



LITHUANIA: Weathering the Russian slump

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The setback in the neighbouring countries to the east, which hit exporters hard last year, will continue and economic growth will decelerate in 2015. Both public and private investments will increase at a slow rate, while household spending will secure a rise in employment; the net result will be 2.4% GDP growth in real terms in 2015. An upward trend in economic activity driven by exports and investment is to be expected in the years thereafter.

Lithuania is the EU member with the strongest trade linkages not only with Russia, but also other CIS countries. Nevertheless, the structure of exports is composed of a high share of transit goods. Only about 5% of the exported goods of Lithuanian origin are destined for Russia. Thus, the recession in Russia, Belarus and Ukraine will obviously cause losses both for Lithuanian producers and particularly entrepreneurs in the transport and wholesale sectors; however, the general impact should remain bearable for the Lithuanian economy, since trade with the western partners evolves at a good pace.

Nevertheless, entrepreneurs in the manufacturing and transport sectors will reduce their investments in view of the meagre prospects. Moreover, the budget plan for 2015 foresees a reduction of public investments this year. Only the construction of dwellings will continue to increase given the ongoing growth in household income; moreover, the stock in mortgage loans started to increase gradually again last year.

The growth of economic activity by 3% last year resulted in employment expanding by more than 1%; still the figure for 2014 is about 10% below the level of 2007. Although return migration is increasing and negative net migration declining, the demographic developments will lead to a decrease of the labour force in the years to come. As the number of jobs in both the private and public sector will grow thanks to the pace of economic activity in Lithuania, the unemployment rate will further decline, though at a slower rate than before, to 10.5% in 2015 and below 10% in 2016.

The overall growth of net wages by more than 4% in real terms last year was particularly driven by shortages for highly skilled workers in the services sectors and the increase of the minimum wage. This development will continue to drive household consumption. The government has announced to increase the minimum wage, which was lifted last time in October 2014, by another 7% to EUR 320 in July 2015 and to raise in addition the income of low-earning public servants. The strongest hike in expenditures in the budget 2015 is earmarked for defence. The budget deficit will continue to decline, yet less than expected by the government due to lower revenue growth, to 1.4% of GDP.

The political and economic instability in the eastern neighbourhood will result in households raising the level of precautionary savings. Nevertheless, apart from increasing wage incomes, the purchasing power of households is still propped up by remittances from the Lithuanian diaspora amounting to about 4% of GDP. Thus private consumption is expected to continue rising by more than 4% in real terms in both 2015 and 2016.

Overall, due to weaker external demand we had to revise the growth forecast for Lithuania downwards. In 2015 we expect GDP to expand by 2.4%, driven by still vibrant household consumption, while investment growth will dwindle. In 2016 and 2017 an upswing to 2.9% and 3.2% is likely, conditional on economic growth in the eastern neighbourhood and the euro area gaining momentum and public investment activity being pushed by the availability of EU funds.

Table 1 / Lithuania: Selected Economic Indicators

	2010	2011	2012	2013	2014 ¹⁾	2015	2016	2017
						Forecast		
Population, th pers., average ²⁾	3,097	3,028	2,988	2,958	2,928	2,900	2,875	2,860
Gross domestic product, EUR-LTL mn, nom. ³⁾	28,001	31,247	33,314	34,956	36,100	37,200	39,000	41,300
annual change in % (real) ³⁾	1.6	6.1	3.8	3.3	3.0	2.4	2.9	3.2
GDP/capita (EUR at exchange rate)	9,000	10,300	11,200	11,800	12,300	12,800	13,600	14,400
GDP/capita (EUR at PPP)	15,300	17,100	18,500	19,300	20,200	.	.	.
Consumption of households, EUR-LTL mn, nom. ³⁾	17,882	19,471	20,786	21,873	23,010	.	.	.
annual change in % (real) ³⁾	-3.4	4.6	3.6	4.2	5.0	4.3	4.0	3.8
Gross fixed capital form., EUR-LTL mn, nom. ³⁾	4,736	5,761	5,777	6,360	6,590	.	.	.
annual change in % (real) ³⁾	1.4	19.4	-1.6	7.0	9.0	5.0	7.0	8.0
Gross industrial production (sales)								
annual change in % (real)	6.4	6.4	3.7	3.4	-0.1	1.0	3.0	5.0
Gross agricultural production								
annual change in % (real)	-7.2	10.3	14.2	-1.8	3.9	.	.	.
Construction industry								
annual change in % (real)	-7.3	22.1	-7.3	11.5	16.9	.	.	.
Employed persons, LFS, th, average ⁴⁾	1,344	1,371	1,276	1,293	1,310	1,320	1,328	1,330
annual change in %	-5.1	2.0	1.8	1.3	1.3	0.8	0.6	0.2
Unemployed persons, LFS, th, average ⁴⁾	291	249	197	173	162	155	144	135
Unemployment rate, LFS, in %, average ⁴⁾	17.8	15.4	13.4	11.8	11.0	10.5	9.8	9.2
Reg. unemployment rate, in %, end of period ⁴⁾⁵⁾	14.4	11.0	11.4	11.1	9.3	.	.	.
Average monthly gross wages, EUR-LTL ⁶⁾	576	593	615	646	676	.	.	.
annual change in % (real, gross)	-4.6	-1.2	0.7	4.0	4.5	.	.	.
Average monthly net wages, EUR-LTL ⁶⁾	450	462	478	501	523	.	.	.
annual change in % (real, net)	-4.3	-1.3	0.5	3.8	4.3	.	.	.
Consumer prices (HICP), % p.a.	1.2	4.1	3.2	1.2	0.2	0.6	1.8	2.5
Producer prices in industry, % p.a.	10.3	13.9	5.0	-2.4	-4.9	.	.	.
General government budget, EU-def., % of GDP								
Revenues	35.4	33.5	33.0	32.8	33.8	33.5	33.2	33.0
Expenditures	42.3	42.5	36.1	35.5	35.4	34.9	34.2	33.8
Net lending (+) / net borrowing (-)	-6.9	-9.0	-3.2	-2.6	-1.6	-1.4	-1.0	-0.8
Public debt, EU-def., % of GDP	36.3	37.3	39.9	39.0	41.0	42.0	40.0	38.0
Central bank policy rate, % p.a., end of period ⁷⁾	1.07	1.24	0.52	0.27	0.12	.	.	.
Current account, EUR mn ⁸⁾	-92	-1,203	-397	560	-191	-300	-350	-400
Current account, % of GDP	-0.3	-3.8	-1.2	1.6	-0.5	-0.8	-0.9	-1.0
Exports of goods, BOP, EUR mn ⁸⁾	14,891	19,422	22,427	23,998	23,772	24,070	25,030	26,780
annual change in %	34.7	30.4	15.5	7.0	-0.9	1.3	4.0	7.0
Imports of goods, BOP, EUR mn ⁸⁾	16,539	21,487	23,530	24,918	25,243	25,920	27,090	28,850
annual change in %	35.3	29.9	9.5	5.9	1.3	2.7	4.5	6.5
Exports of services, BOP, EUR mn ⁸⁾	3,423	4,033	4,793	5,390	5,857	6,580	7,440	8,480
annual change in %	16.7	17.8	18.8	12.5	8.7	12.3	13.1	14.0
Imports of services, BOP, EUR mn ⁸⁾	2,301	2,766	3,404	4,033	4,317	4,970	5,640	6,490
annual change in %	3.7	20.2	23.1	18.5	7.0	15.1	13.5	15.1
FDI inflow (liabilities), EUR mn ⁸⁾	653	1,095	454	532	-373	.	.	.
FDI outflow (assets), EUR mn ⁸⁾	46	94	215	322	-29	.	.	.
Gross reserves of NB excl. gold, EUR mn	4,788	6,120	6,203	5,705	6,991	.	.	.
Gross external debt, EUR mn ⁸⁾	24,015	25,041	25,921	24,395	25,200	.	.	.
Gross external debt, % of GDP	85.8	80.1	77.8	69.8	69.8	.	.	.
Average exchange rate EUR-LTL/EUR	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Purchasing power parity EUR-LTL/EUR	0.5913	0.6036	0.6029	0.6132	0.6112	.	.	.

Note: Lithuania has introduced the Euro from 1 January 2015. Up to and including 2014 all time series in LTL as well as the exchange rates and PPP rates have been divided for statistical purposes by the conversion factor 3.4528 (LTL per EUR) to achieve euro-fixed series (EUR-LTL).

1) Preliminary and wiiw estimates. - 2) According to census March 2011. - 3) According to ESA 2010. - 4) From 2012 according to census March 2011. - 5) In % of working age population. - 6) Including earnings of sole proprietors. - 7) VILIBOR one-month interbank offered rate (Lithuania had a currency board until Euro introduction). - 8) BOP 6th edition.

Source: wiiw Databases incorporating Eurostat and national statistics.