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Baltic States:
an imbalanced growth model in tatters

The Baltic countries are experiencing the deepest economic crisis since the transitional recession following the break-up of the Soviet Union in the early nineties. The slump in investment and household consumption that followed hot on the heels of a seven-year credit-induced boom has been compounded by low external demand and pro-cyclical fiscal policies. All three countries will have to face up to a severe and protracted bust throughout the period 2009-2010.

Latvia on the brink of collapse

In the region as a whole, Latvia is the country that has been hit hardest by the downturn in economic activity. Until the end of 2007, soaring internal demand led to an overheated economy, accompanied by a current account deficit of 24%. By the end of 2007, gross external debt had risen to a spiralling 134% of GDP. The increase in credit costs that had started in the second half of 2007 led to the model of externally financed growth collapsing in 2008.

Although gross wages continued to rise appreciably in real terms throughout 2008, the rise in consumer price inflation to almost 16% annually and the looming economic slowdown led to a slump in consumer confidence and the ability of households to extent their debt burdens any further. Subsequently, throughout 2008 household consumption finally abandoned its former role as for the driver of economic growth and shrank by almost 6% year-on-year. Capital investments also slumped from the second quarter of 2008 onwards. The only good news is that imports fell apace with the drop in domestic demand; the current account deficit thus dropped sharply to 13% of GDP.

The severe economic downturn and the impact of the international financial crisis have had a dramatic impact on the Latvian banking sector. Parex, the second largest bank in the country and at the same time the largest financial institution in the region that is not foreign-owned, faced serious liquidity problems in the wake of a massive withdrawal of deposits in the second half of 2008. In order to avert bankruptcy, the Latvian government took over 85% of the bank in December. The loss of confidence in the Latvian banking sector in general led to an outflow of funds and a substantial reduction in the foreign currency reserves held by the Latvian national bank.

At the same time, the Latvian government's refinancing endeavours took a major turn for the worse when Latvian credit default swap rates escalated in line with Parex Bank bond spreads. Despite the country's public debt running to some 16% at the end of 2008 and its being much lower than that of Hungary (and that of many other New Member States), Latvia's eurobond-denominated sovereign spreads rose to the Hungarian levels. Major financial players, it would seem, were challenging the

Latvian government's ability to serve the liquidity needs of its affected banking system during an economic downturn.

IMF and the EU bail the country out

In view of the appreciable amount of funds needed to finance the balance of payments and given the Latvian government's intention to keep the lat pegged to the euro, it had to call both the IMF and the EU to the rescue. The support package agreed upon in December 2008 with the IMF and accepted by the EU ministers of finance in January 2009 comprises EUR 7.5 billion for the period 2009-2011 in total (equivalent to approx. 1/3 of the GDP in Latvia in 2008). The support package has also been funded by the World Bank and the EBRD, as well as by the Scandinavian countries, the Czech Republic, Poland and Estonia.

In the agreement it concluded, the Latvian government committed itself to reversing its budget plans dramatically, thereby shifting to the pursuance of pro-cyclical fiscal policy. The deterioration of the economy led to a steep drop in government revenues in 2008, particularly in terms of VAT; the targeted surplus turned into a general government deficit of 3% by the end of the year. The forecasts for 2009 showed that had expenditure plans been left unchanged, the fiscal deficit would have run to double digits. On 11 December the Parliament adopted a revised budget plan. The most important changes are an increase in the VAT rate from 18% to 21% (it already entered into effect in January 2009) and a swingeing blow (15% on average) to civil servants' wages. To nobody's surprise, the government's austerity package provoked public opposition. For the first time since the early 1990s, violent riots followed in the wake of a protest demonstration of some 10,000 people in Riga on 13 January 2009. The rising public pressure against the government led to the resignation of Prime Minister Godmanis on 20 February after losing the confidence of two of the four parties having formed the coalition government. In spite of calls for snap elections, leaders of the People's Party, the Green Party and the now opposition party New Era started talks to form a new government.

Obviously the question arises as to why the Latvian government opted for a massively unpopular austerity package rather than deciding to align the real effective exchange rate that was clearly overvalued by giving up the currency peg of lats against the euro and so devalue the domestic currency. Apparently, since more than 90% of credits to the private sector are denominated in foreign currency, a devaluation of the lat might have evoked even more resistance. The IMF argues that the balance-sheet effects of devaluation would have yielded massive defaults in households and enterprises alike. Moreover, the eagerness of other countries to help Latvia retain the peg underlines fears of a devalued lats possibly infecting the region – not only for the Baltic neighbours, but also other currency board or pegged currency arrangements in the New Member States and Southeast Europe.

Stabilization or deflationary disaster ahead?

The above notwithstanding, it is debatable whether opting for 'internal devaluation', and so attempting to correct the real value of a currency via wage and price cuts is a better means of preventing defaults. The substantial reduction of domestic demand that the government envisaged is expected to trigger a significant rise in unemployment and thus incurs the risk of a deflationary process. If deflation should come about, the aim of gaining in terms of external competitiveness would be followed by a rise in debt burdens in real terms – just as it would be in the case of a nominal devaluation. Moreover, it is questionable whether improvements in price competitiveness will ultimately lead to a substantial rise in external demand over the short term, given the poor economic situation of the main trading partners.

In any case, the slump in domestic demand in Latvia aggravated by the pronounced pro-cyclical fiscal policies will induce a severe reduction in GDP – no less than 8% in 2009. The rise in unemployment and the dampening of demand via wage cuts will lead to another year of recession in 2010. From 2011 onwards, we expect consumption and investments to bottom out on the assumption that credit flows will ease. Moreover, we assume that export growth will gradually bolster overall economic growth. However, the stabilization package agreed upon with the IMF will obviously lead to severe social tensions as soon as it generates a substantial deterioration in labour market situation and an upsurge in defaults.

Estonia: even further down the road to recession

The economic situation in Estonia is no less dramatic than that faced by its southern Baltic neighbour. When the housing bubble in Estonia burst in 2007, it became clear that (particularly Swedish) parent banks would have to reassess their exposure to risk in the Baltic countries. The subsequent rise in credit costs and restricted availability of loans led to a significant decline in both household consumption and capital investments. Moreover, exports and industrial production alike plummeted in 2008 in all manufacturing sectors, owing to the loss in competitiveness brought about by double digit annual wage increases in previous years. Since Finland and Sweden, Estonia’s main trading partners, are expected to face a recession of about 2% in 2009, exports of goods and services are likely to fall in 2009 even more than in 2008.

The prudent fiscal policies that the Estonian government pursued during the Baltic boom years have resulted in an accumulation of budget reserves. This has allowed the Estonian government to exercise restraint over its external refinancing needs during the bust phase and also keep budget deficits within a reasonable range in the years to come. However, the Estonian government also had to adopt an austerity programme at the beginning of February, comprising 10 % (on average) cuts in civil servants’ wages and VAT exemptions being lifted for selected consumer goods and services. Moreover, Estonia announced its intention to ask the European Investment Bank for credit amounting to EUR 100 million annually so that it would be able to co-finance EU funded public investment projects over the next four years.

Recent estimates of GDP decline in 2009 range between 5% and 10%. The underlying causes of the recession diverge only marginally from those to be observed in Latvia. Since domestic demand will fail to revive in 2010 owing to the accumulated debt burden in both households and enterprises and labour market conditions having substantially worsened, the Estonian economy will not return to a positive growth path before 2011. Obviously, our forecast is based on the assumption that the situation of the country’s trading partners in Scandinavia will improve in 2010, thus offering Estonia a stabilization via goods and services exports at a somewhat earlier juncture than its Baltic neighbours.

Lithuania en route to bust

2009, the year in which Vilnius was designated the European capital of culture, started with violent protests against the austerity package announced by the government on 16 January. Although a GDP growth rate of 3.2% still proved possible for 2008, figures for the most recent months indicate that the Lithuanian economy is following in the footsteps of Estonia and Latvia and entering a severe recession. Household consumption and investments alike are expected to slump in 2009; this should result in a GDP decline of no less than 5%. Since neither domestic nor external demand is likely to revive next year, Lithuania will not experience gradual economic recovery before 2011.

The new right-wing coalition government, which took up office in December 2008, reacted to the expected drop in tax revenues by adopting a series of measures which include a broadening of the income tax base (thus increasing the tax burden especially on those earning low incomes in the informal sector) and lifting certain VAT exemptions. Moreover, a cut in nominal wages of civil servants of on average 12% was concluded.

The exceptional growth rate of exports in 2008, which was mostly due to the refurbishment of the Mazeiku Nafta refinery at the beginning of the year and high export prices for fuel, will drop throughout the current year. Moreover, many Lithuanian export firms will suffer substantial losses over a protracted period of time owing to the economic slowdown in Russia and bust in Ukraine. Both countries together accounted for more than 25% of Lithuania's trade volume in 2008.

At the beginning of 2010 Lithuania will have to shut down the nuclear power plant at Ignalina in order to meet its obligations specified in the EU-accession treaty. The subsequent inevitable rise in energy imports will not only worsen the current account balance, but also contribute to a rise in domestic prices.

A final remark

It comes as no surprise that Estonia and Lithuania have upheld their pledge to abide by their currency board arrangements (in the case of Latvia the hard peg) despite the dramatic bust that followed the boom in the region. Although the immediate effect of the Latvian rescue package has been a reduction of the pressure on the lats, the ability of all three Baltic States to weather the challenge of 'internal devaluation' will be put to the test throughout the recessionary phase extending over the next two years. Even if the measures implemented lead to an improvement in external competitiveness, the countries will not be able to revert to a sustainable growth pattern, unless they reorientate their economic output from the current inflated construction and service activities towards the production of tradable goods. Since restructuring on that scale, if at all feasible, requires several years to work itself out, we expect unemployment to remain high in the years to come. Similar to the years following EU accession, the strategy of the unemployed might be to emigrate in search of a job in an attempt to cope with the situation, even though that option today is less promising than it once was.

Table EE

Estonia: Selected Economic Indicators

	2003	2004	2005	2006	2007	2008 [1)]	2009	2010 Forecast	2011
Population, th pers., average	1353.6	1349.3	1346.1	1343.5	1341.7	1340.6	.	.	.
Gross domestic product, EEK mn, nom. [2)]	136010	151012	173530	205038	238929	256600	241000	227900	224500
annual change, % (real) [2)]	7.1	7.5	9.2	10.4	6.3	-3.5	-7	-3.5	0.5
GDP/capita (EUR at exchange rate)	6400	7100	8200	9700	11400	12200	.	.	.
GDP/capita (EUR at PPP)	11300	12400	13700	15400	16900	16700	.	.	.
Consumption of households, EEK mn, nom. [2)]	74148	82868	94112	110497	128533	137400	129100	124000	121500
annual change in % (real) [2)]	10.0	9.6	9.7	12.8	7.9	-2.5	-7	-2	0
Gross fixed capital form., EEK mn, nom [2)]	43089	46805	53293	69462	77570	82000	74500	70800	70400
annual change in % (real) [2)]	18.6	5.2	9.4	19.5	4.8	-3.5	-10	-3	1.5
Gross industrial production									
annual change in % (real)	10.9	10.5	11.0	9.9	6.6	-6.5	-7	0	2
Gross agricultural production									
annual change in % (real)	-2.0	3.1	6.6	-2.1	12.3	-9.9	.	.	.
Construction industry									
annual change in % (real)	6.0	11.1	23.0	27.8	9.8	-13.0	.	.	.
Employed persons - LFS, th, average	594.3	595.5	607.4	646.3	655.3	650	.	.	.
annual change in %	1.5	0.2	2.0	6.4	1.4	-0.8	.	.	.
Unemployed persons - LFS, th, average	66.2	63.6	52.2	40.5	32.0	37.8	.	.	.
Unemployment rate - LFS, in %, average	10.0	9.6	7.9	5.9	4.7	5.5	10.5	13	15
Reg. unemployment rate, in %, end of period	4.4	3.5	2.7	1.4	2.2	4.7	.	.	.
Average gross monthly wages, EEK	6723	7287	8073	9407	11336	13000	.	.	.
annual change in % (real, gross)	8.0	5.2	6.4	11.6	13.0	7.5	.	.	.
Consumer prices (HICP), % p.a.	1.4	3.0	4.1	4.5	6.7	10.6	2	-1	-1
Producer prices in industry, % p.a.	0.2	2.8	2.1	4.5	8.3	7.2	.	.	.
General governm. budget, EU-def., % GDP [3)]									
Revenues	36.6	35.7	35.5	37.1	38.2	34.5	.	.	.
Expenditures	34.9	34.1	34.0	34.2	35.5	36.5	.	.	.
Net lending (+) / net borrowing (-)	1.7	1.7	1.5	2.9	2.7	-2.0	-4.0	-3.0	-2.5
Public debt in % of GDP [3)]	5.6	5.0	4.5	4.3	3.5	5	.	.	.
Money market rate, % p.a., end of period [4)]	2.6	2.4	2.5	3.8	7.0	7.1	.	.	.
Current account, EUR mn	-985.3	-1130.0	-1110.3	-2193.0	-2758.0	-1400	-900	-800	-900
Current account in % of GDP	-11.3	-11.7	-10.0	-16.7	-18.1	-8.5	-5.8	-5.5	-6.3
Exports of goods, BOP, EUR mn	4054.8	4730.3	6280.1	7761.0	8076.0	8000	7100	7300	7900
annual growth rate in %	9.5	16.7	32.8	23.6	4.1	-1	-11	3	8
Imports of goods, BOP, EUR mn	5430.3	6333.3	7822.6	10159.0	10761.0	9700	8500	8600	9500
annual growth rate in %	11.2	16.6	23.5	29.9	5.9	-10	-12	1	10
Exports of services, BOP, EUR mn	1960.4	2293.7	2571.1	2787.0	3199.0	3200	3000	3100	3300
annual growth rate in %	8.9	17.0	12.1	8.4	14.8	0	-6	3	6
Imports of services, BOP, EUR mn	1227.0	1404.2	1733.7	1938.0	2237.0	2100	1900	2000	2200
annual growth rate in %	5.1	14.4	23.5	11.8	15.4	-6	-10	5	10
FDI inflow, EUR mn	822.2	770.8	2302.2	1432.0	1963.0	1300	700	.	.
FDI outflow, EUR mn	137.4	216.6	556.0	883.0	1152.0	700	300	.	.
Gross reserves of NB excl. gold, EUR mn	1095.5	1314.2	1643.6	2115.0	2233.8	2900	.	.	.
Gross external debt, EUR mn	5603.2	7339.7	9553.3	12802.4	17165.6	19200	.	.	.
Gross external debt in % of GDP	64.5	76.0	86.1	97.7	112.4	117.1	.	.	.
Average exchange rate EEK/EUR	15.6466	15.6466	15.6466	15.6466	15.6466	15.6466	15.65	15.65	15.65
Purchasing power parity EEK/EUR	8.8980	9.0215	9.3775	9.8833	10.5251	11.4560	.	.	.

Note: The term 'industry' refers to NACE classification C+D+E.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM adjusted and real change based on previous year prices). - 3) According to ESA'95, excessive deficit procedure. - 4) TALIBOR 1 month interbank offered rate.

Source: wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.

Table LV

Latvia: Selected Economic Indicators

	2003	2004	2005	2006	2007	2008 [1]	2009	2010 Forecast	2011
Population, th pers., average	2325.3	2312.8	2300.5	2287.9	2276.1	2266.0	.	.	.
Gross domestic product, LVL mn, nom. [2]	6392.8	7434.5	9059.1	11171.7	13957.4	15600	14600	13600	13300
annual change in % (real) [2]	7.2	8.7	10.6	11.9	10.2	-2.8	-8	-4	0
GDP/capita (EUR at exchange rate)	4300	4800	5700	7000	8800	9800	.	.	.
GDP/capita (EUR at PPP)	9000	9900	10900	12400	13600	13300	.	.	.
Consumption of households, LVL mn, nom. [2]	3972.7	4605.9	5578.2	7184.2	8944.2	9700	9100	8500	8400
annual change in % (real) [2]	8.2	9.1	11.3	20.0	13.8	-5.5	-8	-4	0.5
Gross fixed capital form., LVL mn, nom. [2]	1559.8	2041.8	2773.8	3644.1	4542.1	4900	4500	4200	4200
annual change in % (real) [2]	12.3	23.8	23.6	18.3	10.3	-6.5	-10	-4	1
Gross industrial production [3]									
annual change in % (real)	6.8	7.0	5.9	5.3	0.7	-6.7	-12	-5	2
Gross agricultural production									
annual change in % (real)	7.1	4.5	11.8	-1.9	10.8	-0.7	.	.	.
Construction industry									
annual change in % (real)	13.1	13.1	15.4	13.3	13.6	1.0	.	.	.
Employed persons - LFS, th, average	1006.9	1017.7	1033.7	1087.1	1118.0	1120	.	.	.
annual change in %	1.8	1.1	1.6	5.2	2.8	0.2	.	.	.
Unemployed persons - LFS, th, average	119.2	118.6	101.0	79.5	71.3	88.0	.	.	.
Unemployment rate - LFS, in %, average	10.6	10.4	8.9	6.8	6.0	7.2	12	15	16
Reg. unemployment rate, in %, end of period	8.6	8.5	7.4	6.5	4.9	7.0	.	.	.
Average gross monthly wages, LVL	192	211	246	302	398	480	.	.	.
annual change in % (real, gross)	7.8	2.4	9.7	15.6	19.9	4.0	.	.	.
Consumer prices (HICP), % p.a.	2.9	6.2	6.9	6.6	10.1	15.2	3	-2	-1
Producer prices in industry, % p.a.	3.2	8.6	7.8	10.3	16.1	11.5	.	.	.
General government budget, EU-def., % GDP [4]									
Revenues	33.2	34.7	35.2	37.7	37.7	36.5	.	.	.
Expenditures	34.8	35.8	35.6	37.9	37.7	38.0	.	.	.
Net lending (+) / net borrowing (-) [4]	-1.6	-1.0	-0.4	-0.2	0.1	-1.5	-5	-5	-3
Public debt, EU-def., in % of GDP [5]	14.6	14.9	12.4	10.7	9.5	14	.	.	.
Refinancing rate of NB, % p.a., end of period	3.0	4.0	4.0	5.0	6.0	6.0	.	.	.
Current account, EUR mn	-810.7	-1422.9	-1610.1	-3603.0	-4754.0	-2700	-1450	-1100	-1500
Current account in % of GDP	-8.1	-12.7	-12.4	-22.5	-23.8	-12.2	-7.0	-5.7	-7.9
Exports of goods, BOP, EUR mn	2804.2	3394.6	4313.1	4929.0	6020.0	6400	6550	6800	7200
annual growth rate in %	4.1	21.1	27.1	14.3	22.1	6	2.3	3.8	5.9
Imports of goods, BOP, EUR mn	4573.5	5634.2	6753.5	9032.0	11074.0	10500	9500	9700	10500
annual growth rate in %	7.5	23.2	19.9	33.7	22.6	-5	-9.5	2.1	8.2
Exports of services, BOP, EUR mn	1333.4	1431.5	1743.0	2121.0	2682.0	3100	3300	3500	3800
annual growth rate in %	1.6	7.4	21.8	21.7	26.4	16	6.5	6.1	8.6
Imports of services, BOP, EUR mn	821.6	947.5	1255.6	1586.0	1974.0	2200	2300	2400	2600
annual growth rate in %	10.8	15.3	32.5	26.3	24.5	11	4.5	4.3	8.3
FDI inflow, EUR mn	269.8	512.4	567.9	1339.0	1656.0	1300	700	.	.
FDI outflow, EUR mn	43.8	88.3	103.0	136.0	237.0	200	100	.	.
Gross reserves of NB excl. gold, EUR mn	1150.9	1412.8	1901.8	3346.2	3859.9	3739.0	.	.	.
Gross external debt, EUR mn	7545.1	9871.2	12807.7	18127.8	26826.7	30200	.	.	.
Gross external debt in % of GDP	75.6	88.3	98.4	113.0	134.6	136.0	.	.	.
Average exchange rate LVL/EUR	0.6407	0.6652	0.6962	0.6962	0.7001	0.7027	0.7028	0.7028	0.7028
Purchasing power parity LVL/EUR	0.3062	0.3251	0.3605	0.3932	0.4506	0.5160	.	.	.

Note: The term ‘industry’ refers to NACE classification C+D+E.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM adjusted). 3) Enterprises with more than 20 employees. - 4) Deficit including banking restructuring costs financed by IMF/EU rescue package in 2009: -17.5% of GDP and 2010: -7%. - 5) According to ESA'95, excessive deficit procedure.

Source: wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.

Table LT

Lithuania: Selected Economic Indicators

	2003	2004	2005	2006	2007	2008 1)	2009	2010 Forecast	2011
Population, th pers., average	3454.2	3435.6	3414.3	3394.1	3375.6	3358.4	.	.	.
Gross domestic product, LTL mn, nom. 2)	56959.4	62697.8	72060.4	82792.8	98138.7	111430	108500	104200	104700
annual change in % (real) 2)	10.2	7.3	7.8	7.8	8.9	3.2	-5	-3.5	1
GDP/capita (EUR at exchange rate)	4800	5300	6100	7100	8400	9600	.	.	.
GDP/capita (EUR at PPP)	10200	10900	11900	13100	14800	15200	.	.	.
Consumption of households, LTL mn, nom. 2)	36357.5	40562.4	46312.0	53268.6	63237.8	71600	69700	67300	67600
annual change in % (real) 2)	10.4	11.9	12.3	10.6	12.3	3.0	-5	-3	1
Gross fixed capital form., LTL mn, nom. 2)	12009.4	13971.6	16405.0	20840.8	27453.9	29600	28500	27200	27600
annual change in % (real) 2)	13.7	15.7	11.2	19.4	20.8	-2.0	-6	-4	2
Gross industrial production (sales)									
annual change in % (real)	11.3	10.9	7.1	7.3	4.0	2.7	-7	-5	3
Gross agricultural production									
annual change in % (real)	7.9	11.1	10.5	-4.1	8.2	0.5	.	.	.
Construction industry									
annual change in % (real)	27.8	6.8	11.5	21.2	21.6	1.4	.	.	.
Employed persons - LFS, th, average	1438.0	1436.3	1473.9	1499.0	1534.2	1530	.	.	.
annual change in %	2.3	-0.1	2.6	1.7	2.3	-0.3	.	.	.
Unemployed persons - LFS, th, average	203.9	184.4	133.0	89.4	69.0	89.1	.	.	.
Unemployment rate - LFS, in %, average	12.4	11.4	8.3	5.6	4.3	5.5	8.5	13	15
Reg. unemployment rate, in %, end of period	7.7	6.5	4.1	3.7	4.3	5.7	.	.	.
Average gross monthly wages, LTL	1072.6	1149.3	1276.2	1495.7	1802.4	2270	.	.	.
annual change in % (real, net)	9.3	5.0	6.8	15.0	17.0	13	.	.	.
Consumer prices (HICP), % p.a.	-1.1	1.2	2.7	3.8	5.8	11.1	3.5	0.5	0.5
Producer prices in industry, % p.a.	-0.5	6.0	11.5	7.4	6.9	18.2	.	.	.
General goverm.budget, EU-def., % GDP 3)									
Revenues	31.9	31.8	32.8	33.1	33.9	35.4	.	.	.
Expenditures	33.2	33.3	33.3	33.6	35.2	36.4	.	.	.
Net lending (+) / net borrowing (-)	-1.3	-1.5	-0.5	-0.4	-1.2	-1.0	-5	-4	-3
Public debt in % of GDP 3)	21.1	19.4	18.4	18.0	17.0	14.2	.	.	.
Money market rate, % p.a., end of period 4)	2.3	2.3	2.5	3.7	6.8	7.8	.	.	.
Current account, EUR mn	-1116.2	-1393.6	-1481.3	-2551.0	-4149.0	-4400	-2300	-1900	-2400
Current account in % of GDP	-6.8	-7.7	-7.1	-10.6	-14.6	-13.6	-7.3	-6.3	-7.9
Exports of goods, BOP, EUR mn	6772.8	7477.7	9490.0	11262.0	12509.0	16400	17000	17800	19000
annual growth rate in %	6.4	10.4	26.9	18.7	11.1	31	3.7	4.7	6.7
Imports of goods, BOP, EUR mn	8261.7	9398.2	11849.0	14600.0	16788.0	20300	20000	20000	22000
annual growth rate in %	6.3	13.8	26.1	23.2	15.0	21	-1.5	0.0	10.0
Exports of services, BOP, EUR mn	1661.2	1968.7	2502.8	2879.0	2931.0	3100	3200	3300	3500
annual growth rate in %	6.5	18.5	27.1	15.0	1.8	6	3.2	3.1	6.1
Imports of services, BOP, EUR mn	1114.4	1313.4	1655.3	2018.0	2471.0	2900	2900	3000	3100
annual growth rate in %	13.0	17.9	26.0	21.9	22.4	17	0.0	3.4	3.3
FDI inflow, EUR mn	159.9	623.1	826.0	1448.0	1473.0	1100	600	.	.
FDI outflow, EUR mn	33.7	211.6	277.7	232.0	437.0	350	150	.	.
Gross reserves of NB excl. gold, EUR mn	2697.5	2578.5	3135.7	4307.5	5165.1	4550.0	.	.	.
Gross external debt, EUR mn	6669.9	7686.6	10586.5	14441.8	20547.2	23800	.	.	.
Gross external debt in % of GDP	40.4	42.3	50.7	60.2	72.3	73.7	.	.	.
Average exchange rate LTL/EUR	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45
Purchasing power parity LTL/EUR	1.62	1.67	1.77	1.86	1.96	2.18	.	.	.

Note: The term 'industry' refers to NACE classification C+D+E.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM adjusted and real change based on previous year prices). - 3) According to ESA'95, excessive deficit procedure. - 4) VILIBOR 1 month interbank offered rate.

Source: wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.