore, CEFER organised research workshops for young researchers from Vilnius University and Kaunas University of Technology. The bank's researchers contributed to the scientific committee of the workshops and actively participated in them. During the **12th Lithuanian Conference on Economic Research Winter Session** held in December, more than 60 economists from the UK, Hong Kong, Italy, the Netherlands, Germany, Norway, Denmark, and the Baltic States, as well as representatives from Lithuanian universities and other research institutions, took part. The majority of the participants were members of the Lithuanian diaspora conducting economic research at universities abroad. Overall, 20 papers were presented in the following sessions: "Gender and Family", "Governments and Markets", "Labour and Institutions", "Econometrics Advances", "Expectations", and "Climate Risks, Politics and Development". Additionally, there was a presentation and discussion on the research topic "Prosumers and Behavioural Interventions".

The promotion of quality research in economics and finance. The promotion of economic science is ensured through visits by foreign researchers, presentations, workshops, reading groups on the latest economic literature, and training sessions, all of which are open to all interested parties, including external researchers and experts. To encourage high-quality research, in 2023, the Bank of Lithuania granted the Vladas Jurgutis Award (€10,000) for the study on "[Quantifying noise in survey expectations](#)". This paper evaluates the level of noise in inflation forecasts. Previous studies almost exclusively analysed forecast bias, i.e. systematic mistakes, while in this work, the authors demonstrate that noise (non-systematic mistakes) is as important as systematic mistakes and accounts for up to 30% of all inflation forecast errors. The conclusions of the study allow for more precise monetary and macroprudential

interventions. Understanding the role of noise can help central banks improve communication methods and better manage public and market expectations.

Lectures and high-quality economics studies. In cooperation with Vilnius University, the Bank of Lithuania further developed the bachelor's degree programme in **Quantitative Economics**. Students are taught by researchers from the Bank of Lithuania with doctoral degrees from prestigious US and European universities, and the programme is unique in its structure as it combines open-source economics studies, which help to develop economic intuition, with a unique blend of mathematics, statistics, economics and data science. CEFER also initiated joint Vilnius University and Kaunas University of Technology doctoral courses in econometrics, methodology, and macroeconomics. In the spring of 2023, the second **CEFER Challenge** team competition took place, inviting bachelor's and master's students from various disciplines to participate and apply the knowledge gained in lectures to solve real problems related to high inflation and answer questions about the economic and financial consequences of high inflation.

Household finance and Consumption Survey. In 2023, the results of the second wave of the Household Finance and Consumption Survey were published in the Bank of Lithuania and ECB publications. The data collected in 2021 and their analysis showed that the income and wealth of Lithuanian households increased compared to the previous research wave in 2017, and the impact of the pandemic on household finances was minimal. It was also found that the wealth inequality in 2021 was slightly lower than in 2017 and remained among the lowest in the euro area.

15. Other important events

In March 2023, the Bank of Lithuania together with the National Bank of Poland concluded the implementation of a joint EU Twinning project titled "Strengthening the institutional and regulatory capacity of the National Bank of Ukraine to implement the EU-Ukraine Association Agreement". This project aimed to enhance the capabilities of the National Bank of Ukraine in the areas of banking supervision, payment system development, strategic planning, and cooperation with international institutions to successfully implement the agreement.

Moreover, another EU Twinning project titled "Strengthening supervision, corporate governance and risk management in the financial sector", aimed at the National Bank of Moldova, was completed in April 2024. The project, implemented by the Bank of Lithuania together with the central banks of Romania and the Netherlands, focused on enhancing the abilities of the Central Bank of Moldova in macro-level risk monitoring, insurance sector oversight, supervision of non-bank credit institutions, financial market infrastructure, and payment services.

In 2023, together with 19 ESCB national central banks and the ECB, the Bank of Lithuania continued the implementation of the three-year 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. Phase II". As a follow-up to the programme completed in 2021, it is intended to strengthen the institutional capacity of central banks and banking supervisory agencies in six Western Balkan countries, by improving their analytical and policy tools and by transposing best international and European standards into national practices.

At the end of 2023, a new two-year EU-funded regional initiative to support African Central Banks through capacity building "Strengthening financial stability, resilience and governance – Towards an enhanced European System of Central Banks (ESCB) dialogue with Africa" was launched. The project will be implemented by the Bank of Lithuania in collaboration with seven ESCB national central banks and the ECB. The programme seeks to strengthen the capacities of central banks in Africa and address major challenges in good governance, financial stability, resilience,

strategic planning and international cooperation through dialogue and sharing of expertise. The programme will benefit 12 African central banks covering a total of 24 African countries.

From 24 January 2023, Vitas Vasiliauskas assumed the position of Executive Director of the IMF in the IMF's Executive Board, and until mid-2026, he will be the main representative of the Nordic-Baltic Constituency (NBC) in this organisation. This is the first time that a Baltic country-delegated IMF Executive Director represents the NBC at the highest level. With Vitas Vasiliauskas becoming the Executive Director, according to the agreements governing cooperation within the NBC at the IMF, Lithuania, together with Latvia and Estonia, is responsible for ensuring the adequate preparation of the NBC Executive Director for key IMF Executive Board meetings. Under a bilateral memorandum of understanding, the Bank of Lithuania coordinates this task in collaboration with the Ministry of Finance.

In 2023, the Bank of Lithuania and the Government of the Republic of Lithuania joined a new IMF financial initiative – the Resilience and Sustainability Trust (RST). The trust launched its operations in October 2022 and serves as an IMF financing mechanism providing long-term loans to low-income countries to support resilience and sustainability-enhancing reforms. Lithuania's contribution to the RST amounts to 84.7 million SDR, of which the Bank of Lithuania committed to lend 69.4 million and contributed a deposit of 13.9 million SDR, for which the Bank of Lithuania receives SDR interest.

Preparations are underway to implement national procedures necessary to increase IMF quotas – Lithuania's quota will increase from 441.6 million to 662.4 million SDR. On 15 December 2023, the IMF Board of Governors completed the 16th quota review. This strengthens the role of quotas in the IMF's resource package, i.e. all IMF member quotas are increased by 50%, correspondingly reducing the IMF's borrowed resources. Lithuania, along with the Nordic-Baltic region and other European countries, has always supported a strong and quota-based IMF. In Lithuania, the Bank of Lithuania is responsible for obligations related to the IMF quota, while the decision to change the Republic of Lithuania's quota size in the IMF is made by the Seimas of the Republic of Lithuania. The Bank of Lithuania and the Ministry of Finance are currently preparing the necessary draft legislation.

The Bank of Lithuania-led development of the financial market and the Newcomer Programme received the prestigious "Central Banking" award in 2023 for its contribution to global innovation development. This programme has been operating since 2016 and has been utilised by over 750 participants from more than 78 countries, with nearly a fifth of its participants being granted operational licenses.

By initiative of the Bank of Lithuania's Centre for Financial Literacy, a board game called *Sukčių voratinklis* [Fraudster Web] was created for residents which can now be found in libraries across Lithuania. It is a unique tool for people to learn how not to fall victim to scams and avoid disclosing personal information. Such a product has not been offered in Lithuania's financial sector until now. The Centre for Financial Literacy, together with its informational partner LRT, reminded people of the types of scams, how to recognise them, and how to safeguard their money and data through an informational summer campaign.

In 2023, the Money Museum of the Bank of Lithuania welcomed 35,618 visitors, 8% more than in 2022. The number of guided tours and educational activities also increased by 7%, with a total of 1,219 sessions conducted. The museum opened an exhibition titled "Take and Remember: Vilnius and Its Memory in Numismatics and Notaphily", dedicated to the 700th anniversary of Vilnius. Items from the museum's collection were loaned and presented to the public at exhibitions in Vilnius, Riga, and Tallinn. By the end of 2023, the museum's collection included 63,009 exhibits.

The album *The Art Collection of the Bank of Lithuania* was published and prepared by the Bank of Lithuania. For the first time, it presents works of art collected by the Bank of Lithuania in the interwar period and after 1990 in a concentrated way. This includes paintings, ceramics, sculptures, stained glass.

The album was distributed to Lithuanian libraries, educational institutions, museums, and used for representational purposes.

Annual financial statements of the Bank of Lithuania

Annual financial statements of the Bank of Lithuania are available [here](#).

Annexes

Collector and commemorative coins issued in 2023

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 2023

In 2023, the Bank of Lithuania took active legislative actions and adopted regulatory Bank of Lithuania legal acts. They are made publicly available on the [Register of Legal Acts](#).

Abbreviations

AB	public limited liability company
AML/CTF	anti-money laundering and counter-terrorist financing
APP	asset purchase programme
CCU	central credit union
CIU	collective investment undertaking
EC	European Commission
ECB	European Central Bank
EMI	electronic money institution
ESCB	European System of Central Banks
EU	European Union
EURIBOR	euro interbank offered rate
Eurosystem	European Central Bank and euro area central banks
FMP	financial market participant
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
LTRO	longer-term refinancing operation
MFI	monetary financial institution
ML/TF	laundering and terrorist financing
MRO	main refinancing operation
NBC	Nordic-Baltic constituency
PEPP	pandemic emergency purchase programme
PI	payment institution
PSP	payment service provider
SDR	special drawing rights
SRF	Single Resolution Fund
UK	United Kingdom
US	United States of America

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Gedimino pr. 6, LT-01103 Vilnius
www.lb.lt

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

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